Departmental Offices

U.S. Department of the Interior

Annual Financial Report

Fiscal Year 2006

January 22, 2007

Glossary of Acronyms

Aircraft Management Division	AMD
Appraisal Services Directorate	ASD
Assistant Secretary—Policy, Management and Budget	AS-PMB
Automated Data Processing	ADP
Bureau of Land Management	BLM
Bureau of Reclamation	BOR
Central Contractor Registration	CCR
Central Hazardous Material Fund	CHF
Central Utah Project Completion Act	CUPCA
Central Utah Water Conservancy District	CUWCD
Certified Information System Security Professional	CISSP
Chief Financial Officer	CFO
Chief Information Officer	CIO
Civil Service Retirement System	CSRS
Clean Water Act	CWA
Commonwealth of the Northern Mariana Islands	CNMI
Comprehensive Environmental Response, Compensation, and Liability Act of 1980	CERCLA
Comprehensive Trust Management Plan	CTM
Cost of Living Adjustment	COLA
Department of Defense	DOD
Department of Homeland Security	DHS
Department of the Interior	DOI
Department of Labor	DOL
Departmental Offices	DO
Electronic Data Processing	EDP
Electronic Human Resources Integration Program	EHRI
Electronic Official Personnel Folder	E-OPF
Federal Accounting Standards Advisory Board	FASAB
Federal Employees Contribution Act	FECA
Federal Employees Group Life Insurance	FEGLI
Federal Employees Retirement System	FERS
Federal Financial Management Improvement Act	FFMIA
Federal Financing Bank	FFB
Federated States of Micronesia	FSM
Financial and Business Management System	FBMS
General Services Administration	GSA
Generally Accepted Accounting Principles	GAAP
Government of American Samoa	ASG
Government Performance Results Act	GPRA
Immediate Office of the Secretary	SIO
Indian Arts and Crafts Board	IACB
Indian Gaming Regulatory Act of 1988	IGRA
Individual Indian Money	IIM
Information Technology	IT
Interior Franchise Fund	IFF
Minerals Management Service	MMS
Museums of the Plains Indians	MPI
National Business Center	NBC
National Indian Gaming Commission	NIGC
Natural Resource Damage Assessment and Restoration	NRDAR
Office of Federal Procurement Policy	OFPP
Office of Insular Affairs	OIA
Office of Management and Budget	OMB
Office of Personnel Management	OPM
Office of the Inspector General	OIG
Office of the Secretary	OS
Office of the Solicitor	SOL
Office of the Special Trustee for American Indians	OST
Office of Trust Fund Management	OTFM
Oil Pollution Act of 1990	OPA
Payment in Lieu of Taxes	PILT
Republic of the Marshall Islands	RMI
Sioux Indian Museum	SIM
Southern Plains Indians Museum	SPIM
Statement of Budgetary Resources	SBR
Statement of Changes in Net Position	SCNP
Statement of Federal Financial Accounting Standard	SFFAS
Storm Water Treatment Areas	STA
U.S. Computer Emergency Readiness Team	US CERT
Utah Reclamation Mitigation and Conservation	URMCC
Working Capital Fund	WCF

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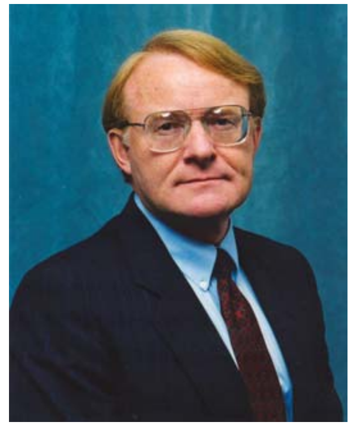
A Message from the Chief Financial Officer



I am pleased to present the Department of the Interior's Departmental Offices' Annual Financial Report for Fiscal Year 2006. The purpose of this report is to highlight the operational activities and financial condition of the Office of the Secretary as well as the Offices of the Solicitor, Inspector General, and Special Trustee, among others.

Departmental Offices provide the executive leadership, policy coordination, and independent program evaluation needed to manage the diverse, complex, and nationally significant programs that are Interior's responsibilities. These offices guide and coordinate all of Interior's administrative activities, such as finance, information technology, procurement and acquisition, human resources, planning, and budgeting as well as enhancing Interior's performance by implementing the President's Management Agenda and exemplifying management excellence. Departmental Offices also provide legal services through the Solicitor's Office, the audits and investigations of program operations by the Inspector General, environmental damage coordination, and other related programs. Other programs in the Departmental Offices include: the Office of Insular Affairs, which provides assistance to insular areas; the Office of the Special Trustee for American Indians, which oversees trust reform and the Secretary's responsibilities for Trust Funds held in trust accounts for tribes and individual Indians[1]; the Natural Resource Damage Assessment and Restoration Program, which coordinates the Department's natural resources damage assessment and restoration efforts; the Office of Wildland Fire Coordination; the Utah Reclamation Mitigation and Conservation Commission; the Central Utah Project Completion Act program; and the National Indian Gaming Commission, which regulates certain Indian gaming activities.

A financial statement audit measures the strength of our financial systems and internal controls. It ensures that our offices have reliable information to make decisions. Managing the Departmental Offices is challenging because it requires the consolidation of eight disparate financial systems and eight budget entities into a single financial statement. While these management efforts resulted in a clean audit opinion for FY 2006, our auditors identified one material weakness which was carried over from FY 2005. The resolution of audit weaknesses is critical to maintain the integrity and accountability in Departmental Office programs and operations. During FY 2006, two material weaknesses and one reportable condition identified in FY 2005 was resolved. We anticipate having the remaining material weakness downgraded by the end of FY 2007. This report also presents the status of Departmental Offices' compliance with certain legal and regulatory requirements, including the Federal Financial Management Improvement Act (FFMIA). As a result of the material weaknesses identified, the Departmental Offices concluded that the financial management systems did not substantially comply with the federal accounting standards requirements of the FFMIA. While we have greatly improved our processes, we need to continue to correct the remaining and any newly identified financial management issues.

In the coming year, Departmental Offices will continue to assess operations and seek ways to improve and enhance management controls. We are committed to providing the best management of the resources under our stewardship. Through the collaborative and dedicated efforts of our employees, we will strive to achieve our goals and report on results in a timely and accurate manner.

R. Thomas Weimer

R. Thomas Weimer
Chief Financial Officer

December 21, 2006

[1] The trust fund balances for Tribal and Other Trust Funds contain two categories: (1) trust funds for Indian tribes and individual Indians are considered non-federal monies and, as such, are not a part of the Departmental Offices accounts and are thus not included in Departmental Offices financial statements, however, these accounts are disclosed in the footnotes to the financial statements; and (2) trust funds held by the DOI for future transfer to a tribe upon satisfaction of certain conditions (i.e., maintenance, repair, and replacement of the Cochiti Pueblo drainage system) or where the corpus of the fund is non-expendable (i.e., the *Southern Arizona Water Right Settlement Act* allows only interest on the corpus of the fund to be expended) are a part of Departmental Offices accounts and are thus considered as a part of this Report.

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U.S. Department of the Interior
Departmental Offices

Management's Discussion and Analysis

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Overview of Departmental Offices

Department of the Interior

The U.S. Department of the Interior protects and manages the Nation's natural resources and cultural heritage; provides scientific and other information about those resources; and honors its trust responsibilities or special commitments to American Indians, Alaska Natives and affiliated Island Communities. Interior is organized into two major components: the Departmental Offices and the operating bureaus. The eight bureaus, with programs and operations carried out in each of the 50 states and several U.S. territories; conduct this broad and often competing mission. These bureaus include:

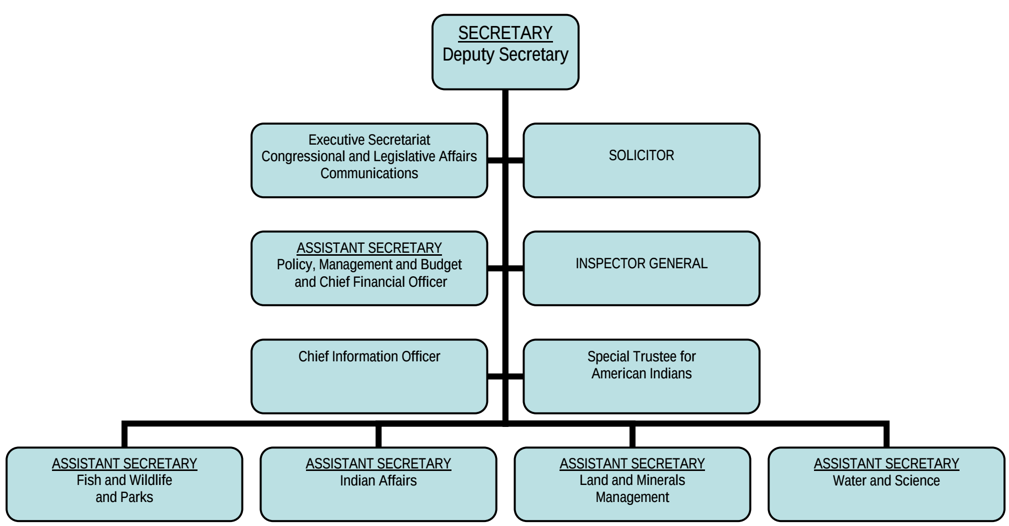
- National Park Service
- Fish and Wildlife Service
- Bureau of Land Management
- Bureau of Indian Affairs
- U.S. Geological Survey
- Bureau of Reclamation
- Office of Surface Mining
- Minerals Management Service

Like each of the bureaus, the role of each Departmental Office is unique.

The Role of Departmental Offices within the Department of the Interior

The Secretary of the Interior is responsible for ensuring that the diverse programs and priorities of the Department are conducted effectively and efficiently in accordance with Presidential and Congressional direction. Accordingly, the Secretary of the Interior provides executive level leadership from the Secretary's Immediate Office, coordination among bureaus and management of significant Departmental initiatives through programmatic Assistant Secretaries, policy guidance through the Assistant Secretary – Policy, Management and Budget, legal services through the Solicitor's Office, and the audits and investigations through the Inspector General. The following chart represents the organizational structure of Departmental Offices:

General Organization – Departmental Offices



Core Business Areas

Departmental Offices have four core areas of business, as outlined in the Interior Strategic Plan:

- Management Excellence
- Serving Communities
- Resource Protection
- Resource Use

Management Excellence

The Departmental Management team includes the Secretary's Immediate Office, the Programmatic Assistant Secretaries, the Assistant Secretary – Policy, Management and Budget, the Office of the Chief Information Officer, the Office of the Inspector General, and the Office of the Solicitor. Through these offices, Interior achieves significant benefits in improved management.

Secretary's Immediate Office. The Secretary's Immediate Office includes the Secretary, the Deputy Secretary, the Chief of Staff, and senior officials and advisers needed for overall policy direction, for prompt response to critical issues, and for communicating with Congress and the public.

Programmatic Assistant Secretaries. The mission of the Department of the Interior encompasses a wide variety of programs. The Programmatic Assistant Secretary offices coordinate activities among bureaus with related missions to ensure that programs are carried out efficiently and that critical concerns are addressed in a timely manner. The Department has four Programmatic Assistant Secretaries:

The *Assistant Secretary for Fish and Wildlife and Parks* provides overall policy direction to the National Park Service and the Fish and Wildlife Service to ensure conservation of nationally significant natural, cultural, historic and biological resources, including ensuring the protection and stewardship of the National Park and National Wildlife Refuge Systems, the preservation of cultural resources, and the conservation of Federal trust species of fish, wildlife, and plants and their habitats.

The *Assistant Secretary for Indian Affairs* is the lead official within the Executive Branch on Indian matters, providing policy direction within the parameters established by treaties, statutes, court decisions, and executive orders and is responsible for creating partnerships with tribal governments by facilitating tribal self-determination and self-governance, ensuring the proper protection of Indian trust assets, improving Indian education programs, and strengthening the management of the Bureau of Indian Affairs. The foundation of Indian policy is the sovereignty of Indian nations and the trust responsibility of the Federal government.

The *Assistant Secretary for Land and Minerals Management* is responsible for programs administered by the Bureau of Land Management, the Minerals Management Service, and the Office of Surface Mining. The programs include managing the surface and mineral resources for 270 million acres of public lands; administering mineral leases and supervising mining on Public and Indian lands; leasing and managing mineral resources on the Outer Continental Shelf; collecting and disbursing royalties and mineral revenues from Federal, Indian, and Outer Continental Shelf leases; and controlling adverse effects of coal mining operations and restoring unreclaimed lands that were mined prior to passage of the Surface Mining Control and Reclamation Act.

The *Assistant Secretary for Water and Science* sets departmental policy for and provides oversight to the programs of the Bureau of Reclamation and the US Geological Survey. Major objectives include maximizing the effectiveness of program operations of the water and science bureaus; serving as the primary Departmental focal point in assigned program areas for national water, earth, and biological science and other natural resource policy development and coordination; ensuring that program goals are identified for assigned functions, support Departmental objectives, and that quantifiable results are measured against them; and ensuring appropriate consultation with all affected parties on assigned substantive program matters.

Assistant Secretary – Policy, Management and Budget. The Assistant Secretary – Policy, Management and Budget (AS-PMB) provides overall policy guidance and direction for Interior in a broad range of areas that affect nearly every aspect of Interior operations, including budget, finance, human resources, workforce diversity, law enforcement, security, performance and inter-bureau issues coordination, including wildland fire policy. Responsibilities include developing and implementing administrative and operational policy, standards, objectives, and procedures for use within

Interior and coordinating with relatively autonomous bureau operational units. The Assistant Secretary also serves as the designated agency Chief Financial Officer (CFO), Chief Human Capital Officer, and Chief Acquisitions Officer.

As the Department's Chief Financial Officer, the AS-PMB serves as the focal point for Departmental financial management and is responsible for establishing the policies and standards necessary for effective financial systems and sound financial information. This includes providing leadership in implementing and carrying out the requirements of the Chief Financial Officers Act, the Government Performance and Results Act, the Federal Financial Managers' Integrity Act, and financial operation provisions in the Government Management Reform Act. The sound management of fiscal resources is a basic responsibility of every Federal agency. The AS-PMB, as Interior's Chief Financial Officer, ensures that Interior maintains high standards of stewardship over entrusted resources.

Under the leadership of the AS-PMG, Interior has continued to make progress on the President's Management Agenda (PMA) during FY 2006. The Department maintained a "Green" score on status from the Office of Management and Budget, in the areas of Competitive Sourcing and Strategic Management of Human Capital. These scores signify continued improvement as the standards for "Green" have increased each year. Competitive reviews to date will save Interior's bureaus in excess of $12 million annually, which is money that is retained within the bureaus to improve mission delivery. In the human capital areas, we are improving succession planning and developing the leadership cadre of tomorrow so that they will be ready to assume the duties of the significant number of SES, GS-15, and GS-14 leaders who will be eligible for retirement over the next 5 years. We are implementing and improving a performance appraisal system that makes meaningful distinctions in employee performance, so that high-performing employees get the recognition that they deserve and those with performance challenges can get the guidance that they need to improve.

Our progress in the PMA's is reflected in other areas as well. By applying principles such as Enterprise Architecture, Capital Planning and Investment Control, Modernization Blueprints, and Data Standardization, Interior has reached a maturity in E-Government processes that reduces redundant systems, modernizes our infrastructure, improves our security, better serves the business needs of the Department, saves millions of dollars annually, and provides better service to citizens. In the area of Financial Performance, Interior continues to close out its fiscal year books within 45 days of the close of business while receiving clean audit opinions and reducing the number of material weaknesses. As part of the overall effort to increase Budget and Performance Integration, Interior is completing the process of updating its GPRA Strategic Plan for 2007-2012. This second fully integrated Departmental Strategic Plan allows bureaus to continue to set outcome goals that are measurable and link the cost of getting those results by integrating those goals with the Activity Based costing Management. Interior budgets now include performance data that is linked to budgeted expenditures in more detail than ever. Interior is improving Asset Management by finalizing its Department Asset Management Plan as well as individual bureau plans. Each bureau is completing its inventory of assets and their condition so that federal assets will be more efficiently managed and maintained in an overall improved condition.

National Business Center. The National Business Center (NBC), located within the Office of the AS-PMB offices, serves as a Departmental shared services provider (SSP). In this role, the NBC provides a full range of administrative and financial services, systems, and operations, including federal payroll and personnel systems and services; financial management systems and services; acquisition systems and services; human resources systems and services; information resource management systems and services; telecommunications; printing, graphics, and reproduction; appraisal services; aviation management; indirect cost rate negotiation services; property management; transportation services; facilities management; mail management; and specialized employee services such as security clearances, medical services, drug testing, and workers' compensation case management. The Departmental Museum, Departmental Library, and the Department of the Interior University are also managed by the NBC. The NBC employs approximately 1,200 Federal employees and 600 contract employees in more than 50 locations across the Nation.

The NBC is funded on a service-for-fee basis through reimbursable agreements with other Federal agencies and the Departmental Working Capital Fund (WCF), which was created in 1950 to support Department-level internal administrative activities that could be performed more efficiently on a consolidated basis. In FY 2006, the Department continued its efforts to consolidate administrative and financial systems and services and create cost efficiencies by transferring the Interior Franchise Fund, which comprises the GovWorks acquisition services from the Minerals Management Service to the NBC.

The NBC Director works cooperatively with the Working Capital Fund Consortium, the Aviation Board of Directors, and a host of user groups to ensure products and services are customer driven, and that NBC operates on a full cost-recovery business basis. The NBC is able to provide competitive pricing for services offered to its customers by creating and sustaining economies of skill and scale, eliminating service redundancies, and standardizing operating systems rules and application set ups to reduce costs.

The NBC's Aircraft Management Directorate (AMD) manages Interior-owned aircraft, contracts for commercial aircraft, and provides aviation safety and training. Centralized management of Departmental aircraft promotes their safe and cost-effective use. Interior bureaus use aircraft in support of natural resource management, including wildfire suppression, wildlife surveys, migratory bird studies, animal gathering, and capturing. Aircraft are also used to conduct scientific research, including environmental protection surveys, seismic monitoring activities, and transportation to remote areas where travel over land is not feasible. Additionally, aircraft are used in law enforcement and emergency search and rescue operations. During FY 2006, AMD conducted 10 bureau aviation program evaluations, conducted the first ever aviation safety cost analysis, conducted the thrice yearly Aviation Centered Education (ACE) training for aviation-related positions, and enhanced the availability of aircraft and pilots to 1,558 and 1,476 respectively to support Departmental firefighting efforts and programs.

The NBC is also participating with the Department on the Financial and Business Management System (FBMS) to replace the aging corporate business systems, the Federal Financial System, with SAP's commercial core financial product. The NBC hosts the SAP application for all DOI bureaus, as well as supports all interfacing property, procurement, and e-travel systems. During FY 2006, the NBC deployed all necessary IT related infrastructure for planned releases, provided help desk support to track and manage system issues/problems, supported the grants module which was implemented in FY 2005, and created a Change Control Board to facilitate and prioritize changes to all deployed FBMS applications.

In 2006, the NBC accomplished the following in support of Department programs and NBC Lines of Business (LoB):

- Supported an unqualified opinion for the Departmental Offices' 2006 financial statements.

- Developed a strategic 5-year business plan for each of the NBC's 8 Lines of Business (LoB) - Human Resources/Payroll, Financial Management, Information Technology, Aviation Management, Appraisal Services, Training, Acquisitions, and Administrative Services. Each business plan establishes a roadmap for the LoB to achieve quality performance management, customer outreach, and a wide range of services that meet customer needs.

- Initiated an effort to create a customer-focused consolidated Contact Center. When complete, the Center will improve customer support/help desk services with a single call center structure, expert technical support, state-of-the-art phone system, and monitoring tools. The new call center will consolidate approximately 17 different help desks that the NBC currently supports for specific products and services.

- Adopted a recognized quality management program, ISO 9001, and began implementation across all NBC lines of business.

- Worked closely with the General Services Administration to bring significant improvements in functionality to the Carlson Wagonlit eTravel software. The NBC participated in testing of the enhanced functionality and represented the Department and external customers to GSA regarding requests for changes in the mandated implementation dates until the vendor significantly improved and delivered on promised functionality.

- Revised and migrated the Department's 2006 Federal Information Systems Security Awareness Training to DOI Learn, the Department's new e-learning management system. Approximately 73,000 employees and contractors used the new system for their annual IT security training in FY 2006.

- Supported a wide range of government-wide management and employee career programs, including the Senior Executive Service (SES) Career Development Program and Acquisition Management and Financial Management Career Intern Programs. Graduated 31 SES, 10 Acquisition, and 8 Financial Management interns during FY 2006.

- Completed development of an NBC leadership competency model and the accompanying tiered competency based curriculum. All courses have been aligned with the corresponding leadership levels and associated competencies. The result is an NBC-wide program and resource guide to help employees and all levels of management close skill gaps.

- Implemented a wide range of enhancements to NBC's network and system architecture and associated financial systems IT controls. This included deployment of a Defense-in-Depth protection methodology and implementation of a variety of complementary tools, processes, and procedures designed to provide robust perimeter and application protection. This technology has allowed automatic blocking and alerting for unauthorized access attempts based on analysis of network traffic against known attack signatures and significantly enhanced the NBC's IT security program in accordance with FFMIA and FMFIA requirements.

- Reorganized the Financial Accounting organization within the NBC that performs financial transactions/vendor payments and other accounting related services for DOI and external customers. This reorganization transitions from a customer focused approach to a transactions-based business model. The result is greater standardization of processes, cross-utilization of staff, and improved cost efficiencies

- Participated in OMB's effort to reinvigorate and redefine the Federal-wide financial management LoB. NBC assisted GSA and the other Federal FMLoB providers in the development of agency migration strategy approaches, standard performance measures, and other activities designed to provide Federal agencies with guidance on migrating to one of the designated Federal and/or private sector Shared Service Providers (SSPs).

- Integrated the Department's franchise fund, which includes the GovWorks acquisition organization, into the NBC thereby enhancing Departmental oversight of the fund.

- Consolidated selected Appraisal Services Regional Offices (e.g., Atlanta, Phoenix, Portland) to increase efficiency.

- Created and implemented an Appraisal Compliance Inspection Program in order to increase oversight and improve the quality of appraisal services to DOI customers.

- Created a Minerals Evaluation Office in Denver. This established new expertise in the appraisal area to support Departmental bureaus and associated programs.

- Completed Phase 2 of the Main Interior Building (MIB) Modernization Project and started work on Phase 3.

- Established the framework and approach for complying with the new HSPD-12 requirements regarding personnel and physical security in readiness for the October 27, 2006 OMB requirement to issue PIV II compliant cards.

- Performed a thorough analysis of acquisition services within the NBC to determine an optimum operating environment for integration of acquisition offices under a common management structure and service-for-fee business policy. This analysis will provide guidance for improving efficiency and effectiveness of operations.

Office of the Chief Information Officer. With the leadership of the Chief Information Officer (CIO), the Secretary established a sound Information Technology (IT) infrastructure within Interior and ensures all bureaus are prepared to address current and future information technology challenges. The CIO has primary responsibility, under the Clinger-Cohen Act of 1996, for supervision and coordination within Interior of the design, acquisition, maintenance, use, and disposal of information technology by Interior bureaus and Departmental Offices. The CIO also monitors the performance of Interior's information technology programs and activities, and ensures that Interior's information management is consistent with the principles of the E-Government Act of 2002, the Government Paperwork Reduction Act, the Government Paperwork Elimination Act, the Federal Information Security Management Act (FISMA), the Freedom of Information Act, the Privacy Act of 1974, and the Federal Records Act. The CIO consults with Interior's Chief Financial Officer to assure that Interior information technology programs and activities are carried out in a cost-effective manner, and that financial and related program information is reliable, consistent, and timely.

Specific milestones in FY 2006 include:

- Connected bureau networks to the Enterprise Services Network (ESN) and implemented strong, perimeter security for the bureaus. Consolidated management of bureau networks by transferring management responsibilities to the ESN's network Operations and Security Center. The center provides full-time (24x7) monitoring and maintenance support for the network. Migrated major network backbone nodes and circuits to a vendor provided service, which increased overall network performance and security. Developed a consolidated, centrally managed remote access solution, which supports work-at-home initiatives and continuity of operations.

- Enhanced Interior's IT security posture by conducting extensive penetration testing and implementing new, robust network perimeter vulnerability scanning; conducting quality reviews of all Certification and Accreditation packages; delivering security awareness training to 80% of Interior employees and contractors using IT systems; delivering specialized role-based training to 30% of employees having significant IT security responsibilities, implemented a new process for senior agency officials to verify completion of corrective actions documented in system Plans of Action and Milestones (PO&Ms), and conducting on-site FISMA compliance reviews of bureaus and offices IT security program.

- Integrated IT Enterprise Architecture (EA) and IT Capital Planning and Investment Control (CPIC), with a streamlined governance process having clearer roles and decision-making authority. Issued a revised CPIC Guide, version 2.0, incorporating integrated processes. The Interior Enterprise Architecture (IEA) program was rated #1 by Office of Management and Budget (OMB) across the federal government for two rating cycles in a row. In order to receive a "Green" rating by OMB, agencies must be rated a level 3 for "Completion, Use and Results" of their EAs. DOI's scores for the 2006 rating were: Completion: 4.5; Use: 4.2 and Results: 3.7.

  The IEA takes an action-oriented approach to EA that is designed to solve business problems.

IEA's through its uses of the DOI Methodology for Business Transformation (MBT) and its supporting centralized EA repository (DEAR) has assisted several critical DOI business areas. The IEA program has completed architectures for four of its key business which collectively identify approximately 100 legacy systems that will be retired into target Departmental solutions. Seven additional business areas are currently using the MBT to develop their architectures. Specifically, DOI has focused on the business areas that comprise large percentages of the IT portfolio. These areas, such as financial management, law enforcement, wildland fire, and recreation, have been architected to improve the overall IT portfolio as well as the delivery of services within the organizations themselves.

- The Enterprise Architecture work at DOI has resulted in the identification of several opportunities for Enterprise Licensing Agreements (ELA). In concert with the standards and specifications included in the DOI Technical Reference Model (TRM), ELAs or Blanket Purchase Agreements (BPAs) enable DOI customers to realize significant cost-savings from acquiring select IT hardware and software products at higher-volume discounts.

Products	DOI Cost	GSA Cost	DOI $ Savings Over GSA	DOI % Savings Over GSA	Duration of Agreement
Software ELAs:					
ESRI	$ 25.50	$ 71.80	$ 46.30	64.50%	10/01/03 - 09/30/08
Microsoft	$ 50.29	$ 63.94	$ 13.65	21.35%	06/17/05 - 06/17/09
Oracle	$ 6.31	$ 12.92	$ 6.61	51.16%	05/24/06 - 05/24/07
Symantec	$ 1.47	$ 2.78	$ 1.31	47.12%	10/01/06 - 01/31/07
Subtotal	$ 83.57	$ 151.44	$ 67.87	44.82%	

- Developed the DOI Enterprise Security Architecture (ESA) standard enabling standardization of network infrastructure and application security architectures across Interior.

- Developed and implemented new Information Technology (IT) security policies, Certification and Accreditation (C&A) standards and Internal Control Review (ICR) standards to maintain compliance with rapidly evolving standards and guidelines issued by the National Institute of Standards and Technology (NIST) and the Office of Management and Budget (OMB).

  Interior's enterprise-wide CPIC approach emphasizes the integration of IT governance and portfolio management with our strategic goals mission performance, organization and business architecture. DOI is striving to mature its IT Investment Management (ITIM) maturity while implementing the model outlined by the Government Accountability Office. By October 2006, all ten bureaus and offices will have achieved Stage 2 maturity and at least 35% of ITIM Stage 3 maturity practices will be implemented, thereby, helping DOI to remain on track in achieving its goal of attaining Stage 3 by the end of FY 2008.

  In FY 2006, the DOI Investment Review Board developed portfolio selection criteria based upon the business priorities and management objectives. These criteria were used to evaluate Bureau and Departmental IT proposals in the FY 2008 budget development process. Interior strengthened the project/investment reporting requirements by requiring projects to develop more detailed performance baselines and increasing the frequency of performance reporting. DOI also adopted the Enterprise Project Management Information System (ePMIS) as Interior's official repository for project/investment cost and schedule baseline performance data in order to provide integrated views of portfolio performance that will be used for investment decisions.

- The CIO established new E-Government requirements for its 2006 Internal Scorecard and its milestones that are used to assess each bureau's performance. The bureaus' Internal Scorecard now reflects an enhanced alignment to OMB's Presidential Management Agenda (PMA) Scorecard items for Investment Management, Enterprise Architecture, Security and E-Government as reported to OMB quarterly to address the Department's overall status and progress.

- Improved Interior's processing of Freedom of Information Act requests through enhancements of the Electronic FOIA Tracking System (E-FOIA). The system can now generate acknowledgement letters, match requests with similar prior requests, and incorporated multi-track processing. In FY 2005, Interior received close to 7,000 requests. FY 2006 information is not yet available.

Office of the Solicitor. The Office of the Solicitor advises, assists, and represents the Secretary, his staff, the bureaus, and the offices of the Department of the Interior in accomplishing the statutory obligations and goals of the Administration. The Office's attorneys provide legal advice and counsel to all areas of Interior to assure that Interior's programs and initiatives are carried out in a manner consistent with applicable laws and regulations. They prepare formal legal opinions; review draft legislation, regulations, contracts, and other documents; and provide informal legal advice in a wide variety of circumstances. In addition, the Office's attorneys represent the Department in administrative litigation involving the Department.

Office of the Inspector General. The Office of the Inspector General (OIG) provides leadership and assistance in the promotion of economy, efficiency, and effectiveness, and in the detection and prevention of fraud, waste, abuse, and mismanagement in the operations and activities of Interior. The OIG is the focal point for independent and objective reviews of the integrity of Interior's programs and operations. The OIG is responsible for objectively and independently identifying risks and vulnerabilities that directly impact, or could impact, the Department's ability to accomplish its mission and for keeping the Secretary and the Congress fully and currently informed about problems and deficiencies relating to the administration of Departmental programs and operations. The OIG accomplishes its mission by providing policy direction for and conducting, supervising, and coordinating audits and investigations of Departmental programs and operations.

Serving Communities

Office of Insular Affairs. The functions and responsibilities of the Secretary of the Interior for U.S.-affiliated insular areas are delegated to the Office of Insular Affairs (OIA), whose director reports to the Secretary through the AS-PMB. These insular areas include the U.S. Virgin Islands, Guam, American Samoa, the Commonwealth of the Northern Mariana Islands (CNMI), the Republic of Palau, the Republic of the Marshall Islands, and the Federated States of Micronesia.

The Department of the Interior began its involvement with the present-day U.S. insular areas in 1931 with the transfer of Federal administrative responsibilities for the U.S. Virgin Islands to the Department of the Interior from the Navy Department. Likewise, in 1950, the Navy transferred certain responsibilities relating to Guam to the Department. Guam has been a U.S. territory since the end of the Spanish-American War in 1898. Administrative responsibilities for American Samoa, parts of which had been ceded to the United States as early as 1900, were similarly transferred from the Navy Department to the Department of the Interior in 1951.

What are now the Commonwealth of the Northern Mariana Islands, the Republic of Palau, the Republic of the Marshall Islands and the Federated States of Micronesia were placed within the Trust Territory of the Pacific Islands by the United Nations in 1947. Under the terms of the Trusteeship Agreement, the United States exercised full administrative jurisdiction over the Trust Territory. The Department of the Interior assumed trusteeship responsibilities in 1951.

In 1976, residents of the Northern Mariana Islands voted to enter into the "Covenant to Establish a Commonwealth of the Northern Mariana Islands (CNMI) in Political Union with the United States of America." Although most of the terms of the Covenant were implemented in 1978, the Covenant became fully effective by Presidential Proclamation in 1986 and the CNMI ceased to be bound by the Trusteeship Agreement. The Compacts of Free Association for the Republic of the Marshall Islands and the Federated States of Micronesia also were implemented in 1986. These two nations are now sovereign states, linked to the United States according to the terms of the negotiated compacts. The Republic of Palau remained under the Trusteeship through fiscal year 1994; its Compact of Free Association became effective on October 1, 1994.

Until the 1970's, the Secretary of the Interior exercised broad authority in the insular areas. Chief executives of the insular governments were appointed and subject to the Secretary's supervision. Since the institution of popularly elected governors (Guam, 1971; Virgin Islands, 1971; American Samoa, 1978; and Northern Mariana Islands, 1979), each of the insular areas has become responsible for local government. Subsequent Federal legislation has eliminated most of the Secretary's authority to supervise the insular governments.

OIA assists U.S.-affiliated insular areas in developing more efficient and effective governments by providing financial and technical assistance and helps manage Federal-island relations by promoting appropriate Federal policies. Financial assistance is provided in several forms including: discretionary grants for operations to American Samoa and Enewetak; tax carryovers to Guam and the U.S. Virgin Islands; and guaranteed assistance for general operations and health and education to the freely associated states. Good management in the insular governments, as demonstrated by sound financial management practices, is essential to developmental goals and the protection of taxpayer's money. OIA cannot require the governments to develop plans, but can offer expertise and other incentives. In conjunction with the U.S. Department of Agriculture Graduate School, OIA has gathered a team of experts with significant experience in the federal government, governmental and public auditing, and financial systems and practices to provide financial education and other services to insular areas. To date, the program has been successful, particularly in terms of cooperation from insular governments. Effective communication and the ability to clarify federal and insular positions are critical to OIA's mission of serving the insular governments.

OIA has worked to find ways to make significant progress on economic development without the need for a large commitment of resources. This effort is proving to be successful, with business opportunities in the insular areas having been consummated with the help of OIA's facilitation efforts and many more in process. The following are examples of results from OIA's efforts:

- A company that participated in the Conference and Mission is working to develop recreational/entertainment facilities on Saipan aimed at both the local population and the tourist market. They have already hired fifteen local staff to manage the facilities, and are planning to either import or purchase locally six or more buses to support these businesses.

- A financial services, asset management, and real estate development firm based in the U.S. Virgin Islands will be opening a branch in the CNMi, aimed at the Chinese market. The company attended both Conferences and would offer international lending, investments, and consulting services. Their initial investment is expected to be $12 million.

- An Ohio-based venture capital firm that attended the 2004 conference is opening a financial services firm in the U.S Virgin Islands, aimed at the local market.

- A participant in all three Missions that operates live-aboard dive boats is planning to begin tours in and around the U.S. Virgin Islands later this year. This is an entirely new itinerary for the company, and it may move one of its vessels there permanently.

- A company that participated in the Virgin Islands mission will be offering new training programs for the University of the Virgin Islands, and is working on several partnerships with a local company on a DOD project, and several other joint ventures with local partners.

- A company that participated in the Virgin Islands Mission and is planning to join the American Samoa Mission has committed to financing a local tea producer in the Virgin Islands, securing over half a million dollars in financing to purchase equipment and hire and train additional staff.

- In the pipeline:

    - A live-aboard dive boat operator who attended the first business opportunities mission is working on plans to bring divers to Palau and/or Chuuk.
    - A company that participated in the first business opportunities mission is currently working out a partnership agreement with a local tour company in Palau for a dive attraction. The company made a follow-up visit to Guam, Saipan and Palau after the mission.
    - A company that participated in the first business opportunities mission had indicated that it wants to do either an airport commercial area development project in Guam or two other development projects in the Western Pacific this year. The company is planning several follow-up trips to Guam, Saipan, and Palau beginning in August 2005, bringing several business partners to examine the potential projects.
    - A group of three partners from the mainland United States, who learned of opportunities on Tinian through OIA's marketing of the first business opportunities mission, is working to develop Tinian's second resort hotel. They have secured an investor, and are currently pursuing the requisite licenses.
    - The same group is also having preliminary talks with an American firm based out of New York City that has distribution rights for a variety of Asian clothing labels, to develop retail opportunities on Tinian.
    - A company that was introduced to insular area business opportunities through OIA's marketing efforts is exploring placing plastic bag production facilities on Saipan or Yap.
    - A ceramics designer currently based in Hawaii and producing in China is considering moving his production site to the CNMI. A representative of the company, which participated in the first Business Opportunities Mission, recently made a second trip to review properties on the south end of the island.
    - A direct-mail company aimed at the Japanese market is considering placing a production/mass mailing facility on Saipan. Domestic postal rates in Japan are so high that it would be more economical to base the facility in Saipan and mail internationally into Japan. A representative of the company, which participated in the first Business Opportunities Mission, recently made a second trip to review properties on the south end of the island.
    - A California-based construction firm that attended the 2004 Conference is building 128 homes on Saipan.
    - A company that participated in the 2005 Mission and the 2004 Conference has expressed interest in building power plants in Palau and the CNMI; the power would be sold directly to the local utility by means of a PPA.
    - Two companies that participated or were represented on the 2005 trade mission are planning to build an OTEC power/potable water plant for the Kwajalein Atoll military base, and are also showing some interest in Guam and Saipan.
    - A company from California is working with an electronics company on Saipan to introduce new wireless service.
    - A company from Texas that participated in the Mission is working with the CNMI and Palau on homeland security projects.
    - A company that participated in the Mission has a bid on a contract with the Navy Communications Facility on Guam.
    - A company that participated in the Mission is working with a local electronics firm in Palau to offer wireless service on-island.

- A company based in Florida was brought out to the islands by a participant in the first Mission; they are seeking to build power plants that burn a renewable fuel source derived from plant matter to be farmed in the Philippines. The company is already operating in Florida, and would build plants in Palau and Saipan, producing power to be sold under power purchase agreements with the local utilities. They are also negotiating to sell the fuel to Guam.
- A container services company that participated in the Virgin Islands Mission is working towards opening an affiliate branch on St. Croix.
- Several companies that participated in the Mission to American Samoa are exploring options to finance and build a fiber-optic cable link between American Samoa and either Fiji or Hawaii, in partnership both with the local telecommunications utility and several private partners.
- A group based in Hawaii is pursuing placing a 200-seat call center serving an insurance company in American Samoa. They have already made preliminary plans and are also actively involved in the plans to develop the fiber-optic link.

Office of the Special Trustee. The Office of the Special Trustee for American Indians (OST), which reports to the Secretary, oversees and coordinates Indian trust reform efforts Department-wide to ensure the establishment of policies, procedures, systems, and practices that allow the Department to effectively discharge its trust responsibilities. OST has operating responsibility for financial trust management, including investment and disbursement of assets held in approximately 1,450 trust accounts and about 323,000 open accounts for individual Indians. The balances of funds that have accumulated in the Indian trust accounts are derived from various sources, including: payments for land cessions by treaty; proceeds from sales of land under confiscatory acts of Congress; proceeds from sales and leases of tribal lands and other natural resources such as mineral extraction, timber, and grazing; judgment awards made by the Indian Claims Commission and the U.S. Court of Federal Claims; monies appropriated to fund legislative settlements; and interest on trust fund investments. The Office of Appraisal Services, within OST, provides impartial opinions of value for a variety of specific real property interests on land owned in trust or restricted status.

Financial assets held in trust for Native Americans are owned by the trust beneficiaries and therefore are not Federal assets. Authorizing legislation and case law specify how Indian trust assets should be managed and which financial instruments constitute appropriate fund investments. Investments are limited, in most cases, to direct investments in U.S. Government securities (Treasury and other agency issues) and insured deposits or deposits collateralized by U.S. Government securities. Disbursements from judgment awards must be made in accordance with tribal award distribution plans. Additional trust functions for the Department are carried out by the Bureau of Land Management, the Minerals Management Service, the Bureau of Indian Affairs, the Office of Hearing and Appeals within the Offices of the AS-PMB, the Office of the Solicitor, and the Office of Historical Trust Accounting in the Office of the Secretary.

National Indian Gaming Commission. The National Indian Gaming Commission (NIGC) is an independent federal regulatory agency of the United States. The Commission was created by the Indian Gaming Regulatory Act (IGRA) of 1988 to monitor and regulate certain gaming activities on Indian lands. The IGRA mandates that the Commission is composed of three members, a chairman, who is appointed by the President of the United States with the advice and consent of the Senate, and two commissioners who are appointed by the Secretary of the Interior. The mission of the NIGC, in keeping with the IGRA declaration of policy, is to ensure that Indian gaming is regulated, "to shield it from organized crime and other corrupting influences, to ensure that the Indian tribe is the primary beneficiary of the gaming operation, and to assure that gaming is conducted fairly and honestly by the operator and the player."

The responsibilities of the NIGC include, but are not limited to: monitoring of gaming operations on a continuing basis; approving all contracts for management by third parties; conducting background investigations on management company officials and principal investors; and reviewing and conducting audits of the books and records of the gaming operations. The Commission has the authority to take action against violations of IGRA, NIGC regulations and tribal gaming ordinances. The work of the NIGC is financed through annual fee assessments on tribally owned, operated, or licensed gaming establishments regulated by the Commission.

*Payment in Lieu of Taxes (PILT) Program. T*he PILT payments are made for lands administered by Interior agencies including Bureau of Land Management (BLM) National Park Service (NPS), Bureau of Reclamation (BOR), and Fish and Wildlife Service (FWS), as well as for land administered by the U.S. Forest Service and the U.S. Army Corps of Engineers. Congress passed the Payments in Lieu of Taxes Act in 1976 to provide payments to local governments in counties, townships, and other jurisdictions where certain Federal lands are located within their boundaries. The program is based on the concept that local governments incur costs associated with maintaining infrastructure on Federal lands within their boundaries but are unable to collect taxes on these lands. The payments are made to local governments in lieu of tax revenues and to supplement other Federal land receipts shared with local governments.

Significant planned accomplishments in FY 2007 will include:

- Distribution of all payments to eligible counties in June 2007. Payments made before July 1 help local governments to better plan for PILT in the preparation of their annual budgets.

The PILT web site has been newly updated and is now hosted by the Department and is accessible at http://www.doi.gov/pilt/.

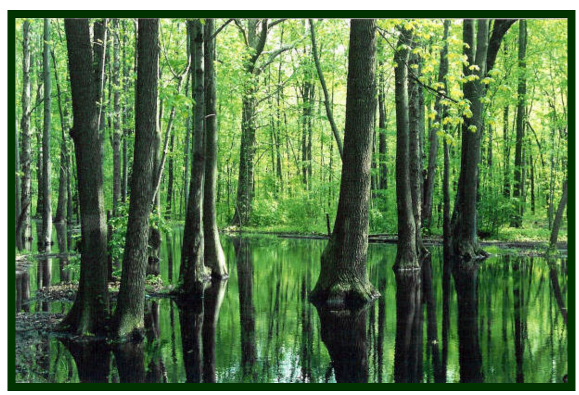
Resource Protection

Natural Resource Damage Assessment and Restoration. One contribution toward Resource Protection in Departmental Offices comes from appropriations and recoveries to the Natural Resource Damage Assessment and Restoration Program (NRDAR). These funds enable Interior to identify, evaluate, and conduct damage assessments of natural resource injuries resulting from oil and hazardous substance releases. Most often in cooperative partnership with other Federal, State, and Tribal trustees, the NRDAR Program assesses injuries to natural resources under the trusteeship of the Interior Department, and negotiates legal settlements or takes other legal actions against the parties responsible for the spill or release. Settlement funds or in-kind actions from the responsible parties are then used to restore the injured resources at no expense to the taxpayer.

During settlement negotiations or after a settlement is reached, a restoration plan is developed. These plans specify the necessary actions to restore the injured resources. Actions can be carried out on the lands where the contamination occurred or, if appropriate, at an alternate site which, when restored, provides a suitable replacement for the injured or lost resources and services those resources provide. Trustees (States, Indian Tribes, other Federal agencies, or foreign governments) can undertake these projects directly or responsible parties can undertake these actions under the supervision of the trustees. The trustees monitor the restoration projects to ensure that they continue to be properly focused and conducted and to determine whether the efforts are successful over the long run in restoring the injured resources.

The NRDAR program works diligently to find solutions that will meet the needs of all parties involved. The vision of cooperative restoration is not just in the mind's eye, or in plans on shelves, but is manifested in tangible on-the-ground examples of restoration success. Every action the Restoration Program takes is done with the goal of restoring injured natural resources. Assessments are not done for the sake of science alone, or receiving a financial settlement, but as a necessary first step toward resource restoration. As such, assessments serve as important milestones that inform the natural resource trustees and lead them toward the restoration goal. The ultimate goal is the restoration of natural resources for the American public.

Volunteers erect sign at new Audubon Preserve



Acquired forested wetland habitat will benefit a variety of birds and the rare Shumard Oak.

A regional restoration plan developed by the trustees incorporates settlements from three Superfund sites within Niagara County, New York, including the infamous Love Canal Superfund site. Working through the U.S. Fish and Wildlife Service, the DOI Restoration Program is working to implement over $1.3 million in numerous restoration projects with a variety of partners, including NOAA, the Tuscarora Indian Nation, City of Niagara Falls, National Audubon Society, New York State Parks, New York Department of Environmental Conservation, Niagara County Soil and Water Conservation District, Erie County, and the Western New York Land Conservancy.

Utah Reclamation Mitigation and Conservation Commission. The Central Utah Project Completion Act (CUPCA) authorized funding for fish, wildlife, and recreation mitigation and conservation activities, and established the Utah Reclamation Mitigation and Conservation Commission (Commission) to oversee the implementation of those activities. A program office located in Provo, Utah, provides liaison with the Commission, and

otherwise assists in carrying out the responsibilities of the Secretary. This Project is managed through the Assistant Secretary for Water and Science. The primary purpose of the Central Utah Project Completion Act is to provide for the orderly completion of the Central Utah Project by authorizing certain water conservation and wildlife mitigation projects, and by providing funding for construction of certain features for delivery of irrigation, municipal and industrial, and in-stream flow water to specified areas within the Central Utah Project service area.

The Act envisioned a partnership arrangement wherein the Department of the Interior, through the Assistant Secretary for Water and Science, would appoint a representative who would oversee the accomplishment of the Act in Utah. The representative and his staff (Central Utah Project Completion Act Office, located in Provo, Utah) works with the Central Utah Water Conservancy District, the Utah Reclamation Mitigation and Conservation Commission, and the Ute Indian Tribe to implement the Act.

Central Hazardous Materials Fund. The Central Hazardous Materials Fund (CHF) is the Department's primary mechanism for addressing contaminated sites requiring longer term cleanups or remediation. The CHF supports project oversight of response actions, remedial investigations/feasibility studies, cleanups, and long term monitoring of cleanups at sites where a release of hazardous substances (as defined in the Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA)) has occurred and for which the Department is the lead agency or for which it may be liable.

In FY 2006, the Central Hazardous Materials Fund has obtained an estimated $2 million in revenue from cost-shared, cost-recovered, and in-kind work contributed by other parties. During this same period, the Department received nearly $10 million in Central Hazardous Materials Fund appropriations.

Take Pride in America® Program. Take Pride in America is a national, multi-agency partnership that encourages citizens to help care for their public lands by enhancing parks, refuges, recreation areas, and cultural and historic sites. The program promotes stewardship by working in partnership with Federal, state and local governments; community, civic and youth organizations; conservation and recreation groups; and corporations. Nearly one in every three acres in America are public lands, therefore contributions from citizens in caring for them are critical to ensuring their longevity for future generations. Volunteers help land managers by combating problems facing public lands such as vandalism and looting of historical artifacts, abusing public lands and resources, and by restoring areas damaged by natural disasters such as hurricanes and wild fires.

The Take Pride in America program is a component of the USA Freedom Corps, a Coordinating Council housed at the White House and chaired by President George W. Bush, that works to strengthen the culture of service and help identify opportunities for each American to volunteer. In his 2002 State of the Union address, President Bush called for all Americans to commit at least two years in service to their neighbors and the Nation.

More than fifty local employees for the Department of the Interior and Deputy Secretary Lynn Scarlett gathered to volunteer in the Capital River Relief project, a large-scale clean-up of the Potomac and Anacostia watersheds.

Since its reestablishment in April 2003, the Take Pride in America program has successfully fulfilled its mission by creating awareness and motivating to action thousands of volunteers to further stewardship on local, state and Federal public lands. More than 100 partnering organizations offer support by sponsoring events, donating materials and lending resources for the Take Pride in America program. In addition to the organizations, Take Pride actively recruits members of Congress, governors and mayors to help spread the message of volunteerism throughout their district, state or city.

In FY 2006, Take Pride in America restructured their partners program to distinguish levels of sponsorship between the partnering organizations, and to provide quantifiable value toward their contributions. Take Pride distributed event planning kits to over 300 partners which included ideas on how to participate with the Take Pride program, samples of volunteer rewards and instructions for planning volunteer events. Additionally, the program increased the number of Take Pride Schools and Cities.

Take Pride in America's success is enhanced by raising the visibility of the program through a celebrity spokesman, Clint Eastwood. Public service announcements featuring Mr. Eastwood help spread the word on volunteering and motivate people to the program's website to search the database of volunteer opportunities. Since the launch of the public service campaign in September 2005, the announcements have reached 16.2 million people through mainstream print and trade publications, and over 30.5 million viewers on television.

Moving forward, Take Pride in America® will work to establish partnerships with interested organizations which fulfill the goals of Take Pride and add value to the partnering organization, with emphasis on youth and education programs. The program will increase the number of Take Pride in America Schools and Cities. Additionally, increasing the number of volunteer activities with its partners, including elected officials, recreation and youth groups, and corporations, will remain a focus. Through continued awareness, Take Pride expects to increase the number of registered events, and annually recognize outstanding volunteer efforts at an annual awards ceremony.

Resource Use

Central Utah Project Completion Act (CUPCA). The timely completion of the Central Utah Project by the Central Utah Water Conservancy District (CUWCD) is provided for in the CUPCA. A program office located in Provo, Utah, provides liaison with the CUWCD, and otherwise assists in carrying out the responsibilities of the Secretary. This Project is managed through the Assistant Secretary for Water and Science. The primary purpose of the Central Utah Project Completion Act is to provide for the orderly completion of the Central Utah Project by authorizing certain water conservation and wildlife mitigation projects, and by providing funding for construction of certain features for delivery of irrigation, municipal and industrial, and in-stream flow water to specified areas within the Central Utah Project service area.

The Act envisioned a partnership arrangement wherein the Department of the Interior, through the Assistant Secretary for Water and Science, would appoint a representative who would oversee the accomplishment of the Act in Utah. The representative and his staff (Central Utah Project Completion Act Office, located in Provo, Utah) works with the Central Utah Water Conservancy District, the Utah Reclamation Mitigation and Conservation Commission, and the Ute Indian Tribe to implement the Act.

Report on Performance Goals and Results

Serving Communities								
Long-Term Goal	Annual Goal	2002 Actual	2003 Actual	2004 Actual	2005 Actual	2006 Plan	Final FY 2006	2006 Performance Report and Discussion
Increase Economic Self-Sufficiency of Insular Areas	Decrease the ratio of Federal Revenue to total revenues in insular areas	N/A	N/A	.26	.25	.33	.28	This was a new goal in FY 2004. The 2004 Actual and 2006 Plan figures were based on estimates from the CIA World Fact Book. Data in the CIA World Fact Book is inconsistently available and inaccurate for all insular areas. As a result of OIA's Single Audit compliance efforts, more accurate and consistent data is now available from the insular area's annual financial statements. This data is now reflected beginning in the 2005 Actual column based on the four U.S. territories. The 2006 Actual figure is based on all the insular areas. In the future, targets will be set based on evaluations of all the insular area's annual financial statements instead of the CIA World Fact Book figures.
	Increase the ratio of private sector jobs to total employment	N/A	N/A	.76	.77	.78	.71	Goal Not Met. The method to calculate this measure was modified to include additional insular areas in FY 2006.
	Decrease the total average months late for all insular general fund financial statements	N/A	10	9	5	3	*	This is a new goal for FY 2006. OIA has been working with the insular areas to bring them into compliance with the Single Audit Act and as a result, audited financial statements are now being submitted by the insular areas. * One Insular area has not completed the single audit report due in FY 2006. All other Insular areas completed the single audit report on time in FY 2006.

Serving Communities								
Long-Term Goal	Annual Goal	2002 Actual	2003 Actual	2004 Actual	2005 Actual	2006 Plan	Final FY 2006	2006 Performance Report and Discussion
Ensure Timeliness of Mineral Revenue Payments to American Indians	Record revenue in the Trust Financial Accounting System within 24 hours of receipt	N/A	N/A	97.35%	100%	98.5%	98.8%	Goal Met. This was a new goal in FY 2004.
Timely and accurate annual PILT payment distributions	Make distribution payments to eligible counties before July 1 in order to help local governments to better plan for PILT in the preparation of their annual budgets.	N/A	N/A	June 24	June 24	June 16	June 16	Goal Met. This was a new goal for FY 2005.

Office of Insular Affairs: Office of Insular Affairs (OIA), in conjunction with the insular areas, strives to meet the Department's Serving Communities Strategic End Outcome Goal #5: Increase Economic Self-Sufficiency of Insular Areas as stipulated in the DOI Strategic Plan FY 2003-2008. Consistent with the intermediate outcome measure, Increase Economic Development, program performance will be measured by the ratios of Federal Revenue to total revenues in insular areas and of private sector jobs to total employment. Program performance will also be measured by the total average number of months that the insular area governments are late in submitting their general fund financial statements. As a result of OIA's Single Audit compliance efforts, more accurate and consistent data is now available from the insular area's annual financial statements.

Office of Special Trustee: Office of Special Trustee (OST) strives to meet the Department's Serving Communities Strategic End Outcome Goal #3: Fulfill Indian Fiduciary Trust Responsibilities as stipulated in the DOI Strategic Plan FY 2003-2008. Consistent with the intermediate outcome measure, Improve Management of Land and Natural Resource Assets, program performance will be measured by the timeliness of Mineral Revenue Payments to American Indians. OST continues to make improvements to the financial accounting system to ensure the goal of making Mineral Revenue Payments to American Indians in a timely manner is met. In 2006, OST achieved 99.8% of revenue recorded in the Trust Financial Accounting System within 24 hours of receipt, and met its goal of 98.5%.

Payment in Lieu of Taxes: The Department is committed to maintaining timely and accurate annual PILT payment distributions to eligible local governments. In line with this goal, the Department developed the 2006 PILT payments schedule and with the assistance of the National Business Center was able to ensure timely distribution on June 16, 2006, approximately one week earlier this year. This early distribution allowed the Department to again meet its goal of making payment before the end-of-year for most of the jurisdictions. Continuing to follow up on annual financial audit recommendations, the Department validated the appropriateness of the formulas, the inflationary adjustments, the acreage adjustments, and the Federal payment offsets in developing the 2006 payment distribution. The National Business Center assisted the Department in updating the PILT website and printing summary materials on the 2006 PILT payments.

Resource Protection								
Long-Term Goal	Annual Goal	2002 Actual	2003 Actual	2004 Actual	2005 Actual	2006 Plan	Final FY 2006	2006 Performance Report and Discussion
Create Habitat Conditions for Biological Communities to Flourish	Increase the cumulative amount of damage settlement funds within the DOI Restoration Fund to $285 million.	$202.8	$227.9	$259.0	$294.8	$326.8	$368.6	Goal Exceeded.
Timely completion of the Central Utah Project	The CUPCA Office will work with the Commission to implement measures to conserve, mitigate, and enhance fish, wildlife, and recreation resources affected by reclamation project in Utah. In 2007, the CUPCA office will measure the percent completion of Commission work authorized by Congress.	59%	63%	66%	67%	67%	67%	Goal Met. In FY 2007, Commission will complete its multi-year Provo River Restoration Project with final grading, repairs, and revegetation of restored areas.
Restore and Maintain Proper Function to Watersheds and Landscapes	The measure is "percent of identified 'Probable' Superfund sites addressed by the Central Hazardous Materials Fund."	N/A	N/A	N/A	N/A	10.2	10.2	This is a new goal for FY 2006. Increased cleanup costs for existing projects will reduce available funds to address new sites.

Natural Resource Damage Assessment and Restoration: Restoration activities conducted under the auspices of the Restoration Program support the Department's Resource Protection Strategic End Outcome Goal #2: Sustain Biological Communities on DOI-Managed and Influenced Lands and Water in a Manner Consistent with Obligations Regarding the Allocation and Use of Water as stipulated in the DOI FY 2003-2008 Strategic Plan. Damage assessment activities are a vital and integral step in the process of restoring natural resources that have been injured by releases of oil or hazardous substances. The resolution of damage claims, which when settled, provides the funds or in-kind actions necessary for natural resource restoration. These activities indirectly support the Department's Strategic End Outcome Goal #2 by restoring habitats that have been injured by releases of oil or hazardous substances. The program outcome measures of acres and miles of habitat restored, however, cannot directly measure progress in this activity. Instead, the Restoration Program must rely on intermediate measures to track program performance, such as numbers of assessment cases that have been settled and amount of funds recovered in those settlements and deposited into the DOI Restoration Fund.

At the end of FY 2006, the amount of funds deposited into the DOI Restoration Fund as a result of settlements was $73.8 million, which exceeded the anticipated settlement goal of $32.0 million. Included in this amount is more than $20.0 million in previously settled cases where the settlement funds were originally placed into court registry accounts. During FY 2006, a number of trustee councils charged with implementing restoration actions elected to move their settlement funds from the court accounts to the DOI Restoration Fund. These accomplishments allowed us to exceed our 2006 annual goal to increase the cumulative amount of the damage settlement funds within the DOI Restoration Fund to $294.8 million, to a new cumulative total of $368.6 million.

Utah Reclamation Mitigation and Conservation Commission: The Utah Reclamation Mitigation and Conservation Commission (Mitigation Commission), a Presidentially-appointed Federal commission, is responsible for completing fish, wildlife, and recreation projects in the State of Utah as part of the Central Utah Project (CUP). During FY 2006, the Mitigation Commission completed 67 % of the work authorized by Congress. Major construction has been completed for the Provo River Restoration Project, a ten-mile habitat restoration on the Provo River between Jordanelle and Deer Creek Reservoirs. The final in-channel habitat restoration work and final angler access point were completed. In FY 2006, the Mitigation Commission completed construction of a June sucker culture facility that will rear up to 30,000 fish annually for recovery stocking of this endangered fish located in Utah Lake and the Provo River. The Mitigation Commission and State of Utah also completed reconstruction of the state fish hatchery at Whiterocks, Utah, in 2006 as a CUP mitigation measure. This will increase fish population at the hatchery by 147% over present capacity. About 302 acres of intermixed wetlands and uplands were acquired for Utah Lake wetlands preserve, bringing the total project area acquired to about 5,712 acres.

Central Hazardous Materials Fund: In FY 2006, the CHF was consolidated within the Office of the Secretary in the Office of Environmental Policy and Compliance (OEPC). The Department was able to address 10.2% of its environmental liability via cleanups under the auspices of the CHF. This percent translates as 78 out of a total of 764 sites identified by the bureaus as requiring an expenditure of resources needed to address cleanup.

Resource Use								
Long-Term Goal	Annual Goal	2002 Actual	2003 Actual	2004 Actual	2005 Actual	2006 Plan	Final FY 2006	2006 Performance Report and Discussion
Timely completion of the Central Utah Project	The CUPCA Office coordinates with the CUWCD in constructing water conservation and supply projects. It also works with the CUWCD to coordinate local cost sharing, ensure compliance with Federal environmental laws, and promote a program of water conservation. In 2007, measure the percent of completion of CUWCD work authorized by Congress.	43%	31%	34%	37%	40%	40%	Goal Met. In FY 2007, CUWCD will initiate construction on the Uinta Lake System and continue work on Uinta Basin Replacement Project, with some portions scheduled for completion in FY 2007.

Central Utah Project Completion Act: The Central Utah Water Conservancy District (CUWCD) was given authority under CUPCA to plan and construct the remaining features of the Central Utah Project. By the end of FY 2006, the CUWCD had completed 40 percent of the work authorized by Congress. Four water conservation projects were implemented, making a total of 37 water conservation projects for a cumulative water savings of over 90,000 acre-feet annually. CUWCD completed the enlargement of Big Sand Wash Dam and continued construction on Uinta Basin Replacement Project. Preconstruction activities were conducted for the Utah Lake Drainage Basin Water Delivery System in anticipation of construction starting in 2007.

The new Big Sand Wash Feeder Diversion Structure will divert flows from the Lake Fork River for storage in the enlarged Big Sand Wash Reservoir. The design and operation of the new diversion structure provides for fish passage, enhances the beneficial use of water and increases water efficiencies.

The pipeline is able to carry 100 cfs of water from the diversion on the Lake Fork River to the Big Sand Wash Reservoir. This diversion is approximately 5 miles further downstream than the existing diversion for the "C" Canal.

Reimbursable Activity and Other

Long-Term Goal	Annual Goal	2002 Actual	2003 Actual	2004 Actual	2005 Actual	2006 Plan	Final FY 2006	2006 Performance Report and Discussion
Ensure NBC employees have the Job-Relevant Knowledge and Skills necessary to accomplish their organizational goals	Percentage of NBC workforce who indicate that their workforce has the job-relevant knowledge and skills necessary to accomplish their organizational goals.	N/A	N/A	N/A	67%	67%	67%	Goal Met – This was a new goal in FY 2005. In the most recent employees survey conducted in May 2006, the question which asked, "The workforce has the job-relevant knowledge and skills necessary to accomplish organizational goals" was posed to all respondents. Similar to the previous year, 67% of the respondents reported that they had job-relevant knowledge skills, while 16% responded unfavorably. Results from the previous survey indicated 67% and 17%, respectively. The NBC has subsequently identified two long-term activities and correlating metrics, as outlined in the FY 2005 Strategic Plan, to ensure the goal is met across the organization.
Ensure acquisition services are provided in a cost competitive and efficient manner.	Maintain a cost of contract dollars awarded that is less than the government-wide benchmark of 2 cents per dollar awarded.	$0.02	$0.01	$0.02	$0.02	$0.02	$0.03	Goal Not Met. However, met the OMB operating principles for self-sustaining operation.

Data Completeness and Reliability

Performance data included in Departmental Offices FY 2006 Annual Financial Report are considered complete and reliable and contain no material inadequacies. The performance data for FY 2006 are presented as actual data for the entire fiscal year, as estimated year-end results, or as preliminary or incomplete data. The Department defines a "Goal Met" if the actual data are within 5% of the target. In cases where our target took the form of establishing a baseline, we report the goal met if the baseline was established in the reporting year. In FY 2006, there are instances in which no data could be reported. Explanations for the lack of final data are provided in every instance.

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Looking Forward: Our Challenges

The Inspector General has identified the top management challenges in Interior to be:

- Financial Management
- Information Technology
- Health, Safety and Emergency Management
- Maintenance of Facilities
- Responsibility to Indians and Insular Areas
- Resource Protection and Restoration
- Revenue Collections
- Procurement, Contracts, and Grants

Interior has summarized its actions in addressing these challenges in its 2006 Performance and Accountability Report (PAR). The Departmental Offices play a vital role in addressing these management challenges as the Offices have worked with Bureaus to develop policies and implementation plans, appropriate oversight vehicles, and methods of tracking progress in implementing our policies and plans. In each area Interior has made impressive strides, although we will seek to make further progress in FY 2007.

The Departmental Offices—along with the Bureaus—have coped with increased statutory, regulatory, administrative, and customer expectations in meeting these management challenges. The Departmental Office staffs have been strained with multiple priorities, loss of experienced personnel in key positions, and a decreasing capacity to perform programmatic evaluations.

The Departmental Offices have taken a number of actions to address these issues better positioning DOI to meet the identified management challenges. For example, Departmental Offices continue to work with the OIG and the bureaus to make the best use of collective resources to provide appropriate oversight. This year Interior enhanced its review of programs assuring appropriate controls were in place to mitigate risk. This enhanced review process provides more uniform information for managers to address its management challenges.

The Office of Management and Budget (OMB) Circular A-123, “Management Accountability and Control” implementation was done in a proactive manner that incorporated risk assessment and corrective action efforts to resolve issues. This cross cutting initiative provides a consistent approach for developing and implementing corrective actions that address operational effectiveness and efficiency.

The Departmental Offices have championed several intern programs to enhance the overall skill set in Interior. These programs include the Government-wide Acquisition Management Intern Program, the Office of the Secretary Management Intern Program and the R. Schuyler Lesher Financial Management Career Intern Program (FMCIP). The R. Schuyler Lesher (FMCIP) members spend two years on rotational assignments, special projects, and in classes to develop a broad and well-rounded understanding of financial management in Interior. At the same time, the Interns have made substantial contributions to the overall improvement of financial management by exhibiting excellence in such 21st century competencies as analysis, problem solving, and computer skills. In FY 2006, the third FMCIP class graduated and the fifth FMCIP class began their program with a week long orientation in Washington, DC.

The centerpiece of Interior’s plan to improve and modernize its financial and business management functions and to create a world-class management organization is the implementation of the Financial and Business Management System (FBMS). FBMS, under the leadership of the Departmental Offices, will replace outdated, disparate, mainframe-based systems that are costly to operate and difficult to secure, fail to provide adequate financial and performance information, and do not comply fully with all financial systems standards. The FBMS will allow the Interior to standardize its businesses processes and data for budget, finance, travel, property, procurement, and financial assistance. At the same time, it will provide management information through the Enterprise Management Information component of FBMS. Currently 78 legacy systems have been identified for retirement and others are under consideration to be replaced by FBMS. In FY 2006, efforts focused on the reprocurement of a system integrator, configuration of the core financial modules, interface development and testing, conversion of data and development of training strategies and materials. In FY 2007, FBMS project will deploy the core financial system in two bureaus and prepare for the next deployment.

The implementation of the FBMS continues to be a management challenge to the Interior as a whole, with additional strain on limited resources to:

- participate actively in the standardization of the business processes, configuration, testing, data clean-up activities, and training;

- lead the project management of the largest enterprise system delivery in the history of the Interior;
- move the multiple DO organizations and systems to an integrated platform[1] and
- lead the major policy changes that result from the standardization of the business processes. Currently policies are built around a distributed, highly decentralized, and non-standardized environment.

Despite the challenges, these efforts are necessary for Interior to continue its progress toward management excellence.

1For example, the Departmental Offices currently operate eight different financial systems. While other organizational components in the Department are much larger, the sheer number of systems to be dealt with given its size will be a challenge.

Compliance with Legal and Regulatory Requirements

This section of the report provides information on the Departmental Offices' compliance with the (1) Federal Financial Management Improvement Act of 1996; (2) Federal Managers' Financial Integrity Act; (3) Inspector General Act Amendments (Audit Follow-Up); Single Audits; and (4) Improper Payments Information Act.

Federal Financial Management Improvement Act (FFMIA)

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

Federal agencies are required to address compliance with the requirements of the FFMIA in the representative letter to the financial statement auditor. The auditor is required to report on the agency's compliance with FFMIA requirements in the Internal Control and Compliance Report section of the Independent Auditor's Report. If the 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 during the 2006 financial statement audit, the Departmental Offices concluded that their financial management systems did not substantially comply with federal accounting standards requirements of the FFMIA. Remediation plans for material weakness have been established and are expected to conclude in FY 2007 and FY 2008.

Resolution of Findings in Departmental Offices FY 2005 and FY 2004

Summaries of the status of findings and corrective actions taken in FY 2006 to resolve certain findings noted for DO in FY 2005 and FY 2004 are shown in Tables 1 and 2:

Table 1
Status of Material Weakness Corrective Actions
as of September 30, 2006

Material Weakness Description	Corrective Action	Corrective Action Status
Controls over Tribal and Other Special Trust Funds	Implement policies, procedures, controls and systems to effectively manage Tribal and Other Special Trust Funds.	Delayed
Implementing New Accounting Policies & Procedures	Develop and implement procedures and controls for recording and reporting transactions with Treasury.	This was a FY 2005 Finding and has been corrected
Controls Over Leases	Improve controls to ensure that lease disclosures are properly captured	This was a FY 2005 Finding and has been corrected
Budgetary Transactions	Improve controls to ensure that budgetary transactions are promptly recorded, properly classified and accounted in order to prepare timely and reliable financial reports	This was a FY 2004 Finding and has been corrected
Accruals	Test and finalize the accrual methodology for interim financial reporting to reduce year-end accrual effort and reconcile calculations to the general ledger	This was a FY 2004 Finding and has been partially corrected and downgraded to a reportable condition

Table 2
Status of Noncompliance with Laws and Regulations
as of September 30, 2006

Noncompliance Description	Corrective Action	Corrective Action Status
Federal Financial Management Improvement Act	Develop and implement appropriate controls to ensure full compliance with Federal financial management systems and accounting standards	Delayed
Single Audit Act Amendments	Improve grantee monitoring processes to ensure compliance with the reporting requirements of the Single Audit Act Amendments	Delayed
Prompt Payment Act of 1982	Train and monitor employees to ensure that the acceptance dates per the invoice and receiving report are correctly transferred to the payment voucher and that the information should also be correctly entered into FFS	This was a FY 2004 Finding and was corrected in FY 2005

DO will continue its efforts to resolve open issues, as well as any new issues identified in the FY 2006 Independent Auditors' Report for DO, in FY 2007.

Federal Managers' Financial Integrity Act (FMFIA)

Departmental Offices' believes that maintaining integrity and accountability in all programs and operations: (1) is critical for good government; (2) demonstrates responsible stewardship over assets and resources: (3) ensures high-quality, responsible leadership; (4) ensures the sound delivery of services to customers; and (5) maximizes desired program outcomes. Interior has developed and implemented management, administrative and financial system controls that reasonably ensure that:

- Programs and operations achieve intended results efficiently and effectively;
- Resources are used in accordance with the mission;
- Programs and resources are protected from waste, fraud, and mismanagement;
- Laws and regulations are followed; and
- Reliable, complete and timely data are maintained and used for decision-making at all levels.

Departmental Offices' management control program is designed to ensure full compliance with the goals, objectives, and requirements of the FMFIA and Office of Management and Budget (OMB) Circular A-123, "Management Accountability and Control," Circular A-127, "Financial Systems," and OMB Circular A-130, "Management of Federal Information Resources."

Audited Financial Statement Results

As required by the Government Management Reform Act, Departmental Offices prepares consolidated financial statements. Beginning in FY 2001, these financial statements have been audited by KPMG LLP, an independent auditing firm (the OIG audited the financial statements prior to FY 2001).

The preparation and audit of financial statements are an integral part of Departmental Offices centralized process to ensure the integrity of financial information maintained by Departmental Offices. The results of the FY 2006 audited financial statement process are summarized in Table 3. As shown in the middle of the table, there were instances where exceptions on internal controls were noted as material weaknesses, as well as instances of noncompliance with laws and regulations other than compliance with the Federal Financial Management Improvement Act (FFMIA).

Table 3

Summary of Financial Statement Audits			
	FY 2004	FY 2005	FY 2006 *
Unqualified Opinion on Financial Statements	Yes	Yes	Yes
Material Weakness in Report on Internal Controls	Yes	Yes	Yes
Full Compliance with Laws and Regulations (Non FFMIA)	No (1, 2)	No (1, 2)	No (1, 2, 3)
Full Component Compliance with Laws and Regulations (FFMIA)			
• Systems	No	Yes	Yes
• Accounting	No	No	No
• SGL	Yes	Yes	Yes

(1) Single Audit Act (2) Prompt Payment Act (3) Potential non-compliance with Anti-deficiency Act, Procurement Regulations, and Leasing Laws

Improper Payment Information Act

Description of Risk Assessment Process

The Improper Payments Information Act (Public Law 107-300) requires agencies to review all programs and activities they administer and identify those that may be susceptible to significant improper payments. The law defines an improper payment as any payment that should not have been made or that was made in an incorrect amount under statutory, contractual, administrative, or other legally applicable requirement. Improper payments include overpayments and underpayments, duplicate payments, and payments for services not received.

In FY 2004, the first year under the Improper Payments Information Act, Interior's efforts were considerably more intense. Interior requested certain major components of Departmental Offices perform Improper Payment risk assessments of their programs and activities. Based on the results of the overall assessments, the Departmental Offices were given a "low" risk rating for all payment activity when compared to the criteria defined by the Office of Management and Budget (OMB). As a result of the initial reviews conducted in FY 2004, no programs were determined to be risk-susceptible for making significant improper payments based on the threshold set by OMB.

Recovery Audits

PRG Shultz has been working with Departmental Offices in performing recovery auditing services since FY 2004. Departmental Offices recovered $449,633 and $26,000 in FY 2006 and FY 2005, respectively.

Compliance with Key Legal and Financial Regulatory Requirements

Departmental Offices is required to comply with several key legal and regulatory financial requirements, including the Prompt Payment Act, the Debt Collection Improvement Act, and the Independent Offices Appropriations Act (User Fees).

Based on the results of the FY 2006 independent financial statement audit, Departmental Offices was determined to be non-compliant with several legal and regulatory financial requirements. As noted earlier in this section, Table 2 presents a summary of the areas of non-compliance reported in the FY 2006 financial statement audit opinions, as well as planned corrective actions and target dates.

Discussion of the Financial Results and Financial Condition of the Departmental Offices

The Departmental Offices produce audited financial statements to strengthen the integrity of financial operations and ensure the accuracy of financial data. The Departmental Offices' principal financial statements include the following: (1) Consolidated Balance Sheet; (2) Consolidated Statement of Net Cost; (3) Consolidated Statement of Changes in Net Position; (4) Combined Statement of Budgetary Resources; and (5) Consolidated Statement of Financing. Overall, these statements summarize the financial activity and financial position of the Departmental Offices. Additional financial information is also presented in the Required Supplementary Stewardship Information, Required Supplementary Information, and Other Supplementary Information sections of the report.

The goal of the Departmental Offices is to achieve unqualified (clean) audit opinions on all financial statements as well as to establish internal controls and to comply with Federal Financial Management Improvement Act (FFMIA) requirements. Unqualified audit opinions provide independent assurance to external users that the financial statements are fairly presented, in all material respects, and are in accordance with Accounting Principles generally accepted in the United States. Conducting financial statement audits and obtaining unqualified opinions are twofold: (1) ensure that quality data is provided to external parties; and (2) ensure that books and records used by management can withstand the rigors of the audit process. Moreover, the discipline required to produce annual financial statements and audits demands that proper management attention and direction are given to improving financial management and complying with applicable laws and regulations.

Limitations of Financial Statements

Responsibility for the integrity and objectivity of the financial information presented in the financial statements lies with Departmental Office managers. The financial statements and supplemental financial schedules included in this report reflect the financial position and results of operation of the Departmental Offices pursuant to the requirements of 31 U.S.C. 3515 (6). While these statements have been prepared from the books and records of Departmental Offices in accordance with U.S. generally accepted accounting principles, the statements are in addition to the financial reports used to monitor and control budgetary resources that are prepared from the same books and records. The financial statements should be read with the realization that the Departmental Offices accounts represent components of the Department of the Interior, an agency of the executive branch of the United States government, a sovereign entity. Accordingly, unfunded liabilities reported in the statements cannot be liquidated without the enactment of an appropriation, and ongoing operations are subject to enactment of appropriations.

Overview of Financial Position

Assets

The Consolidated Balance Sheet shows FY 2006 assets totaling $3,277 million, a decrease of $198 million over the prior year's assets total of $3,475 million. Fund Balance with Treasury, Investments, and General Property, Plant and Equipment comprise approximately 95% of the total assets. Table 4 and Figure 1 summarize the Departmental Offices assets as of September 30, 2006.

Table 4

Change in Departmental Offices Assets (in millions)			
	FY 2006	FY 2005	Net Change
Fund Balance with Treasury	$2,041	$2,356	($315)
Investments	677	615	62
Accounts, Loans & Interest Receivable	166	160	6
General Property, Plant and Equipment & Inventory	388	338	50
Other	$5	$6	($1)

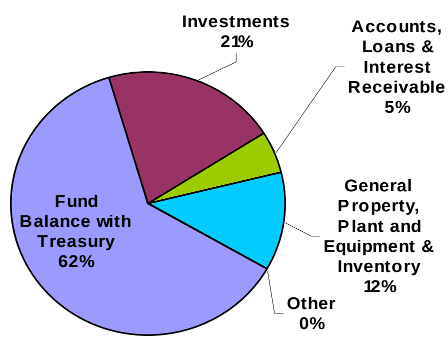
Fund Balance with Treasury represents 62% of DO current year assets. The decrease in the Fund Balance with Treasury of $315 million is primarily due to discontinuing advances for certain Department of Defense customers at Fort Huachuca and the dedication of resources used for closing Franchise Fund advances. This is offset by the difference in the payroll cycle.

The investments are composed of U.S. Treasury Securities and public securities (consisting mainly of various mortgage instruments, bonds and notes issued by government-sponsored entities). The increase of $62 million was mainly due to an increase in investment activity from the Utah Reclamation Mitigation and Conservation Commission (URMCC), the National Resource Damage Assessment and Restoration Program (NRDAR), and Tribal Trust and Tribal Special Funds.

General Property, Plant and Equipment are primarily composed of land, structures and facilities, construction in progress, internal use software, equipment, vehicles, and aircraft. The increase is a result of continued construction on the Central Utah Project and the continuing development of the Financial Business Management System (FBMS).

FIGURE 1

Types of FY 2006 Assets



Liabilities and Net Position

Total Liabilities of $1,982 million shown on the Departmental Offices Consolidated Balance Sheet represent a decrease of $272 million over liabilities of $2,254 million from the prior year. Table 5 summarizes Department Offices liabilities as of September 30, 2006.

Table 5

Changes in Departmental Offices Liabilities (in millions)			
	FY 2006	FY 2005	Net Change
Accounts Payable	$ 420	$ 398	$ 22
Debt	18	20	(2)
FECA Actuarial Liability	16	17	(1)
Environmental and Disposal Liabilities	1	1	-
Other Liabilities	$ 1,527	$ 1,818	$ (291)

Other Liabilities account for 65% of DO total liabilities. Other liabilities consist of deferred revenue, accrued payroll and benefits, contingent liabilities, judgment fund liability and other liabilities. The major reason for the decrease in Other Liabilities is due to discontinuing advances for certain Department of Defense customers at Fort Huachuca and the dedication of resources used for closing Franchise Fund advances.

The Departmental Offices Net Position at the end of FY 2006 on the Consolidated Balance Sheet and the Consolidated Statement of Changes in Net Position was approximately $1,295 million, an increase of about $74 million from the prior year. The Net Position of the Departmental Offices consists of two components: (1) Unexpended Appropriations of $418 million and (2) Cumulative Results of Operations of $877 million.

The increase in Net Position of $74 million was attributable to an increase in spending of the assistance funds DO received to support the Compact of Free Association. The additional assistance allows continued emphasis on greater accountability by the Freely Associated States. The increase is partially offset by cancelled appropriations.

Results of Operations

Departmental Offices reports expenses and revenues in the following mission goals: Resource Protection, Resource Use, Serving Communities, and Reimbursable Activity and Other.

As shown on the Consolidated Statement of Net Cost, the total of FY 2006 cost of Departmental Offices operations was $1,104 million, an increase of $29 million from the FY 2005 total cost of $1,075 million (Table 6).

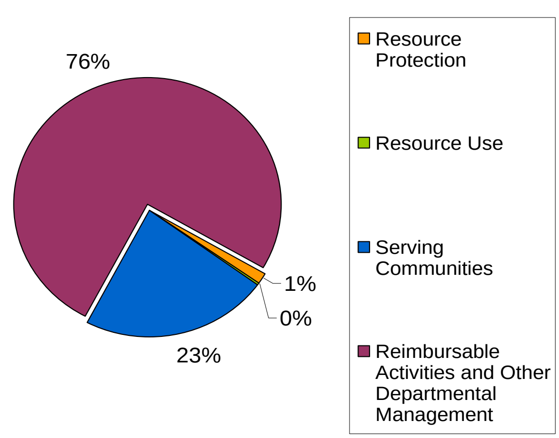
Table 6

Change in Departmental Offices Net Cost of Operations
(in millions)

	FY 2006	FY 2005	Net Change
Resource Protection	$43	$ 24	$ 19
Resource Use	9	6	3
Serving Communities	829	864	(35)
Reimbursable Activities and Other	223	181	42
Totals	$1,104	$ 1,075	$29

Approximately 76% of DO total costs are directed toward "Reimbursable Activities and Other" while 23% are provided to "Serving Communities". Resources devoted to "Resource Protection" and "Resource Use" account for approximately 1% of total costs (Figure 2).

FIGURE 2
FY 2006 Cost by Goal



Cost

As reflected in the Consolidated Statement of Net Cost, the 2006 gross cost of DO before earned revenue was approximately $3,759 million; an increase of $92 million from amounts reported in FY 2005. This increase was primarily due to a large increase in customer agreements at NBC's

Southwest Acquisition Branch of $105 million, offset by a decrease in the Interior Franchise Fund related to the reduction in revenue, and smaller miscellaneous amounts making up the difference.

Revenue

DO had earned revenue of $2,654 million in FY 2006; an increase of $63 million from FY 2005. The increase is chiefly due to an increase in orders received at NBC's Southwest Acquisition Branch and an increase in revenue for aircrafts utilized in firefighting efforts during a prolonged fire season of $26 million. This is offset by a reduction in revenue in the Interior Franchise Fund from primarily the Executive Office of the President and Defense Agencies and smaller miscellaneous amounts making up the difference.

Budgetary Resources

Departmental Offices have several types of budget authority, which is the authority provided by law to incur financial obligations that will result in outlays. This definition is the same as the one contained in section 3(2) of the Congressional Budget and Impoundment Control Act of 1974, which Congress uses in the congressional budget process. Most laws provide budget authority in the form of appropriations, which utilizes general funds, special funds or trust funds, provided in appropriation acts or other laws. Some appropriations, such as Title VI of the 2000 Interior Appropriations Act, established a multi-year appropriation and authorized the use of cash or cash equivalent payments for activities such as Priority Land Acquisitions and Exchanges. Departmental Offices also have authority to borrow and have loan accounts such as the American Samoa Loan within the Office of Insular Affairs.

Departmental Offices have several allocation accounts in the Office of the Special Trustee for American Indians and the Natural Resource Damage Assessment program. Allocation accounts must be authorized by law and are established when the receiving agency is acting as the agent for the allocating agency. Allocation means a delegation by one agency of its authority to obligate budget authority and outlay funds to another agency. When an agency makes such a delegation, the Treasury Department establishes a subsidiary account called a transfer appropriation account and the receiving agency may obligate up to the amount included in the account.

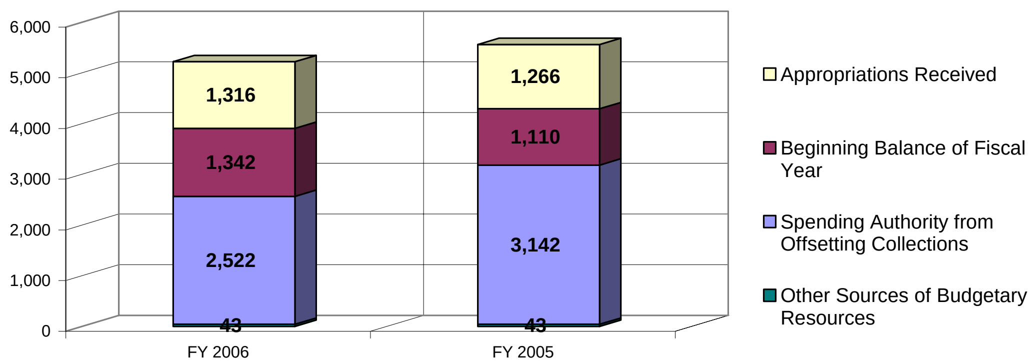
The Departmental Offices reporting entity also receives an allocation from the Environmental Protection Agency to fund a variety of environmental compliance activities. In addition, there are a number of legally authorized transfers between the various accounts within the Departmental Offices reporting entity such as funds transferred to the Office of Hearings and Appeals within the Office of the Secretary from the Office of the Special Trustee for American Indians to fund Indian probate work.

Appropriations may be either definite or indefinite. If a law provides budget authority in a specific amount, it is considered definite budget authority even if the language reads, "not to exceed" a specified amount. If a law does not specify an amount of budget authority, but instead specifies a variable factor that determines the amount, the budget authority is indefinite. Departmental Offices include accounts that are derived from receipts including the Everglades Restoration Fund and the National Indian Gaming Commission collections. If a law appropriates a specific amount to be derived from receipts, it limits the amount of budget authority actually provided to the lower of the actual receipts or the amount specified. In the case of the National Indian Gaming Commission, the receipts appropriated may not exceed $12 million.

The Combined Statement of Budgetary Resources provides information on the budgetary resources that were made available to Departmental Offices for the year and the status of those resources at the end of the fiscal year. These resources consist of the balance at the beginning of the year, appropriations received during the year, and spending authority from offsetting collections as well as other sources of budgetary resources (Figure 3).

FIGURE 3
Budgetary Resources *
(in millions)

*Excludes Non-Budgetary Credit Program Financing Accounts

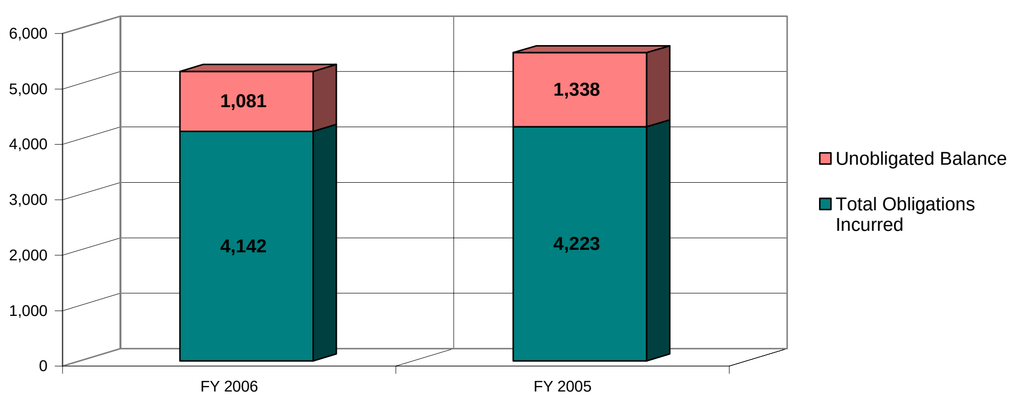


Appropriations increased in the Statement of Budgetary Resources in FY 2006 by $50 million. This change is primarily due to the number of damage assessment cases that have been settled and the funds recovered in those settlements and subsequently deposited into the Natural Resource Damage Assessment and Restoration Program account.

Obligations of $4,142 million and $4,223 million were incurred as of September 30, 2006 and 2005 on total budgetary resources of $5,223 million and $5,561 million, respectively (Figure 4).

FIGURE 4
Status of Budgetary Resources *
(in millions)

* Excludes Non-Budgetary Credit Program Financing Accounts



Stewardship Assets and Investments

The Departmental Offices have stewardship responsibility for a varied body of resources, including stewardship lands, heritage assets, investments in non-federal physical property, and investments in research and development. The stewardship assets managed by the Departmental Offices tend to be constant from year to year, experiencing slight net increases due to new acquisitions. Additional Stewardship information is discussed in detail in the Required Supplementary Stewardship Information section of the report.

The Department of the Interior is in the process of implementing the various requirements of SFFAS 29, *Heritage Assets and Stewardship Land*. During this implementation process, Interior has restructured the reporting of Stewardship Land from acres to "units" and Heritage Assets from collections to units. Depending on the individual bureau/offices within the Department, these units may be reported based on the number of national wildlife refuges, national parks, geographic management areas, water projects, etc. For Departmental Offices, a unit is defined as, (1) a state in which the land is managed; (2) a library; and (3) a museum.

Stewardship Land

Table 7

Utah Reclamation and Conservation Commission (number of units)	
Beginning FY 2006	1
Additions	-
Withdrawals	-
Ending FY 2006	1

Departmental Offices administers stewardship land by preserving, conserving, protecting, and interpreting how best to manage the land in which it is a steward. The land management category administered by Departmental Offices is the Utah Reclamation Mitigation and Conservation Commission (Commission).

The Commission acquires two general categories of lands: (1) fish and wildlife habitat for both aquatic and terrestrial species, and (2) land or easements to provide public access to fish and wildlife resources which, once acquired, are also managed to provide habitat values to the extent practicable.

The Commission acquires land either through purchase, donation or condemnation. In over 95% of the acquisitions, the lands have been acquired on a willing seller basis. All land withdrawn (deleted) from Commission ownership would occur as part of a sale or condemnation.

Heritage Assets

Interior is steward for a large, varied, and scientifically important body of heritage assets, both non-collectible and collectible in nature. Non-collectible heritage assets include historic sites, historic and prehistoric structures, cultural landscapes, and other resources. Collectible heritage assets include library and museum collections. Departmental Offices has stewardship responsibilities for primarily collectible heritage assets.

Collectible Heritage Assets

Departmental Offices is steward of a large, unique, and diversified collection of library holdings and museum collections. These assets are held in both Federal and non-Federal facilities.

Library Collections

Table 8

Library Collectible Heritage Assets (number of units)	
Beginning FY 2006	1
Additions	-
Withdrawals	-
Ending FY 2006	1

The Department of the Interior Library contains holdings that cover the broad range of matters related to the Department's mission to protect and provide access to the Nation's heritage. Specific collections include a comprehensive law collection, an extensive periodical collection, and a rare book collection consisting of 19th century monographs on Native Americans, American history, and zoology. In addition, the Library's collection of online databases and access to other electronic information sources enable Departmental personnel and other researchers to access needed information from their computers. Additional information can be found in the FY 2006 Department of the Interior Performance and Accountability Report.

Museum Collections

Department of the Interior museum collections are intimately associated with lands and cultural and natural resources for which Interior bureaus share stewardship responsibilities. Disciplines represented include art, ethnology, archeology, documents, botany, zoology, paleontology, and geology.

Facilities housing Department museum collections must meet specific environmental, security, fire protection, housekeeping, physical examination and conservation treatment, storage, and exhibit space standards as described in Departmental Manual Section 411, Chapter 3.

Components of Departmental Offices museum collections include the Indian Arts and Crafts Board (IACB) which manages three regional museums; the National Business Center, which manages the Departmental Museum in the Main Interior Building in Washington, D.C.; and museum collections managed by the Office of the Special Trustee (OST) for American Indians.

The IACB museums can be accessible via the internet at www.iacb.doi.gov and play a vital role in promoting authentic Indian arts and crafts through permanent exhibitions, changing promotional sales exhibitions, and public education activities. The OST collection is inventoried semi-annually and records are maintained in a subsidiary hard copy file complete with colored photographs and pertinent information to identify the museum items.

Table 9

Museum Collectible Heritage Assets (number of units)				
Museum Collections	FY 2005	Additions	Withdrawals	FY 2006
Departmental Museum	1	0	0	1
Indian Arts and Crafts Board	3	0	0	3
Office of the Special Trustee for American Indians	1	0	0	1
Total	5	0	0	5

In FY 2006, Departmental museum staff formed a partnership with the White House Curator's Office to present the workshop, Eleanor Roosevelt and Val-Kill industries. The Lewis and Clark Revisited exhibition was named number eight among the top photography exhibitions in Washington, D.C., for 2005 by critic Louis Jacobson.

Stewardship Investments

Stewardship investments, as defined for Federal financial reporting, represent expenses charged to current operations that nevertheless are expected to benefit the Nation over time. The Departmental Offices Stewardship Investments include research and development programs and investment in the purchase or construction of assets for which state, local or tribal governments and insular areas retain title. Stewardship investments are summarized on Table 8. Increase in investments from FY 2005 to FY 2006 is due primarily to an increase in investment activity.

Table 10

Stewardship Investments (in thousands)			
	FY 2006	FY 2005	Change
Non-Federal Physical Property			
American Samoa	$ 7,331	$ 7,092	$ 239
Guam	1,826	4,084	(2,258)
Commonwealth of the Northern Mariana	21,568	15,093	6,475
U.S. Virgin Islands	3,550	2,120	1,430
Utah Reclamation Mitigation & Conservation Commission	4,488	1,216	3,272
Total Non-Federal Physical Property	$ 38,763	$ 29,605	$ 9,158
Research and Development			
Central Utah Project Completion Act	$ 5,804	$ 1,928	$ 3,876
Utah Reclamation Mitigation & Conservation Commission	379	370	9
Total Research and Development	$ 6,183	$ 2,298	$ 3,885
Total Stewardship Investments	$ 44,946	$ 31,903	$ 13,043

U.S. Department of the Interior
Departmental Offices

Principal Financial Statements
As of and For the Years Ending
September 30, 2006 and 2005

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Principal Financial Statements

The principal financial statements included in the Departmental Offices' FY 2006 Annual Report are:

- Consolidated Balance Sheet
- Consolidated Statement of Net Cost
- Consolidated Statement of Changes in Net Position
- Combined Statement of Budgetary Resources
- Consolidated Statement of Financing

The responsibility for the integrity of the financial information included in these statements rests with management of Departmental Offices. The audit of DO's principal financial statements was performed by an independent certified public accounting firm, selected by the Department of Interior's Office of Inspector General. The auditor's report issued by the independent certified public accounting firm begins on page 126.

Consolidated Balance Sheet
As of September 30, 2006
(dollars in thousands)

			FY 2006
ASSETS			
Intragovernmental Assets:			
Fund Balance with Treasury	(Note 3)	$	2,041,312
Investments, Net	(Note 4)		490,372
Accounts and Interest Receivable	(Note 5)		121,759
Other			
Advances and Prepayments			2,331
Total Intragovernmental Assets		$	2,655,774
Investments, Net	(Note 4)	$	187,048
Accounts and Interest Receivable, Net	(Note 5)		40,747
Loans and Interest Receivable, Net	(Note 6)		3,375
Inventory and Related Property	(Note 7)		852
General Property, Plant and Equipment, Net	(Note 8)		387,528
Other			
Advances and Prepayments			2,180
TOTAL ASSETS	(Note 2)	$	3,277,504
Stewardship Assets	(Note 9)		
LIABILITIES			
Intragovernmental Liabilities:			
Accounts Payable		$	8,410
Debt	(Note 11)		17,512
Other			
Accrued Payroll Benefits			5,309
Advances and Deferred Revenue (includes Deposit Funds)	(Note 12)		1,218,018
Resources Payable to Treasury	(Note 28)		235,221
Other Liabilities Not Specified Above			3
Total Intragovernmental Liabilities		$	1,484,473
Accounts Payable		$	411,319
FECA Actuarial Liability			16,300
Environmental and Disposal Liabilities	(Note 13)		1,300
Other			
Accrued Payroll Benefits			13,338
Annual Leave Liability			24,782
Advances and Deferred Revenue	(Note 12)		7,246
Capital Lease Liability	(Note 15)		1,354
Deposit Fund Liability	(Note 12)		5,959
Other Liabilities Not Specified Above			15,967
TOTAL LIABILITIES	(Note 10)	$	1,982,038
Commitments and Contingencies	(Notes 13 and 15)		
Net Position			
Unexpended Appropriations			
Earmarked Funds	(Note 25)	$	3,728
All Other Funds			414,401
Cumulative Results of Operations			
Earmarked Funds	(Note 25)		453,744
All Other Funds			423,593
Total Net Position			1,295,466
TOTAL LIABILITIES AND NET POSITION		$	3,277,504

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

Consolidated Balance Sheet
As of September 30, 2005
(dollars in thousands)

			FY 2005
ASSETS			
Intragovernmental Assets:			
Fund Balance with Treasury	(Note 3)	$	2,355,699
Investments, Net	(Note 4)		416,998
Accounts and Interest Receivable	(Note 5)		106,594
Other			
Advances and Prepayments			2,277
Total Intragovernmental Assets		$	2,881,568
Investments, Net	(Note 4)		198,060
Accounts and Interest Receivable, Net	(Note 5)		48,017
Loans and Interest Receivable, Net	(Note 6)		5,658
Inventory and Related Property	(Note 7)		528
General Property, Plant and Equipment, Net	(Note 8)		337,671
Other			
Advances and Prepayments			3,614
TOTAL ASSETS	(Note 2)	$	3,475,116
Stewardship Assets	(Note 9)		
LIABILITIES			
Intragovernmental Liabilities:			
Accounts Payable		$	8,906
Debt	(Note 11)		19,795
Other			
Accrued Payroll Benefits			4,863
Advances and Deferred Revenue (includes Deposit Funds)	(Note 12)		1,526,044
Judgment Fund	(Note 13)		500
Resources Payable to Treasury	(Note 28)		214,742
Other Liabilities Not Specified Above			12
Total Intragovernmental Liabilities		$	1,774,862
Accounts Payable		$	388,731
FECA Actuarial Liability			17,437
Environmental and Disposal Liabilities	(Note 13)		1,300
Other			
Accrued Payroll Benefits			11,897
Annual Leave Liability			22,472
Advances and Deferred Revenue	(Note 12)		6,764
Deposit Fund Liability	(Note 12)		5,284
Other Liabilities Not Specified Above			25,165
TOTAL LIABILITIES	(Note 10)	$	2,253,912
Commitments and Contingencies	(Notes 13 and 15)		
Net Position			
Unexpended Appropriations		$	401,375
Cumulative Results of Operations			819,829
Total Net Position			1,221,204
TOTAL LIABILITIES AND NET POSITION		$	3,475,116

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

Consolidated Statement of Net Cost
For the Years Ended September 30, 2006 and 2005
(dollars in thousands)

	FY 2006	FY 2005
Resource Protection		
Costs	$ 52,031	$ 27,712
Less: Earned Revenue	8,831	3,613
Net Cost	43,200	24,099
Resource Use		
Costs	9,354	5,726
Less: Earned Revenue	21	-
Net Cost	9,333	5,726
Serving Communities		
Costs	859,791	896,307
Less: Earned Revenue	31,076	32,116
Net Cost	828,715	864,191
Reimbursable Activity and Other		
Costs	2,837,348	2,736,637
Less: Earned Revenue	2,614,048	2,555,426
Net Cost	223,300	181,211
Total		
Costs	3,758,524	3,666,382
Less: Earned Revenue	2,653,976	2,591,155
Net Cost of Operations (Note 16)	$ 1,104,548	$ 1,075,227

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

Consolidated Statement of Changes in Net Position
For the Years Ended September 30, 2006 and 2005
(dollars in thousands)

		Earmarked	All Other	FY 2006 Consolidated	FY 2005 Consolidated
UNEXPENDED APPROPRIATIONS					
Beginning Balance		$ 18,604	$ 382,771	$ 401,375	402,565
Transferred in Central Hazmat	(Note 30)		$ 1,821	$ 1,821	
Beginning Balance, as adjusted		18,604	384,592	403,196	402,565
Budgetary Financing Sources					
Appropriations Received, General Funds		-	1,144,518	1,144,518	1,085,382
Appropriations Transferred In/(Out)		936	(41,652)	(40,716)	(40,010)
Appropriations-Used		(15,772)	(1,061,499)	(1,077,271)	(1,036,115)
Other Adjustments		(40)	(11,558)	(11,598)	(10,447)
Net Change		(14,876)	29,809	14,933	(1,190)
Ending Balance - Unexpended Appropriations		$ 3,728	$ 414,401	418,129	401,375
CUMULATIVE RESULTS OF OPERATIONS					
Beginning Balance		$ 423,159	$ 396,670	$ 819,829	970,870
Change in Accounting Principle	(Note 28)	-	-	-	(248,267)
Transferred in Central Hazmat	(Note 30)	-	4,370	4,370	-
Transferred in Indian Arts and Crafts	(Note 30)	74	-	74	-
Beginning Balance, as adjusted		423,233	401,040	824,273	722,603
Budgetary Financing Sources					
Appropriations-Used		15,772	1,061,499	1,077,271	1,036,115
Non-Exchange Revenue		60,477	14,594	75,071	84,907
Transfers In/(Out) without Reimbursement		(7,947)	(16,704)	(24,651)	5,015
Donations and Forfeitures of Cash and Cash Equivalents		193	-	193	22
Other Budgetary Financing Sources		420	(2,343)	(1,923)	14,020
Other Financing Sources					
Donations and Forfeitures of Property		-	4,124	4,124	5,547
Transfers In/(Out) without Reimbursement		-	1,848	1,848	3,271
Imputed Financing from Costs Absorbed by Others		615	25,064	25,679	23,556
Total Financing Sources		69,530	1,088,082	1,157,612	1,172,453
Net Cost of Operations		(39,019)	(1,065,529)	(1,104,548)	(1,075,227)
Net Change		30,511	22,553	53,064	97,226
Ending Balance - Cumulative Results of Operations		$ 453,744	$ 423,593	$ 877,337	819,829

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

Combined Statement of Budgetary Resources
For the Years Ended September 30, 2006 and 2005
(dollars in thousands)

		Total Budgetary Accounts FY 2006	Total Budgetary Accounts FY 2005	Non-Budgetary Credit Program Financing Accounts FY 2006	Non-Budgetary Credit Program Financing Accounts FY 2005
Budgetary Resources:					
Unobligated balance, beginning of Fiscal Year:		$ 1,337,941	$ 1,109,935	$ 193	$ -
Beginning of Fiscal Year, Transferred In, Central Hazmat	(Note 30)	4,286			
Beginning of Fiscal Year, Transferred In, Indian Arts and Crafts	(Note 30)	74			
Recoveries of prior year unpaid obligations		70,687	43,701	-	-
Budget Authority					
Appropriation		1,316,024	1,266,128	-	-
Spending authority from offsetting collections					
Earned					
Collected		2,920,998	2,891,930	952	986
Change in receivables from Federal sources		10,890	61,977	-	-
Change in unfilled customer orders					
Advance received		(300,491)	(47,232)	-	-
Without advance from Federal sources		(109,205)	235,729	-	-
Total Budget Authority		3,838,216	4,408,532	952	986
Nonexpenditure transfers, net, anticipated and actual		(11,441)	11,789	-	-
Permanently not available		(16,856)	(12,731)	-	-
Total Budgetary Resources		$ 5,222,907	$ 5,561,226	$ 1,145	$ 986
Status of Budgetary Resources:					
Obligations incurred:					
Direct		$ 1,279,324	$ 1,316,863	$ 767	$ 793
Reimbursable		2,862,489	2,906,422	-	-
Total Obligations incurred	(Note 17)	4,141,813	4,223,285	767	793
Unobligated balance available:					
Apportioned		1,072,731	1,337,259	378	193
Total Unobligated balance available		1,072,731	1,337,259	378	193
Unobligated balance not available		8,363	682	-	-
Total Status of Budgetary Resources		$ 5,222,907	$ 5,561,226	$ 1,145	$ 986
Obligated Balance:					
Obligated balance, net					
Unpaid obligations, brought forward, beginning of Fiscal Year		$ 1,896,424	$ 1,899,807	$ -	$ -
Obligated Balance, Transferred In, Central Hazmat	(Note 30)	20,073			
Less: Uncollected customer payments from Federal sources, brought forward, beginning of Fiscal Year		(585,020)	(287,314)	-	-
Total unpaid obligated balances, net, beginning of Fiscal Year		1,331,477	1,612,493	-	-
Obligations incurred, net		4,141,813	4,223,285	767	793
Less: Gross outlays		(4,168,649)	(4,182,967)	(767)	(793)
Less: Recoveries of prior year unpaid obligations, actual		(70,686)	(43,701)	-	-
Change in uncollected customer payments from Federal sources		98,315	(297,706)	-	-
Total, unpaid obligated balance, net, end of period		$ 1,332,270	$ 1,311,404	$ -	$ -
Obligated Balance, net, end of period - by component:					
Unpaid obligations		$ 1,818,975	$ 1,896,423	$ -	$ -
Less: Uncollected customer payments from Federal sources		(486,705)	(585,019)	-	-
Total, unpaid obligated balance, net, end of period		$ 1,332,270	$ 1,311,404	$ -	$ -
Net Outlays:					
Net Outlays					
Gross outlays		$ 4,168,649	$ 4,182,967	$ 767	$ 793
Less: Offsetting collections		(2,620,506)	(2,844,699)	(952)	(986)
Less: Distributed Offsetting receipts		(170,518)	(156,205)	-	-
Net Outlays(Receipts)		$ 1,377,625	$ 1,182,063	$ (185)	$ (193)

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

Consolidated Statement of Financing
For the Years Ended September 30, 2006 and 2005
(dollars in thousands)

		FY 2006	FY 2005
Resources Used to Finance Activities:			
Budgetary Resources Obligated:			
Obligations Incurred		$ 4,142,580	4,224,078
Less: Spending Authority From Offsetting Collection/Adjustments		(2,593,831)	(3,187,091)
Obligations Net of Offsetting Collections and Adjustments		1,548,749	1,036,987
Less: Offsetting Receipts		(170,518)	(156,205)
Net Obligations		1,378,231	880,782
Other Resources:			
Donations and Forfeitures of Property		4,124	5,547
Transfers In/Out Without Reimbursement		1,848	3,271
Imputed Financing From Costs Absorbed by Others		25,679	23,556
Net Other Resources Used to Finance Activities		31,651	32,374
Total Resources Used to Finance Activities		1,409,882	913,156
Resources Used to Finance Items Not Part of the Net Cost of Operations:			
Change in Budgetary Resources Obligated for Goods, Services, and Benefits Ordered but Not Yet Provided		105,103	35,688
Change in Unfilled Customer Orders		(409,696)	188,496
Resources That Fund Expenses Recognized in Prior Periods		525	(551)
Offsetting Receipts Not Part of the Net Cost of Operations		168,614	150,864
Resources That Finance the Acquisition of Assets		(107,186)	(181,860)
Other Resources or Adjustments to Net Obligated Resources That Do Not Affect Net Cost of Operations		(9,524)	4,036
Parent Allocation (Transfers where Proprietary Amounts are Reported by Other Federal Entities)	(Note 24)	(68,969)	(74,081)
Total Resources Used to Finance Items Not Part of the Net Cost of Operations		(321,133)	122,592
Total Resources Used to Finance the Net Cost of Operations		1,088,749	1,035,748
Components of Net Cost of Operations That Will Not Require or Generate Resources in the Current Period:			
Components Requiring or Generating Resources in Future Periods:			
Change in Annual Leave Liability		2,311	926
Other		(130)	24,230
Total Components of Net Cost of Operations That Will Require or Generate Resources in Future Periods		2,181	25,156
Components Not Requiring or Generating Resources:			
Depreciation and Amortization		5,361	6,105
Revaluation of Assets or Liabilities		51	361
Components of Net Cost of Operations Related to Transfer Accounts Where Budget Amounts are Reported by Other Federal Entities	(Note 24)	8,068	7,953
Other		138	(96)
Total Components of Net Cost of Operations That Will Not Require or Generate Resources in the Current Period		13,618	14,323
Total Components of Net Cost of Operations That Will Not Require or Generate Resources		15,799	39,479
Net Cost of Operations		$ 1,104,548	$ 1,075,227

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

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U.S. Department of the Interior
Departmental Offices

Notes to Principal Financial Statements
As of and For the Year Ending
September 30, 2006 and September 30, 2005

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Departmental Offices (DO) is responsible for ensuring that these diverse programs and priorities of the Department of the Interior (DOI) are conducted effectively and efficiently in accordance with Presidential and Congressional direction. The DO provides:

- Executive level leadership from the Office of the Secretary (OS),
- Coordination among bureaus and management of significant DOI initiatives through programmatic Assistant Secretaries,
- Policy guidance from the Assistant Secretary – Policy, Management and Budget, and,
- Cost effective services through the National Business Center (NBC), the Office of the Solicitor (SOL) and the Office of Inspector General (OIG).

The following are the DO programs as presented in the Statement of Net Cost for September 30, 2006 and September 30, 2005, footnote 16, and other accompanying information:

- Resource Protection - Everglades Watershed Protection, Everglades Restoration, Oil Spill Emergency, Federal Lands Subsistence Management, King Cove, Title V and Title VI Priority Land Acquisitions, Wildland Fire Management, Central Hazardous Materials Fund, Hazardous Substance Superfund, Central Utah Project (CUPCA), Natural Resource Damage and Restoration Fund (NRDAR) and Take Pride in America.

- Resource Use - Central Utah Project Completion Act and Fire Protection

- Serving Communities - Administration of Territories, Pacific Islands Territories Trust Fund, Compact of Free Association, Micronesian War Claims, Finance Assistance Payments to the United States Territories, Assistance to American Samoa Direct Loan Financing Account, Virgin Island Loan, Office of the Special Trustee for American Indians, Indian Land Consolidation Pilot, Tribal Special Fund, Tribal Trust Fund, and National Indian Gaming Commission.

- Reimbursable Activity and Other - OIG, SOL, Working Capital Fund (WCF), Aviation Management Directorate (AMD), Interior Franchise Fund (IFF), Miscellaneous Receipts, Penalties and Fines, Suspense funds, and Departmental Management

The following are the DO responsibility segments as presented in footnote 16 and other accompanying information:

- Office of the Secretary
- Office of Inspector General
- Office of the Solicitor
- Office of Insular Affairs (OIA)
- National Indian Gaming Commission (NIGC)
- Office of the Special Trustee for American Indians (OST)
- Central Utah Project Completion Act and the Utah Reclamation Mitigation and Conservation Commission (Commission)
- Natural Resource Damage Assessment and Restoration Fund

DO maintains accounts in the following fund types:

1. General Funds – These funds consist of expenditure accounts used to record financial transactions arising from Congressional appropriations as well as receipt accounts. The principal general fund expenditure accounts maintained are:

   a. Departmental Management
   b. OIG
   c. Administration of Territories
   d. NRDAR (14X1618)
   e. CUPCA (14X0787)
   f. OST (14X0120, 14X2103)
   g. SOL

h. Everglades Watershed Protection
i. Payments in Lieu of Taxes (PILT)
j. Compact of Free Association

2. Trust Funds – These funds were established to carry out specific programs under trust agreements and statutes. The OST Tribal Trust Fund (14X8030), Take Pride in America, and Gifts and Bequest (14X8369) are the principal trust funds.

3. Receipt Funds – These funds arise from the sovereign and regulatory powers unique to the Federal Government. Receipts primarily include miscellaneous fines and penalties, administrative fees, and interest.

4. Special Funds – These are funds established by law where collections from a specified source are earmarked to finance a particular program, and the law neither authorizes the fund to conduct a cycle of business-type operations nor designates it as a trust fund. The receipts earmarked to a fund are recorded in one or more special fund receipt accounts. The fund's appropriations and associated transactions are recorded in a special fund expenditure account. These funds includes both expenditure and receipt accounts. The principal special funds are:

   a. Title V (148/15039) and Title VI (140/35039) Priority Land Acquisition
   b. NRDAR (14X5198)
   c. National Indian Gaming Commission (14X5141)
   d. Everglades Restoration (14X5233)
   e. OST Tribal Special Fund (14X5265)
   f. CUPCA-Commission (14X5174)
   e. Departmental Management Land and Water Conservation (14X5571)

5. Revolving Funds – These are funds authorized by specific provisions of law to finance a continuing cycle of business-type operations. The receipts are credited directly to the revolving fund as offsetting collections and are available for expenditure without further action by Congress. The principal revolving funds are the Working Capital Fund (WCF) and the IFF.

   The IFF was established in May 1996 as a result of the Government Management Reform Act (GMRA) of 1994. It operates as a revolving fund providing common administrative support services on a competitive fee-for-service basis for government agencies. A revolving fund is a budgetary structure set by statute that authorizes Executive Branch agencies to collect user fees or revenue to finance operational activities. The IFF is a component of DO and represents 38 percent of assets and 62 percent of liabilities on the FY 2006 consolidated balance sheet, 68 percent of DO's total revenues on the FY 2006 consolidated statement of net cost, and 38 percent of DO's total budgetary resources on the FY 2006 combined statement of budgetary resources.

   Section 632 of Title VI within the General Provisions of the President's 2006 budget, extends the Franchise Fund Pilot Program authorizing legislation to October 1, 2007. The IFF sunset date creates an uncertainty about IFF's budget authority.

   Management's plan with respect to the uncertainty discussed above is to seek additional wording in the FY 2007 appropriation language that establishes franchising as a permanent program or provides franchise-like authority permanently. If the plans to obtain extended or permanent authorization are unsuccessful, DO will no longer offer services under IFF and instead, offer the same services under its working capital fund authority and the Economy Act and adjust its pricing conventions in accordance with the Economy Act.

   The Secretary of Interior issued an order dated September 29, 2005 indicating management's decision to transfer the IFF, including the appropriate personnel, funds, records, and property from the Minerals Management Service (MMS) to DO on October 2, 2005. DO received approval from the Office of Management and Budget to report the IFF in DO's statement for the current year on June 13, 2006 and as a result, the FY 2005 statements are recast for comparative purposes.

B. Basis of Presentation and Accounting

These financial statements have been prepared to report the financial position, net costs, changes in net position, budgetary resources, and reconciliation of net cost of operations to budgetary obligations of DO as required by the Chief Financial Officers Act (CFO) of 1990, as amended, and the Government Management Reform Act of 1994. These financial statements have been prepared from the financial records of DO in accordance with accounting principles generally accepted in the United States of America (GAAP), Office of Management and Budget (OMB) Circular A-136, *Financial Reporting Requirements.* GAAP for Federal entities are the standards prescribed by the Federal Accounting Standards Advisory Board (FASAB), which is the official standard setting body for the Federal government. These financial statements present proprietary and budgetary information while other financial reports also prepared by DO pursuant to OMB directives are used to monitor and control the DO use of budgetary resources. In accordance with OMB financial statement reporting guidelines, DO has presented comparative financial statements. Certain prior year amounts have been reclassified to conform to current year presentation.

These financial statements should be read with the realization that they are for a component of the United States Government, a sovereign entity. One implication of this is that liabilities cannot be liquidated without legislation that provides resources and legal authority to do so. DO financial statements reflect both accrual and budgetary accounting transactions. Under the accrual method of accounting, revenues are recognized when earned, and expenses are recognized when incurred, without regard of receipt or payment of cash. The budgetary accounting principles, on the other hand, are designed to recognize the obligations of funds according to legal requirements, which in many cases is prior to occurrence of an accrual-based transaction. The recognition of budgetary accounting transactions is essential for compliance with legal constrains and controls over the use of federal funds.

Reimbursements are recognized as revenues when earned. These revenues may be used to offset the cost of producing the product or furnishing the service for which they are received, including an amount to recover the costs of appropriate overhead.

Transactions and balances among the DO and programs have been eliminated from the Consolidated Balance Sheets, Consolidated Statements of Net Cost, and the Consolidated Statements of Changes in Net Position. As provided for in OMB financial statement reporting guidelines, the Statement of Budgetary Resources is presented on a combined basis, therefore intra-DO transactions and balances have not been eliminated from this statement. In accordance with OMB financial statement reporting guidelines, intra-DO transactions and balances have been eliminated from the Consolidated Statement of Financing except for transactions and balances related to obligations incurred, spending authority from offsetting collections, other adjustments, and off-setting receipts, which are presented on a combined basis.

C. Entity and Non-Entity Assets

Entity assets are assets the reporting entity has authority to use in its operations. Non-entity assets are those assets that are held by an entity but are not available to the entity. Examples of non-entity assets include miscellaneous receipts funds and amounts held for or due from clients for payroll processing services.

Intragovernmental assets are assets that arise from transactions among Federal entities. These assets are claims of a Federal entity against other Federal entities. Intragovernmental assets are reported separately from transactions with non-Federal entities, the Federal Reserve, and government-sponsored enterprises (i.e., Federally charted but privately owned and operated entities). The term “non-Federal entity” encompasses domestic and foreign persons and organizations outside the U.S. Government.

D. Fund Balance with Treasury

DO maintains all cash accounts with the U.S. Department of the Treasury (Treasury). The account Fund Balance with Treasury includes general, special, revolving, trust, and other funds available to pay current liabilities and finance authorized purchases. Cash receipts and disbursements are processed by Treasury, and DO’s records are reconciled with those of Treasury on a regular basis. The Fund Balance with Treasury as shown on the Consolidated Balance Sheets represents the net undisbursed balance of appropriation warrants or other disbursement authority. The Fund Balance with Treasury relative to unobligated appropriations in expired accounts is unavailable for new obligations.

E. Investments, Net

Office of the Special Trustee for American Indians

In accordance with authorizing legislation, the Secretary invests Tribal Trust and Special Funds in marketable or non-marketable market-based securities issued by the Treasury Federal Investment Branch of the Bureau of the Public Debt or marketable securities issued by government-sponsored entities. Non-marketable market based securities are Treasury securities that are issued by the Bureau of the Public Debt to Federal entities. They are not traded on any securities exchange, but mirror the prices of particular Treasury Securities trading in the Government securities market. Public securities are marketable securities consisting mainly of various mortgage instruments, bonds, and notes issued by government-sponsored entities. Investment instruments are continually reviewed for appropriateness in conjunction with current tribal needs. Investments are held to maturity. Investments made for Tribal Trust and Special Funds are valued at cost and adjusted for amortization of premiums and discounts. The premiums and discounts are recognized as adjustments to interest income, utilizing the effective interest method. Interest on investments is accrued as it is earned. The market value is calculated using the market price of securities as shown on the Financial Times Inter-Active data on September 30 multiplied by the number of units held. Market values for overnight investments are the same as or equivalent to par value.

Utah Reclamation Mitigation and Conservation Commission

The Secretary invests funds for the Utah Reclamation Mitigation and Conservation Commission (Commission), in accordance with Section 402(c) of the authorizing legislation. The funds are invested in non-marketable market-based securities, which are Treasury securities that are issued by the Bureau of the Public Debt to Federal entities. They are not traded on any securities exchange, but mirror the prices of particular Treasury Securities trading in the Government securities market. Investments are held until maturity. Investments are valued at cost and adjusted for amortization of premiums and discounts. The premiums and discounts are recognized as adjustments to interest income, utilizing the straight-line method for short-term securities (i.e., bills) and the effective rate interest method for longer-term securities (i.e. notes), if applicable. Interest on investments is accrued as it is earned. The market value is calculated using the market price of securities as shown on Treasury's FedInvest Price File or the Wall Street Journal on September 30 multiplied by the number of notes held. Market values for overnight investments are equivalent to par value.

Natural Resource Damage Assessment and Restoration Fund

In accordance with authorizing legislation, the Secretary invests funds held in trust for the NRDAR. The funds are invested in non-marketable market-based securities that the Treasury issues to federal entities without statutorily determined interest rates. Non-marketable market-based securities are Treasury securities that are issued by the Bureau of the Public Debt to Federal entities. They are not traded on any securities exchange, but mirror the prices of particular Treasury Securities trading in the Government securities market. Funds are invested in both long and short-term securities, depending upon the customer's needs for their funds. Securities are held until maturity. Investments are valued at cost and adjusted for amortization of premiums and discounts. The premiums and discounts are recognized as adjustments to interest income, utilizing the straight-line method as these are short-term securities (i.e. bills) and there is no material difference compared to the effective interest method. Interest on investments is accrued as it is earned. The market value is calculated using the market price of securities as shown on Treasury's FedInvest Price File or the Wall Street Journal on September 30 multiplied by the number of notes held. Market values for overnight investments are the same as or equivalent to par value.

Investment Interest

Investment interest is accrued when earned.

F. Accounts and Interest Receivable, Net

Accounts receivable consists of amounts owed to DO by other Federal agencies and the public. Accounts receivable from federal agencies for the provision of goods and services are estimated at year-end based on past trends. Federal accounts receivable generally arise from the provision of goods and services to other Federal agencies and, with the exception of occasional billing disputes, are considered to be fully collectible. Receivables from the public generally arise either from the provision of goods and services or from the levy of fines and penalties resulting from DOI regulatory responsibilities. The ongoing review of outstanding receivables supports recording an allowance for certain receivables that may not be cost effective to pursue collecting. An allowance for doubtful accounts is established based on a review of all receivables and an analysis of outstanding past due balances by fund by fiscal year.

Interest on Accounts Receivable

Interest receivable on accounts receivable is recognized as it is earned.

G. Loans and Interest Receivable, Net

The OIA has issued two loans, one pre-credit reform loan to the Virgin Islands authorized under the Federal Financing Bank Act of 1973 (PL 93-224) and one loan to the Government of American Samoa (ASG) authorized under the Federal Credit Reform Act of 1990 (PL 101-508).

The loan to the Virgin Islands was non-subsidized. The source for this loan was a loan to the Office of the Secretary (OS) from the Federal Financing Bank (FFB), Treasury. The loan receivable from the Virgin Islands has an offsetting liability to the FFB. Any budget authority for the additional cost of the loan must be made available out of existing appropriations or from other budgetary resources.

The loan to the ASG is financed by a combination of two sources. The source is for the long-term cost of the loan and the source for the non-subsidized portion of the loan was borrowing authority from the Bureau of the Public Debt. Congress annually provides a one-year appropriation, available for obligation in the fiscal year for which it is provided, to meet the estimated long-term costs of the loan. Long-term costs are defined as the net present value of the estimated cash outflows associated with the loans less estimated cash inflows.

Loans are accounted for as receivables after the funds have been disbursed. For the loan prior to October 1, 1991, no allowance for estimated uncollectible amounts has been recognized. For the loan disbursed after October 1, 1991, loans receivable is reduced by an allowance for estimated uncollectible amounts which is equal to the present value of the net cash flows of the subsidy costs, using the interest rate differential between loans receivable and Treasury borrowings.

Loan Interest

Interest on the loan to the Virgin Islands is based on the amortization schedule prepared by the FFB. Interest payments are due on January 31 and July 31. At year-end, interest accrued is based upon the period of August through September.

Interest on the loan to the ASG is based on a fixed rate. Interest is calculated when advances are paid to the ASG and recalculated when payments are received. Interest is due and payable annually on the last day of the fiscal year, September 30, on the unpaid principal balance of each advance outstanding, with a final payment of interest due upon maturity. Interest receivable from ASG is reduced by an allowance for estimated uncollectible amounts.

H. Advances and Prepayments

Advances and prepayments to Federal agencies and to the public include prepaid obligations for land purchases, construction, grants, employee travel, software development and certain other reimbursable services.

I. Inventory and Related Property

The AMD inventories are primarily comprised of aircraft parts and fuel that will be consumed in future operations. Aircraft parts, which are consumed in the operation and maintenance of fleet aircraft, are valued at historical cost, based on the moving-average cost method. Fuel inventories are valued at historical cost, based on the moving-average cost method. The recorded values are adjusted for the results of physical inventories taken periodically. Expenses are recorded when the inventories are consumed or sold.

J. General Property, Plant, and Equipment, Net

Property, Plant and Equipment. Property, Plant, and Equipment consists of land, land improvements, buildings, structures and facilities, leasehold improvements, construction in progress, internal use software, equipment, vehicles, and aircraft. The DOI Property Accounting Policy and Procedures and the OS Administrative Handbook "Personal Property Receipt and Accountability" require assets which meet certain thresholds described below to be capitalized at acquisition cost. Depreciation expense and accumulated depreciation are calculated and recorded monthly based on the actual acquisition cost as recorded in the finance system and on the useful life determined by the Property Office using GSA standards.

Construction in Progress. Construction in Progress is used for the accumulation of the cost of construction or major renovation of fixed assets during the construction period. The assets are transferred out of construction in progress when the project is substantially completed. Construction in Progress also includes projects in abeyance.

Internal Use Software. Internal use software includes purchased commercial off-the-shelf software (COTS), contractor-developed software, and software that was internally developed by agency employees. For COTS software, the capitalized costs include the amount paid to the vendor for the software; for contractor-developed software it includes the amount paid to a contractor to design, program, install, and implement the software. Capitalized costs for internally developed software include the full cost (direct and indirect) incurred during the software development stage.

Stewardship Assets. Stewardship assets consist of public domain land and heritage assets such as museums and libraries that have been entrusted to DOI to be maintained in perpetuity for the benefit of current and future generations. The stewardship land and heritage assets managed by DO are considered priceless and irreplaceable. Because of this, DO assigns no financial value to them and the property, plant, and equipment capitalized and reported on the Balance Sheet excludes these assets. Note 9 and the Required Supplementary Information (RSI) section of this report provides additional information concerning stewardship land and heritage assets. Effective October 1, 2005, DO adopted SFFAS No. 29, *Heritage Assets and Stewardship Land*.

The following summarizes the capitalization and depreciation policy for each category:

- Land and land improvements acquired for general operating purposes with an initial acquisition cost of over $100,000 and estimated service life greater than two years are capitalized at acquisition cost.

- Buildings and leasehold improvements with an initial acquisition cost of over $100,000 and estimated service life greater than two years are capitalized at acquisition cost and depreciated using the straight-line amortization method over a useful life from 20 to 50 years and an estimated ten percent salvage value.

- Construction in progress with an initial acquisition cost of over $100,000 and estimated service life greater than two years is capitalized at acquisition cost. Construction in progress is used for the accumulation of the cost of construction or major renovation of fixed assets during the construction period. The assets are transferred out of Construction in Progress when the project is completed.

- Structures and facilities consist of the Wasatch County Efficiency Project, Diamond Fork Project, and Syar Tunnel Project. These are part of the Colorado River Storage Project and are accounted for under CUPCA. All cost of these projects is capitalized at acquisition cost and is depreciated using the straight-line method over a period of 100 years. There is no salvage value.

- Internal use software with an initial acquisition cost of over $100,000 is capitalized at acquisition cost and is amortized using the straight-line method over a period of 2 to 10 years. There is no salvage value.

- Equipment and vehicles with an initial acquisition cost of $15,000 or more and an estimated service life of greater than two years is capitalized. This equipment is capitalized at acquisition cost and is depreciated using the straight-line method over a period of three to seven years. There is no salvage value. ADP hardware with an initial acquisition cost of $15,000 or more and an estimated service life of two years or greater is capitalized. The ADP hardware is capitalized at acquisition cost and is depreciated using the straight-line method over a period of three to seven years. There is no salvage value.

- Aircraft with an acquisition cost of $15,000 or more and estimated service life greater than two years are recorded depending upon the method of acquisition in the following manner:

    1. Aircraft transferred from other government agencies are capitalized at the net book value, as determined on the transfer document, or the estimated fair market value listed in Aircraft Price Digest, in that order of preference.
    2. Aircraft acquired by the bureaus through forfeiture proceedings and subsequently transferred to the fleet are capitalized at the estimated fair market value listed in the Aircraft Price Digest at the time of receipt.
    3. Aircraft purchased by other DOI bureaus on behalf of AMD are capitalized at acquisition cost.

- AMD depreciates aircraft using the straight-line method assuming a 20-year useful life. The residual value of aircraft is generally set at 50% of the capitalized value, based on historical resale trends for well-maintained aircraft.

- Donated property and equipment is evaluated at fair market value and is capitalized in accordance with the rules above. These donations are depreciated over a period of 3 to 100 years using the straight-line method for the useful life and the salvage values of the appropriate property, plant, and equipment category.

K. Liabilities

Liabilities represent the amount of monies or other resources that are likely to be paid by DO as the result of a transaction or event that has already occurred. However, no liability can be paid absent an appropriation. Liabilities for which an appropriation has not been enacted are therefore disclosed as liabilities not covered by budgetary resources, and there is no certainty that appropriations will be enacted. Also, the Government, acting in its sovereign capacity, can abrogate liabilities of DO arising from other than contracts. DO estimates the majority of year-end accounts payable based on historical analysis of subsequent payments as a percentage of undelivered orders or as a percentage of completion.

Liabilities Covered by Budgetary Resources - Liabilities incurred which are covered by realized budgetary resources as of the balance sheet date. Available budgetary resources include: (1) new budget authority, (2) unobligated balances of budgetary resources at the beginning of the year or net transfers of prior year balances during the year, (3) spending authority from offsetting collections (credited to an appropriation or fund account), and (4) recoveries of unexpired budget authority through downward adjustments of prior year obligations. Liabilities are considered covered by budgetary resources if they are to be funded by permanent indefinite appropriations, which have been enacted and signed into law as of the balance sheet date, provided that the resources may be apportioned by OMB without further action by the Congress and without a contingency having to be met first.

Liabilities Not Covered by Budgetary Resources - This category is for liabilities, which are not considered to be covered by budgetary resources, as provided above.

Current Liabilities - Probable future outflow or other sacrifice of resources as a result of past transactions or events whose liquidation is reasonably expected to occur within a relatively short period of time, usually 12 months.

Non-Current Liabilities - Probable future outflow or other sacrifice of resources as a result of past transactions or events whose liquidation is reasonably expected to occur beyond one year.

L. Debt

Debt represents funds borrowed from Treasury to finance the loan programs authorized under the Federal Financing Bank Act of 1973 (PL 93-224) and the Federal Credit Reform Act of 1990 (PL 101-508).

In 1977, a loan was extended to the OS from the FFB, Treasury, for the purpose of operating a direct loan program. The loan is recorded under Treasury Account Symbol 14X0418. Interest is based on the amortization schedule for the loan with the FFB. Principal and interest payments are due in January and July of each year. Interest is accrued at year-end based upon the period of July through September. The loan has a final payment due date of January 2, 2007. Should the loan be defaulted, payment will be made from the Virgin Islands Rum Fund Tax proceeds currently collected in Treasury Account Symbol 14X0418.

In 2001, a loan was extended to the OS from the Bureau of the Public Debt, Treasury, for the purpose of operating a direct loan. Funds are appropriated to the OS in the amount necessary to pay the cost associated with the program. The loan is recorded under Treasury Account Symbol 14X4163 and the appropriated subsidy is recorded under Treasury Account Symbol 14X0412. Interest is accrued annually based on the prevailing market yield on Treasury securities of comparable maturity. The loan has a final payment due date of September 30, 2027. Should the loan be defaulted, the appropriated subsidy in Treasury Account Symbol 14X0412 will be used for the loan repayment.

In FY 2005, the entire loan was reserved based on a reassessment of the loan's collectability.

M. Personnel Compensation and Benefits

Salary and Wages

Salary and wages of employees are recognized as accrued payroll expenses and related liabilities as earned by employees. These are recognized as a funded liability when accrued.

Annual and Sick Leave Program

Annual leave is accrued as it is earned by employees and is included in personnel compensation and benefit costs. An unfunded liability is recognized for earned but unused annual leave, since from a budgetary standpoint, this annual leave will be paid from future appropriations when the leave is used by employees, rather than from amounts which had been appropriated to DO as of the date of the financial statements. The amount accrued is based upon current pay of the employees. Sick leave and other types of leave that are not vested are expensed when used and no future liability is recognized for these amounts.

Retirement Programs

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

For FERS employees, DO contributes an amount equal to one percent of the employee's basic pay to the tax deferred thrift savings plan and matches employee contributions up to an additional four percent of pay. FERS employees can contribute up to 15 percent of their gross earnings to the plan. CSRS employees are limited to a contribution of five percent of their gross earnings and receive no matching contribution from DO.

The U.S. Office of Personnel Management (OPM) is responsible for reporting assets, accumulated plan benefits, and unfunded liabilities, if any, applicable to CSRS participants and FERS employees government-wide, including DO employees. DO recognized an Imputed Cost and Imputed Financing Source for the difference between the estimated service cost and the contributions made by DO and its covered employees. The estimated cost of pension benefits is based on rates issued by OPM. Following guidance from the DOI Office of Financial Management, the imputed cost for pension expense is calculated by multiplying base salary by the net rate, which is the gross rate presented by OPM less the portion paid by the DO and the employee.

Federal Employees Group Life Insurance (FEGLI) Program

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

Federal Employees Contribution Act

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

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

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

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

N. Advances from Others

Advances from others consist of amounts received from other Federal agencies and the public in advance of services performed. Advances also include amounts received from other DOI bureaus to fund specific projects.

O. Deferred Revenue

Unearned revenue is recorded as deferred revenue (current liability), until such time as the revenue is earned.

P. Contingent Liability and Environmental and Disposal Liabilities

Contingent Liability

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

Environmental and Disposal Liabilities

Environmental and Disposal Liabilities consist of AMD liabilities for the estimated cost of hazardous waste cleanup in the working capital fund.

DO has accrued environmental liabilities where losses are determined to be probable and the amounts can be estimated. In accordance with Federal accounting guidance, the liability for future cleanup of environmental hazards is "probable" when the government is legally responsible for creating the hazard or is otherwise related to it in such a way that it is legally liable to clean up the contamination.

When DO is not legally liable, but chooses to accept financial responsibility, it is considered "Government-acknowledged." Government-acknowledged events are events that are of financial consequence to the Federal government because it chooses to respond to the event. When DO accepts financial responsibility for cleanup, has an appropriation for the cleanup, and has begun incurring cleanup costs, then any unpaid amounts for work performed are reported as accounts payable.

Changes in cleanup cost estimates are developed in accordance with Departmental policy, which addresses systematic processes for cost estimating and places added emphasis on development and retention of supporting documentation. Changes in cleanup cost estimates are based on progress made in and revision of the cleanup plans, assuming current technology, laws, and regulations.

Q. Revenues and Financing Sources

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

Appropriations – Less than fifty percent of DO's operating funds are appropriated by the Congress to the DOI from the general receipts of the Treasury. These funds are made available to DO for a specified time period, (usually one fiscal year or multiple fiscal years) or indefinitely, depending upon the authorizing language. For example, funds for general operations are generally made available for one fiscal year; funds for long-term projects such as major construction will be available to DO for the expected life of the project; and funds used to establish revolving fund operations are generally available indefinitely (i.e., no year funds). DO records appropriations on the Combined Statement of Budgetary Resources when received and records appropriations used on the Consolidated Statement of Changes in Net Position when expenses are incurred. The Combined Statement of Budgetary Resources presents information about the resources appropriated to DO.

Exchange and Non-Exchange Revenue – DO classifies revenues as either exchange or non-exchange revenue. Exchange revenues are those revenues derived from transactions in which both parties to the transactions sacrifice value and receive value in return. The portion of Offsetting Receipts that is related to non-exchange revenue is disclosed as a reconciling item on the Statement of Financing as an item not part of the net cost of operations.

AMD's revenues are derived from the sale of goods to DOI operating bureaus and other federal agencies at cost plus an administrative fee. Goods include inventory and miscellaneous goods in support of aviation operations at the bureaus and agencies.

Exchange revenues earned by DO are classified according to their appropriate responsibility segments and are presented on the Consolidated Statement of Net Cost, in order to match these revenues with their associated costs. Exchange revenue is primarily from services provided on a reimbursable basis to governmental and public entities. Exchange revenues are recognized at the time goods or services are provided.

In certain cases, the prices charged by DO are set by law or regulation, which for program and other reasons may not represent full cost. Prices set for products and services offered through working capital funds are intended to recover the full costs (cost plus administrative fees) incurred by these activities. DO bases the prices for products/services offered through the IFF on the cost of products/services plus a fee of up to four percent of the cost of products/services. The IFF is authorized to charge a fee of up to four percent in accordance with the GMRA. Prices set for products and services offered through reimbursable agreements under the Economy Act are intended to recover the full costs incurred by these activities.

Non-exchange revenues are presented as financing sources on the Consolidated Statement of Changes in Net Position. Non-exchange revenues are inflows of resources that the Government demands by its sovereign power or receives by donation. The two largest categories of these non-exchange revenues, Donations and forfeitures of property and other non-exchange revenue are related to court ordered fines and the negotiated settlements for environmental cleanup enforced by the NRDAR. Donations and transfers, both monetary and non-monetary, are also classified as non-exchange revenues and are recognized when constructively received.

R. Other Financing Sources

Transfers – Transfers of assets from other Government entities.

Imputed Financing Sources – In certain instances, operating costs of DO are paid out of funds appropriated to other federal agencies. In accordance with GAAP, as outlined in guidance issued by the OMB, all expenses of a Federal entity should be reported by those agencies whether or not the agency will ultimately pay these expenses. Amounts for certain expenses of the DO, which will be paid by other Federal agencies, are recorded in the Consolidated Statement of Net Cost of operations. A related amount is recognized in the consolidated statement of changes in net position as an imputed financing source. DO records imputed expense and financing sources for employee retirement, insurance, and health benefit costs, which is paid by the OPM.

S. Resources Payable to Treasury

DO receives appropriations from Treasury's General Fund to construct, operate, and maintain various multipurpose projects. Many of the projects have reimbursable components, for which DO is required to recover the capital investment and Operations & Maintenance (O&M) costs through user fees, namely the sale of water and power. These recoveries are deposited in Treasury's General Fund on DO's behalf.

In March 2005, OMB issued guidance in response to the Federal Accounting Standards Advisory Board's (FASAB) Accounting and Auditing Policy Committee's (AAPC) Technical Exposure Draft entitled, *Recognition of the Transfer of Funds Between Interior's Reclamation Fund and Energy's Western Area Power Administration (WAPA): In Accordance with SFFAS 1, Accounting for Selected Assets and Liabilities, and SFFAS 5, Accounting for Liabilities of the Federal Government*. OMB's guidance instructed agencies to record receivables and liabilities rather than transfers in/out for certain transactions. DO analyzed the aforementioned guidance from OMB and the underlying concepts documented in the AAPC technical release. Although the OMB guidance was specific to the transactions between WAPA and the Reclamation Fund, the legal and factual context occurring between DO and the Treasury General Fund is akin to that of transactions between WAPA and the Reclamation Fund. Therefore, DO has applied the OMB guidance to those situations where the appropriations from the General Fund are required to be recovered through the sale of water and power. DO recognizes a decrease in the Resources Payable to Treasury when reimbursements are received from customers and such funds are transferred to Treasury's General Fund. This liability is increased when funds are received and meet the requirement for repayment.

T. Net Position

Net position consists of unexpended appropriations and cumulative results of operations. Unexpended appropriations represent amounts of budget authority to include unobligated or obligated balances not rescinded or withdrawn. DO accounts for revenues and other financing sources for earmarked funds separately from other funds. Earmarked funds are financed by specifically identified revenues, often supplemented by other financing sources, which remain available over time. These specifically identified revenues and other financing sources are required by statute to be used for designated activities, benefits or purposes and must be accounted for separately from the Government's general revenues. The three required criteria for an earmarked fund are" (1) A statute committing the Federal Government to use specifically identified revenues and other financing sources only for designated activities, benefits or purposes; (2) explicit authority for the earmarked funds to retain revenues and other financing sources not used in the current period for the future benefit of the designated activities, benefits, or purposes; and (3) a requirement to account for and report on the receipt, use, and retention of the revenues and other financing sources that distinguishes the earmarked fund from the Government's general revenues. For more information, see Note 25, Earmarked Funds.

U. Use of Estimates

The preparation of the financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amount of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates.

V. Income Taxes

As an agency of the U.S. Government, DO is exempt from all income taxes imposed by any governing body, whether it be a federal, state, Commonwealth of the United States, local, or foreign government.

W. Federal Employee Benefits

The Federal Employees Compensation Act (FECA) authorizes income and medical cost protection to covered federal civilian employees that are injured on the job or that have incurred a work-related occupational disease, and beneficiaries of deceased employees whose death is attributable to a job-related injury or occupational disease. FECA benefit claims for the Interior employees are initially paid by the Department of Labor (DOL) and subsequently reimbursed by DOI. DOL is responsible for calculating the FECA liability of future compensation benefits for all federal agencies. This liability is determined using a method that utilizes historical benefit payment patterns related to a specific incurred period to predict the ultimate payments related to that period. Projected annual benefit payments are discounted to present value using the OMB's economic assumptions for 10-year Treasury notes and bonds. The resulting liability is then distributed by DOL to each benefiting agency.

DOL calculates the estimated future benefit payments based on various assumptions. The interest rates used to discount the estimated future benefit payments to present values are 4.88 percent in year one and 5.24 percent in all subsequent years.

NOTE 2. ASSET ANALYSIS

DO's assets as of September 30, 2006 and September 30, 2005 are summarized into the following categories:

(dollars in thousands)	Entity Unrestricted	Non Entity Restricted	FY 2006
Intragovernmental Assets:			
Fund Balance with Treasury	$ 2,042,636	$ (1,324)	$ 2,041,312
Investments, Net	490,372	-	490,372
Accounts and Interest Receivable	121,759	-	121,759
Other			
Advances and Prepayments	2,331	-	2,331
Total Intragovernmental Assets	$ 2,657,098	$ (1,324)	$ 2,655,774
Investments, Net	$ 187,048	$ -	$ 187,048
Accounts and Interest Receivable, Net	34,084	6,663	40,747
Loans and Interest Receivable, Net	3,375	-	3,375
Inventory and Related Property, Net	852	-	852
General Property, Plant and Equipment, Net	387,528	-	387,528
Other			
Advances and Prepayments	2,180	-	2,180
TOTAL ASSETS	$ 3,272,165	$ 5,339	$ 3,277,504
Stewardship Assets			

(dollars in thousands)	Entity Unrestricted	Non Entity Restricted	FY 2005
Intragovernmental Assets:			
Fund Balance with Treasury	$ 2,353,928	$ 1,771	$ 2,355,699
Investments, Net	416,998	-	416,998
Accounts and Interest Receivable	106,594	-	106,594
Other			
Advances and Prepayments	2,277	-	2,277
Total Intragovernmental Assets	$ 2,879,797	$ 1,771	$ 2,881,568
Investments, Net	$ 198,060	$ -	$ 198,060
Accounts and Interest Receivable, Net	44,997	3,020	48,017
Loans and Interest Receivable, Net	5,658	-	5,658
Inventory and Related Property, Net	528	-	528
General Property, Plant and Equipment, Net	337,671	-	337,671
Other			
Advances and Prepayments	3,614	-	3,614
TOTAL ASSETS	$ 3,470,325	$ 4,791	$ 3,475,116
Stewardship Assets			

The non-entity assets represent miscellaneous receipts funds and amounts held for or due from clients for payroll processing services.

All other DO funds are entity. Included in entity assets are OST Tribal Special and Tribal Trust Funds (Federal portion), which have limitations on their use. See Note 14 and 26.

NOTE 3. FUND BALANCE WITH TREASURY

Fund Balance with Treasury by Fund Type

(dollars in thousands)		FY 2006		FY 2005
General Funds	$	390,943	$	361,571
Special Funds		38,793		62,550
Revolving Funds		1,611,263		1,929,093
Trust Funds		574		362
Other Fund Types		(261)		2,123
Total Fund Balance with Treasury by Fund Type	$	2,041,312	$	2,355,699

Status of Fund Balance with Treasury

(dollars in thousands)		FY 2006		FY 2005
Unobligated				
Available	$	726,093	$	1,061,759
bv		7,494		482
Obligated Not Yet Disbursed		1,308,364		1,291,335
Subtotal		2,041,951		2,353,576
Fund Balance with Treasury Not Covered by Budgetary Resources				
Clearing and Deposit Accounts		(639)		2,123
Subtotal		(639)		2,123
Total Status of Fund Balance with Treasury	$	2,041,312	$	2,355,699

The amounts presented for Fund Balance with Treasury as unobligated (available and unavailable) and obligated not yet disbursed differ from the amounts presented on the Statement of Budgetary Resources because: (1) budgetary resources include amounts which are not part of the Fund Balance with Treasury; and (2) not all the Fund Balance with Treasury amounts are reflected in budgetary resources. The major examples of (1) for DO are investments and allocation accounts where DO is the parent. The major examples of (2) for DO are deposit and other funds which do not record budgetary resources and allocation accounts where DO is the child. The treatment of allocation accounts is discussed further in Note 24.

NOTE 4. INVESTMENTS, NET

DO does not set aside assets to pay future benefits or other expenditures associated with earmarked funds for CUPCA or NRDAR. The cash receipts collected from the public for an earmarked fund are deposited in the U.S. Treasury, which uses the cash for general Government purposes. Treasury securities are issued to CUPCA and NRDAR as evidence of its receipts. Treasury securities are an asset to CUPCA and NRDAR and a liability to the U.S. Treasury. Because CUPCA and NRDAR and the U.S. Treasury are all parts of the Government, these assets and liabilities offset each other from the standpoint of the Government as a whole. For this reason, they do not represent an asset or a liability in the U.S. Government-wide financial statements. Treasury securities provide CUPCA and NRDAR with authority to draw upon the U.S. Treasury to make future benefit payments or other expenditures. When CUPCA and NRDAR requires redemption of these securities to make expenditures, the Government finances those expenditures out of accumulated cash balances, by raising taxes or other receipts, by borrowing from the public or repaying less debt, or by curtailing other expenditures. This is the same way that the Government finances all expenditures.

FY 2006

(dollars in thousands)	Investment Type	Cost	Net Amortized (Premium)/Discount	Investments, Net	Market Value Disclosure
U.S. Treasury Securities					
Utah Reclamation Mitigation and Conservation Account	Non-Marketable, market-based	$ 163,449	$ (1,406)	$ 162,043	$ 156,876
National Resources Damage Assessment and Restoration Fund	Non-Marketable, market-based	225,920	561	226,481	226,414
Tribal Trust and Special Funds	Non-Marketable, market-based	40,700	-	40,700	40,700
Tribal Trust and Special Funds	Marketable	59,856	(466)	59,390	58,593
Total U.S. Treasury Securities		489,925	(1,311)	488,614	482,583
Accrued Interest		1,758	-	1,758	-
Total Non-Public Investments		491,683	(1,311)	490,372	482,583
Public Securities					
Tribal Trust and Special Funds	Marketable	185,105	339	185,444	182,628
Total Public Securities		185,105	339	185,444	182,628
Accrued Interest		1,604	-	1,604	-
Total Public Investments		186,709	339	187,048	182,628
Total Investments		$ 678,392	$ (972)	$ 677,420	$ 665,211

FY 2005

(dollars in thousands)	Investment Type	Cost	Net Amortized (Premium)/Discount	Investments, Net	Market Value Disclosure
U.S. Treasury Securities					
Utah Reclamation Mitigation and Conservation Account	Non-Marketable, market-based	$ 157,932	$ (2,248)	$ 155,684	$ 155,165
National Resources Damage Assessment and Restoration Fund	Non-Marketable, market-based	179,107	(1,225)	177,882	177,446
Tribal Trust and Special Funds	Non-Marketable, market-based	26,335	-	26,335	26,336
Tribal Trust and Special Funds	Marketable	55,487	(215)	55,272	55,076
Total U.S. Treasury Securities		418,861	(3,688)	415,173	414,023
Accrued Interest		1,825	-	1,825	-
Total Non-Public Investments		420,686	(3,688)	416,998	414,023
Public Securities					
Tribal Trust and Special Funds	Marketable	196,166	431	196,597	193,790
Total Public Securities		196,166	431	196,597	193,790
Accrued Interest		1,463	-	1,463	-
Total Public Investments		197,629	431	198,060	193,790
Total Investments		$ 618,315	$ (3,257)	$ 615,058	$ 607,813

NOTE 5. ACCOUNTS AND INTEREST RECEIVABLE, NET

ACCOUNTS AND INTEREST RECEIVABLE FROM FEDERAL AGENCIES

(dollars in thousands)	FY 2006	FY 2005
Accounts and Interest Receivable from Federal Agencies		
Billed	$ 5,756	$ 3,490
Unbilled	116,003	103,104
Total Accounts and Interest Receivable - Federal	$ 121,759	$ 106,594

ACCOUNTS AND INTEREST RECEIVABLE FROM THE PUBLIC

	FY 2006	FY 2005
Accounts and Interest Receivable from the Public		
Current	$ 7,068	$ 3,621
1 - 180 Days Past Due	816	2,801
181 - 365 Days Past Due	31	35
1 to 2 Years Past Due	54	2
Over 2 Years Past Due	1	15
Total Billed Accounts and Interest Receivable - Public	7,970	6,474
Unbilled Accounts and Interest Receivable	32,904	41,550
Total Accounts and Interest Receivable - Public	40,874	48,024
Allowance for Doubtful Accounts - Public	(127)	(7)
Total Accounts and Interest Receivable - Public Net of Allowance	$ 40,747	$ 48,017

The ongoing review of outstanding receivables supports recording an allowance for certain past due receivables that may not be cost effective to pursue collecting. A detailed analysis of accounts receivable by fund by fiscal year was performed to support the allowance.

NOTE 6. LOANS AND INTEREST RECEIVABLE, NET

Loans Receivable consists of two loans, one pre-credit reform loan to the Virgin Islands and one post-credit reform loan to the ASG.

1. In 1977, a loan was extended to the Virgin Islands from the FFB, Treasury, through the OS. This loan is considered a pre-credit reform loan. The loan receivable from the Virgin Islands has an offsetting liability to the FFB. It has a final payment due date of January 2, 2007. In 2000, this loan was transferred from Treasury Account Symbol 14X0412, Administration of the Territories, to 14X0418, Fiscal Assistance Payments to U.S. Territories as requested by the OIA. Principal and interest payments are due in January and July of each year. Interest is based on the amortization schedule for the loan with the FFB. The interest is accrued each year-end based upon the period of July through September.

2. In 2001, a loan was extended to the ASG from the OIA, DO, and DOI. This loan is considered a post-credit reform loan. The total has been approved for $18,600 and bears interest at a rate equal to the Treasury cost of borrowing for obligations of similar duration. (The actual amount of the loan that was disbursed to ASG at September 30 is disclosed in the table below.) The proceeds of the loan will be used by the ASG for debt reduction and fiscal reform. As payments become due, they shall be secured and accomplished with funds from the Escrow Account. The Escrow Account was established under the terms and conditions of the Tobacco Master Settlement Agreement and a judgment granted by the High Court of American Samoa on January 5, 1999 (Civil Action 119-98, American Samoa Government v. Philip Morris Tobacco Co., et. al.). The parties entered into the Agreement on November 23, 1998. In FY 2005, DO reserved the loan based on a reassessment of the loan's collectability.

In FY 2006 and FY2005, there were no other changes in economic conditions, other risk factors, legislation, credit policies, and subsidy estimation methodologies and assumptions that had a significant and measurable effect on subsidy rates, subsidy expense, and subsidy reestimates.

Included in the financial statements is a subsidy reestimate computed at the end of the fiscal year. The amounts included in the consolidated financial statements are not reported in the budget until the following fiscal year.

The subsidy rates disclosed pertain only to the current year cohorts. These rates cannot be applied to direct loans disbursed during the current reporting year to yield the subsidy expense. The subsidy expense for new loans reported in the current year could result from disbursements of loans from both the current year and prior year cohorts. The subsidy expense reported in the current year also includes modifications and reestimates.

An analysis of the loans receivable and the nature and amounts of the subsidy and administrative costs associated with the direct loans is provided in the following tables.

A. Direct Loan and Loan Guarantee Program Names	FY 2006	FY 2005
Virgin Island (Pre-Credit Reform)	$ 3,375	$ 5,658
Total Loans and Interest Receivable, Net	$ 3,375	$ 5,658

Direct Loans (dollars in thousands)

B. Direct Loans Obligated Prior to FY 1992:

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

	Direct Loan Programs	Loans Receivable, Gross	Interest Receivable	Value of Assets Related to Direct Loans
FY 2006	Virgin Island (Pre-Credit Reform)	$ 3,239	$ 136	$ 3,375
FY 2005	Virgin Island (Pre-Credit Reform)	$ 5,523	$ 135	$ 5,658

C. Direct Loans Obligated After FY 1991:

	Direct Loan Programs	Loans Receivable, Gross	Interest Receivable	Allowance for Subsidy Cost (Present Value)
FY 2006	American Samoa Government (Credit Reform)	$ 17,324	$ 796	$ (18,120)
FY 2005	American Samoa Government (Credit Reform)	$ 17,324	$ 626	$ (17,950)

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

Direct Loan Programs	FY 2006	FY 2005
American Samoa Government (Credit Reform)	$ 19	$ -

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

Modifications and Reestimates

	Direct Loan Programs	Total Modifications	Total Reestimates
FY 2006	American Samoa Government (Credit Reform)	$ -	$ -
FY 2005	American Samoa Government (Credit Reform)	$ 15,387	$ 15,387

Total Direct Loan Subsidy Expense:

Direct Loan Programs	FY 2006	FY 2005
American Samoa Government (Credit Reform)	$ -	$ 15,387

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

	FY 2006	FY 2005
Beginning balance of the subsidy cost allowance	$ 17,950	$ 2,563
Adjustments:		
(a) Loans written off	-	15,387
(b) Subsidy allowance amortization	170	-
Ending balance of the subsidy cost allowance before reestimates	18,120	17,950
Ending balance of the subsidy cost allowance	$ 18,120	$ 17,950

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

NOTE 7. INVENTORY AND RELATED PROPERTY

(dollars in thousands)	FY 2006	FY 2005
Inventory and Related Property		
Airplane Parts and Fuel Held for Use	$ 852	$ 528
Total Inventory and Related Property	$ 852	$ 528

NOTE 8. GENERAL PROPERTY, PLANT, & EQUIPMENT, NET

(dollars in thousands)	Acquisition Cost	Accumulated Depreciation	Net Book Value FY 2006
Land and Land Improvements	$ 22,087	$ -	$ 22,087
Buildings	143	29	114
Structures and Facilities	177,505	5,429	172,076
Leasehold Improvements	1,831	335	1,496
Construction in Progress			
Construction in Progress - General	93,754	-	93,754
Equipment, Vehicles, and Aircraft	62,444	31,105	31,339
Assets Under Capital Lease	2,248	450	1,798
Internal Use Software:			
In Use	12,726	9,051	3,675
In Development	61,189	-	61,189
Total Property, Plant, and Equipment	$ 433,927	$ 46,399	$ 387,528

(dollars in thousands)	Acquisition Cost	Accumulated Depreciation	Net Book Value FY 2005
Land and Land Improvements	$ 20,243	$ -	$ 20,243
Buildings	143	26	117
Structures and Facilities	177,467	4,049	173,418
Leasehold Improvements	1,831	213	1,618
Construction in Progress			
Construction in Progress - General	72,575	-	72,575
Equipment, Vehicles, and Aircraft	60,205	28,849	31,356
Internal Use Software:			
In Use	12,385	8,505	3,880
In Development	34,464	-	34,464
Total Property, Plant, and Equipment	$ 379,313	$ 41,642	$ 337,671

The costs for Construction in Progress as of September 30, 2006 and 2005 are from the Central Utah Project Completion Act Office account.

NOTE 9. STEWARDSHIP ASSETS

Effective October 1, 2005, DO adopted SFFAS No. 29, *Heritage Assets and Stewardship Land*. This standard requires federal agencies to reclassify all heritage asset and stewardship land information as a note disclosure (basic information) except for condition information. This change in reporting is phased in over a four year period beginning with fiscal year 2006. The following is required disclosure information for fiscal year 2006.

DOI's mission is to protect and manage the Nation's natural resources and cultural heritage. To ensure that these resources are preserved and sustained for the benefit and enjoyment of future generations, Congress has enacted legislation to assist in asset management.

Management of stewardship land is authorized by the Organic Act (16 U.S.C. 1-4), the Federal Land Policy and Management Act (FLPMA) of 1976 (43 U.S.C. 1701 et seq., Public Law 94-579, Sec. 103 (e)), and other significant legislation that allows Interior to manage land for the benefit of present and future generations. This management includes a concept of multiple use, which today stands as one of Interior's greatest strengths. DOI works with the public and private sector to ensure that the management of stewardship land, whether it is a park, refuge, hatchery or rangeland, is understood, follows legislation, and is beneficial to the surrounding areas.

The preservation and enjoyment of heritage assets located on and removed from DOI land has the benefit of legislation to ensure that items of interest to the Nation are protected. Legislation that assists DOI in management and preservation of these assets include the Antiquities Act of 1906 (16 U.S.C. 431-433), the Archaeological Resources Protection Act of 1979, as amended (16 U.S.C. 470aa-mm), Curation of Federally Owned and Administered Archeological Collections (36 C.F.R Part 79), the Native American Graves Protection and Repatriation Act of 1990 (NAGPRA), the National Historic Preservation Act (16 U.S.C. 468-468d), and Executive Order 13287 "Preserve America". The enjoyment and preservation of DOI heritage assets is encouraged by legislation and is in line with the DOI's vision of communication, consultation, and cooperation, all in the service of conservation.

The legislation cited above are not all inclusive, they merely provide a sampling of the various laws and regulations that impact the acquisition, management, and use of stewardship lands and heritage assets. DOI strives to ensure the preservation and management of stewardship land and heritage assets provide value to the Nation, are preserved intelligently, and are integrated into the requirements of surrounding communities.

DOI develops policy and guidance, based on the above cited laws, to ensure that stewardship land and assets are managed in conjunction with their intended purposes. These policies are reviewed through program evaluations, management evaluations, and technical reviews to ensure compliance and to ascertain whether revision to existing guidance is needed.

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

The costs associated with acquiring and improving stewardship lands were $14 million and $7 million during FY 2006 and FY 2005, respectively.

NOTE 10. LIABILITIES ANALYSIS

Liabilities covered by budgetary resources are funded liabilities to be paid with existing budgetary resources. Liabilities not covered by budgetary resources are not funded by existing budgetary resources and will need to be funded either by congressional actions or collections in the future.

	Covered by Budgetary Resources		Not Covered by Budgetary Resources		
(dollars in thousands)	Current	Non-Current	Current	Non-Current	FY 2006
Intragovernmental Liabilities:					
Accounts Payable	$ 8,410	$ -	$ -	$ -	$ 8,410
Debt		14,137	136	3,239	17,512
Other					
Accrued Employee Benefits	3,630	-	671	1,008	5,309
Advances and Deferred Revenue (includes Deposit Funds)	1,217,960	-	58	-	1,218,018
Resources Payable to Treasury	-	-	-	235,221	235,221
Other Liabilities Not Specified Above	3	-	-	-	3
Total Intragovernmental Liabilities	$ 1,230,003	$ 14,137	$ 865	$ 239,468	$ 1,484,473
Public Liabilities:					
Accounts Payable	$ 411,319	$ -	$ -	$ -	$ 411,319
Federal Employee and Veterans' Benefits					
FECA Actuarial Liability	-	-	6,520	9,780	16,300
Environmental and Disposal Liabilities	-	-	-	1,300	1,300
Other					
Accrued Payroll and Benefits	13,338	-	-	-	13,338
Annual Leave Liability	-	-	6,319	18,463	24,782
Advances and Deferred Revenue	7,246	-	-	-	7,246
Capital Lease Liability	-	1,354	-	-	1,354
Deposit Fund Liability	5,959	-	-	-	5,959
Other Liabilities Not Specified Above	15,967	-	-	-	15,967
Total Public Liabilities	453,829	1,354	12,839	29,543	497,565
Total Liabilities	$ 1,683,832	$ 15,491	$ 13,704	$ 269,011	$ 1,982,038

(dollars in thousands)	Covered by Budgetary Resources Current	Covered by Budgetary Resources Non-Current	Not Covered by Budgetary Resources Current	Not Covered by Budgetary Resources Non-Current	FY 2005
Intragovernmental Liabilities:					
Accounts Payable	$ 8,906	$ -	$ -	$ -	$ 8,906
Debt	-	14,137	717	4,941	19,795
Other					
Accrued Payroll Benefits	3,130	-	693	1,040	4,863
Advances and Deferred Revenue (includes Deposit Funds)	1,526,186	-	(142)	-	1,526,044
Judgment Fund	-	-	-	500	500
Resources Payable to Treasury	-	-	5,369	209,373	214,742
Other Liabilities Not Specified Above	12	-	-	-	12
Total Intragovernmental Liabilities	$ 1,538,234	$ 14,137	$ 6,637	$ 215,854	$ 1,774,862
Public Liabilities:					
Accounts Payable	$ 388,731	$ -	$ -	$ -	$ 388,731
Federal Employee and Veterans' Benefits					
FECA Actuarial Liability	-	-	-	17,437	17,437
Environmental and Disposal Liabilities	-	-	-	1,300	1,300
Other					
Accrued Payroll and Benefits	11,897	-	-	-	11,897
Annual Leave Liability	-	-	-	22,472	22,472
Advances and Deferred Revenue	6,764	-	-	-	$ 6,764
Deposit Fund Liability	5,284	-	-	-	5,284
Other Liabilities Not Specified Above	25,165	-	-	-	25,165
Total Public Liabilities	437,841	-	-	41,209	479,050
Total Liabilities	$ 1,976,075	$ 14,137	$ 6,637	$ 257,063	$ 2,253,912

For September 30, 2006 and 2005, DO anticipates that the liabilities listed above as not covered by budgetary resources will be funded from future budgetary resources when required. The Virgin Island debt is not covered by budgetary resources and will be funded by loans receivable due from the Virgin Island Government (See Note 11 for further details). DO receives budgetary resources for the Federal Employee Compensation Act (FECA) liability, the Environmental and Disposal Liabilities and Contingent Liabilities when they are needed for disbursements. Budgetary resources are generally provided for annual leave when it is taken. Resources payable to Treasury represent appropriations from the General Fund recovered through the sale of water and power (see Note 28 for further discussion).

NOTE 11. DEBT

(dollars in thousands)	FY 2005 Beginning Balance	Borrowing / (Repayments), Net	FY 2005 Ending Balance	Borrowing / (Repayments), Net	FY 2006 Ending Balance
Federal Financing Bank: Virgin Island Loan	$ 7,825	$ (2,167)	$ 5,658	$ (2,283)	$ 3,375
Treasury: American Samoa Loan	14,137	-	14,137	-	14,137
Total Debt Due to Treasury	$ 21,962	$ (2,167)	$ 19,795	$ (2,283)	$ 17,512

Of the $3,375 payable for the Virgin Islands Loan for September 30, 2006, $136 is a current liability and $3,239 is non-current (payable beyond one year). The entire $14,137 payable for the American Samoa Loan for September 30, 2006, is considered non-current. The amount of the current liability for the American Samoa Loan is contingent upon recoveries from the Tobacco Master Settlement agreement signed November 23, 1998.

Of the $5,658 payable for the Virgin Island Loan in FY 2005, $717 was current and $4,941 was non-current. Of the $14,137 payable for the American Samoa Loan in 2005, $0 was current and $14,137 was non-current.

The related interest costs for the Virgin Island Loan on September 30, 2006 are $481, and in 2005 were $678. The related interest costs for the American Samoa Loan on September 30, 2006 are $766, and in 2005 were $793. Interest is accrued annually based on the prevailing market yield on Treasury Securities of comparable maturities. The weighted average interest rate used to calculate interest owed to Treasury is 5.53%.

NOTE 12. ADVANCES AND DEFERRED REVENUE

(dollars in thousands)

Advances and deferred revenue of $1,225,264 and $1,532,808 as of September 30, 2006 and 2005, respectively, include amounts received from customers for services provided and deposit funds. The deposit fund liability of $5,959 and as of September 30, 2006 and $5,284 as of September 30, 2005, includes funds held for or due from clients and employees. These funds represent amounts received from other federal entities for payroll processing and disbursement to the employees of federal agencies (payroll), state and local governments (payroll taxes), and OPM (employee benefits). The undisbursed funds held for clients are $1,324 as of September 30, 2006 and $1,771 as of September 30, 2005.

NOTE 13. CONTINGENT LIABILITIES AND ENVIRONMENTAL AND DISPOSAL LIABILITIES

A. The accrued and estimated range of loss for contingent liabilities and environmental and disposal liabilities as of September 30, 2006 and 2005 are summarized in the categories below:

(dollars in thousands)	Accrued Liabilities	Total Estimated Range of Loss: Lower End of Range	Total Estimated Range of Loss: Upper End of Range
Contingent Liabilities			
Probable	$ -	$ -	$ 437
Reasonably Possible	-	20,040	25,070
Estimated Cleanup Cost			
Probable	1,300	1,300	1,300
Reasonably Possible	-	-	-
Total Contingent Liabilities and Environmental and Disposal Liabilities	$ 1,300	$ 21,340	$ 26,807

AMD's liability for Environmental and Disposal Liabilities of $1,300 for September 30, 2006 and 2005 consists of the estimated cost of hazardous waste cleanup at an aircraft maintenance facility in Alaska. The estimated cost is based on an estimate of the amount of soil contaminated and the cost to remove it.

The potential liabilities represents three OST cases, two concerning management of Trust Fund monies and one discrimination case. In addition, there are two OS cases, one for discrimination and the other is a challenge to default determination.

The above amounts are based on information from the SOL. The information in this table does not include the claims discussed in B (below).

B. The Secretary of the Interior is entrusted with the management of the monies and lands held in trust by the Federal government for Indian Tribes and individuals. There have been long standing, complicated problems with Indian trust fund accounting and management. Currently, there is significant litigation pending related to trust management for both Indian tribes and individuals.

Tribal trust cases involve claims for trust fund and asset mismanagement, accounting, and other declaratory relief. A class action lawsuit brought on behalf of beneficiaries of the Individual Indian Money (IIM) trust accounts alleges breach of trust obligations in the management of IIM account funds. No estimate or range of loss can reasonably be made regarding financial liability that may result from judgment or settlement of the tribal trust cases or IIM trust fund litigation. Accounting efforts to date have not revealed evidence of material systemic errors.

C. DO has a number of other claims and lawsuits pending against it. In the opinion of management and the SOL, the resolution of these claims and lawsuits will not materially affect DO financial position or operations. Therefore, no provision for these claims and lawsuits has been made in the accompanying financial statements.

NOTE 14. INDIAN TRUST FUNDS

The Department, through OST, maintains approximately 1,450 accounts for Tribal and Other Trust Funds (including the Alaska Native Escrow Fund) with combined monetary assets of approximately $2.921 million as of September 30, 2006 and $2.882 million as of September 30, 2005.

The balances that have accumulated in the Tribal and Other Trust Funds have resulted from judgment awards, settlements of claims, land use agreements, royalties on natural resource depletion, other proceeds derived directly from trust resources, and investment income.

The trust fund balances for Tribal and Other Trust Funds contain two categories:

1. Trust funds held for Indian Tribes (considered non-Federal funds), and
2. Trust funds held by the DOI, for future transfer to a tribe upon satisfaction of certain conditions or where the corpus of the fund is non-expendable (considered Federal funds).

The non-Federal and Federal funds are reflected as separate components of the fund balance in the Tribal and Other Trust Funds financial statements. The trust funds considered Federal funds are reflected in DO's financial statements.

The OST also maintains about 323,000 and 277,000 open Individual Indian Monies (IIM) accounts as of September 30, 2006 and 2005 respectively with a fund balance of approximately $355 million as of September 30, 2006 and $420 million as of September 30, 2005.

The IIM Fund is primarily a deposit fund for individuals who have a beneficial interest in the trust funds. IIM account holders realize receipts primarily from land use agreements; royalties on natural resource depletion; other proceeds derived directly from trust resources, judgment and tribal per capita distributions; and investment income.

Summaries of the financial statements of the Tribal and Other Trust Funds and the IIM Trust Funds are at the end of this note. The amounts in the summaries do not include the values related to trust lands or other trust resources managed by the DOI.

Financial Statements and Basis of Accounting. The Tribal and Other Trust Fund statements of assets and trust fund balances and statements of changes in trust fund balances were prepared using a cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles (GAAP). The cash basis of accounting differs from GAAP in that receivables and payables are not accrued and investment premiums and discounts are not amortized or accreted. Receipts are recorded when received, disbursements are recorded when paid, and investments are stated at historical cost.
The IIM Trust Fund statements of assets and trust fund balances and statements of changes in trust fund balances were prepared using a modified cash basis of accounting, which is a comprehensive basis of accounting other than GAAP. The modified cash basis of accounting differs from GAAP in that receivables and payables are not accrued with the exception of interest earned on invested funds (including discount accretion and premium amortization). Receipts are recorded when received with the exception of interest, and disbursements are recorded when paid. Interest is recorded when earned, including accretion/amortization of investment discounts and premiums. Investments are stated at amortized cost.

Audit Results. With OIG oversight, independent auditors audited the Tribal and Other Trust Funds and the IIM Trust Funds financial statements as of and for the year ended September 30, 2006 and 2005. The independent auditors indicated that the financial statements were prepared on the cash or modified cash basis of accounting, which is a comprehensive basis of accounting other than GAAP. In addition, the independent auditors' reports were qualified as a result of the following:

- It was not practicable for independent auditors to extend audit procedures sufficiently to satisfy themselves as to the fairness of the trust fund balances and changes in trust fund balances reflected in the financial statements due to issues with certain DOI trust-related systems and processes, which provide required trust financial information to OST.

- Regarding the Tribal and Other Trust Funds, certain parties for whom OST holds monetary assets in trust do not agree with the balances recorded by OST, and certain of these parties have filed lawsuits against the United States Government.

- Regarding the IIM Trust Funds, certain parties for whom OST holds monetary assets in trust do not agree with the balances recorded by OST, and certain of these parties have filed a class action lawsuit for an accounting of the individuals' trust funds which may or may not lead to claims against the United States Government.

For more information, see Note 13, Contingent Liability and Environmental and Disposal Liabilities.

Tribal and Other Trust Funds
Statement of Assets and Trust Fund Balances - Cash Basis
as of September 30, 2006 and September 30, 2005
(dollars in thousands)

	FY 2006	FY 2005
ASSETS		
Current Assets		
Cash and cash equivalents	$ 503,399	$ 501,596
Investments	2,417,827	2,380,222
TOTAL ASSETS	$ 2,921,226	$ 2,881,818
TRUST FUND BALANCES		
Held for Indian tribes	$ 2,637,066	$ 2,604,516
Held by Department of the Interior and considered to be		
U.S. Government funds	284,160	277,302
TOTAL TRUST FUND BALANCES	$ 2,921,226	$ 2,881,818

Tribal and Other Trust Funds
Statement of Changes in Trust Fund Balances - Cash Basis
For the Years Ended September 30, 2006 and September 30, 2005
(dollars in thousands)

	FY 2006	FY 2005
Receipts	$ 338,896	$ 352,921
Interest Received	121,566	146,330
Gain (Loss) on disposition of investments, Net	24	18,487
Disbursements	(421,078)	(611,152)
Increase in trust fund balances, net	39,408	(93,414)
Trust Fund Balances - Beginning of Year	2,881,818	2,975,232
Trust Fund Balances - End of Year	$ 2,921,226	$ 2,881,818

Individual Indian Monies Trust Funds
Statement of Assets and Trust Fund Balances - Modified Cash Basis
As of September 30, 2006 and September 30, 2005
(dollars in thousands)

	FY 2006	FY 2005
ASSETS		
Current Assets		
Cash and cash equivalents	$ 61,938	$ 28,333
Investments	353,886	388,586
Accrued interest receivable	2,450	2,950
TOTAL ASSETS	$ 418,274	$ 419,869
TRUST FUND BALANCES, held for Individual Indians	$ 418,274	$ 419,869

Individual Indian Monies Trust Funds
Statement of Changes in Trust Fund Balances - Modified Cash Basis
For the Years Ended September 30, 2006 and September 30, 2005
(dollars in thousands)

	FY 2006	FY 2005
Receipts	$ 355,094	$ 275,569
Interest and dividends earned	20,582	18,197
Gain (Loss) on disposition of investments, Net	(2,729)	7,813
Disbursements	(374,542)	(278,407)
Increase (decrease) in trust fund balances, net	(1,595)	23,172
Trust Fund Balances - Beginning of Year	419,869	396,697
Trust Fund Balances - End of Year	$ 418,274	$ 419,869

Note: The independent auditors expressed a qualified opinion on these financial statements. See “Audit Results” section above.

NOTE 15. LEASES

Real Property: Most of the DO facilities are rented from the GSA, which charges rent that is intended to approximate commercial rental rates. For Federally-owned property, DO generally does not execute an agreement with GSA nor is there a formal expiration date. DO, however, is normally required to give 120 to 180 days notice to vacate and the amount of these leases remains constant from year to year. The Federally-owned GSA leases are included in the estimated future lease for 2007 through 2011 below.

Personal Property: DO leases equipment and furniture from GSA and other organizations which are included in personal property.

DO has determined the future minimum lease payments based on the lease terms. If the lease agreement did not include a term or future minimum lease payments, DO included future minimum lease payments using the actual 2006 lease expense and an annual escalation factor of 2.4% for fiscal year 2007 through 2011.

The aggregate of the future payments due under operating leases for real property and personal property; and the estimated real property rent payments are presented below:

Capital Leases:

Summary of Assets Under Capital Leases:	FY 2006	FY 2005
Personal Property	$ 2,248	$ -
Accumulated Amortization	$ (450)	$ -

Future Capital Lease Payments
(dollars in thousands)

Fiscal Year	Personal Property	Total
2007	$ 615	$ 615
2008	518	518
2009	396	396
Total Future Capital Lease Payments	1,529	1,529
Less: Imputed Interest	175	175
FY 2006 Net Capital Lease Liability	$ 1,354	$ 1,354

Operating Leases:

Future Operating Lease Payments
(dollars in thousands)

	Real Property		
Fiscal Year	Federal	Public	Total
2007	$ 15,353	$ 17,111	$ 32,464
2008	15,696	16,848	32,544
2009	16,013	17,310	33,323
2010	16,322	16,634	32,956
2011	15,363	13,467	28,830
Thereafter	100	38,478	38,578
Total Future Operating Lease Payments	$ 78,847	$ 119,848	$ 198,695

Two operating leases were terminated earlier than the original contract dates. The leased facilities were located at 7110 W. Jefferson Street, Lakewood, Colorado. One lease was for the second floor and the other for the third floor. The original termination date was September 30, 2012.

NOTE 16. COST AND EARNED REVENUE BY RESPONSIBILITY SEGMENT

The tables on the following pages present DO's earned revenue for sales of goods and services to Federal agencies and the public, gross costs associated with sales of goods and services to Federal agencies and the public, and net cost of operations by program and by responsibility segment for the period ended September 30, 2006 and year ended September 30, 2005.

Responsibility Segment Presentation. OMB Circular A-136 "*Financial Reporting Requirements*" requires that the presentation of the Statement of Net Cost align directly with the goals and outcomes identified in the Strategic Plan. Accordingly, DO presented the earned revenues and gross costs in FY 2006 and FY 2005 by the Mission Goals in the FY 2004 Strategic Plan. The Mission Goals are: Resource Protection, Resource Use, Recreation, and Serving Communities. In addition, costs are reported for "Reimbursable Activity and Other." These Mission Goals are supported by 17 Department-level end outcome goals identified in the FY 2004 Strategic Plan.

Intragovernmental Costs/Revenue. OMB Circular A-136 has changed the disclosure requirements for transactions between Federal entities and with the public. Under the revised guidance, DO presents costs associated with Federal agencies as well as costs associated with the public. This presentation is different from how costs were previously reported. Specifically, in prior years, DO presented the estimated costs associated with earning revenue from Federal or Public sources rather than amounts paid and accrued to Federal agencies or to the Public. Total costs remain unchanged.

Costs and Earned Revenue by Responsibility Segment
For the Year Ended September 30, 2006
(dollars in thousands)

(dollars in thousands)	Office of the Secretary	Office of the Inspector General	Office of the Solicitor	Office of the Insular Affairs
Resource Protection				
Intragovernmental Costs	$ -	$ -	$ -	$ -
Public Costs	10	-	-	-
Total Costs	10	-	-	-
Intragovernmental Earned Revenue	-	-	-	-
Public Earned Revenue	-	-	-	-
Total Earned Revenue	-	-	-	-
Net Costs	10	-	-	-
Resource Use				
Intragovernmental Costs	-	-	-	-
Public Costs	-	-	-	-
Total Costs	-	-	-	-
Public Earned Revenue	-	-	-	-
Total Earned Revenue	-	-	-	-
Net Costs	-	-	-	-
Serving Communities				
Intragovernmental Costs	113	-	-	23,235
Public Costs	232,211	-	-	371,677
Total Costs	232,324	-	-	394,912
Intragovernmental Earned Revenue	-	-	-	14,527
Public Earned Revenue	36	-	-	1,541
Total Earned Revenue	36	-	-	16,068
Net Costs	232,288	-	-	378,844
Reimbursable Activity and Other				
Intragovernmental Costs	303,728	16,904	21,398	-
Public Costs	2,692,266	31,914	42,257	-
Total Costs	2,995,994	48,818	63,655	-
Intragovernmental Earned Revenue	2,857,937	3,869	8,423	-
Public Earned Revenue	14,737	200	1	-
Total Earned Revenue	2,872,674	4,069	8,424	-
Net Costs	123,320	44,749	55,231	-
Total				
Intragovernmental Costs	303,841	16,904	21,398	23,235
Public Costs	2,924,487	31,914	42,257	371,677
Total Costs	3,228,328	48,818	63,655	394,912
Intragovernmental Earned Revenue	2,857,937	3,869	8,423	14,527
Public Earned Revenue	14,773	200	1	1,541
Total Earned Revenue	2,872,710	4,069	8,424	16,068
Net Cost of Operations	$ 355,618	$ 44,749	$ 55,231	$ 378,844

Costs and Earned Revenue by Responsibility Segment
For the Year Ended September 30, 2006
(dollars in thousands)

National Indian Gaming Commission	Office of the Special Trustee	Central Utah Project	Natural Resources Damage Assessment	Elimination of Intra-Department Activity	FY 2006
$ -	$ -	$ 14,937	$ 7,763	$ -	$ 22,700
-	-	8,133	21,188	-	29,331
-	-	23,070	28,951	-	52,031
-	-	6,496	456	-	6,952
-	-	-	1,879	-	1,879
-	-	6,496	2,335	-	8,831
-	-	16,574	26,616	-	43,200
-	-	1,527	-	-	1,527
-	-	7,827	-	-	7,827
-	-	9,354	-	-	9,354
-	-	21	-	-	21
-	-	21	-	-	21
-	-	9,333	-	-	9,333
4,724	112,860	-	-	(1,035)	139,897
9,588	106,418	-	-	-	719,894
14,312	219,278	-	-	(1,035)	859,791
89	3,458	-	-	(1,035)	17,039
12,440	20	-	-	-	14,037
12,529	3,478	-	-	(1,035)	31,076
1,783	215,800	-	-	-	828,715
-	-	-	-	(271,119)	70,911
-	-	-	-	-	2,766,437
-	-	-	-	(271,119)	2,837,348
-	-	-	-	(271,119)	2,599,110
-	-	-	-	-	14,938
-	-	-	-	(271,119)	2,614,048
-	-	-	-	-	223,300
4,724	112,860	16,464	7,763	(272,154)	235,035
9,588	106,418	15,960	21,188	-	3,523,489
14,312	219,278	32,424	28,951	(272,154)	3,758,524
89	3,458	6,496	456	(272,154)	2,623,101
12,440	20	21	1,879	-	30,875
12,529	3,478	6,517	2,335	(272,154)	2,653,976
$ 1,783	$ 215,800	$ 25,907	$ 26,616	$ -	$ 1,104,548

Costs and Earned Revenue by Responsibility Segment
For the Year Ended September 30, 2005
(dollars in thousands)

	Office of the Secretary	Office of the Inspector General	Office of the Solicitor	Office of the Insular Affairs
Resource Protection				
Intragovernmental Costs	$ -	$ -	$ -	$ -
Public Costs	-	-	-	-
Total Costs	-	-	-	-
Intragovernmental Earned Revenue	-	-	-	-
Total Earned Revenue	-	-	-	-
Net Costs	-	-	-	-
Resource Use				
Intragovernmental Costs	-	-	-	-
Public Costs	-	-	-	-
Total Costs	-	-	-	-
Intragovernmental Earned Revenue	-	-	-	-
Total Earned Revenue	-	-	-	-
Net Costs	-	-	-	-
Recreation				
Intragovernmental Costs	46	-	-	21,099
Public Costs	226,604	-	-	426,475
Total Costs	226,650	-	-	447,574
Intragovernmental Earned Revenue	-	-	-	4,843
Public Earned Revenue	-	-	-	1,751
Total Earned Revenue	-	-	-	6,594
Net Costs	226,650	-	-	440,980
Reimbursable Activity and Other				
Intragovernmental Costs	305,600	14,864	19,081	-
Public Costs	2,654,650	28,966	41,552	-
Total Costs	2,960,250	43,830	60,633	-
Intragovernmental Earned Revenue	2,846,257	4,273	8,029	-
Public Earned Revenue	24,650	293	-	-
Total Earned Revenue	2,870,907	4,566	8,029	-
Net Costs	89,343	39,264	52,604	-
Total				
Intragovernmental Costs	305,646	14,864	19,081	21,099
Public Costs	2,881,254	28,966	41,552	426,475
Total Costs	3,186,900	43,830	60,633	447,574
Intragovernmental Earned Revenue	2,846,257	4,273	8,029	4,843
Public Earned Revenue	24,650	293	-	1,751
Total Earned Revenue	2,870,907	4,566	8,029	6,594
Net Cost of Operations	$ 315,993	$ 39,264	$ 52,604	$ 440,980

Costs and Earned Revenue by Responsibility Segment
For the Year Ended September 30, 2005
(dollars in thousands)

National Indian Gaming Commission	Office of the Special Trustee	Central Utah Project	Natural Resources Damage Assessment	Elimination of Intra-Department Activity	FY 2005
$ -	$ -	$ 6,176	$ 6,814	$ -	$ 12,990
-	-	5,651	9,071	-	14,722
-	-	11,827	15,885	-	27,712
-	-	3,613	-	-	3,613
-	-	3,613	-	-	3,613
-	-	8,214	15,885	-	24,099
-	-	1,339	-	(102)	1,237
-	-	4,489	-	-	4,489
-	-	5,828	-	(102)	5,726
-	-	102	-	(102)	-
-	-	102	-	(102)	-
-	-	5,726	-	-	5,726
4,773	110,020	-	-	208	136,146
8,401	98,681	-	-	-	760,161
13,174	208,701	-	-	208	896,307
-	12,062	-	-	208	17,113
13,233	19	-	-	-	15,003
13,233	12,081	-	-	208	32,116
(59)	196,620	-	-	-	864,191
-	-	-	-	(328,076)	11,469
-	-	-	-	-	2,725,168
-	-	-	-	(328,076)	2,736,637
-	-	-	-	(328,076)	2,530,483
-	-	-	-	-	24,943
-	-	-	-	(328,076)	2,555,426
-	-	-	-	-	181,211
4,773	110,020	7,515	6,814	(327,970)	161,842
8,401	98,681	10,140	9,071	-	3,504,540
13,174	208,701	17,655	15,885	(327,970)	3,666,382
-	12,062	3,715	-	(327,970)	2,551,209
13,233	19	-	-	-	39,946
13,233	12,081	3,715	-	(327,970)	2,591,155
$ (59)	$ 196,620	$ 13,940	$ 15,885	$ -	$ 1,075,227

NOTE 17. APPORTIONMENT CATEGORIES OF OBLIGATIONS INCURRED

(dollars in thousands)

FY 2006	Category B
Obligations Incurred:	
Direct	$ 1,280,091
Reimbursable	2,862,489
Total Obligations Incurred	$ 4,142,580

FY 2005	Category B
Obligations Incurred:	
Direct	$ 1,317,656
Reimbursable	2,906,422
Total Obligations Incurred	$ 4,224,078

Category B apportionments typically distribute budgetary resources by activities, projects, objects or a combination of these categories. One Treasury Account Fund Symbol (TAFS) can potentially have dozens of Category B apportionments, each pertaining to specific activities, projects, and so on. There are also cases when it makes programmatic sense for OMB to use a single, Category B Apportionment for a given TAFS.

NOTE 18. AVAILABLE BORROWING/CONTRACT AUTHORITY, END OF PERIOD

There was no available borrowing/contract authority as of September 30, 2006 and September 30, 2005.

NOTE 19. TERMS OF BORROWING AUTHORITY USED

(dollars in thousands)

In 2001, a loan was extended to the OS from the Bureau of the Public Debt, U.S. Department of the Treasury for the purpose of operating a direct loan. The outstanding loan balances were $14,137 as of September 30, 2006 and $14,137 as of September 30, 2005. Funds are appropriated to OS in the amount necessary to pay the cost associated with the program. The loan is recorded under Treasury Account Symbol 14X4163 and the appropriated subsidy is recorded under Treasury Account Symbol 14X0412. Interest is accrued annually based on the prevailing market yield on Treasury securities of comparable maturity. The loan has a final payment due date of September 30, 2027. Should the loan be defaulted, the appropriated subsidy in 14X0412 will be used for the loan repayment.

NOTE 20. PERMANENT INDEFINITE APPROPRIATIONS

Various permanent public laws authorize DO to retain certain receipts. These are referred to as permanent indefinite appropriations because (a) the appropriations come from permanent public laws rather than the annual appropriations process; and (b) the amount appropriated depends upon the amount of the receipts rather than a specific amount.

14X5141 National Indian Gaming Commission, Gaming Activity Fees

The primary mission of the NIGC is to regulate gaming activities on Indian lands.

14X5174 Utah Reclamation and Mitigation Conservation Account

The Commission has exclusive responsibility for completing the fish, wildlife, and recreation projects in the State of Utah required as part of the Central Utah Project.

14X5198 Natural Resources Damage Assessment and Restoration Fund

NRDAR is responsible for the promulgation of regulations for the assessment of damages for injury to, destruction of, or loss of natural resources resulting from a discharge of oil or release of a hazardous substance.

14X5233 Everglades Restoration Account

Funds utilized for the acquisition of real property within the Everglades ecosystem and the funding of resource protection and resource maintenance activities in the Everglades ecosystem.

14X5265 Tribal Special Fund

Funds in the Tribal Special Fund are those not designated in the law as a trust, and generally are funds held and invested to carry out obligations of the Secretary of the Interior.

14X8030 Tribal Trust Fund

Tribal trust funds are deposited into consolidated accounts in the U.S. Treasury pursuant to: (1) general or specific acts of Congress and (2) Federal management of tribal real properties, the titles to which are held in trust for the tribes by the United States. These funds are available to the respective tribal groups for various purposes, under various acts of Congress, and may be subject to the provisions of tribal constitutions, bylaws, charters, and resolutions of the various tribes, bands or groups.

14X8369 Take Pride in America, Gifts and Bequests

These funds are for establishing and maintaining a public awareness campaign in cooperation with public and private organizations and individuals.

14X5130 Indian Arts and Crafts Board

These funds are to promote the development of Indian arts and crafts and to create a board to assist therein, and for other purposes.

14X5571 Departmental Management Land and Water Conservation

The purpose of the Land and Water Conservation is to assist in preserving, developing, and assuring accessibility to all citizens of the United States of American of present and future generations and visitors who are lawfully present within the boundaries of the United States of America such quality and quantity of outdoor recreation resources as may be available and are necessary and desirable for individual active participation in such recreation and to strengthen the health and vitality of the citizens of the United States. These funds are used for management salaries and expenses.

NOTE 21. LEGAL ARRANGEMENTS AFFECTING USE OF OBLIGATED AND UNOBLIGATED BALANCES

Unobligated balances whose period of availability has expired are not available for new obligation and may only be used for recording, adjusting, and liquidating obligations properly chargeable to the fiscal year account. For a fixed appropriation account, the balance can be carried forward for five fiscal years after the period of availability ends. At the end of the fifth fiscal year, the account is closed and any remaining balance is canceled. For a no-year account, the unobligated balance is carried forward indefinitely until (1) specifically rescinded by law or (2) the head of the agency concerned or the President determines that the purposes for which the appropriation was made have been carried out and disbursements have not been made against the appropriation for two consecutive years. The following summarizes DO's unobligated balance and undelivered orders at the end of the accounting period.

	Total Budgetary Accounts		Non-Budgetary Credit Program Financing Account	
	FY 2006	FY 2005	FY 2006	FY 2005
Unobligated balance available	$ 1,072,731	$ 1,337,259	$ 378	$ 193
Unobligated balance not available	8,363	682	-	-
Undelivered orders	$ 1,438,752	$ 1,524,783	$ -	$ -

NOTE 22. EXPLANATION OF DIFFERENCES BETWEEN THE STATEMENT OF BUDGETARY RESOURCES AND THE BUDGET OF THE U.S. GOVERNMENT

The Statement of Budgetary Resources has been prepared to coincide with the amounts shown in the President's Budget (Budget of the United States Government). The President's Budget with the actual FY 2005 amounts was released on February 6, 2006, and the President's Budget with the FY 2006 amounts is estimated to be released in February 2007. This information can be found on the OMB Web site: *www.whitehouse.gov/omb*. As such, the actual amounts for FY 2006 in the President's Budget have not been published at the time these financial statements were prepared.

Budgetary resources and the status of those resources presented in the Combined SBR for the period ended September 30, 2005 differ from the amounts presented as 2005 Actuals in the President's FY 2007 Budget.

(dollars in millions)	FY 2005 Amount per President's Budget*	FY 2005 Amount per Total SBR	Difference	Explanation
Budgetary Resources:				
Budget Authority:				
Appropriations Received	$ 1,383	$ 1,265	$ 118	A
Unobligated Balance Beginning of Fiscal Year	1,145	1,110	35	A
Spending Authority From Offsetting Collections	3,125	3,143	(18)	B
Recoveries of Prior Year Unpaid Obligations	42	44	(2)	F
Nonexpenditure Transfers, net	11	12	(1)	F
Temporarily Not Available Pursuant to Public Law	(8)	-	(8)	B
Permanently Not Available	(15)	(13)	(2)	F
Total Budgetary Resources	5,683	5,561	122	A, B
Status of Budgetary Resources:				
Obligations Incurred:	4,410	4,223	187	A, C
Unobligated Balance - Available/Not Available	1,273	1,338	(65)	A, B, C
Total Status of Budgetary Resources	5,683	5,561	122	A, B, C
Change in Obligated Balance:				
Obligated Balance, Net, Beginning of Fiscal Year	1,612	1,612	-	
Obligations Incurred	4,411	4,223	188	A, C
Less: Gross Outlays	(4,285)	(4,183)	(102)	A, C
Less: Recoveries of Prior Year Unpaid Obligations	(42)	(44)	2	F
Chg in Uncoll. Customer Payments from Fed Sources	(309)	(298)	(11)	D
Obligated Balance, Net, End of Fiscal Year	1,387	1,310	77	C
Net Outlays:				
Gross Outlays	4,285	4,183	102	A
Less: Offsetting Collections	(2,804)	(2,845)	41	B
Less: Distributed Offsetting Receipts	-	(156)	156	E
Net Outlays/Receipts	$ -	$ 1,182	$ (1,182)	E

* Source: Fiscal Year 2005 Actual amounts as published in the Appendix to the Budget of the United States Government, Fiscal Year 2007

A. Tribal Trust Funds
Differences result because appropriations and payments to Tribal Trust fund non-Federal accounts are included in the President's Budget and excluded from SBR. The differences impact Appropriations Received, Unobligated Balances at the Beginning of the Fiscal Year, Obligations Incurred, Unobligated Balance Available/Not Available, and Gross Outlays on the SBR. [Budget Accounts 14215265 and 14218030]

B. Expired Accounts
Differences relate to expired accounts being included in the Combined SBR, but not in the President's Budget.

C. Working Capital Fund
Differences relate to an adjustment that occurred after numbers for the President's Budget were submitted.

D. The Land and Water Conservation Fund transferred $7.4 in FY 2006 to Departmental Management for appraisal services and Take Pride in America activities to remain available until expended as stated in the President's Budget. The funds were collected into the Land and Water Conservation fund in FY 2005. The Land and Water Conservation Fund is not part of the DO SBR, but was included in the President's Budget. The difference impacts Change in Uncollected Customer Payments from Federal Sources.

E. Certain SBR data does not appear on the Program and Financing Schedule of the President's Budget.

F. Differences primarily relate to rounding.

Budgetary resources and the status of those resources presented in the Combined SBR for the period ended September 30, 2004 differ from the amounts presented as 2004 actuals in the President's FY 2006 Budget. Differences are presented and labeled on the following table:

(dollars in millions)	FY 2004 Amount per President's Budget *	FY 2004 Amount per Total SBR	Difference	Explanation
Budgetary Resources:				
Budget Authority:				
Appropriations Received	$ 1,389	$ 1,202	$ 187	A, B
Net Transfers, Current Year Authority	(1)	(2)	1	E
Unobligated Balance:				
Beginning of Fiscal Year	382	406	(24)	A, B
Net Transfers, Unobligated Balance, Actual	(4)	(10)	6	C
Spending Authority From Offsetting Collections	1,300	1,289	11	B, C
Recoveries of Prior Year Obligations	21	27	(6)	C
Temporarily Not Available Pursuant to Public Law	(1)	-	(1)	E
Permanently Not Available	(32)	(33)	1	E
Total Budgetary Resources	3,054	2,879	175	A
Status of Budgetary Resources:				
Obligations Incurred	2,642	2,504	138	A
Unobligated Balance & Unobligated Balance Not Available	412	375	37	A
Total Status of Budgetary Resources	3,054	2,879	175	A
Relationship of Obligations to Outlays:				
Obligated Balance, Net, Beginning of Fiscal Year	618	616	2	E
Obligated Balance, Net, End of Fiscal Year:	(949)	(953)	4	E
Outlays:				
Disbursements	2,226	2,087	139	A
Collections	(1,233)	(1,236)	3	E
Subtotal	985	851	134	A
Less: Offsetting Receipts	-	(176)	176	D
Net Outlays	$ 985	$ 675	$ 310	A, D

* Source: Fiscal Year 2004 Actual amounts as published in the Appendix to the Budget of the United States Government, Fiscal Year 2006

A. Tribal Trust Funds

Differences result because appropriations and payments to Tribal Trust fund non-Federal accounts are included in the President's Budget and excluded from SBR. The differences impact Appropriations Received, Unobligated Balances at the Beginning of the Fiscal Year, Obligations Incurred, Unobligated Balance Not Available, and Disbursement lines on the SBR. [Budget Accounts 14215265 and 14218030]

B. Special Funds

Amounts related to CUPCA and Commission funds are treated as available in the FY 2004 SBR and unavailable in the President's Budget. The differences impact Appropriations Received, Unobligated Balance at the Beginning of the Fiscal Year and Spending Authority from Offsetting Collections. [Budget Accounts 14010787 and 14015174]

C. Expired Funds

Differences relate to expired accounts being included in the Combined SBR, but not in the President's Budget.

D. Certain SBR data does not appear on the Program and Financing Schedule of the President's Budget.

E. Differences primarily result of rounding.

NOTE 23. EXPLANATION OF DIFFERENCES BETWEEN LIABILITIES NOT COVERED BY BUDGETARY RESOURCES AND COMPONENTS REQUIRING OR GENERATING RESOURCES IN FUTURE PERIODS

The Statement of Financing includes a section depicting the change in certain unfunded liabilities. The amounts in this section do not necessarily correlate to the change in liabilities not covered by budgetary resources reported in Note 10. Differences are primarily the result of certain Treasury requirements related to where changes in various liabilities are reported on the Statement of Financing. Additionally, some liability accounts not covered by budgetary resources are not included in the Statement of Financing.

NOTE 24. STATEMENT OF FINANCING

(dollars in thousands)

The intent of the Statement of Financing is to facilitate the reconciliation of the financial net cost of operations with obligations of budget authority. Because the accrual-based measures used in the Statement of Net Cost differ from the obligation-based measures used in the Statement of Budgetary Resources, this reconciliation is useful in understanding the differences.

The Statement of Financing considers four types of activity: 1) resources used to fund activities; 2) resources used to fund items not part of the net cost of operations; 3) components of net cost of operations that do not require or generate resources during the reporting period; and 4) components of net cost that require future funding.

Allocation transfers are the amounts of budget authority and other resources transferred to other agencies or bureaus to carry out the purposes of the parent account. DO is both a parent agency and a recipient of allocation transfers. OMB Circular A-11 requires parent accounts to report their allocation agency's transactions as part of their Statement of Budgetary Resources, while the recipient of allocation transfers reports the proprietary activity on its Balance Sheet, Statement of Net Cost, and Statement of Changes in Net Position. This process creates a reconciling difference on the Statement of Financing.

Allocation transfers result in a difference between the budgetary and proprietary accounts because the budgetary amounts are reported by the parent (transferring agency) and the proprietary amounts are reported by the child (receiving agency). DO is involved in allocation transfers as both a parent and a child. The allocation transfers to which DO is a party are shown below:

Trading Partner	Nature and Purpose of Transfer	FY 2006	FY 2005
DO as the Recipient Agency (Child):			
Environmental Protection Agency	Hazardous Substance Response Trust fund	$ 877	$ 990
Bureau of Land Management	Wildland Fire Management	7,454	5,819
General Services Administration	Electronic Government	(142)	202
Bureau of Land Management	Central Hazardous Material Fund	-	924
Other		(121)	18
Total resources transferred in		8,068	7,953
DO as the Providing Agency (Parent):			
Bureau of Indian Affairs	Central Hazardous Material Fund	879	-
Bureau of Land Management	Central Hazardous Material Fund	21	-
Bureau of Reclamation	Central Hazardous Material Fund	1,202	-
U.S. Fish and Wildlife Service	Central Hazardous Material Fund	4,603	-
U.S. Geological Survey	Central Hazardous Material Fund	6	-
National Park Service	Central Hazardous Material Fund	1,313	-
Bureau of Indian Affairs	Office of Special Trustee for American Indians	7,025	11,428
Bureau of Indian Affairs	Indian Land Consolidation	32,528	44,173
Bureau of Indian Affairs	Natural Resource Damage Assessment Fund	1,285	1,044
Bureau of Land Management	Natural Resource Damage Assessment Fund	141	241
Bureau of Reclamation	Natural Resource Damage Assessment Fund	55	84
U.S. Fish and Wildlife Service	Natural Resource Damage Assessment Fund	2,492	1,859
National Park Service	Natural Resource Damage Assessment Fund	240	300
U.S. Geological Survey	Natural Resource Damage Assessment Fund	281	87
Bureau of Indian Affairs	Natural Resource Damage Assessment Fund	-	-
Bureau of Land Management	Natural Resource Damage Assessment Fund	130	35
Bureau of Reclamation	Natural Resource Damage Assessment Fund	7	7
U.S. Fish and Wildlife Service	Natural Resource Damage Assessment Fund	12,942	11,429
U.S. Geological Survey	Natural Resource Damage Assessment Fund	1,413	1,408
National Park Service	Natural Resource Damage Assessment Fund	2,406	1,986
Other		-	-
Subtotal		68,969	74,081
Net Allocation Transfer Reconciling Items		$ 60,901	$ 66,128

The purpose and nature of the transfers and receipts of budget authority are as follows:

Appropriation 14X0120 – Office of Special Trustee for American Indians

Funds are transferred from DO to the affected bureau for the operation of trust programs for Indians by direct expenditure, contracts, cooperative agreements, compacts, and grants to remain available until expended.

Appropriation 14X1618 and 14X5198 – Natural Resource Damage Assessment Fund

Funds to conduct natural resource damage assessment activities necessary to carry out the provisions of the comprehensive Environmental Response, Compensation, and Liability Act and the Oil Pollution Act of 1990. Funds are transferred from DO to the affected bureau to perform the restorations work.

Appropriation 14X2103 – Indian Land Consolidation

Funds are transferred from DO to the affected bureau for the necessary expenses related to Indian Land Consolidation.

Appropriation 14X8145 – Hazardous Substance Response Trust Fund

Funds are transferred to DO from the bureau for the Comprehensive Environmental Response Compensation Liability Act activities including response preparedness and management, trustee assistance, damage capability and scientific support.

Appropriation 14X1125 – Wildlife Fire Management Fund

For necessary expenses for fire preparedness, suppression operations, fire science and research, emergency rehabilitation, hazardous fuels reduction, and rural fire assistance by the DOI.

Appropriation 14-47X0600 – Electronic Government

Funds support interagency electronic government or “E-Gov” initiatives to further Administration’s implementation of the Government Paperwork Elimination Act (GPEA) of 1998, which calls upon agencies to provide the public with optional use and acceptance of electronic information, services and signatures.

Appropriation 14X1121 – Central Hazardous Material Fund

The fund was set up in 1998 to complete various contamination cleanup projects. Funds are allocated for a specified purpose outlined by a proposed course of action to address contamination located under jurisdiction of nominated bureau.

NOTE 25. EARMARKED FUNDS

DO adopted the provisions of Statement of Federal Financial Accounting Standards No. 27, Identifying and Reporting Earmarked Funds effective October 1, 2005. In accordance with SFFAS No. 27, DO reported earmarked nonexchange revenue and other financing sources, including appropriations, and net cost of operations separately on the fiscal year 2006 Statement of Changes in Net Position and separately reported the portion of net position (i.e., cumulative results of operations and unexpended appropriations) attributable to earmarked funds on the fiscal year 2006 Statement of Changes in Net Position and on the fiscal year 2006 Balance Sheet, and disclosed in the notes to the financial statements a description of the purpose of the earmarked funds, accounting and reporting of the funds, sources of revenue or other financing and an explanation of the extent to which they are inflows of resources to the Government or the result of intragovernmental flows, authority to use revenues and other financing sources of the funds, changes in legislation significantly impacting the funds and condensed financial information for earmarked funds. In accordance with the federal accounting and reporting standards, DO did not apply the provisions of SFFAS No. 27 to the fiscal year 2005 statements and note disclosures and therefore the fiscal year 2005 Balance Sheet, Statement of Changes in Net Position, and earmarked fund note disclosure are not comparable to the fiscal year 2006 Balance Sheet, Statement of Changes in Net Position, and earmarked fund note disclosure.

DO has the following earmarked funds:

Appropriation 14X5198 – National Resource Damage Assessment and Restoration Fund

The purpose of this fund is to restore natural resources that were damaged as a result of oil spills or hazardous substance releases. Restoration funding is received through settlements, either cash or in-kind services. All settlements that come into NRDAR are deposited by project, and the funding is either invested or allocated out to other agencies. This fund is reported as an Investment Fund. Funds transferred into NRDAR from the investment fund are available receipt funds. Sources of revenue are inflows to the government and come from settlements received by government and nongovernment agencies as well as from earnings on investments.

Appropriation 14X5174 – Utah Reclamation Mitigation and Conservation Account

The purpose of the fund is to provide for future mitigation and conservation measures and to fund such costs that will continue to be incurred as a result of the development of projects identified in Central Utah Project (CUP) or Colorado River Storage Project (CRSP). The fund is funded from the following sources:

- Federal & State Contributions Section 402(b)(1) provides for a voluntary contribution from the State of Utah of $3,000,000 annually in fiscal years 1994 through 2001. Section 402(b)(2) provides for a Federal contribution from Section 201 of the Act of $5,000,000 annually in fiscal years 1994 through 2001. All Federal and State contributions are inflows to the government and are treated as principal and can not be expended by the Commission.

- Project Beneficiaries Contributions Section 402(b)(3)(A) provides for a contribution from the Central Utah Water Conservancy District (CUWCD) of $750,000 annually in fiscal years 1994 through 2001. Section 402(b)(3)(B) provides for a contribution from Western Area Power Administration (WAPA) of $5,000,000 annually. Contributions from CUWCD and WAPA are inflows to the government and are indexed annually according to the Consumer Price Index for urban consumer, published by the Department of Labor. In addition, these contributions are considered discretionary funds and, at the Commission's discretion, can be used for annual project costs and administrative expenses. However, once deposited as principal, no part of such funds may be withdrawn or expended for any purpose; therefore, none of the funds currently within the fund are available for expenditure by the Commission.

- According to Section 402(c) of the Act, all interest earned (i.e. intragovernmental inflows) on the amounts in the fund is considered principal until the projects and features specified in Section 315 of the Act are substantially completed. At this time, the Commission cannot expend any of the interest earned. Section 402(4) provides that any amount authorized for fish, wildlife, or recreation expenditures which is appropriated but not obligated or expended by the Commission can be deposited into the fund. Unexpended appropriations can be expended or treated as principal based on the Commission's election. There have been no changes in legislation during or subsequent to the reporting period and before the issuance of the financial statements that significantly changes the purpose of the fund or that redirects a material portion of the accumulated balance.

DO has disclosed the following funds collectively as “other earmarked funds.”

Appropriation 148/15039 – Priority Land Acquisitions

The purpose of this fund is to acquire interests to protect and preserve the Headwaters Forest and acquire the lands commonly referred to as the “Elk Head Forest” and the “Elk River Property” in Humboldt County California. The fund is classified as an available receipt fund and receives its authority to use these funds under Public Law 105-83, 105th Congress, DOI and Related Agencies Appropriations Act, 1998, Approved November 14, 1997. Sources of revenue for this fund are intragovernmental flows appropriated from the Land and Water Conservation Fund.

Appropriation 140/035039 – Priority Land Acquisitions and Land Exchanges

The purpose of this fund is to acquire land, land exchange agreements, and other activities consistent with the Land and Water Conservation Fund Act of 1965, portions of which are earmarked for “Elwha River ecosystem restoration, maintenance in the National Park Service, the State assistance program, and to acquire interest to protect and preserve the California desert, the Rhode Island National Wildlife Refuge Complex, and may be used to acquire mineral rights within the Grand Staircase-Escalante National Monument, and for State grants for land acquisition in the State of Florida. The fund is classified as an available receipt fund and receives its authority to use these funds under Public Law 106-113, 106th Congress, DOI and Related Agencies Appropriations Act, 2000, approved November 29, 1999. Sources of revenue for this fund are intragovernmental flows appropriated funds from the Land and Water Conservation Fund.

Appropriation 14X5571 – Land and Water Conservation Fund

Funds are utilized by the NBC Appraisal Services Directorate to pay salaries for appraisers. This fund is classified as a special receipts fund and receives its authority from Public Law 109-54, 109th Congress, 119 Stat. 518, approved August 2, 2005. This fund was initially established in FY 2006 and is derived from intragovernmental flows of unappropriated special receipt funds from appropriation 14X5005.007, Land and Water Conservation fund, Rent Receipts Outer Continental Shelf Lands, National Park Service, and was subsequently appropriated to 14X5571.

Appropriation 14X5130 – Indian Arts and Craft

The purpose of this fund is to report the income of sales of Indian Arts and Crafts at the Main Interior Building in Washington DC. This fund is classified as an available receipts fund and the sources of the revenue are derived from sales of Indian Arts and Crafts. This fund receives its authority from Public Law 101-644.

Appropriation 1420X8145 – Hazardous Substance Response Trust Fund

This fund is a child account to the Environmental Protection Agency (EPA). The purpose of this fund is for emergency preparedness and response, trustee assistance and damage capability, and scientific support. EPA receives its funds through inflows to the government with no-year dollars. This fund receives is authority from Public Law 107-73, 115 Stat. 684.

Appropriation 14X5141 – National Indian Gaming Commission

The purpose of this fund is to receive reimbursements for costs incurred to process criminal record checks such as background investigations, fingerprints, and all related fees. This fund was established in 2001 and receives it authority by the Authority of the Indian Gaming Regulatory Act, Public Law 100-497. Sources of revenue are inflows to the government and come from fees based on gaming revenue. The Commission is authorized to collect from Class Source II and Class III an annual fee based on gaming operations revenue.

Appropriation 14X5233 – Everglades Restoration

The purpose of this fund is to conduct Everglades ecosystem restoration activities. This fund receives its authority from the Authority Reform Act of 1996, Public Law 104-127. Sources of revenue are inflows to the government and are from Federal surplus property sales that come from the state of Florida.

Appropriation 14X8369 – Take Pride in America Gifts and Bequests

The purpose of this fund is to encourage public awareness, stewardship, and conservation of public lands, facilities, and resources. The Secretary may solicit, accept, hold, administer, invest and use gifts and bequests to further these purposes. This fund receives its authority form Public Law 101-628. Sources of revenue are inflows to the government and are from donations received from the public.

(dollars in thousands)	National Resource Damage Assessment and Restoration Fund	Utah Reclamation Mitigation and Conservation Account	Other Earmarked Funds	FY 2006
Balance Sheet as of September 30, 2006				
Assets				
Fund Balance with Treasury	$ 434	$ 22,002	$ 16,966	$ 39,402
Investments, Net	226,494	163,271	-	389,765
Accounts Receivable, Net	26,404	-	-	26,404
General Property, Plant, and Equipment, Net	-	4,101	-	4,101
Other Assets	-	-	1,414	1,414
Total Assets	$ 253,332	$ 189,374	$ 18,380	$ 461,086
Liabilities				
Accounts Payable	8	1,154	910	2,072
Other Liabilities	3	289	1,250	1,542
Total Liabilities	11	1,443	2,160	3,614
Net Position				
Unexpended Appropriations	(8)	3,736	-	3,728
Cumulative Results of Operations	253,329	184,195	16,220	453,744
Total Net Position	253,321	187,931	16,220	457,472
Total Liabilities and net Position	$ 253,332	$ 189,374	$ 18,380	$ 461,086
Statement of Net Cost For the Year Ended September 30, 2006				
Cost/Revenue				
Gross Costs	7,417	23,070	25,520	56,007
Earned Revenue	-	6,496	10,492	16,988
Net Cost of Operations	$ 7,417	$ 16,574	$ 15,028	$ 39,019
Statement of Changes in Net Position For the Year Ended September 30, 2006				
Net Position				
Net Position, Beginning Balance	220,216	196,859	24,762	441,837
Appropriations Received/Transferred and Adjustments	-	936	(40)	896
Non-Exchange Revenue and Donations and Forfeitures	60,477	-	193	60,670
Other Financing sources				
Transfers In/(Out) without Reimbursement	(19,955)	6,633	5,375	(7,947)
Imputed Financing from Costs Absorbed by Others	-	77	538	615
Other	-	-	420	420
Net Cost of Operations	(7,417)	(16,574)	(15,028)	(39,019)
Change in Net Position	33,105	(8,928)	(8,542)	15,635
Net Position, Ending Balance	$ 253,321	$ 187,931	$ 16,220	$ 457,472

NOTE 26. DEDICATED COLLECTIONS, OFFICE OF SPECIAL TRUSTEE FOR AMERICAN INDIANS

(dollars in thousands)	FY 2006	FY 2005
ASSETS		
Fund Balance with Treasury	$ (34)	$ (34)
Investments, Net	287,655	280,034
TOTAL ASSETS	$ 287,621	$ 280,000
NET POSITION	$ 287,621	$ 280,000
CHANGE IN NET POSITION		
Net Position, Beginning of Fiscal Year	$ 280,000	$ 268,447
Change in Net Position:		
Non-exchange Revenue		
Investment Interest and Other	11,198	8,842
Other Non-Exchange Revenue	2,967	3,028
Transfers In/Out without Reimbursement	8,111	7,889
Exchange Revenue - Services Provided and Other	10	546
Program Expenses	(14,665)	(8,752)
Net Position, End of Fiscal Year	$ 287,621	$ 280,000

The balances that have accumulated in the Tribal and Other Trust Funds have resulted from judgment awards, settlements of claims, land use agreements, royalties on natural resource depletion, other proceeds derived directly from trust resources, and investment income. The IIM Fund is primarily a deposit fund for individuals who have a beneficial interest in the trust funds. IIM account holders realize receipts primarily from land use agreements; royalties on natural resource depletion; other proceeds derived directly from trust resources, judgment and tribal per capita distribution; and investment income.

NOTE 27. IMPUTED INTRADEPARTMENTAL COSTS

(dollars in thousands)

During FY 2005, DO implemented the Federal Accounting Standards Board's Interpretation Number 6, *Accounting for Imputed Intradepartmental Costs: An Interpretation of SFFAS Number 4*. This implementation resulted in DO recording $1,095 for September 30, 2006 and $733 for September 30, 2005 in intradepartmental costs and imputed financing sources originating from services received from BLM, BIA, MMS, NPS, and USGS for FY 2006 and from BIA and BLM for FY 2005.

NOTE 28. RESOURCES PAYABLE TO TREASURY

DO receives appropriations from Treasury's General Fund to construct, operate, and maintain various multipurpose projects. Many of the projects have reimbursable components for which DO is required to recover the capital investment and O&M costs through user fees, namely the sale of water and power. These recoveries are deposited in Treasury's General Fund.

In March 2005, OMB issued guidance in response to the Federal Accounting Standards Advisory Board's Accounting and Auditing Policy Committee's Technical Exposure Draft entitled, *Recognition of the Transfer of Funds Between Interior's Reclamation Fund and Energy's Western Area Power Administration: In Accordance with SFFAS 1, Accounting for Selected Assets and Liabilities, and SFFAS 5, Accounting for Liabilities of the Federal Government.* OMB's guidance instructed agencies to record receivables and liabilities rather than transfers in/out for certain transactions. Effective October 1, 2004, DO has applied OMB's guidance to the situations where the appropriations from the General Fund are required to be recovered through the sale of water and power. The cumulative effect of this change is an increase to intragovernmental liabilities on the Balance Sheet in the amount of $248 million and a corresponding decrease to the beginning balance of the Cumulative Results of Operations in the Statement of Changes in Net Position by the same amount.

This liability is increased when funds are received and meet the requirement for repayment. It is decreased when reimbursements are received from customers and such funds are transferred to Treasury's General Fund. Interest is accumulated on this liability pursuant to authorizing project legislation or administrative policy. Interest rates used during FY 2005 ranged from 3.2% to 8.5%. Repayment is generally over a period not to exceed 50 years from the time revenue producing assets are placed in service.

The summary of changes in resources payable to Treasury for FY 2006 and FY 2005 is as follows:

(dollars in thousands)	FY 2006	FY 2005
Beginning Balance	$ 214,741	$ 248,267
Issuance	20,693	27,776
Repayment	(213)	(61,302)
Ending Balance	$ 235,221	$ 214,741

NOTE 29. TRANSFER IN OF INTERIOR FRANCHISE FUND OPERATIONS

(dollars in thousands)

Effective October 1, 2005 the DOI transferred IFF from MMS to DO and DO merged the IFF into the NBC. This action enabled DOI to consolidate acquisition services in support of the delivery of effective and efficient services that are competitive and responsive to customer needs. Due to the reporting entity change of transferring IFF from MMS to DO, DO has prepared the FY 2005 comparative financial statements and notes including IFF in accordance with Office of Management and Budget guidance.

The following charts summarize the changes to the FY 2005 financial statements.

CHANGES TO THE FY 2005 FINANCIAL STATEMENTS DUE TO FRANCHISE FUND

Consolidated Balance Sheet (dollars in thousands)	DO Before Franchise Fund FY 2005	Franchise Fund FY 2005	Franchise Fund Eliminations FY 2005	DO Including Franchise Fund FY 2005
ASSETS				
Intragovernmental Assets:				
Fund Balance with Treasury	$ 1,022,787	$ 1,332,912	$ -	$ 2,355,699
Investments, Net	416,998	-	-	416,998
Accounts and Interest Receivable	102,429	3,960	205	106,594
Other				
Advances and Prepayments	30,878	154	(28,755)	2,277
Total Intragovernmental Assets	$ 1,573,092	$ 1,337,026	$ (28,550)	$ 2,881,568
Investments, Net	$ 198,060	$ -	$ -	$ 198,060
Accounts and Interest Receivable, Net	47,767	250	-	48,017
Loans and Interest Receivable, Net	5,658	-	-	5,658
Inventory and Related Property, Net	528	-	-	528
General Property, Plant and Equipment, Net	337,671	-	-	337,671
Other				
Advances and Prepayments	3,614	-	-	3,614
TOTAL ASSETS	$ 2,166,390	$ 1,337,276	$ (28,550)	$ 3,475,116
Stewardship Assets				
LIABILITIES				
Intragovernmental Liabilities:				
Accounts Payable	$ 7,354	$ 1,348	$ 204	$ 8,906
Debt	19,795	-	-	19,795
Other				
Accrued Payroll Benefits	4,841	22	-	4,863
Advances and Deferred Revenue (includes Deposit Funds)	475,850	1,078,948	(28,754)	1,526,044
Judgment Fund	500	-	-	500
Resources Payable to Treasury	214,742	-	-	214,742
Other Liabilities Not Specified Above	12	-	-	12
Total Intragovernmental Liabilities	$ 723,094	$ 1,080,318	$ (28,550)	$ 1,774,862
Accounts Payable	$ 160,888	$ 227,843	$ -	$ 388,731
FECA Actuarial Liability	17,437	-	-	17,437
Environmental and Disposal Liabilities	1,300	-	-	1,300
Other				
Accrued Payroll Benefits	11,425	472	-	11,897
Annual Leave Liability	22,472	-	-	22,472
Advances and Deferred Revenue	6,763	2	(1)	6,764
Deposit Fund Liability	5,284	-	-	5,284
Other Liabilities Not Specified Above	25,165	-	-	25,165
TOTAL LIABILITIES	$ 973,828	$ 1,308,635	$ (28,551)	$ 2,253,912
Commitments and Contingencies				
Net Position				
Unexpended Appropriations	$ 401,375	$ -	$ -	$ 401,375
Cumulative Results of Operations	791,187	28,641	1	819,829
Total Net Position	1,192,562	28,641	1	1,221,204
TOTAL LIABILITIES AND NET POSITION	$ 2,166,390	$ 1,337,276	$ (28,550)	$ 3,475,116

CHANGES TO THE FY 2005 FINANCIAL STATEMENTS DUE TO FRANCHISE FUND

Consolidated Statement of Net Cost	DO Before Franchise Fund FY 2005	Franchise Fund FY 2005	Franchise Fund Eliminations FY 2005	DO Including Franchise Fund FY 2005
Resource Protection				
Costs	$ 27,712	$ -	$ -	$ 27,712
Less: Earned Revenue	3,613	-	-	3,613
Net Cost	24,099	-	-	24,099
Resource Use				
Costs	5,726	-	-	5,726
Net Cost	5,726	-	-	5,726
Serving Communities				
Costs	896,307	-	-	896,307
Less: Earned Revenue	32,116	-	-	32,116
Net Cost	864,191	-	-	864,191
Reimbursable Activity and Other				
Costs	1,330,156	1,516,064	(109,583)	2,736,637
Less: Earned Revenue	1,137,562	1,527,447	(109,583)	2,555,426
Net Cost	192,594	(11,383)	-	181,211
Total				
Costs	2,259,901	1,516,064	(109,583)	3,666,382
Less: Earned Revenue	1,173,291	1,527,447	(109,583)	2,591,155
Net Cost of Operations	$ 1,086,610	$ (11,383)	$ -	$ 1,075,227

CHANGES TO THE FY 2005 FINANCIAL STATEMENTS DUE TO FRANCHISE FUND

Consolidated Statement of Changes in Net Position (dollars in thousands)	DO Before Franchise Fund FY 2005	Franchise Fund FY 2005	DO Including Franchise Fund FY 2005
UNEXPENDED APPROPRIATIONS			
Beginning Balance	$ 402,565		$ 402,565
Budgetary Financing Sources			
Appropriations Received, General Funds	1,085,382		1,085,382
Appropriations Transferred In/(Out)	(40,010)		(40,010)
Appropriations-Used	(1,036,115)		(1,036,115)
Other Adjustments	(10,447)		(10,447)
Net Change	(1,190)		(1,190)
Ending Balance - Unexpended Appropriations	$ 401,375		$ 401,375
CUMULATIVE RESULTS OF OPERATIONS			
Beginning Balance	$ 943,600	$ 27,270	$ 970,870
Change in Accounting Principle	(248,267)		(248,267)
Beginning Balance, as adjusted	695,333	27,270	722,603
Budgetary Financing Sources			
Appropriations-Used	1,036,115		1,036,115
Non-Exchange Revenue	84,907		84,907
Transfers In/(Out) without Reimbursement	16,015	(11,000)	5,015
Donations and Forfeitures of Cash and Cash Equivalents	22		22
Other Budgetary Financing Sources	14,020		14,020
Other Financing Sources			
Donations and Forfeitures of Property	5,547		5,547
Transfers In/(Out) without Reimbursement	3,271		3,271
Imputed Financing from Costs Absorbed by Others	22,566	990	23,556
Total Financing Sources	1,182,463	(10,010)	1,172,453
Net Cost of Operations	(1,086,610)	11,383	(1,075,227)
Net Change	95,853	1,373	97,226
Ending Balance - Cumulative Results of Operations	$ 791,186	$ 28,643	$ 819,829

CHANGES TO THE FY 2005 FINANCIAL STATEMENTS DUE TO FRANCHISE FUND

Combined Statement of Budgetary Resources (dollars in thousands)	DO Before Franchise Fund FY 2005	Franchise Fund FY 2005	DO Including Franchise Fund FY 2005
Budgetary Resources:			
Unobligated balance, beginning of Fiscal Year:	$ 374,972	$ 734,963	$ 1,109,935
Recoveries of prior year unpaid obligations	43,701	-	43,701
Budget Authority			
Appropriation	1,266,128	-	1,266,128
Spending authority from offsetting collections			
Earned			
Collected	1,326,306	1,565,624	2,891,930
Change in receivables from Federal sources	63,316	(1,339)	61,977
Change in unfilled customer orders			
Advance received	10,804	(58,036)	(47,232)
Without advance from Federal sources	248,660	(12,931)	235,729
Total Budget Authority	2,915,210	1,493,322	4,408,532
Nonexpenditure transfers, net, anticipated and actual	11,789	-	11,789
Permanently not available	(12,730)	(1)	(12,731)
Total Budgetary Resources	$ 3,332,943	$ 2,228,283	$ 5,561,226
Status of Budgetary Resources:			
Obligations incurred:			
Direct	$ 1,316,863	$ -	$ 1,316,863
Reimbursable	1,466,749	1,439,673	2,906,422
Total Obligations incurred	2,783,612	1,439,673	4,223,285
Unobligated balance available:			
Apportioned	548,649	788,610	1,337,259
Total Unobligated balance available	548,649	788,610	1,337,259
Unobligated balance not available	682	-	682
Total Status of Budgetary Resources	$ 3,332,943	$ 2,228,283	$ 5,561,226
Obligated Balance:			
Obligated balance, net			
Unpaid obligations, brought forward, beginning of Fiscal Year	$ 1,067,329	$ 832,478	$ 1,899,807
Less: Uncollected customer payments from Federal sources, brought forward, beginning of Fiscal Year	(114,102)	(173,212)	(287,314)
Total unpaid obligated balances, net, beginning of Fiscal Year	953,227	659,266	1,612,493
Obligations incurred, net	2,783,612	1,439,673	4,223,285
Less: Gross outlays	(2,614,063)	(1,568,904)	(4,182,967)
Less: Recoveries of prior year unpaid obligations, actual	(43,702)	1	(43,701)
Change in uncollected customer payments from Federal sources	(311,975)	14,269	(297,706)
Total, unpaid obligated balance, net, end of period	$ 767,099	$ 544,305	$ 1,311,404
Obligated Balance, net, end of period - by component:			
Unpaid obligations	$ 1,193,176	$ 703,247	$ 1,896,423
Less: Uncollected customer payments from Federal sources	426,077	158,942	585,019
Total, unpaid obligated balance, net, end of period	$ 767,099	$ 544,305	$ 1,311,404
Net Outlays:			
Net Outlays			
Gross outlays	$ 2,614,063	$ 1,568,904	$ 4,182,967
Less: Offsetting collections	(1,337,107)	(1,507,592)	(2,844,699)
Less: Distributed Offsetting receipts	(156,205)	-	(156,205)
Net Outlays(Receipts)	$ 1,120,751	$ 61,312	$ 1,182,063

CHANGES TO THE FY 2005 FINANCIAL STATEMENTS DUE TO FRANCHISE FUND

Consolidated Statement of Financing (dollars in thousands)	DO Before Franchise Fund FY 2005	Franchise Fund FY 2005	DO Including Franchise Fund FY 2005
Resources Used to Finance Activities:			
Budgetary Resources Obligated:			
Obligations Incurred	2,784,405	1,439,673	4,224,078
Less: Spending Authority From Offsetting Collection/Adjustments	(1,693,774)	(1,493,317)	(3,187,091)
Obligations Net of Offsetting Collections and Adjustments	1,090,631	(53,644)	1,036,987
Less: Offsetting Receipts	(156,205)	-	(156,205)
Net Obligations	934,426	(53,644)	880,782
Other Resources:			
Donations and Forfeitures of Property	5,547	-	5,547
Transfers In/Out Without Reimbursement	3,271	-	3,271
Imputed Financing From Costs Absorbed by Others	22,566	990	23,556
Net Other Resources Used to Finance Activities	31,384	990	32,374
Total Resources Used to Finance Activities	965,810	(52,654)	913,156
Resources Used to Finance Items Not Part of the Net Cost of Operations:			
Change in Budgetary Resources Obligated for Goods, Services, and Benefits Ordered but Not Yet Provided	(87,512)	123,200	35,688
Change in Unfilled Customer Orders	259,465	(70,969)	188,496
Resources That Fund Expenses Recognized in Prior Periods	(591)	41	(551)
Budgetary Offsetting Collections and Receipts That Do Not Affect Net Cost of Operations:			
Offsetting Receipts Not Part of the Net Cost of Operations	150,864	-	150,864
Resources That Finance the Acquisition of Assets	(181,860)	-	(181,860)
Other Resources or Adjustments to Net Obligated Resources That Do Not Affect Net Cost of Operations	15,036	(11,000)	4,036
Parent Allocation (Transfers where Proprietary Amounts are Reported by Other Federal Entities)	(74,081)	-	(74,081)
Total Resources Used to Finance Items Not Part of the Net Cost of Operations	81,321	41,271	122,592
Total Resources Used to Finance the Net Cost of Operations	1,047,131	(11,383)	1,035,748
Components of Net Cost of Operations That Will Not Require or Generate Resources in the Current Period:			
Components Requiring or Generating Resources in Future Periods:			
Change in Annual Leave Liability	926	-	926
Other	24,230	-	24,230
Total Components of Net Cost of Operations That Will Require or Generate Resources in Future Periods	25,156	-	25,156
Components Not Requiring or Generating Resources:			
Depreciation and Amortization	6,105	-	6,105
Revaluation of Assets or Liabilities	361	-	361
Components of Net Cost of Operations Related to Transfer Accounts Where Budget Amounts are Reported by Other Federal Entities	7,953	-	7,953
Other	(96)	-	(96)
Total Components of Net Cost of Operations That Will Not Require or Generate Resources in the Current Period	14,323	-	14,323
Total Components of Net Cost of Operations That Will Not Require or Generate Resources	39,479	-	39,479
Net Cost of Operations	$ 1,086,610	$ (11,383)	$ 1,075,227

NOTE 30. TRANSFER IN OF CENTRAL HAZARDOUS MATERIAL AND INDIAN ARTS AND CRAFTS
(dollars in thousands)

Effective October 1, 2005, the parent account for the Central Hazmat transferred from the Bureau of Land Management (BLM) to DO, and the Bureau of Indian Affairs transferred the Indian Arts and Crafts to DO. Central Hazmat is Treasury Account Symbol 14X1121; Indian Arts and Crafts is Treasury Account Symbol 14X5130.

As a result, in FY2006, DO now reports all budgetary activity of the child accounts for Central Hazmat in the DO Statement of Budgetary Resources. The DOI Bureaus that are children are the BIA, the Bureau of Reclamation (BOR), Fish and Wildlife Services (FWS), National Park Service (NPS), and United States Geological Survey (USGS). DO did not prepare the FY2005 financial statements including Central Hazmat and Indian Arts and Craft Board because the balances were not material.

The following table reflects amounts received from BLM and BIA affecting beginning balances as a result of the transfer:

Description	Transfer of Balances from Bureau of Land Management for Central Hazmat. Adjustments to DO Beginning Balances	Transfer of Balances from Bureau of Indian Affairs for Indian Arts and Crafts. Adjustments to DO Beginning Balances
(dollars in thousands)		
Unobligated Budgetary Resources	$ 4,286	$ 74
Unpaid Obligations	20,073	-
Unexpended Appropriations	1,821	-
Cumulative Results of Operations	$ 4,370	$ 74

U.S. Department of the Interior
Departmental Offices

Required Supplementary Information
(Unaudited, See Accompanying Independent Auditors' Report)
As of September 30, 2006

Combining Statement of Budgetary Resources by Budget Account
For the Year Ended September 30, 2006

(dollars in thousands)	Departmental Management	Working Capital Fund	Franchise Fund	Administration of Territories
Budgetary Resources:				
Unobligated balance, beginning of Fiscal Year:	$ 4,446	$ 187,814	$ 788,609	$ 19,201
Beginning of Fiscal Year, Transferred In, Central Hazmat	-	-	-	-
Beginning of Fiscal Year, Transferred In, Indian Arts and Crafts	-	-	-	-
Recoveries of prior year unpaid obligations	496	6,574	-	4,932
Budget Authority				
Appropriation	124,196	-	-	208,252
Spending authority from offsetting collections				
Earned				
Collected	36,297	1,458,881	1,379,994	3,575
Change in receivables from Federal sources	2,037	16,957	(1,130)	740
Change in unfilled customer orders				
Advance received	(2)	(214,473)	(86,525)	-
Without advance from Federal sources	915	(43,764)	(71,778)	821
Total Budget Authority	163,443	1,217,601	1,220,561	213,388
Nonexpenditure transfers, net, anticipated and actual	(92)	-	-	-
Permanently not available	(1,760)	-	-	(3,133)
Total Budgetary Resources	$ 166,533	$ 1,411,989	$ 2,009,170	$ 234,388
Status of Budgetary Resources:				
Obligations incurred:				
Direct	$ 114,990	$ 1,063	$ -	$ 213,051
Reimbursable	33,068	1,283,317	1,505,207	2,708
Total Obligations incurred	148,058	1,284,380	1,505,207	215,759
Unobligated balance available:				
Apportioned	14,317	127,609	503,963	18,117
Total Unobligated balance available	14,317	127,609	503,963	18,117
Unobligated balance not available	4,158	-	-	512
Total Status of Budgetary Resources	$ 166,533	$ 1,411,989	$ 2,009,170	$ 234,388
Obligated Balance:				
Obligated balance, net				
Unpaid obligations, brought forward, beginning of Fiscal Year	$ 13,175	$ 780,667	$ 703,246	$ 135,408
Obligated Balance, Transferred In, Central Hazmat	-	-	-	-
Less: Uncollected customer payments from Federal sources, brought forward, beginning of Fiscal Year	(16,270)	(372,493)	(158,943)	(4,188)
Total unpaid obligated balances, net, beginning of Fiscal Year	(3,095)	408,174	544,303	131,220
Obligations incurred, net	148,058	1,284,380	1,505,207	215,759
Less: Gross outlays	(145,175)	(1,459,881)	(1,395,633)	(218,389)
Less: Recoveries of prior year unpaid obligations, actual	(496)	(6,574)	-	(4,932)
Change in uncollected customer payments from Federal sources	(2,952)	26,807	72,908	(1,561)
Total unpaid obligated balance, net, end of period	$ (3,660)	$ 252,906	$ 726,785	$ 122,097
Obligated balance, net, end of period - by component:				
Unpaid obligations	$ 15,562	$ 598,592	$ 812,820	$ 127,847
Less: Uncollected customer payments from Federal sources,	(19,222)	(345,686)	(86,035)	(5,749)
Total unpaid obligated balance, net, end of period	$ (3,660)	$ 252,906	$ 726,785	$ 122,098
Net Outlays:				
Net Outlays				
Gross outlays	$ 145,175	$ 1,459,881	$ 1,395,633	$ 218,389
Less: Offsetting collections	(36,294)	(1,244,408)	(1,293,469)	(3,575)
Less: Distributed Offsetting receipts	-	-	-	-
Net Outlays(Receipts)	$ 108,881	$ 215,473	$ 102,164	$ 214,814

Combining Statement of Budgetary Resources by Budget Account
For the Year Ended September 30, 2006

	Compact of Free Association	Office of the Special Trustee	Damage Assessment and Restoration	Tribal Special and Trust Fund	Payments in Lieu of Taxes	Other Budgetary Accounts	Total Budgetary Accounts
	$ 15,168	$ 16,261	$ 194,896	$ 80,404	$ 565	$ 30,577	$ 1,337,941
	-	-	-	-	-	4,286	4,286
	-	-	-	-	-	74	74
	39,399	11,721	1,175	-	205	6,185	70,687
	205,124	226,107	81,808	71,017	236,000	163,520	1,316,024
	16,141	5,250	-	-	-	20,860	2,920,998
	(3,201)	(576)	-	-	-	(3,937)	10,890
	-	-	-	-	-	509	(300,491)
	5,061	(2,207)	-	-	-	1,747	(109,205)
	223,125	228,574	81,808	71,017	236,000	182,699	3,838,216
	-	3,000	(4,973)	-	-	(9,376)	(11,441)
	(49)	(3,327)	(61)	-	(3,602)	(4,924)	(16,856)
	$ 277,643	$ 256,229	$ 272,845	$ 151,421	$ 233,168	$ 209,521	$ 5,222,907
	$ 240,209	$ 232,250	$ 27,704	$ 52,283	$ 232,337	$ 165,437	$ 1,279,324
	18,001	3,385	-	-	-	16,803	2,862,489
	258,210	235,635	27,704	52,283	232,337	182,240	4,141,813
	19,433	20,594	245,141	99,138	161	24,258	1,072,731
	19,433	20,594	245,141	99,138	161	24,258	1,072,731
	-	-	-	-	670	3,023	8,363
	$ 277,643	$ 256,229	$ 272,845	$ 151,421	$ 233,168	$ 209,521	$ 5,222,907
	$ 112,582	$ 78,314	$ 11,877	$ -	$ 242	$ 60,912	$ 1,896,423
	-	-	-	-	-	20,073	20,073
	(18,183)	(5,703)	-	-	-	(9,240)	(585,020)
	94,399	72,611	11,877	-	242	71,745	1,331,476
	258,210	235,635	27,704	52,283	232,337	182,240	4,141,813
	(186,887)	(240,141)	(30,194)	(52,283)	(232,346)	(207,720)	(4,168,649)
	(39,399)	(11,721)	(1,175)	-	(205)	(6,184)	(70,686)
	(1,860)	2,783	-	-	-	2,190	98,315
	$ 124,463	$ 59,167	$ 8,212	$ -	$ 28	$ 42,271	$ 1,332,269
	$ 144,507	$ 62,087	$ 8,211	$ -	$ 28	$ 49,320	$ 1,818,974
	(20,044)	(2,920)	-	-	-	(7,049)	(486,705)
	$ 124,463	$ 59,167	$ 8,211	$ -	$ 28	$ 42,271	$ 1,332,269
	$ 186,887	$ 240,141	$ 30,194	$ 52,283	$ 232,346	$ 207,720	$ 4,168,649
	(16,141)	(5,250)	-	-	-	(21,369)	(2,620,506)
	-	-	(75,731)	71,017	-	(165,804)	(170,518)
	$ 170,746	$ 234,891	$ (45,537)	$ 123,300	$ 232,346	$ 20,547	$ 1,377,625

Combining Statement of Budgetary Resources by Budget Account
For the Year Ended September 30, 2005

(dollars in thousands)	Departmental Management	Working Capital Fund	Franchise Fund	Administration of Territories
Budgetary Resources:				
Unobligated balance, beginning of Fiscal Year:	$ 2,140	$ 12,552	$ 734,962	$ 18,313
Recoveries of prior year unpaid obligations	1,168	5,404	-	12,029
Budget Authority				
Appropriation	85,355	-	-	220,944
Spending authority from offsetting collections				
Earned				
Collected	30,255	1,266,947	1,565,624	3,409
Change in receivables from Federal sources	(5,776)	62,840	(1,338)	249
Change in unfilled customer orders				
Advance received	(37)	8,559	(58,036)	(30)
Without advance from Federal sources	11,367	217,613	(12,932)	1,758
Total Budget Authority	121,164	1,555,959	1,493,318	226,330
Nonexpenditure transfers, net, anticipated and actual	14,690	-	-	-
Permanently not available	(1,260)	-	-	(2,986)
Total Budgetary Resources	$ 137,902	$ 1,573,915	$ 2,228,280	$ 253,686
Status of Budgetary Resources:				
Obligations incurred:				
Direct	$ 100,392	$ 1,228	$ -	$ 232,642
Reimbursable	33,064	1,384,873	1,439,671	1,843
Total Obligations incurred	133,456	1,386,101	1,439,671	234,485
Unobligated balance available:				
Apportioned	8,888	187,814	788,609	18,793
Total Unobligated balance available	8,888	187,814	788,609	18,793
Unobligated balance not available	(4,442)	-	-	408
Total Status of Budgetary Resources	$ 137,902	$ 1,573,915	$ 2,228,280	$ 253,686
Obligated Balance:				
Obligated balance, net				
Unpaid obligations, brought forward, beginning of Fiscal Year	$ 8,652	$ 676,125	$ 832,475	$ 141,091
Less: Uncollected customer payments from Federal sources, brought forward, beginning of Fiscal Year	(10,679)	(92,040)	(173,212)	(2,182)
Total unpaid obligated balances, net, beginning of Fiscal Year	(2,027)	584,085	659,263	138,909
Obligations incurred, net	133,456	1,386,101	1,439,671	234,485
Less: Gross outlays	(127,765)	(1,276,155)	(1,568,900)	(228,138)
Less: Recoveries of prior year unpaid obligations, actual	(1,168)	(5,404)	-	(12,029)
Change in uncollected customer payments from Federal sources	(5,591)	(280,453)	14,270	(2,007)
Total unpaid obligated balance, net, end of period	$ (3,095)	$ 408,174	$ 544,304	$ 131,220
Obligated balance, net, end of period - by component:				
Unpaid obligations	$ 13,175	$ 780,667	$ 703,246	$ 135,408
Less: Uncollected customer payments from Federal sources,	(16,270)	(372,493)	(158,942)	(4,188)
Total unpaid obligated balance, net, end of period	$ (3,095)	$ 408,174	$ 544,304	$ 131,220
Net Outlays:				
Net Outlays				
Gross outlays	$ 127,765	$ 1,276,155	$ 1,568,900	$ 228,138
Less: Offsetting collections	(30,218)	(1,275,506)	(1,507,588)	(3,379)
Less: Distributed Offsetting receipts	-	-	-	-
Net Outlays(Receipts)	$ 97,547	$ 649	$ 61,312	$ 224,759

Combining Statement of Budgetary Resources by Budget Account
For the Year Ended September 30, 2005

Compact of Free Association	Office of the Special Trustee	Damage Assessment and Restoration	Tribal Special and Trust Fund	Payments in Lieu of Taxes	Other Budgetary Accounts	Total Budgetary Accounts
$ 23,657	$ 28,381	$ 183,183	$ 76,284	$ 626	$ 29,837	$ 1,109,935
10,669	3,947	589	-	-	9,895	43,701
201,582	231,268	43,587	106,729	230,000	146,663	1,266,128
-	11,174	-	-	-	14,521	2,891,930
3,981	1,005	-	-	-	1,016	61,977
-	-	-	-	-	2,312	(47,232)
14,202	2,343	-	-	-	1,378	235,729
219,765	245,790	43,587	106,729	230,000	165,890	4,408,532
-	614	(3,521)	-	-	6	11,789
(49)	(3,213)	(81)	-	(3,434)	(1,708)	(12,731)
$ 254,042	$ 275,519	$ 223,757	$ 183,013	$ 227,192	$ 203,920	$ 5,561,226
$ 220,691	$ 245,381	$ 28,861	$ 102,609	$ 226,628	$ 158,431	$ 1,316,863
18,183	13,877	-	-	-	14,911	2,906,422
238,874	259,258	28,861	102,609	226,628	173,342	4,223,285
15,168	16,064	194,893	80,404	212	26,414	1,337,259
15,168	16,064	194,893	80,404	212	26,414	1,337,259
-	197	3	-	352	4,164	682
$ 254,042	$ 275,519	$ 223,757	$ 183,013	$ 227,192	$ 203,920	$ 5,561,226
$ 86,289	$ 78,125	$ 9,789	$ -	$ 237	$ 67,024	$ 1,899,807
-	(2,355)	-	-	-	(6,846)	(287,314)
86,289	75,770	9,789	-	237	60,178	1,612,493
238,874	259,258	28,861	102,609	226,628	173,342	4,223,285
(201,912)	(255,122)	(26,184)	(102,609)	(226,624)	(169,558)	(4,182,967)
(10,669)	(3,947)	(589)	-	-	(9,895)	(43,701)
(18,183)	(3,348)	-	-	-	(2,394)	(297,706)
$ 94,399	$ 72,611	$ 11,877	$ -	$ 241	$ 51,673	$ 1,311,404
$ 112,582	$ 78,314	$ 11,877	$ -	$ 241	$ 60,913	$ 1,896,423
(18,183)	(5,703)	-	-	-	(9,240)	(585,019)
$ 94,399	$ 72,611	$ 11,877	$ -	$ 241	$ 51,673	$ 1,311,404
$ 201,912	$ 255,122	$ 26,184	$ 102,609	$ 226,624	$ 169,558	$ 4,182,967
-	(11,174)	-	-	-	(16,834)	(2,844,699)
-	-	(37,769)	(106,728)	-	(11,708)	(156,205)
$ 201,912	$ 243,948	$ (11,585)	$ (4,119)	$ 226,624	$ 141,016	$ 1,182,063

STEWARDSHIP ASSETS AND INVESTMENTS

The Departmental Offices (DO) have stewardship responsibility for a varied body of resources, including stewardship lands, heritage assets, investments in non-federal physical property, and investments in research and development. The stewardship assets managed by DO tend to be constant from year to year, experiencing slight net increases due to new acquisitions. Additional Stewardship information is discussed in detail in the Required Supplementary Stewardship Information section of the report.

The Department of the Interior (DOI) is in the process of implementing the various requirements of SFFAS 29, Heritage Assets and Stewardship Land. During this implementation process, DOI has restructured the reporting of Stewardship Land from acres to "units" and Heritage Assets from collections to units. Depending on the individual bureau/offices within the Department, these units may be reported based on the number of national wildlife refuges, national parks, geographic management areas, water projects, etc. For DO, a unit is defined as, (1) a state in which the land is managed; (2) a library; and (3) a museum.

STEWARDSHIP LANDS

Land is defined as the solid part of the surface of the earth and excludes natural resources (that is, depletable resources and renewable resources) related to the land. Based on this definition, Stewardship Land is considered to be in acceptable condition unless an environmental contamination or liability is identified and the land cannot be used for its intended purpose(s). Information regarding the financial liabilities identified as probable or reasonably possible and that affect the condition of Stewardship Land are located in Note 13, "Contingent Liabilities and Environmental and Disposal Liabilities."

In order to provide for the completion of the Central Utah Project, Public Law 102-575, the Central Utah Project Completion Act (CUPCA), was enacted on October 30, 1992. In particular, Sec 301 (a)(1) of Public Law 102-575 establishes the Utah Reclamation Mitigation and Conservation Commission (Commission). The Commission's mission is to replace or offset the loss in Utah of fish and wildlife resources and related recreational opportunities caused by the acquisition, construction, and operation of Bureau of Reclamation (BOR) project assets (dams, power plants, roads, pipelines, aqueducts, operation and maintenance buildings, visitor centers, etc.). The Commission's program is separate and distinct from acquisition and construction of BOR Property, Plant, and Equipment. Even if the fish and wildlife mitigation is achieved in the immediate vicinity of the project asset, land acquired and investments made in order to mitigate for the loss of fish and wildlife resources caused by BOR project construction is not an essential or integral part of the dam, pipeline, etc. and is not "acquired for or in connection with the construction" of the project asset.

The Commission acquires land for 1) fish and wildlife habitat (wetland, riparian and/or upland) for both aquatic and terrestrial species, and 2) land or easements to provide public access to fish and wildlife resources that, once acquired, are also managed to provide habitat values to the extent practicable. Land is categorized as "acceptable" when it is adequate for operating needs and does not require intervention relative to environmental factors.

The Commission acquires lands either through purchase, donation or condemnation. In over 95 percent of the acquisitions, the lands have been acquired on a willing seller basis. All land withdrawn (deleted) from Commission ownership would occur as part of a sale or condemnation.

GEOGRAPHIC MANAGEMENT AREA														
	10-1-05 Count			Additions			Withdrawals			9/30/2006 Count			Condition	
	Natural*	Cultural*	Total	Natural*	Cultural*	Total	Natural*	Cultural*	Total	Natural*	Cultural*	Total	Natural*	
Primary Land Management Categories													Acceptable	Needs Intervention
Commission Land - Utah	1	-	1	-	-	-	-	-	-	1	-	1	1	-

The condition of Stewardship lands are defined as follows:

- Acceptable – when the land is adequate for operating needs and the Department has not identified any polluted or contaminated areas that must receive intervention to prepare or sustain the land for its intended use.
- Needs Intervention – when the Department has identified polluted or contaminated areas within units of Interior land that require intervention to prepare or sustain the land for its intended use.

HERITAGE ASSETS

The Office of the Secretary (OS) has been entrusted with the administration of the DOI Museum through authority granted the Secretary in legislation passed in 1931 later clarified in 1990 by Public Law 101-512, sec. 116. The mission of the DOI Museum is to provide educational and informational services on the history of DOI through museum collections, and exhibits of historical activities/events. The collection is available for the enjoyment of DOI employees as well as the general public.

The mission of the DOI Library is to provide the full range of professional library and information services to support the goals, policies, programs, and mandated responsibilities of DOI. The DOI Library contributes to the mission of DOI by maintaining an informative and well-organized library that provides access to official DOI legal and academic disciplines related to the Department.

The DOI Library contains holdings that cover the broad range of matters related to the Department's mission to protect and provide access to our nation's heritage. The collections are augmented by online access with full-text capabilities. Departmental policy dictates that copies of all publications produced by or for its bureaus and offices will be deposited in the Library collection.

Museum Collections

The DOI Museum staff provides stewardship for the collections of the OS and provides educational services to the general public and DOI employees. The Museum is charged with maintaining:

- An educational facility for the general public and DOI Staff.
- A repository of the Nation's cultural assets.
- An art-in-office program for the OS.

This charge requires that the Interior Museum adopt, implement, and maintain the highest standards of the museum field as identified in its authorizing legislation, Section 411 of the Departmental Manual (411 DM), and the professional standards and practices of the American Association of Museums.

Museum Property

The DOI museum activities, including collection management, exhibit development, educational outreach, and research are conducted by the museum staff. Objects are acquired through donation, purchase, exchange, transfer, and field collection, and are governed by each individual bureau's mission and the DOI Museum's ability to manage and preserve the objects in accordance with standards established in 411 Departmental Manual and Bureau Policies. Objects are removed through a formal deaccession process. In order to complete the process, a unique number is assigned and a form must be completed. A book recording all deaccession transactions is permanently maintained. The specific requirements of deaccession are prescribed in the Departmental Manual Museum Property Handbook, 411 DM II:6:3-23.

Accomplishments

- Museum works with DOI Special Emphasis Committee and the Office of Civil Rights to develop and implement programs. Museum provided tours of the MIB emphasizing African American history as part of Black History month, provided tours of the South Penthouse to scholars, staff, and individuals interests in the work of Indian artists Allan Houser and Gerald Nailor.

- Museum formed a partnership with White House Curator's Office to present the workshop, Eleanor Roosevelt & Val-Kill Industries, on October 15, 2005. This workshop was also co-sponsored by the National Park Service (NPS). Speakers included William G. Allman, White House Curator, and Frank Futral, Curator of Decorative Arts, NPS.

- Museum increased its national visibility of the DOI Museum through exhibitions. The Museum's Eleanor Roosevelt & Val-Kill Industries was featured in articles in the New York Times, Chicago Tribune, and Town and Country Magazine.

- Museum served as the host venue for the 2005 Washington, DC, events – Walk in the Footsteps of Lewis and Clark -- commemorating the Lewis & Clark Centennial. Secretary Norton opened exhibition, and the Museum and CRE work with the Bureau of Land Management (BLM) to present programs in DOI partnership schools.

- Secretary Norton opened the exhibition, America's Beautiful National Parks, and toured the exhibition with visiting head of state, Olafur Ragnar Grimson, President of Iceland.

- Museum's exhibition, Lewis & Clark Revisited, is named number eight among the top photography exhibitions in Washington, DC, for 2005 by critic Louis Jacobson. The exhibition also received widespread publicity including an extensive feature in Roll Call.

- Museum completed an extensive conservation project of the antiques in the Secretary's Immediate Office. The Museum served as the coordinator of the project and worked with contractors and NPS' Harpers Ferry Service Center to complete the project.

- Museum provided Secretary Norton and the Board of Directors of the National Park Foundation an after hours tour of the exhibition, The Power of Context, as part of the Foundation's February 2006 meeting.

- Museum worked with the OS on a tribute to Secretary Norton and the unveiling of her official portrait.

- Museum continues its leadership in the Neighbors of the President museum consortium and increased its involvement with DC Cultural Tourism.

The following chart provides the activity and condition of the collection for FY 2006.

(Museum) Collectible Heritage Assets
(in units)

Museum Collections	FY 2005	Additions	Withdrawals	FY 2006	Condition		
					Good	Fair	Poor
Departmental Museum	1	0	0	1		X	
Indian Arts and Crafts Board	3	0	0	3	X		
Office of the Special Trustee for American Indians	1	0	0	1	X		
Total	5	0	0	5			

The conditions of the museum collections are defined as follows:

- Good – minor damage and no active deterioration
- Fair – some damage and/or active deterioration
- Poor – significant damage and/or active deterioration

Indian Arts and Crafts Board

The IACB heritage assets are museum collection objects. These collections are housed in three regional museums administered by the IACB: the Sioux Indian Museum (SIM), Rapid City, South Dakota; the Museum of the Plains Indian (MPI), Browning, Montana; and the Southern Plains Indian Museum (SPIM), Anadarko, Oklahoma. The three IACB museums are accessible via the internet at IACB's web site, www.iacb.doi.gov. These museums play a vital role in promoting authentic Indian arts and crafts through their permanent exhibitions, changing promotional sales exhibitions, and public education activities. The museums serve as major economic, cultural, and educational attractions in their respective regions. Receiving strong support from local tribes, the museums are staging points for regional and national promotions for the economic benefit of emerging Indian artists and crafts people.

Each of the IACB three museum collections are adequately safeguarded. Conservation and fire protection surveys have been completed at each location. Two of the three IACB museums completed conditions of assets surveys during FY 2004. The IACB museums are under a hiring freeze, in expectation of the Department's commitment to divest itself of the museums in FY 2006 and the foreseeable future. The MPI is without a curator to perform a conditions survey. In accordance with 411 DM 3.4A, the IACB may acquire work for the museum collections through donations, purchase, transfer, or field collection. As the IACB does not have deaccession authority, withdrawals from the collection are only made to comply with statutory requirements of the Native American Graves Protection and Repatriation Act (NAGPRA) or other legislation.

Accomplishments

- *Rendezvous of Fact and Visions: Retrospective of Works by T.C. Cannon* opened at the SPIM in July 2003, continued to draw national recognition through June 2005.
- Museum objects are on loan from the SIM for the traveling exhibition Donald Montileaux: Modern-Day Story Teller, to the Tatanka: Story of the Bison Museum in Deadwood, SD, and to the Rushmore Plaza Civic Center.
- MPI Indian has loaned several paintings to the Hockaday Museum in Kalispell, MT for its Vinold Reiss: Artist for the Great Northern exhibition which opened in June 2005.

Office of the Special Trustee for American Indians

The Office of the Special Trustee for American Indians (OST) art and museum property is maintained in the Fixed Assets System (RFA22). The inventories are conducted semi-annually by the Senior Property Management Officer. The art and museum property records are maintained in a subsidiary hard copy file complete with colored photographs and pertinent information to identify the museum items. OST acquires museum property by donation, purchase, exchange, transfer, or field collection. In April 1998, BIA transferred 12 items of art and museum property to OST/OTFM. At the present time, OST offices at various locations have obtained additional items. The Senior Property Management Officer ensures that all art and museum property of each OST office is properly accessioned, photographed for identification purposes and accounted for by supporting documents. Acquisition of museum property is governed by the bureau's mission and the unit's ability to manage and preserve it according to the standards established in 411 Departmental Manual. The deaccession of any OST museum property will follow the 411 DM procedures stated in Volume II. Procedures for action in deaccession are to ensure that the action meets the highest standards for accountability of museum property. DOI has the only authority to disposal authority for OST museum property. OST will follow all the guidelines of the principles of 41 CFR 101-43 through 101-46. All deacessioning actions must be reviewed, approved or disapproved and signed by the designated authorities. The deacessioning activity should be documented thoroughly. Documentation of the deaccession should be recorded on a form developed for this purpose.

Accomplishments

Goals – Maintain accountability of art and museum property:

- Verify the presence and condition of museum property located at all custodial locations
- Apply concepts of preventative conservation
- Complete a 100% physical inventory
- Reconcile all artifacts against requisitions and purchase

FY 2006 goals have been completed.

Library Collection

The DOI Library collection represents a national resource in the disciplines vital to the mission of the Department. The collection covers Native American culture and history, American history, national parks, geology, nature, wildlife management, public lands management, and law. In addition, the Library's collection of online databases and access to other electronic information sources enable Departmental personnel and other researchers to access needed information sources from their computers. Departmental policy dictates that copies of all publications produced by or for its bureaus and offices will be deposited in the Library collection.

The condition of the Library collection is rated using the AB Bookman Grading System. Items are selected and deselected from the collection according to the procedures established by library policy, the Aspen Collection Development Plan, and priorities as set by the Contracting Officer's Technical Representative (COTR). Publications of interest from these sources are placed on an electronic review spreadsheet kept by the Project Manager and reviewed every other month by the Librarians on staff. The Library then seeks to acquire those items selected by the Librarians from these bimonthly reviews. Items that are selected for acquisition are secured using purchase orders. Publications are removed from the collection when they become out of date/out of scope, as approved by the COTR.

Accomplishments

- Added DOI IP address locations nationwide to those with the ability to access most of the Library's online database subscriptions through the DOI Library website. Offices in BLM, BOR, National Park Service (NPS), Fish and Wildlife Service (FWS), and U.S. Geological urvey

(USGS) nationwide now have the ability to access databases such as InfoTrac OneFile, HeinOnline, EBSCOOnline, and EBSCO's Science & Technology Collection at their office desktops.

- The Library obtained access to Readex's digitized version of the U.S. Congressional Serial Set in June 2005 and made it available in the Library and at the desktops of Departmental users nationwide over the course of FY 2006. The current version of the online database comprises PDF-formatted and fully-searchable copies of all House and Senate Documents, Reports, maps, and many key Executive Department reports published from the inception of the Serial Set in 1817.

- Overhauled and upgraded the Library's Training Room by adding a new television, VCR, Proxima projector, projection screen, chairs, tables, carpeting and paint. The additions and changes have enhanced the learning environment for our Library's Training Sessions and Park Ranger Speaker Series programs.

- In conjunction with the National Business Center's (NBC) LAN team in Herndon, VA, moved the Library's website and integrated library system from its old stand-alone server to a new, more powerful and secure Departmental server. The move will allow the Library staff to add more content to its online website and provide faster access to researchers who utilize the DOI Library's website.

- Reached an agreement with DOI's Office of Communication allowing electronic copies of the daily DOI News Summaries to be e-mailed to the Library's Reference Staff and then placed on the patron workstations in the Library's Reading Room. The new procedure will save the Library the time and expense of purchasing and picking up print copies of the News Summaries from NBC's Printing and Publication Services Division while still allowing patron access to these documents in the Library.

- Worked with the West Group to coordinate discounted access to the WestLaw legal and legislative database for the Library when the Solicitor's Office decided to drop its subscription due to budget constraints. At the moment, the Library is the only insitution in the DOI with access to this important legal and legislative database, depended upon by most of the attorneys in the Solicitor's office for their legal research.

- Incorporated new Library training sessions such as "One-on-One" patron training with online database vendors and new sessions training patrons on Library print and internet resources.

- In conjunction with the NBC's Fiscal Services Division in Denver, helped implement new procedures for the handling of fund obligations and invoice payments for Library and client office book and subscription orders.

- Introduced a number of new bibliographies on subject areas dealing with issues important to the DOI, such as the centennial of the Antiquities Act and African-American culture and history. These bibliographies, highlighting materials found on these subjects in the DOI Library, are being produced for distribution from the Library to Departmental staffers.

The Library serves DOI employees in the Washington, DC area and field offices throughout the nation, and enhances its ability to fulfill its responsibilities by providing an informative website at http://library.doi.gov, online access to the catalog of holdings over the website, and training sessions to familiarize Departmental staff with the treasures of the collection.

(Library) Collectible Heritage Assets (in units)							
					Condition		
Library Collections	FY 2005	Additions	Withdrawals	FY 2006	Good	Fair	Poor
Departmental Library	1	0	0	1	X		

The conditions of the library collections are defined as follows:

- Good – minor damage and no active deterioration
- Fair – some damage and/or active deterioration
- Poor – significant damage and/or active deterioration

Deferred Maintenance

DO does not have any deferred maintenance as of the end of FY2006. The URMCC does report acreage in the "Needs Intervention" category. However, the project to improve the land has not been deferred, but in fact, is in progress. Since the collections will continue to be maintained in their current existing status, there is no deferred maintenance plan at this time.

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U.S. Department of the Interior
Departmental Offices

Required Supplementary Stewardship Information
(See Accompanying Independent Auditors' Report)
As of September 30, 2006

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INVESTMENTS IN NON-FEDERAL PHYSICAL PROPERTY

Office of Insular Affairs

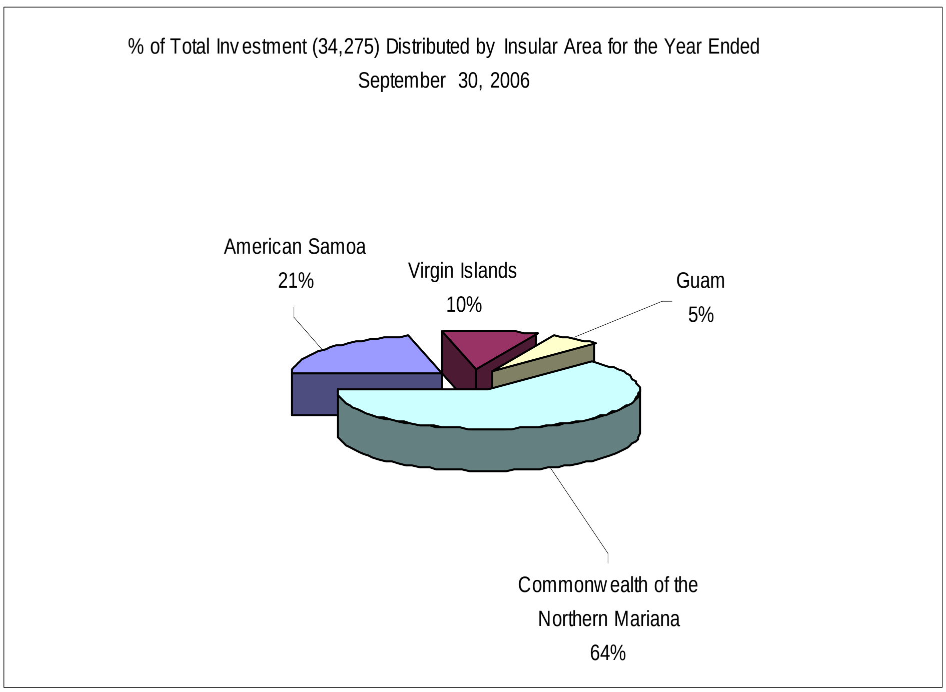
The Office of Insular Affairs (OIA) is a small office which carries out the Secretary's responsibilities for U.S.-affiliated insular areas. These include the territories of Guam, American Samoa, the U.S. Virgin Islands, and the Commonwealth of the Northern Mariana Islands, as well as the three freely associated states: the Federated States of Micronesia, the Republic of the Marshall Islands, and the Republic of Palau. OIA will achieve its mission by improving the financial management practices of insular governments, increasing economic development, and increasing Federal responsiveness to the unique needs of island communities. OIA hopes to increase the resources available to the insular area governments while promoting economic self-sufficiency. The total OIA budget for fiscal year 2006 is $385 million, of which all but $49 million is mandatory funding.

The OIA provides capital improvement grants to the insular areas. The capital investment in non-federal physical property in the territories was approximately $34.2 million in FY 2006. Capital Investment funds provided to the freely associated states: the Federated States of Micronesia, the Republic of the Marshall Islands, and the Republic of Palau are not included in this report. [/1]

Figure 1 depicts total investment distributed by insular area. Table 1 shows capital investment dollars by major activity for each of the insular areas for FY2006. Table 2 compares investment dollars for fiscal years 2002 through 2006.

Figure 1

(dollars in thousands)



[/1] Footnote. In prior years the Supplementary Stewardship Information identified certain funds expended in the Freely Associated States. However, in recent years it has been determined that these funds, which are provided to the freely associated states by the United States Government as authorized under the Compacts of Free Association, are investments to non-U.S. governments and the properties are not owned by the U.S. states, its territories or local governments.

Table 1

CAPITAL INVESTMENT BY MAJOR ACTIVITY WITHIN INSULAR AREA				
Categories	American Samoa	Commonwealth of the Northern Mariana Islands	Guam	Virgin Islands
Roads and Bridges	$ 331	$ 769	$ 115	$ -
Schools and Public Buildings	3,943	8,469	1,205	102
Other	3,057	12,330	506	3,448
Total	$ 7,331	$ 21,568	$ 1,826	$ 3,550

Classification of the Categories

Classification of the categories is broad to allow bureaus/offices latitude where they place assets. Broadly, dams and other water structures would include constructed assets such as dams, culvert, irrigation structures, power structures, canals, and fish facilities such as hatcheries, or bridges over a body of water rather than bridges over roads or other non-water-related areas. The key is constructed structures related to, in, or around water.

Table 2
Capital Investment by Major Activity within Insular Area
(dollars in thousands)

American Samoa						
Categories	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	Total
Dams and Other Water Structure	$ 4,745	$ 3,194	$ 4,574	$ -	$ -	$ 12,513
Roads and Bridges	485	46	377	64	331	1,303
Schools and Public Buildings	4,252	5,091	2,148	4,643	3,943	20,077
Other	238	-	-	2,385	3,057	5,680
Total American Samoa	$ 9,720	$ 8,331	$ 7,099	$ 7,092	$ 7,331	$ 39,573

Commonwealth of the Northern Mariana Islands						
Categories	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	Total
Dams and Other Water Structure	$ 6,406	$ 7,492	$ 2,914	$ -	$ -	$ 16,812
Roads and Bridges	431	346	1,076	447	769	3,069
Schools and Public Buildings	12,458	6,941	5,619	5,111	8,469	38,598
Other	777	1,124	735	9,535	12,330	24,501
Total Commonwealth of the Northern Mariana Islands	$ 20,072	$ 15,903	$ 10,344	$ 15,093	$ 21,568	$ 82,980

Guam						
Categories	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	Total
Dams and Other Water Structure	$ 659	$ 2,705	$ 699	$ -	$ -	$ 4,063
Roads and Bridges	1,268	-	-	-	115	1,383
Schools and Public Buildings	2,563	2,101	3,207	2,096	1,205	11,172
Other	-	-	-	1,988	506	2,494
Total Guam	$ 4,490	$ 4,806	$ 3,906	$ 4,084	$ 1,826	$ 19,112

Republic of Palau						
Categories	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	Total
Roads and Bridges	$ 401	$ -	$ -	$ -	$ -	$ 401
Schools and Public Buildings	68					68
Total Republic of Palau	$ 469	$ -	$ -	$ -	$ -	$ 469

U.S. Virgin Islands						
Categories	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	Total
Dams and Other Water Structure	$ 919	$ 511	$ 2,659	$ -	$ -	$ 4,089
Schools and Public Buildings	4,569	1,369	539	889	102	7,468
Other	-	-	-	1,231	3,448	4,679
Total U.S. Virgin Islands	$ 5,488	$ 1,880	$ 3,198	$ 2,120	$ 3,550	$ 16,236

Insular Area Capital Investments						
Categories	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	Total
Dams and Other Water Structure	$ 12,729	$ 13,902	$ 10,846	$ -	$ -	$ 37,477
Roads and Bridges	2,585	392	1,453	511	1,215	6,156
Schools and Public Buildings	23,910	15,502	11,513	12,739	13,719	77,383
Other	1,015	1,124	735	15,139	19,341	37,354
Total Insular Area Capital Investments	$ 40,239	$ 30,920	$ 24,547	$ 28,389	$ 34,275	$ 158,370

Utah Reclamation Mitigation & Conservation Commission

The Central Utah Project Completion Act (CUPCA) expressly authorized the Utah Reclamation Mitigation & Conservation Commission to invest in fish and wildlife habitat improvements on non-Federal properties because the Federal reclamation projects in Utah affected fish and wildlife resources beyond the boundaries of the Reclamation projects, and opportunities to mitigate on Federal lands are often limited.

Fish Hatchery Production. CUPCA expressly authorized the Commission to invest in State fish hatcheries to partially offset the cost incurred by others in stocking fish in Federal reclamation reservoirs to provide the fisheries benefits claimed by those Federal projects.

Duchesne Strawberry Diversion Structures. The Commission, in conjunction with the Duchesne County Water Conservancy District, is reconstructing the rehabilitating diversion structures on the Duchesne and Strawberry Rivers.

Wetlands Around Great Salt Lake. The Great Salt Lake ecosystem provides the vast majority of the remaining valuable wetlands in Utah and thus is a critical site for achieving wetland mitigation. The Commission has made investments on wetland properties in conjunction with major wetland conservation programs conducted by the State of Utah Division of Wildlife Resources, Utah State University. The Nature Conservancy, and the National Audubon Society. Commission investments have included a variety of habitat improvement.

Non-Federal Physical Property						
Description	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	Total
Dams and Other Water Structures						
Duchesne Strawberry Diversion Structures - Sec. 203(a)(5)	$5	$380	$70	$712	$367	$1,534
Land						
Wetlands Around Great Salt Lake - Sec. 306(a)	35	240	62	-	-	337
Schools and Public Buildings						
Fish Hatchery Production - Sec. 313(c)	3,845	158	112	504	4,121	8,740
Total Non-Federal Physical Property	$3,885	$778	$244	$1,216	$4,488	$10,611

INVESTMENTS IN RESEARCH AND DEVELOPMENT

Central Utah Project Completion Act (CUPCA)

In order to provide for the completion of the Central Utah Project, Public Law 102-575 was enacted on October 30, 1992. Funds authorized pursuant to this act are appropriated annually to the Secretary and such appropriations are made immediately available in their entirety to the Central Utah Water Conservancy District (CUWCD).

In addition, Sec 204 of Public Law 102-575 requires the Central Utah Water Conservancy District to share the costs of the measures in sections 202 and 203 with non-federal funds, with the exception of the Provo River Studies (Sec 202(a)(6)).
The following R&D activities are authorized by CUPCA:

Conjunctive Use of Surface and Ground Water - Sec 202 (a) (1)
Purpose: Feasibility Study and development by the Utah Division of Water Resources in coordination with the Jordan Valley Water Conservancy District to allow ground water recharge, management, and the conjunctive use of surface water resources with ground water resources in Salt Lake, Utah, Davis, Wasatch, and Weber Counties in the State of Utah. Cost Share Percentage required : 35 %

Utah Lake Salinity Control – Sec 202 (a) (4)
Purpose: Feasibility study by the District to reduce the salinity of Utah Lake. Cost Share Percentage required: 50 %

Provo River Studies – Sec 202 (a) (5)
Purpose: The District conducted a hydrologic study of the Provo River Basin and a feasibility study of direct delivery of Colorado River Basin water from the Strawberry Reservoir or elsewhere in the Strawberry Collection System to the Provo River Basin. Cost Share Percentage required: NONE

Local Development in Lieu of Irrigation and Drainage - Sec 206 (b)
Purpose: The Secretary provides as a grant to an eligible county an amount that shall constitute 65 percent of the cost of implementation of any of the following purposes; Potable Water distribution and treatment, Wastewater collection and treatment, Agriculture water management. Cost Share Percentage required: 35 %

Water Management Improvement - Sec 207 (e) (1)
Purpose: To conduct a study of wholesale and retail pricing to encourage water conservation and a study of the coordinated operations of independent municipal and industrial and irrigation and water systems. Cost Share Percentage required: 50 %

Conservation Measures - Sec 207 (4) (2)
Purpose: implementation of the conservation measures in accordance with the Water Management Improvement Plan identified in Sec 207 (b). Cost Share Percentage required: 35 %

Mitigation & Conservation Measures - Sec 314 (c)
Purpose: To provide mitigation and conservation measures outside the State of Utah by restoring damaged natural ecosystems on public lands and waterways affected by the Federal Reclamation program. Cost Share Percentage required: NONE

Central Utah Project Completion Act (CUPCA)						
Category	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	Total
Total Applied Research	$ 4,462	$ 7,404	$ 5,803	$ 1,928	$ 5,804	25,401

Utah Reclamation Mitigation & Conservation Commission

The Utah Reclamation Mitigation and Commission does not fund basic research. Amounts reported are either for research calculated to determine the means by which mitigation measure or program could be achieved (applied) or to determine the best method or design for an identified mitigation measures (developmental).

In FY 2006, the Commission's research has focused primarily on the Sage Grouse and the June Sucker.

Utah Reclamation Mitigation and Conservation Commission						
Category	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	Total
Applied Research	$ 109	$ 70	$ 94	$ 157	$ 193	$ 623
Development	436	392	304	213	186	1,531
Total	$ 545	$ 462	$ 398	$ 370	$ 379	$ 2,154

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U.S. Department of the Interior
Departmental Offices

Other Accompanying Information
(See Accompanying Independent Auditors' Report)

Consolidating Balance Sheet
As of September 30, 2006

(dollars in thousands)	Working Capital Fund	Franchise Fund	Departmental Management	Environmental Activity
ASSETS				
Intragovernmental Assets:				
Fund Balance with Treasury	$ 380,515	$ 1,230,748	$ 21,040	$ 19,434
Investments, Net	-	-	-	226,494
Accounts and Interest Receivable	113,294	2,831	6,882	-
Other				
Advances and Prepayments	17,753	-	13,402	1,439
Total Intragovernmental Assets	$ 511,562	$ 1,233,579	$ 41,324	$ 247,367
Investments, Net	$ -	$ -	$ -	$ -
Accounts and Interest Receivable, Net	7,447	47	6,832	26,406
Loans and Interest Receivable, Net	-	-	-	-
Inventory and Related Property	852	-	-	-
General Property, Plant and Equipment, Net	94,804	-	51	17
Other				
Advances and Prepayments	7	3	8	-
TOTAL ASSETS	$ 614,672	$ 1,233,629	$ 48,215	$ 273,790
Stewardship Assets				
LIABILITIES				
Intragovernmental Liabilities:				
Accounts Payable	$ 4,875	$ 352	$ 1,955	$ 1,309
Debt	-	-	-	-
Other				
Accrued Payroll Benefits	1,680	190	2,342	28
Advances and Deferred Revenue (includes Deposit Fund)	282,746	992,425	20	-
Resources Payable to Treasury	-	-	-	-
Other Liabilities Not Specified Above	-	-	-	-
Total Intragovernmental Liabilities	$ 289,301	$ 992,967	$ 4,317	$ 1,337
Accounts Payable	$ 169,221	$ 229,410	$ 3,141	$ -
FECA Actuarial Liability	5,726	-	6,997	20
Environmental and Disposal Liabilities	1,300	-	-	-
Other				
Accrued Payroll Benefits	4,217	1,016	4,881	146
Annual Leave Liability	7,258	-	14,096	-
Advances and Deferred Revenue	4,729	-	-	-
Deposit Fund Liability	-	-	5,801	-
Capital Lease Liability	1,354	-	-	-
Other Liabilities Not Specified Above	104	-	6	-
TOTAL LIABILITIES	$ 483,210	$ 1,223,393	$ 39,239	$ 1,503
Commitments and Contingencies				
Net Position				
Unexpended Appropriations - Earmarked - MAJOR	$ -	$ -	$ -	$ (8)
Unexpended Appropriations - All Other - MAJOR	713	-	36,057	4,992
Total Unexpended Appropriations	713	-	36,057	4,984
Cumulative Results of Operations - Earmarked - MAJOR	-	-	-	253,329
Cumulative Results of Operations - Earmarked - SMALL	-	-	213	11,615
Cumulative Results of Operations - All Other - MAJOR	130,749	10,236	(27,294)	2,359
Total Cumulative Results of Operations	130,749	10,236	(27,081)	267,303
Total Net Position	131,462	10,236	8,976	272,287
TOTAL LIABILITIES AND NET POSITION	$ 614,672	$ 1,233,629	$ 48,215	$ 273,790

Consolidating Balance Sheet
As of September 30, 2006

Services to Native Americans	Services to Insular Areas	CUPCA	DO Eliminations	Total
$ 79,934	$ 285,167	$ 24,474	$ -	$ 2,041,312
100,607	-	163,271	-	490,372
1,275	1,635	-	(4,158)	121,759
26,944	16	13	(57,236)	2,331
$ 208,760	$ 286,818	$ 187,758	$ (61,394)	$ 2,655,774
$ 187,048	$ -	$ -	$ -	$ 187,048
15	-	-	-	40,747
-	3,375	-	-	3,375
-	-	-	-	852
4,493	-	288,163	-	387,528
19	-	2,143	-	2,180
$ 400,335	$ 290,193	$ 478,064	$ (61,394)	$ 3,277,504
$ 2,992	$ 421	$ 664	$ (4,158)	$ 8,410
-	17,512	-	-	17,512
1,000	48	21	-	5,309
63	-	-	(57,236)	1,218,018
-	-	235,221	-	235,221
-	-	3	-	3
$ 4,055	$ 17,981	$ 235,909	$ (61,394)	$ 1,484,473
$ 3,844	$ 4,754	$ 949	$ -	$ 411,319
3,276	199	82	-	16,300
-	-	-	-	1,300
2,913	130	35	-	13,338
3,320	-	108	-	24,782
2,513	-	4	-	7,246
158	-	-	-	5,959
-	-	-	-	1,354
-	-	15,857	-	15,967
$ 20,079	$ 23,064	$ 252,944	$ (61,394)	$ 1,982,038
$ -	$ -	$ 3,736	$ -	$ 3,728
87,411	281,105	4,123	-	414,401
87,411	281,105	7,859	-	418,129
-	-	184,195	-	437,524
4,392	-	-	-	16,220
288,453	(13,976)	33,066	-	423,593
292,845	(13,976)	217,261	-	877,337
380,256	267,129	225,120	-	1,295,466
$ 400,335	$ 290,193	$ 478,064	$ (61,394)	$ 3,277,504

Consolidating Balance Sheet
As of September 30, 2005

(dollars in thousands)	Working Capital Fund	Franchise Fund	Departmental Management	Environmental Activity
ASSETS				
Intragovernmental Assets:				
Fund Balance with Treasury	$ 595,988	$ 1,332,912	$ 8,609	$ 33,762
Investments, Net	-	-	-	178,251
Accounts and Interest Receivable	101,078	3,960	8,967	-
Other				
Advances and Prepayments	16,791	154	2,844	1,464
Total Intragovernmental Assets	713,857	1,337,026	20,420	213,477
Investments, Net	-	-	-	-
Accounts and Interest Receivable, Net	2,578	250	3,003	41,554
Loans and Interest Receivable, Net	-	-	-	-
Inventory and Related Property	528	-	-	-
General Property, Plant and Equipment, Net	66,720	-	39	17
Other				
Advances and Prepayments	8	-	13	-
TOTAL ASSETS	$ 783,691	$ 1,337,276	$ 23,475	$ 255,048
Stewardship Assets				
LIABILITIES				
Intragovernmental Liabilities:				
Accounts Payable	$ 11,358	$ 1,348	$ 1,434	$ 2,008
Debt	-	-	-	-
Other				
Accrued Payroll Benefits	1,573	22	2,198	26
Advances and Deferred Revenue (includes Deposit Fund)	497,219	1,078,948	(15)	-
Judgment Fund	500	-	-	-
Resources Payable to Treasury	-	-	-	-
Other Liabilities Not Specified Above	-	-	-	-
Total Intragovernmental Liabilities	$ 510,650	$ 1,080,318	$ 3,617	$ 2,034
Accounts Payable	136,489	227,843	2,987	16
FECA Actuarial Liability	6,221	-	7,289	32
Environmental and Disposal Liabilities	1,300	-	-	-
Other				
Accrued Payroll Benefits	3,796	472	4,612	125
Annual Leave Liability	6,228	-	13,227	-
Advances and Deferred Revenue	4,729	2	-	-
Deposit Fund Liability	-	-	5,164	-
Other Liabilities Not Specified Above	-	-	-	-
TOTAL LIABILITIES	$ 669,413	$ 1,308,635	$ 36,896	$ 2,207
Commitments and Contingencies				
Net Position				
Unexpended Appropriations	789	-	18,812	14,509
Cumulative Results of Operations	113,489	28,641	(32,233)	238,332
Total Net Position	114,278	28,641	(13,421)	252,841
TOTAL LIABILITIES AND NET POSITION	783,691	1,337,276	23,475	255,048

Consolidating Balance Sheet
As of September 30, 2005

Services to Native Americans	Services to Insular Areas	CUPCA	DO Eliminations	Total
$ 84,088	$ 260,348	$ 39,992	$ -	$ 2,355,699
81,973	-	156,774	-	416,998
1,851	4,096	-	(13,358)	106,594
31,033	-	-	(50,009)	2,277
198,945	264,444	196,766	(63,367)	2,881,568
198,060	-	-	-	198,060
14	592	26	-	48,017
-	5,658	-	-	5,658
-	-	-	-	528
4,384	-	266,511	-	337,671
17	-	3,576	-	3,614
$ 401,420	$ 270,694	$ 466,879	$ (63,367)	$ 3,475,116
$ 5,327	$ 219	$ 570	$ (13,358)	$ 8,906
-	19,795	-	-	19,795
965	47	32	-	4,863
(99)	-	-	(50,009)	1,526,044
-	-	-	-	500
-	-	214,742	-	214,742
-	-	12	-	12
$ 6,193	$ 20,061	$ 215,356	$ (63,367)	$ 1,774,862
3,796	17,072	528	-	388,731
3,585	217	93	-	17,437
-	-	-	-	1,300
2,727	126	39	-	11,897
2,914	-	103	-	22,472
2,008	-	25	-	6,764
120	-	-	-	5,284
-	-	25,165	-	25,165
$ 21,343	$ 37,476	$ 241,309	$ (63,367)	$ 2,253,912
93,736	248,927	24,602	-	401,375
286,341	(15,709)	200,968	-	819,829
380,077	233,218	225,570	-	1,221,204
401,420	270,694	466,879	(63,367)	3,475,116

Working Capital Fund and Interior Franchise Fund

Departmental Offices' working capital fund, which operates as a revolving fund, was established by law to finance a continuing cycle of operations, with the receipts from the operations available for use by the funds without further action by Congress. The costs of providing services and operating the funds are fully recovered from customers. The major working capital fund customers are Interior bureaus and offices, Department of Defense, and other Federal agencies; however, some services are provided to States and non-government entities. Some of the significant services consist of central reproduction, telecommunications, aircraft services, supplies, publications, training, computer processing and related activities, engineering and technical services, and certain cross-servicing activities such as payroll, personnel, and financial and accounting services. The services provided by the working capital funds are usually those that may be performed more advantageously on a reimbursable basis.

The Working Capital Fund (WCF) provides a number of services to other DOI components and to other Federal Agencies. Services include, but are not limited to, management of budget, procurement, personnel management, and finance and accounting services, building management, and aircraft services. The services are provided on a reimbursable basis. The Department of Defense (DOD) is the major customer for the WCF, providing over 47% of WCF revenues. The Finance and Business Management System (FBMS) for DOI is accounted for in the WCF. For FY 2006, the WCF had FBMS-related transfers in/out of $26,700 and unexpended appropriations of $713. For 2005, the WCF had FBMS-related transfers in/out of $18,542 and unexpended appropriations of $789.

In addition, Departmental Offices' manages the Interior Franchise Fund (IFF) that is part of the Franchise Fund Pilot program authorized by the Government Management Reform Act of 1994. The purpose of the IFF is to pilot new approaches for providing shared administrative services to reduce the cost of government to the taxpayer by fostering competition and entrepreneurship among providers of commonly required products and services to Federal agencies. Some of the significant services include procurement support, financial systems and related services, and other administrative support services. The IFF is a separate legal entity that allows Interior to share cost savings with others that result from providing cost-effective and efficient services to Federal agencies. By building on this experience of providing cost-effective and efficient services, Interior can provide even grater cost savings within Interior and in working with other agencies. It also provides a cost-effective way to partner with the private sector through established relationships with vendors that understand and have worked with the Federal Government to provide quality services to Federal organizations. The major customers of the IFF include the Department of Defense and the Executive Office of the President.

Working Capital Fund and Franchise Fund information by product line for the years ended September 30, 2006 and 2005, respectively, are shown below:

FY2006

Product Line	Full Cost of Goods and Services Provided	Related Exchange Revenues	Excess of Full Cost Over Exchange Revenue
Aircraft Services	$ 184,804	$ 185,671	$ 867
Building Management/Rental	43,403	40,202	(3,201)
Charge Card Rebate	4,811	6,215	1,404
Federal Services	1,248,734	1,222,415	(26,319)
Y2K/Other	4	-	(4)
Finance and Business Management System	99	-	(99)
Interior Franchise Fund	1,376,915	1,378,864	1,949
Unallocated Eliminations*	(191,973)	(191,973)	-
Total	$ 2,666,797	$ 2,641,394	$ (25,403)

FY2005

Product Line	Full Cost of Goods and Services Provided	Related Exchange Revenues	Excess of Full Cost Over Exchange Revenue
Aircraft Services	$ 156,803	$ 159,790	$ 2,987
Building Management/Rental	36,789	39,923	3,134
Charge Card Rebate	2,736	5,951	3,215
Federal Services	1,124,039	1,113,180	(10,859)
Y2K/Other	8	-	(8)
Finance and Business Management System	99	-	(99)
Interior Franchise Fund	1,516,064	1,527,447	11,383
Unallocated Eliminations*	(212,562)	(212,562)	-
Total	$ 2,623,976	$ 2,633,729	$ 9,753

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U.S. Department of the Interior
Departmental Offices

Independent Auditors' Report

United States Department of the Interior
OFFICE OF INSPECTOR GENERAL
Washington, DC 20240

FEB 05 2007

Memorandum

To: Assistant Secretary for Policy, Management and Budget

From: Anne L. Richards Anne L. Richards
Assistant Inspector General for Audits

Subject: Independent Auditors' Report on the Departmental Offices Financial Statements for Fiscal Years 2006 and 2005 (Report No. X-IN-OSS-0016-2006)

INTRODUCTION

This memorandum transmits the KPMG LLP (KPMG) auditors' report of the Departmental Offices (DO) financial statements for fiscal years 2006 and 2005 (Attachment 1). The Chief Financial Officers Act of 1990 (Public Law 101-576), as amended, requires the Inspector General, or an independent auditor, as determined by the Inspector General, to audit the Department of the Interior (DOI) financial statements. Under a contract issued by DOI and monitored by the Office of Inspector General (OIG), the independent public accounting firm KPMG performed an audit of the DO fiscal years 2006 and 2005 financial statements. The contract required that the audit be performed in accordance with the "Government Auditing Standards" issued by the Comptroller General of the United States and Office of Management and Budget Bulletin No. 06-03, "Audit Requirements for Federal Financial Statements."

RESULTS OF INDEPENDENT AUDIT

In its audit report dated December 15, 2006, KPMG issued an unqualified opinion on the DO financial statements. However, KPMG identified ten reportable conditions in internal controls over financial reporting, of which three were considered to be material weaknesses. In addition, KPMG identified three instances where DO did not comply with laws and regulations, including one instance of noncompliance with the Federal Financial Management Improvement Act of 1996 (FFMIA). The report contains 18 recommendations that, if implemented, should resolve the findings.

STATUS OF RECOMMENDATIONS

In its December 23, 2006 response (Attachment 2) to the draft report, DO agrees with 7 of the 13 findings, partially agrees with 4 findings, and disagrees with 2 of the findings. DO also addresses each recommendation, stating that it is in the process of implementing 16 recommendations and disagreeing with 2 of the recommendations (see Attachment 3, "Status of Audit Report Recommendations").

Of the 18 recommendations, 5 are repeat recommendations that were made in the last auditors' report (Report No. E-IN-DMO-0058-2004). Two repeat recommendations were closed after your Office received documentation that they had been implemented. However, the actions taken by DO did not fix the conditions. Therefore, KPMG found the same conditions and made the same recommendations this year. In its response, DO disagrees with these two recommendations. We will refer these two repeat recommendations to you for resolution. The remaining three repeat recommendations are considered resolved but not implemented and will continue to be tracked under the prior report. We will refer the 13 new, unimplemented recommendations to you for tracking of implementation.

EVALUATION OF KPMG AUDIT PERFORMANCE

To fulfill our monitoring responsibilities, the OIG:

- reviewed KPMG's approach and planning of the audit;
- evaluated the qualifications and independence of the auditors;
- monitored the progress of the audit at key points;
- participated in periodic meetings with DO management to discuss audit progress, findings, and recommendations;
- reviewed and accepted KPMG's audit report; and
- performed other procedures we deemed necessary.

KPMG is responsible for the attached auditors' report and for the conclusions expressed in the report. We do not express an opinion on DO financial statements or on conclusions on the effectiveness of internal controls, compliance with laws and regulations, or on whether DO financial management systems substantially complied with FFMIA.

REPORT DISTRIBUTION

The legislation, as amended, creating the OIG (5 U.S.C.A. app. 3) requires semiannual reporting to the Congress on all audit reports issued, actions taken to implement audit recommendations, and recommendations that have not been implemented. Therefore, this report will be included in our next semiannual report. The distribution of the report is not restricted, and copies are available for public inspection.

We appreciate the cooperation and assistance extended to KPMG and OIG staff during the audit. If you have any questions regarding the report, please contact me at 202–208–5512.

Attachments (3)

cc: Director, Office of Financial Management
Focus Group Leader, Management Control and Audit Follow-up, Office of Financial Management

Focus Leader, Financial Reporting, Office of Financial Management
Audit Liaison Officer, Office of Financial Management

KPMG LLP
2001 M Street, NW
Washington, DC 20036

Independent Auditors' Report

Assistant Secretary for Policy, Management, and Budget and Inspector General
U.S. Department of the Interior:

We have audited the accompanying consolidated balance sheets of the Departmental Offices, a component of U.S. Department of the Interior (Interior), as of September 30, 2006 and 2005, and the related consolidated statements of net cost, changes in net position, and financing, and the combined statements of budgetary resources (hereinafter referred to as "financial statements") for the years then ended. The objective of our audits was to express an opinion on the fair presentation of these financial statements. In connection with our fiscal year 2006 and 2005 audits, we also considered Departmental Offices' internal control over financial reporting, Required Supplementary Stewardship Information, and performance measures and tested Departmental Offices' compliance with certain provisions of applicable laws, regulations, contracts, and grant agreements that could have a direct and material effect on these financial statements.

SUMMARY

As stated in our opinion on the financial statements, we concluded that Departmental Offices' financial statements as of and for the years ended September 30, 2006 and 2005, are presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles.

As discussed in our opinion, in fiscal year 2006, Departmental Offices changed its method of accounting for and reporting of earmarked funds, heritage assets, and stewardship land to adopt changes in accounting standards. Also, as discussed in our opinion, in fiscal year 2005, Departmental Offices changed its method of accounting for and reporting of imputed intra-departmental costs and appropriated debt transactions to adopt changes in accounting standards and Office of Management and Budget (OMB) guidance. Finally, as discussed in our opinion, the Interior Franchise Fund was transferred to Departmental Offices effective October 1, 2005 and Departmental Offices' included the Interior Franchise Fund transactions and balances in the fiscal year 2005 financial statements to provide comparative financial statements.

Our consideration of internal control over financial reporting, Required Supplementary Stewardship Information, and performance measures resulted in the following conditions being identified as reportable conditions:

Reportable Conditions Considered to be Material Weaknesses

A. Controls over Indian Trust Funds (fiscal years 2006 and 2005)
B. Implementing New Accounting Policies and Procedures (fiscal year 2005 only)
C. Controls over Leases (fiscal year 2005 only)

Other Reportable Conditions

D. General and Application Controls over Financial Management Systems (fiscal years 2006 and 2005)
E. Controls over Charge Cards (fiscal years 2006 and 2005)
F. Controls over Spending Authority (fiscal years 2006 and 2005)
G. Controls over Obligations (fiscal years 2006 and 2005)
H. Recording Customer Orders and Recoveries (fiscal year 2005 only)
I. Controls over Accruals (fiscal years 2006 and 2005)
J. Monitoring Grants (fiscal years 2006 and 2005)

The results of our tests of compliance with certain provisions of laws, regulations, contracts, and grant agreements disclosed the following instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, issued by the Comptroller General of the United States, and OMB Bulletin No. 06-03, *Audit Requirements for Federal Financial Statements*.

K. Potential Non-compliance with the Anti-Deficiency Act, Procurement Regulations, and Leasing Regulations (fiscal years 2006 and 2005)
L. Single Audit Act Amendments of 1996 (fiscal years 2006 and 2005)
M. Federal Financial Management Improvement Act of 1996 (fiscal years 2006 and 2005)

The following sections discuss our opinion on Departmental Offices' financial statements; our consideration of Departmental Offices' internal control over financial reporting, Required Supplementary Stewardship Information, and performance measures; our tests of Departmental Offices' compliance with certain provisions of applicable laws, regulations, contracts, and grant agreements; and management's and our responsibilities.

OPINION ON THE FINANCIAL STATEMENTS

We have audited the accompanying consolidated balance sheets of the Departmental Offices as of September 30, 2006 and 2005, and the related consolidated statements of net cost, changes in net position, and financing, and the combined statements of budgetary resources for the years then ended.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Departmental Offices as of September 30, 2006 and 2005, and its net costs, changes in net position, budgetary resources, and reconciliation of net costs to budgetary obligations for the years then ended, in conformity with U.S. generally accepted accounting principles.

As discussed in Note 9 to the financial statements, Departmental Offices changed its method of reporting for heritage assets and stewardship land in fiscal year 2006 to adopt the applicable provisions of the Federal Accounting Standards Advisory Board's (FASAB) Statement of Federal

Financial Accounting Standards (SFFAS) No. 29, *Heritage Assets and Stewardship Land.* Also, as discussed in Note 25 to the financial statements, Departmental Offices changed its method of accounting for and reporting earmarked funds in fiscal year 2006 to adopt the provisions of the SFFAS No. 27, *Identifying and Reporting Earmarked Funds*. As discussed in Note 27 to the financial statements, Departmental Offices adopted the provisions of FASAB's Interpretation No. 6, *Accounting for Imputed Intra-departmental Costs: An Interpretation of SFFAS No. 4*, effective October 1, 2004. Also, as discussed in Note 28 to the financial statements, Departmental Offices changed its method of accounting for appropriated debt transactions in accordance with the provisions of OMB guidance that became effective October 1, 2004. Also, as discussed in Note 29 to the financial statements, the Interior Franchise Fund was transferred to Departmental Offices effective October 1, 2005 and Departmental Offices' included the Interior Franchise Fund transactions and balances in the fiscal year 2005 financial statements to provide comparative financial statements.

The information in the Management's Discussion and Analysis, Required Supplementary Stewardship Information, and Required Supplementary Information sections is not a required part of the financial statements, but is supplementary information required by U.S. generally accepted accounting principles and OMB Circular No. A-136, *Financial Reporting Requirements* (A-136). We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of this information. However, we did not audit this information and, accordingly, we express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the financial statements taken as a whole. The September 30, 2006 and 2005 consolidating information in the Other Supplementary Information section is presented for purposes of additional analysis of the financial statements rather than to present the financial position of Departmental Offices' components individually. The September 30, 2006 and 2005 consolidating information has been subjected to the auditing procedures applied in the audits of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

INTERNAL CONTROL OVER FINANCIAL REPORTING

Our consideration of internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be reportable conditions. Under standards issued by the American Institute of Certified Public Accountants, reportable conditions are matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Departmental Offices' ability to record, process, summarize, and report financial data consistent with the assertions by management in the financial statements.

Material weaknesses are reportable conditions in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud, in amounts that would be material in relation to the financial statements being audited, may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Because of inherent limitations in internal control, misstatements due to error or fraud may nevertheless occur and not be detected.

In our fiscal year 2006 and 2005 audits, we noted certain matters, described below, involving internal control over financial reporting and its operation that we consider to be reportable conditions. We believe that the reportable condition A is a material weakness during in fiscal year 2006 and conditions A through C were material weaknesses in fiscal year 2005 audit. Exhibits I and II presents the status of prior year reportable conditions.

A. Controls over Indian Trust Funds (fiscal years 2006 and 2005)

The United States Congress has designated the Secretary of the Interior as the trustee delegate with responsibility for the monetary and non-monetary resources held in trust on behalf of American Indian Tribes (Tribal Trust Funds), individual Indians, and other trust funds (hereafter collectively referred to as the Indian Trust Funds). The Secretary carries out this fiduciary responsibility through the Office of the Special Trustee for American Indians (OST), the Bureau of Indian Affairs (BIA), other Interior bureaus, and agreements with American Indian Tribes. OST is a component of Departmental Offices.

The Indian Trust Funds' balances include two categories: (1) Trust Funds that are held by Interior because the corpus of specific accounts is non-expendable or the funds that are held for future transfer to Indian Tribes upon satisfaction of certain conditions and thus are reflected in Departmental Offices' financial statements; (2) Trust Funds for Indian Tribes and individual Indians that are considered non-Federal accounts and thus are not reflected in Departmental Offices' financial statements but are disclosed in a footnote to Departmental Offices' financial statements, in accordance with the accounting standards.

Departmental Offices has invested a significant amount of resources to improve controls over Indian Trust Funds; however, we noted that Departmental Offices needs to continue its efforts to resolve historical differences for items 1, 2, 3, and 4 below, and to improve procedures and internal controls for item 5 below, to ensure that the Indian Trust Funds' activity and balances are recorded properly and timely, as follows:

1. *Trust Fund Balances*
   The financial information systems and internal control procedures used in the processing of Indian Trust Fund transactions and determination of the Indian Trust Fund balances have suffered historically from a variety of system and procedural internal control weaknesses. In addition, Departmental Offices is burdened with the ongoing impact of decades of accumulated discrepancies in the accounting records. Furthermore, certain Indian Trust Fund beneficiaries do not agree with the trust fund balances and/or have requested an accounting of the Indian Trust Funds. Departmental Offices has invested a significant amount of resources identifying historical records and preparing an accounting of the Indian Trust Fund balances and will continue with this historical accounting effort.

2. *Individual Indian Monies Subsidiary Ledger*
   The control account for Individual Indian Monies (IIM) account holders represents the aggregate net balance of trust funds held on behalf of IIM account holders as reflected in the detailed subsidiary ledger of IIM accounts (subsidiary ledger). The control account balance has historically not agreed to the sum of the balances from the subsidiary ledger, and it cannot be determined which balance, if either, is correct. Consequently, the balance of funds invested for IIM account holders may not be correct. The amount invested for IIM is based on the IIM control account balance. As of September 30, 2006 and 2005, the aggregate sum of all positive balances included in the subsidiary ledger exceeded the control account by approximately $6 million. Accordingly, IIM account holders with positive balances may have been penalized by

lower interest earnings. In addition, as of September 30, 2006 and 2005, the subsidiary ledger contained negative account balances totaling approximately $44 million (of which approximately $164,000 and $192,000 was attributed to individual Indian accounts as of September 30, 2006 and 2005, respectively).

3. *Special Deposit Accounts*
   As of September 30, 2006 and 2005, there were approximately 22,000 and 20,000 special deposit accounts reflected in the subsidiary ledger with balances totaling approximately $36 million and $40 million, respectively. In accordance with Title 25 of the Code of Federal Regulations and as directed by BIA, OST records receipts into special deposit accounts within the subsidiary ledger when the recipient trust fund account is unknown at the time of receipt. When BIA identifies the trust fund account(s), OST transfers the amount from the special deposit account(s) to the designated trust fund account(s) in accordance with BIA instructions. A significant number of special deposit accounts have remained inactive for the past several years and new special deposit accounts were established during fiscal year 2006 and 2005. A significant number of special deposit accounts continue to require resolution.

4. *Undistributed Interest and Unusual Balances*
   OST and/or BIA have not been able to determine the proper recipients of undistributed interest of approximately $4.2 million and $4.3 million as of September 30, 2006 and 2005, respectively. Furthermore, there were Tribal Trust Funds accounts with negative cash balances totaling approximately $721,000 and $724,000 as of September 30, 2006 and 2005, respectively that required resolution.

5. *Entering and Maintaining Trust Fund Information*
   The regional and agency offices of BIA perform a critical role in the initial input and subsequent changes to the Indian Trust Funds' information disclosed by Departmental Offices. We noted weaknesses in the following areas:

   a. *Trust Fund Systems*
      BIA had not completed implementation of an automated system for tracking and processing activities of the Indian trust assets. Agency offices use "off-the-shelf" software, internally developed software, in-house databases, and manual processes to manage ownership records, track lease activity, account for receivables/revenue, and determine distribution amounts. BIA has developed an automated system for certain activities and completed the first phase of the roll-out in September 2006. The second phase of the rollout is expected to be completed in all agency offices by September 30, 2007. This situation increases the risk that transactions are recorded inaccurately and untimely.

   b. *Accounts Receivable*
      BIA had not fully developed and communicated standardized policies and procedures for establishing, tracking, and pursuing accounts receivable for the Indian Trust Funds. This resulted in inconsistent processes and increases the risk that amounts due to Indian Trust Funds are not identified and ultimately collected. In addition, several agency offices prepared bills after receiving payments rather than sending bills in advance of the payment due date in fiscal year 2005. Additionally, certain agency offices did not identify or pursue past due receivables and instead relied on landowners/lessors to inquire of overdue payments before pursuing the receivable in fiscal year 2005. Furthermore, several

agency offices did not maintain a listing of leases and permits against which receivables could be established in fiscal year 2005.

c. *Probate Backlog*
BIA did not consistently enter probate orders for land title into the trust management systems timely. Although BIA made progress in reducing the backlog, BIA indicated that it had probate orders that had not been prepared, adjudicated, recorded, and/or encoded. BIA expects to have the backlog resolved in September 2009. This increases the potential for untimely distributions of income to the account holders of the Indian Trust Funds.

d. *Supervised and Restricted Accounts*
BIA did not consistently perform reviews over active supervised accounts, nor did they maintain documentation for supervised accounts, including social service assessment and evaluation forms, disbursement documentation, annual review documentation, court orders, and notification of restriction letters. Additionally, BIA did not consistently perform reviews over active supervised accounts for contracted or compacted tribes. BIA also did not have a standardized policy on when annual reviews of active supervised accounts should be conducted in that they relied on each region to develop its own policy. Finally, although each of the regions that we visited had compiled a listing of active supervised accounts, the regions expended significant efforts generating the listing. BIA has since identified a report from the Trust Fund Accounting System (TFAS) which lists all active supervised accounts and needs to work with OST to validate the completeness of this report and, once validated, ensure its timely distribution to the appropriate agency offices.

e. *Appraisal Review (fiscal year 2005 only)*
One of the key elements in performing realty trust transactions is the requirement to obtain appraisals for realty transactions. Current laws allow the appraisal function to be carried out by tribes, who are often the named parties involved in realty transactions. BIA is responsible for assisting trust beneficiaries in the negotiation and execution of realty transactions. Office of Appraisal Services (OAS) is responsible for conducting reviews of appraisals that are compacted by tribes for the benefit of trust beneficiaries. BIA controls were not in place in fiscal year 2005 to ensure that all appraisals, conducted under compacts or contracts, completed by tribes for the benefit of trust beneficiaries had been approved by OAS.

f. *Segregation of Duties (fiscal year 2005 only)*
The responsibilities for Indian trust processing were not properly segregated to prevent or detect errors in fiscal year 2005. Although BIA improved segregation of responsibilities during the fiscal year, BIA did not segregate realty and land management activities (i.e., lease compliance) from accounting activities (i.e., collecting, depositing, and sending instructions to OST to create, record, and distribute receipts). Also, in limited cases, the same employee was responsible for all activities associated with trust transactions, including initiating lease agreements, generating bills, collecting funds, making deposits, and sending instructions to OST to create accounts and distribute funds.

g. *Untimely Deposits (fiscal year 2005 only)*
Several BIA agency offices did not consistently forward trust receipts in a timely manner to OST to be deposited in fiscal year 2005. As a result, in certain instances, deposits of trust receipts were delayed for up to 5 business days and in others, delays were up to 12 days. In one instance, we noted a delay of 38 days.

Recommendation
We recommend that Departmental Offices develop and implement procedures and internal controls to address the deficiencies in controls related to Indian Trust Funds.

Management Response
Management has prepared an official response presented as a separate attachment to this report. In summary, management disagreed with the significance of our findings because management believes that the controls are operating effectively and there is a high degree of accuracy in the Indian Trust Fund balances. Therefore, management believes that this is a reportable condition.

Auditors' Response to Management's Response
As summarized above, management had not resolved significant financial reporting differences from prior periods and weaknesses in trust-related systems and processes continue to exist at September 30, 2006. Therefore, we continue to believe that the weaknesses identified constitute a material weakness.

B. Implementing New Accounting Policies and Procedures (fiscal year 2005 only)

In March 2005, OMB issued guidance in response to FASAB's Accounting and Auditing Policy Committee's Technical Exposure Draft entitled, *Recognition of the Transfer of Funds Between Interior's Reclamation Fund and Energy's Western Area Power Administration: In Accordance with SFFAS 1, Accounting for Selected Assets and Liabilities, and SFFAS 5, Accounting for Liabilities of the Federal Government.* OMB's guidance instructed agencies to record receivables and liabilities rather than transfers in/out for certain transactions. Departmental Offices applied OMB's guidance to similar transactions with the United States Treasury General Fund (Treasury). These transactions related to the Central Utah Project Completion Act Office (CUPCA), a component of Departmental Offices, that jointly constructs irrigation projects in Utah with the Central Utah Water Conservancy District (the District) on a cost share basis.

Departmental Offices applied significant resources and effort, including coordinating with the Bureau of Reclamation, Treasury, and OMB, to implement OMB's guidance in a relatively short time period. However, Departmental Offices had not established controls to ensure that transactions were properly recorded as Departmental Offices had recorded $240 million of costs as an asset; however, $127 million of those costs should have been recorded as part of the beginning balance adjustment and $113 million should not have been recorded. As a result of our observations, Departmental Offices analyzed and adjusted the financial statements as of and for the year ended September 30, 2005.

Recommendation
We did not note this condition in fiscal year 2006, and as a result, we do not have any recommendations as of September 30, 2006.

KPMG

Management Response
Management has prepared an official response presented as a separate attachment to this report. In summary, management agreed with our findings.

C. Controls over Leases (fiscal year 2005 only)

In accordance with Federal accounting standards, Departmental Offices is required to capitalize leases that meet certain criteria and disclose the future minimum annual lease payments. Departmental Offices has not fully established procedures to track and report leases as follows:

1. Departmental Offices did not consistently prepare lease determination schedules to determine whether a lease should be classified as a capital or operating lease. Specifically, Departmental Offices was unable to provide 30 of the 35 lease determination schedules selected for testing. In addition, Departmental Offices did not ensure that the lease determination schedules agreed to the related supporting documentation or the general ledger for two of the five lease determination schedules that we received. Additionally, Departmental Offices capitalized one lease at the incorrect amount as Departmental Offices recorded the asset as installment payments were made instead of when the lease was entered into. Furthermore, Departmental Offices did not require a supervisor to review and approve the lease determination schedules.

2. Departmental Offices did not have policies and procedures in place to ensure that the future minimum lease payment schedule included in the footnotes to the financial statements was complete and accurate. Specifically, we agreed the terms and amounts from the future minimum lease payment schedule to the lease agreements and identified differences for 16 of the 35 leases tested, which resulted in overstatement of approximately $98 million in the future minimum lease payments.

As a result of our observations, Departmental Offices expended additional time and resources analyzing, reconciling, and adjusting its future minimum lease payments disclosure.

Recommendation
We did not note this condition in fiscal year 2006, and as a result, we do not have any recommendations as of September 30, 2006.

Management Response
Management has prepared an official response presented as a separate attachment to this report. In summary, management agreed with our findings.

D. General and Application Controls over Financial Management Systems (fiscal years 2006 and 2005)

Departmental Offices did not have adequate information technology controls to protect its financial information systems as required by OMB Circular No. A-130, *Management of Federal Information Resources*. These conditions could affect Departmental Offices' ability to prevent and detect unauthorized changes to financial information, control electronic access to sensitive information, and protect its information resources. Although Departmental Offices has improved its application and general controls, Departmental Offices needs to continue improving the security and general controls over its financial information systems, as discussed below.

We identified the following conditions during fiscal year 2006:

1. *Entity-wide Security Program and Planning*
   Departmental Offices did not have policies in place to require entity-wide segregation of duties within key information system functions. In addition, Departmental Offices needs to improve its certification and accreditation documentation to ensure it includes all required information and considers changes made to systems and processes. Additionally, Departmental Offices did not perform all needed steps in the risk assessment process for certain systems.

2. *Access Controls*
   Departmental Offices did not consistently maintain user access forms for system access. Although terminated employees' access was disabled or scheduled to be removed from the system or application, Departmental Offices did not consistently remove access of terminated employees in a timely manner. Additionally, Departmental Offices did not consistently review systems and applications to ensure that all users are authorized and the level of access rights are commensurate with each user's responsibilities or consistently maintain evidence that such reviews were performed. Furthermore, Departmental Offices did not consistently review and approve access rights for individuals that transferred within Departmental Offices. As a result, Departmental Offices had certain users with access that was not commensurate with the user's responsibilities and certain users with excessive access rights.

   Although Departmental Offices has processes to grant and approve physical and logical access to contractors, Departmental Offices needs to improve its processes to verify that contractors completed security training and non-disclosure agreements, and verify that separated contractors' access was revoked in a timely manner.

   Departmental Offices had not developed or implemented a policy that requires management to monitor security violations and inactive accounts. In addition, Departmental Offices did not consistently generate security and activity logs for its systems and applications. Furthermore, Departmental Offices did not consistently remove inactive accounts with access to systems and applications in a timely manner. Furthermore, the financial applications were not configured to prepare logs for security profile changes; therefore, Departmental Offices did not effectively review and approve security profile changes.

3. *System Software Controls*
   Departmental Offices had not formally documented policies and procedures for restricting access to system software. Although Departmental Offices documented a change management methodology to control changes to the operating system software, the policies do not include detailed testing procedures or separate procedures for addressing emergency changes. Additionally, Departmental Offices did not test changes to the operating system software. Furthermore, Departmental Offices did not have controls in place to prevent system software from being installed without management approval.

4. *Software Development and Change Controls*
   Departmental Offices had not formally developed, documented, or implemented data processing procedures to control and standardize the maintenance of one financial

application. Although Departmental Offices documented program changes to financial applications, the documentation is not consistent and standardized for program changes and emergency changes to financial applications. In addition, Departmental Offices did not use library management software to control changes to the accounting system. Furthermore, Departmental Offices' system configurations did not adequately segregate duties as the configurations provided individuals, who are involved with programming, testing and migrating changes to production, access to the source code, test, and production libraries.

5. *Service Continuity*
   Departmental Offices had not developed and documented a comprehensive contingency and disaster recovery plan for two of its applications. Departmental Offices had not updated its continuity of operations plan for one of its current information technology environment. Additionally, Departmental Offices did not have sufficient evidence of contingency plan testing for one of its systems. In addition, Departmental Offices did not have a comprehensive plan to train all essential employees on emergency responsibilities outlined within critical system and application contingency plans. Furthermore, Departmental Offices did not consistently test the backup files for certain financial applications.

We identified the following conditions during fiscal year 2005:

1. *Entity-wide Security Program*
   An entity-wide security program, including security policies and a related implementation plan, is the foundation of an entity's security control structure and a reflection of senior management's commitment to addressing security risks. An effective security program includes a risk assessment process, certification and accreditation process, application-level security plans, and effective incident response and monitoring capabilities. Specifically, we noted the following:

   a. *Security Program*
      Interior's National Business Center (NBC) is making progress towards establishing a security infrastructure; however, continued efforts were needed to implement security policies and procedures and monitor the security program. NBC did not have procedures in place to appropriately track the implementation status of Service Level Agreements (SLA) and Security Service Agreements (SSA). In addition, the NBC did not have current SLA and SSA agreements with certain customers to designate security responsibilities.

   b. *Background Investigations*
      NBC had procedures for conducting background investigations; however, NBC had not performed background investigations for all employees and contractors, consistently performed re-investigations in a timely manner, or consistently maintained investigation documentation.

   c. *Security Training*
      NBC had established a process to monitor the completion of specialized security training, including security awareness training, for key information technology positions. However, NBC did not have a process to monitor the periodic completion of technical training by other information technology employees or contractors.

2. *Access Controls*
   Access controls should provide reasonable assurance that computer resources such as data files, application programs, and computer-related facilities and equipment are protected against unauthorized modification, disclosure, and loss. NBC did not fully establish controls to prevent and detect unauthorized access. In addition, NBC did not consistently monitor account creation, modification, and termination; effectively assign access privileges based upon job duties; periodically review and re-certify user accounts; periodically review transaction audit reports; remove access of terminated employees timely; or monitor system access to financial applications. Although NBC reviews the network system audit trail logs, NBC had not formally documented policies and procedures indicating the required frequency of the reviews or the responsibilities of the reviewers.

Recommendation
We recommend that Departmental Offices continue to improve the security and general controls over its financial information systems. These controls should address each of the areas discussed above, as well as other areas that might affect the information technology control environment to ensure adequate security and protection of the information systems.

Management Response
Management has prepared an official response presented as a separate attachment to this report. In summary, management agreed with our findings, and its comments were responsive to our recommendation.

E. Controls over Charge Cards (fiscal years 2006 and 2005)

Departmental Offices issues purchase, fleet, and travel charge cards to its employees to streamline acquisition and payment procedures and to reduce the administrative burden associated with traditional and emergency purchasing of travel items, supplies, and services. In conjunction with the issuance of these cards, Interior published the *Integrated Charge Card Program Guide*. This guide sets forth restrictions on the use of the cards as well as certain internal control procedures such as timely and complete reconciliation of billing statements by the cardholders and approving officials.

However, Departmental Offices did not consistently follow these internal control procedures as we identified 24 exceptions in the 45 statements that we tested in fiscal year 2006 and we identified 26 exceptions in the 54 statements that we tested in fiscal year 2005. For example, cardholders and supervisors did not always sign and date the charge card statements, did not consistently sign and date the charge card in a timely manner, and did not consistently maintain charge card receipts to support the charges. In addition, Departmental Offices had not consistently terminated cards of former employees. Furthermore, Departmental Offices did not consistently investigate and resolve transactions on the unusual charge card transaction reports in fiscal year 2005.

Recommendations
We recommend that Departmental Offices perform the following:
1. Continue to provide training to personnel on charge card procedures.
2. Require approving officials be more diligent in monitoring and enforcing compliance with Interior's charge card policies.

3. Allocate sufficient resources to oversee compliance with Interior's charge card policies and procedures, including investigating and resolving transactions on the unusual charge card transaction reports.

Management Response
Management has prepared an official response presented as a separate attachment to this report. In summary, management agreed with our findings, and its comments were responsive to our recommendations.

F. Controls over Spending Authority (fiscal years 2006 and 2005)

Departmental Offices needs to improve its procedures and controls over spending authority, to ensure that funding documentation consistently demonstrates that Interior met the appropriate regulations, including the bona fide need requirements. The Interior Office of Inspector General (OIG) completed a performance audit of the Interior Franchise Fund and the NBC and determined that 5 of the 12 funding documents it selected from fiscal year 2006, and 19 of the 49 funding documents selected from fiscal year 2005, may not have met the appropriate regulations, including the bona fide need requirements. In addition, we identified three funding documents that Interior accepted after the period of availability of the referenced appropriations. As a result, Departmental Offices may have spent expired funds. The OIG also indicated that Departmental Offices obligated the government in advance of receiving funding for one contract and that Departmental Offices awarded a 10-year $94 million sole source contract primarily related to office space that may have violated procurement and leasing laws and regulations. Departmental Offices is working with the OIG and OMB to resolve these matters.

Recommendations
We recommend that Departmental Offices improve controls over spending authority as follows:

1. Implement controls to ensure bona fide need is established before accepting funding documents.
2. Improve the funding documentation obtained to ensure that the documentation demonstrates Interior has met the appropriate regulations, including the bona fide need requirements, and does not spend expired funds.
3. Review related funding and obligation documents to ensure that obligations are not recorded in advance of receiving funding.
4. Require the solicitors' office to formally review and approve contracts related to office space prior to entering into the contract.

Management Response
Management has prepared an official response presented as a separate attachment to this report. In summary, management agreed with our recommendations; however, management did not agree with the conclusions.

Auditors' Response to Management's Response
As summarized above, Departmental Offices should continue working with the OIG and OMB to resolve these matters. Therefore, we continue to believe that the weaknesses identified constitute a reportable condition.

G. Controls over Obligations (fiscal years 2006 and 2005)

Obligations should be promptly recorded, properly classified, and accounted for in order to prepare timely and reliable reports.

We identified the following conditions during fiscal year 2006:

Departmental Offices did not consistently de-obligate funds timely resulting in an overstatement of undelivered orders of approximately $26 million. Specifically, we noted that Departmental Offices had certain contracts that had ended and the unused balances should have been de-obligated.

We identified the following conditions during fiscal year 2005:

Departmental Offices incorrectly documented the sum of the current order amount and the estimated future potential order amounts rather than the actual order amount on certain purchase orders. Departmental Offices recorded obligations based on these incorrect purchases orders, resulting in an overstatement of obligations and an understatement of unobligated balances. Departmental Offices performed an analysis and adjusted its financial statements by $85 million; however, Departmental Offices incorrectly adjusted direct obligations incurred and should have adjusted reimbursable obligations incurred. As a result of our observations, Departmental Offices reclassified the adjustment from direct to reimbursable obligations incurred.

Recommendation
We recommend that Departmental Offices require contracting officers to review contracts that have ended to ensure that they de-obligate un-used funds in a timely manner.

Management Response
Management has prepared an official response presented as a separate attachment to this report. In summary, management agreed with our findings, and its comments were responsive to our recommendation.

H. Recording Customer Orders and Recoveries (fiscal year 2005 only)

Customer orders and budgetary recoveries should be promptly recorded, properly classified, and accounted for in order to prepare timely and reliable reports. Departmental Offices needs to improve controls over the following budgetary transactions:

1. *Unfilled Customer Orders Without Advance*
   Unfilled customer orders without advance represents the amount of goods and/or services to be furnished for other Federal Government agencies and for the public, if permitted by law, or by long-standing generally accepted practice. Departmental Offices did not effectively review the unfilled customer orders without advance on a timely basis. Departmental Offices incorrectly recorded reductions to unfilled customer orders for 5 of the 81 unfilled customer orders reviewed resulting in abnormal balances. In addition, Departmental Offices was unable to support the validity of 5 of the 81 orders selected for test work. As a result of our observations, Departmental Offices analyzed the unfilled customer orders without advance balance and decreased the balance by $11 million.

2. *Recoveries of Prior Year Obligations*
The accounting system (i.e., Federal Financial System) incorrectly records recoveries of prior year obligations for reclassifications of obligations between program accounts, receipts, and other transactions, resulting in an overstatement of total budgetary resources and obligations incurred. Although Departmental Offices implemented policies and procedures to investigate and correct invalid recoveries resulting from the system configuration, Departmental Offices did not consistently follow these policies and procedures. As a result, Departmental Offices incorrectly reported budgetary recoveries of approximately $4 million.

As a result of our observations, Departmental Offices expended additional time and resources analyzing, reconciling, and adjusting its budgetary balances to ensure the amounts were fairly stated.

Recommendation
We did not note this condition in fiscal year 2006, and as a result, we do not have any recommendations as of September 30, 2006.

Management Response
Management has prepared an official response presented as a separate attachment to this report. In summary, management agreed with our findings, and its comments were responsive to our recommendation.

I. Controls over Accruals (fiscal years 2006 and 2005)

In accordance with Federal Accounting standards, Departmental Offices is required to record liabilities based on a probable future outflow or other sacrifice of resources as a result of past transactions or events. Departmental Offices needs to improve controls over accruals as discussed below.

We identified the following conditions during fiscal year 2006:

Departmental Offices did not properly calculate its accrual for costs incurred but not paid and for services provided but not billed as of year end because it used incorrect factors to calculate the accrual resulting in an understatement of the Interior Franchise Fund accruals of $26.3 million and overstatement of accruals for other funds of $19 million for a net understatement of $7.3 million. Specifically, Departmental Offices used an incorrect undelivered orders balance and incorrectly included certain costs in the subsequent activity report used to calculate the accrual. Although, a supervisor documented review and approval of the fourth quarter Interior Franchise Fund accrual calculation, a supervisor did not document his/her review and approval of the first quarter accrual calculation. As a result of our observations, Departmental Offices analyzed and adjusted its accrual.

We identified the following conditions during fiscal year 2005:

1. *Liabilities Related to Irrigation Projects*
CUPCA, a component of Departmental Offices, jointly constructs irrigation projects in Utah with the Central Utah Water Conservancy District on a cost share basis. CUPCA did not implement controls to ensure that liabilities for the irrigation projects are properly recorded at the end of the reporting period. CUPCA recorded $31 million of construction

costs as an increase in financing sources provided by the District that should have been recorded as a liability to the District as of the end of fiscal year 2004. As a result of our comments, CUPCA performed an analysis of the financing sources and the construction costs funded by the District and adjusted the 2005 financial statements accordingly.

2. *Accounts Payables*
   a. Departmental Offices did not test the accuracy of the OST and grant accrual methodologies by comparing an estimated accrual to an actual accrual amount. In addition, Departmental Offices did not ensure that the subsequent activity report used to estimate the Office of the Secretary accrual was complete as we determined that 5 of the 64 payments that we tested were not properly included in the subsequent activity report. As a result of our observation, Departmental Offices performed additional analysis to test its estimates and adjusted the subsequent activity report by approximately $5 million.
   b. Departmental Offices indicated that the Compact of Free Association program did not require an accounts payable accrual; however, we identified one Compact program that appeared to require an accrual. As a result of our observation, Departmental Offices performed additional analysis and recorded an accrual of approximately $10 million.
   c. Departmental Offices did not properly segregate responsibilities or reconcile the accrual calculations to the general ledger as the ledger exceeded the accrual calculations by approximately $15 million. In addition, DO did not properly allocate the accrual to receivables and advances from others as DO reduced advances by approximately $2 million and should have increased accounts receivable by the same amount.

Recommendations
We recommend that Departmental Offices perform the following:
1. Require the supervisor to compare the factors used in the accrual calculation to supporting documentation, recalculate the accrual, and document his/her review and approval on the accrual calculation.
2. Require a second individual to review the subsequent activity report to ensure that the report is complete and includes the proper activity and to document his/her approval on the subsequent activity report.

Management Response
Management has prepared an official response presented as a separate attachment to this report. In summary, management agreed with our findings, and its comments were responsive to our recommendations.

J. Monitoring Grants (fiscal years 2006 and 2005)

In accordance with the *Single Audit Act Amendments of 1996,* the Office of Insular Affairs (OIA), a component of Departmental Offices, should monitor grant expenditures to ensure grantees expend awards in accordance with grants requirements and federal regulations. Although OIA has improved controls over monitoring its seven grantees for detecting and preventing misuse of federal awards, OIA still needs to improve controls.

OIA did not obtain single audit reports within nine months of the grantee's fiscal year-end for one of seven grantees in fiscal year 2006 and all seven grantees in fiscal year 2005. In addition, we noted that OIA did not formally document extensions of the single audit report due dates for five of seven grantees in fiscal year 2005. Finally, OIA did not issue management decisions on audit findings within six months after receipt of audit reports for five of the six grantees or ensure that the grantees completed appropriate and timely corrective action on such findings in fiscal year 2006.

Recommendations
We recommend that Departmental Offices perform the following:

1. Consider the need to limit future grant awards until extensions are provided or audit reports are received.
2. Issue management decisions on audit findings within six months after receipt of single audit reports and verify that grantees take appropriate and timely corrective action.

Management Response
Management has prepared an official response presented as a separate attachment to this report. In summary, management partially agreed with our findings and recommendations. Management indicated that they have improved and will continue to improve their monitoring of grants.

Auditors' Response to Management's Response
As summarized above, Departmental Offices did not obtain single audit reports or issue management decisions on audit findings in a timely manner related to OIA, which administers over $200 million in annual grant expenditures. Therefore, we continue to believe that the weaknesses identified constitute a reportable condition.

INTERNAL CONTROLS OVER REQUIRED SUPPLEMENTARY STEWARDSHIP INFORMATION AND PERFORMANCE MEASURES

Under OMB Bulletin No. 06-03, the definition of material weaknesses is extended to other controls as follows. Material weaknesses are reportable conditions in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud, in amounts that would be material in relation to the Required Supplementary Stewardship Information or material to a performance measure or aggregation of related performance measures, may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Because of inherent limitations in internal control, misstatements due to error or fraud may nevertheless occur and not be detected.

Our consideration of the internal control over the Required Supplementary Stewardship Information and the design and operation of internal control over the existence and completeness assertions related to performance measures reported in the Management's Discussion and Analysis section would not necessarily disclose all matters involving the internal control and its operation related to Required Supplementary Stewardship Information or the design and operation of the internal control over the existence and completeness assertions related to key performance measures that might be reportable conditions.

We noted no matters involving the internal control and its operation related to Required Supplementary Stewardship Information that we considered to be material weaknesses as defined above.

KPMG

We noted no matters involving the design and operation of the internal control over the existence and completeness assertions related to key performance measures that we considered to be material weaknesses as defined above.

COMPLIANCE AND OTHER MATTERS

In our fiscal year 2006 and 2005 audits, our tests of compliance with certain provisions of laws, regulations, contracts, and grant agreements, as described in the Responsibilities section of this report, exclusive of those referred to in the *Federal Financial Management Improvement Act of 1996* (FFMIA), disclosed one and two instances, respectively, of noncompliance or other matters that are required to be reported under *Government Auditing Standards* or OMB Bulletin No. 06-03, and are described below.

K. Potential Non-compliance with the Anti-Deficiency Act, Acquisition Regulations, and Leasing Laws and Regulations (fiscal years 2006 and 2005)

As further discussed in the Internal Control Over Financial Reporting section of this report, Departmental Offices may have violated the *Anti-Deficiency Act* because Departmental Offices spent potentially expired funds and obligated the government in advance of receiving funding for one contract. In addition, Departmental Offices awarded a contract related to office space potentially in violation of 40 USC 101, which provides General Services Administration exclusive authority for leases; section 8020 of the Defense appropriation act; and 10 USC 2676, Acquisition Limitation, which precludes military department leases without specific lease authority. As a result, any obligations and expenses under this contract may have violated the *Anti-Deficiency Act*. Departmental Offices is working with the OIG and OMB to resolve these matters.

Recommendations
We recommend that in fiscal year 2007, that Departmental Offices continue working with the OIG and OMB to:

1. Investigate and resolve the potential noncompliance with the *Anti-Deficiency Act*, procurement regulations, and leasing laws and regulations.
2. Improve its contracting processes and controls to ensure compliance with the *Anti-Deficiency Act*, acquisition regulations, and leasing laws and regulations.

Management Response
Management has prepared an official response presented as a separate attachment to this report. In summary, management agreed with our recommendations; however, management did not agree with the finding conclusions, including that a potential *Anti-Deficiency Act* violation may have occurred.

Auditors' Response to Management's Response
As summarized above, we recommend that Departmental Offices continue working with the OIG and OMB to resolve these matters.

KPMG

L. Single Audit Act Amendments of 1996 (fiscal years 2006 and 2005)

As discussed in the Internal Control over Financial Reporting section of this report, Departmental Offices did not perform adequate monitoring of grantees in accordance with the *Single Audit Act Amendments of 1996* and the related OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Departmental Offices needs to ensure that it obtains single audit reports and issues management decisions on audit findings in a timely manner.

Recommendation
We recommend that in fiscal year 2007, Departmental Offices work with OIA to obtain single audit reports and issue management decisions on audit findings in accordance with the requirements of the *Single Audit Act Amendments of 1996* and the related OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations.*

Management Response
Management has prepared an official response presented as a separate attachment to this report. In summary, management partially agreed with our findings and recommendation. Management indicated that they have improved and will continue to improve their monitoring of grants.

Auditors' Response to Management's Response
As summarized above, Departmental Offices did not obtain single audit reports or issue management decisions on audit findings in a timely manner related to OIA, which administers over $200 million in annual grant expenditures. Therefore, we continue to believe that Departmental Offices the did not comply with the requirements of *Single Audit Act Amendments of 1996* and the related OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit organizations.*

The results of our tests of compliance with certain provisions of other laws and regulations, exclusive of those referred to in FFMIA, disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* or OMB Bulletin No. 06-03.

The results of our tests of FFMIA disclosed instances, described below, where the Departmental Offices' financial management systems did not substantially comply with the Federal accounting standards. The results of our tests of FFMIA disclosed no instances in which Departmental Offices' financial management systems did not substantially comply with the Federal financial management systems requirements and the United States Standard General Ledger at the transaction level.

M. Federal Financial Management Improvement Act of 1996 (fiscal years 2006 and 2005)

Departmental Offices is required to prepare its financial statements in accordance with Federal accounting standards. As discussed in the section of our report entitled "Internal Control over Financial Reporting," we identified material weaknesses that affected Departmental Offices' ability to prepare its financial statements and related disclosures in accordance with Federal accounting standards. As a result of these material weaknesses, Departmental Offices' financial management systems did not substantially comply with Federal accounting standards.

Recommendation
We recommend that in fiscal year 2007, Departmental Offices improve procedures and internal controls to ensure that the financial management systems comply with the Federal accounting standards.

Management Response
Management has prepared an official response presented as a separate attachment to this report. In summary, management disagreed with our findings because management believes that the finding is not a material weakness and instead is a reportable condition.

Auditors' Response to Management's Response
We continue to believe that Departmental Offices has a material weakness in internal controls because Interior had not resolved significant financial reporting differences from prior periods and weaknesses in trust-related systems and processes continue to exist at September 30, 2006. Therefore, we continue to recommend that Interior improve procedures and internal controls to ensure that the financial management systems comply with the Federal accounting standards.

* * * * *

RESPONSIBILITIES

Management's Responsibilities. The United States Code Title 31 Section 3515 and 9106 require agencies to report annually to Congress on their financial status and any other information needed to fairly present their financial position and results of operations. To help the U.S. Department of the Interior meet these reporting requirements, Departmental Offices prepares financial statements in accordance with OMB Circular No. A-136.

Management is responsible for the financial statements, including:

- Preparing the financial statements in conformity with U.S. generally accepted accounting principles;
- Preparing the Management's Discussion and Analysis (including the performance measures), Required Supplementary Information, and Required Supplementary Stewardship Information;
- Establishing and maintaining effective internal controls; and
- Complying with laws, regulations, contracts, and grant agreements applicable to Departmental Offices, including FFMIA.

In fulfilling this responsibility, management is required to make estimates and judgments to assess the expected benefits and related costs of internal control policies.

Auditors' Responsibilities. Our responsibility is to express an opinion on the fiscal year 2006 and 2005 financial statements of Departmental Offices based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Bulletin No. 06-03. Those standards and OMB Bulletin No. 06-03 require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Departmental Offices' internal control over financial reporting. Accordingly, we express no such opinion.

An audit also includes:

- Examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements;

- Assessing the accounting principles used and significant estimates made by management; and

- Evaluating the overall financial statement presentation.

We believe that our audits provide a reasonable basis for our opinion.

In planning and performing our fiscal year 2006 and 2005 audits, we considered Departmental Offices' internal control over financial reporting by obtaining an understanding of Departmental Offices' internal control, determining whether internal controls had been placed in operation, assessing control risk, and performing tests of controls in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements. We limited our internal control testing to those controls necessary to achieve the objectives described in *Government Auditing Standards* and OMB Bulletin No. 06-03. We did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*. The objective of our audit was not to provide an opinion on Departmental Offices' internal control over financial reporting. Consequently, we do not provide an opinion thereon.

As required by OMB Bulletin No. 06-03, in our fiscal year 2006 and 2005 audits, we considered Departmental Offices' internal control over the Required Supplementary Stewardship Information by obtaining an understanding of Departmental Offices' internal control, determining whether these internal controls had been placed in operation, assessing control risk, and performing tests of controls. We limited our testing to those controls necessary to test and report on the internal control over Required Supplementary Stewardship Information in accordance with OMB Bulletin No. 06-03. However, our procedures were not designed to provide an opinion on internal control over the Required Supplementary Stewardship Information and, accordingly, we do not provide an opinion thereon.

As further required by OMB Bulletin No. 06-03, in our fiscal year 2006 and 2005 audits, with respect to internal control related to performance measures determined by management to be key and reported in the Management's Discussion and Analysis section, we obtained an understanding of the design of internal controls relating to the existence and completeness assertions and determined whether these internal controls had been placed in operation. We limited our testing to those controls necessary to test and report on the internal control over key performance measures in accordance with OMB Bulletin No. 06-03. However, our procedures were not designed to provide an opinion on internal control over reported performance measures and, accordingly, we do not provide an opinion thereon.

As part of obtaining reasonable assurance about whether Departmental Offices' fiscal year 2006 and 2005 financial statements are free of material misstatement, we performed tests of Departmental Offices' compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of the financial statement amounts, and certain provisions of other laws and regulations specified in OMB Bulletin No. 06-03, including certain provisions referred to in FFMIA. We limited our tests of compliance to the provisions described in the preceding sentence, and we did not test compliance with all laws, regulations, contracts, and grant agreements applicable to Departmental Offices'. However, providing an opinion on compliance with laws, regulations, contracts, and grant agreements was not an objective of our audit and, accordingly, we do not express such an opinion.

Under OMB Bulletin No. 06-03 and FFMIA, auditors are required to report whether certain federal entities' financial management systems substantially comply with (1) Federal financial management systems requirements, (2) applicable Federal accounting standards, and (3) the United States Government Standard General Ledger at the transaction level. To assist the auditors of Interior meet this requirement, we performed tests of compliance with FFMIA Section 803(a) requirements.

We noted certain additional matters that we have reported to management of Departmental Offices' in a separate letter dated December 15, 2006.

RESTRICTED USE

This report is intended solely for the information and use of Departmental Offices' management, the U.S. Department of Interior's Office of Inspector General, OMB, the U.S. Government Accountability Office, and the U.S. Congress and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

December 15, 2006

Exhibit I

DEPARTMENTAL OFFICES

Status of Prior Year Findings

September 30, 2006

FY2005 Ref	Fiscal Year 2005 Condition	Status of FY 2005 Findings
A	Trust funds	This condition has not been corrected and is repeated in fiscal year 2006. See finding A.
B	New Accounting Policies and Procedures	This condition has been corrected.
C	Leases	This condition has been corrected.
D	General and Application Controls over Financial Management systems	This condition has been partially corrected and is repeated in fiscal year 2006. See finding D.
E	Controls over Charge Cards	This condition has not been corrected and is repeated in fiscal year 2006. See finding E.
F	Controls over Spending Authority	This condition has not been corrected. See finding F.
G	Controls over Obligations	This condition has been partially corrected and is repeated in fiscal year 2006. See finding G.
H	Recording Customer Orders and Recoveries	This condition has been corrected.
I	Controls over Accruals	This condition has been partially corrected and is repeated in fiscal year 2006. See finding I.
J	Monitoring Grants	This condition has not been corrected and is repeated in fiscal year 2006. See finding J.
K	Potential Non-compliance with the Anti-Deficiency Act, Procurement Regulations, and Leasing Regulations	This condition has not been corrected and is repeated in fiscal year 2006. See finding K.
L	Single Audit Act Amendment of 1996	This condition has not been corrected and is repeated in fiscal year 2006. See finding L.
M	Federal Financial Management Improvement Act of 1996	This condition has not been corrected and is repeated in fiscal year 2006. See finding M.

Exhibit II

DEPARTMENTAL OFFICES

Status of Prior Year Findings

September 30, 2006

FY2004 Ref	Fiscal Year 2004 Condition	Status of FY 2004 Findings
A	Trust funds	This condition has not been corrected and is repeated in fiscal year 2005 and 2006. See finding A.
B	Budgetary Resources	This condition has been partially corrected and is repeated in fiscal year 2005 and 2006. See finding G.
C	Accruals	This condition has not been corrected and is repeated in fiscal year 2005 and 2006. See finding I.
D	General and Application Controls over Financial Management systems	This condition has been partially corrected and is repeated in fiscal year 2005 and 2006. See finding D.
E	Payments in Lieu of Taxes	This condition has been corrected in fiscal year 2005.
F	Grants	This condition has been partially corrected and is repeated in fiscal year 2005 and 2006. See finding J.
G	Costing Methodology	This condition has been corrected in fiscal year 2005.
H	Prompt Payment Act	This condition has been corrected in fiscal year 2005.
I	Single Audit Act Amendment of 1996	This condition has been partially corrected and is repeated in fiscal year 2005 and 2006. See finding L.
J	Federal Financial Management Improvement Act of 1996	This condition has been partially corrected and is repeated in fiscal year 2005 and 2006. See finding M.

United States Department of the Interior

OFFICE OF THE ASSISTANT SECRETARY
POLICY, MANAGEMENT AND BUDGET
Washington, D.C. 20240
December 23, 2006

Memorandum

To: Anne L. Richards
Assistant Inspector General for Audits

KPMG LLP
2001 M Street, NW
Washington, DC 20036

From: R. Thomas Weimer R. Thomas Weimer
Assistant Secretary – Policy, Management and Budget

Subject: Management's Response to Draft Independent Auditors' Report on the Departmental Offices Financial Statements for Fiscal Years 2006 and 2005 (Assignment No. X-IN-OSS-0016-2006)

Departmental Offices has reviewed the draft report prepared by KPMG LLP and provides its response to the findings and recommendations. We are pleased that the result of the audit is an unqualified opinion on Departmental Offices Consolidated Financial Statements. Departmental Offices appreciates the recognition noted in several findings and recommendations of the improvement and progress achieved during Fiscal Year 2006. We appreciate the value of the audit process and look forward to working with you to continue our marked improvement of financial management in the Department of the Interior.

INTERNAL CONTROL OVER FINANCIAL REPORTING

Reportable Conditions that are considered to be Material Weaknesses

A. <u>Controls over Indian Trust Funds (fiscal years 2006 and 2005)</u>

Management does not concur. A variety of actions already have been taken to significantly improve internal control activities and systems for Indian Trust Funds and extensive amounts of documentation have been provided for consideration. Additional activities are underway to continue the substantial improvement in controls over the Indian trust funds noted in the audit report for both OST and BIA. Based on the results of our extensive internal controls testing, these controls are in place and operating effectively; therefore, there is no adverse material impact on the current financial internal control environment.

We believe that there is a high degree of accuracy in the Trust Fund account balances, the accounting and asset management resource systems are reliable, and monies are being properly and timely accounted for. Upon careful consideration of the significant corrective action progress achieved and the procedures and internal controls that have been implemented, we believe that our efforts to address the deficiencies in controls related to Indian Trust Funds are substantially complete and that this would more accurately be classified as a reportable condition.

B. Implementing New Accounting Policies and Procedures (fiscal year 2005 only)

Management concurs. The corrective action is complete.

C. Controls over Leases (fiscal year 2005 only)

Management concurs. The corrective action is substantially complete.

Other Reportable Conditions

D. General and Application Controls over Financial Management Systems (fiscal years 2006 and 2005)

Management concurs. During FY 2006 Departmental Offices has substantially improved its policies and guidance, and will continue its efforts to enhance application and general controls over financial management systems during FY 2007 to address the issues noted in the audit report. We note, however, that although compliance with policies and guidance can be improved, actual physical testing of our financial systems has demonstrated positive results. We are not aware of any breaches or successful penetration attempts over the past year.

E. Controls over charge cards (fiscal years 2006 and 2005)

Management concurs. Departmental Offices believes it has a generally well-managed charge card program, although compliance issues are identified in several offices. Departmental Offices has devoted a substantial amount of resources to the charge card program in FY 2006 and will continue to: monitor approving official reviews; train and educate cardholders, agency/organization program coordinators (A/OPCs), and approving officials on charge card responsibilities; and monitor the use of charge cards. In addition, through monthly reviews of the personnel/payroll system, Departmental Offices will identify open accounts of former employees that need to be closed by the A/OPC.

F. Controls over Spending Authority (fiscal years 2006 and 2005)

Management partially concurs. Departmental Offices management concurs that the recommendations made can assist in its constant effort to improve its controls and has already taken significant action to address the recommendations made in the audit. However, management has been reviewing the referenced Office of Inspector General (OIG) draft findings, and, to date, does not agree with the OIG conclusions, including the finding that a potential Anti-Deficiency Act violation has occurred.

G. Controls over Obligations (fiscal years 2006 and 2005)

Management concurs. Departmental Offices believes it has adequate policies and procedures in place to identify obligations in need of program attention. In FY 2007, we will focus on educating program managers on the proper and timely review of Undelivered Orders and the deobligation process.

H. Recording Customer Orders and Recoveries (fiscal year 2005 only)

Management concurs. The corrective action is substantially complete.

I. Controls over Accruals (fiscal years 2006 and 2005)

Management concurs. During FY 2006, Departmental Offices developed and implemented updated procedures for accruals. These processes will be in effect for all of FY 2007.

J. Monitoring Grants (fiscal years 2006 and 2005)

Management partially concurs. During FY 2006, Departmental Offices took steps to obtain single audit reports and issue management decisions on audit findings, timely, and to improve the process. During FY 2007 Departmental Offices will continue working to formalize decisions and to improve compliance with the Single Audit Act and OMB Circular Number A-133.

INSTANCES OF NONCOMPLIANCE OR OTHER MATTERS

K. Potential Non-compliance with the *Anti-Deficiency Act*, Acquisition Regulations, and Leasing Laws and Regulations (fiscal years 2006 and 2005)

Management partially concurs. Departmental Offices management concurs that the recommendations made can assist in its constant effort to improve its controls and has already taken significant action to address the recommendations made in the audit. However, management has been reviewing the referenced Office of Inspector General (OIG) draft findings, and, to date, does not agree with the OIG conclusions, including the finding that a potential Anti-Deficiency Act violation may have occurred.

L. Single Audit Act Amendments of 1996 (fiscal years 2006 and 2005)

Management partially concurs. During FY 2006 Departmental Offices took steps to obtain single audit reports and issue management decisions on audit findings, timely, and to improve the process. During FY 2007 Departmental Offices will continue working to formalize decisions and to improve compliance with the Single Audit Act and OMB Circular Number A-133.

M. <u>Federal Financial Management Improvement Act of 1996 (fiscal years 2006 and 2005)</u>

Management does not concur. As discussed in Section A, it is Departmental Offices' position that the material weakness regarding control over Indian Trust Funds is no longer a material weakness. Significant corrective actions have been taken; we believe that there is a high degree of accuracy in the Trust Fund account balances; that the accounting and asset management resource systems are reliable, and that monies are now properly and timely being accounted for. Upon careful consideration of the significant corrective action progress achieved and the procedures and internal controls that have been implemented to address the deficiencies in controls related to Indian Trust Funds, Interior management has downgraded the matter to a bureau-level reportable condition. We believe that the Departmental Offices' financial statements and related disclosures are in full compliance with the Federal accounting standards and that substantial compliance is achieved.

STATUS OF AUDIT REPORT RECOMMENDATIONS

Recommendation	Status	Action Required
A. and M.	Repeated; unresolved.	Recommendations will be referred to the Assistant Secretary for Policy, Management and Budget for resolution.
E.1., E.2., E.3., F.1., F.2., F.3., F.4., G., I.1., I.2., K.1., K.2., and L.	Resolved; not implemented.	Recommendations will be referred to the Assistant Secretary for Policy, Management and Budget for tracking of implementation.
D., J.1., and J.2.	Repeated; resolved; not implemented.	Continue tracking these repeat recommendations that were referred to the Assistant Secretary for Policy, Management and Budget as recommendations D., F.1.c., and F.2. (respectively) from Report No. E-IN-DMO-0058-2004.