

Compliance With Legal and Regulatory Requirements

This section of the report provides the required information on the Department's compliance with the:

- Federal Managers' Financial Integrity Act (FMFIA);
- Federal Financial Management Improvement Act (FFMIA);
- Inspector General Act Amendments (Audit Follow-Up);
- Improper Payments Information Act (IPIA);
- Federal Information Security Management Act (FISMA); and
- Other key legal and regulatory requirements including:
 - Prompt Payment Act (PPA)
 - Debt Collection Improvement Act (DCIA)
 - Biennial review of user fees

In addition, this section includes summaries of Department financial management improvement initiatives with respect to:

- Audited financial statement results;
- Financial management systems;
- Financial management human capital;
- Financial data stewardship; and,
- Major management challenges facing Interior.

Federal Managers' Financial Integrity Act (FMFIA)

The Department 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.

Interior's 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."

Annual Assurance Statement

The FMFIA requires agencies to provide a statement of assurance annually regarding the effectiveness of their management, administrative, and accounting controls, and their financial systems. Interior's FY 2004 Annual Assurance Statement is provided in *Figure 1-16*. The basis for the assurance statement conclusions is discussed in the following sections and is depicted in the chart in *Figure 1-17*.

Management Control Assessments

Interior conducted an annual assessment of the effectiveness of its management, administrative, and accounting

FIGURE 1-16

FISCAL YEAR 2004 ANNUAL ASSURANCE STATEMENT

The Department conducted the annual assessment of its systems of management, accounting, and administrative controls in accordance with the requirements and guidelines prescribed by the Federal Managers' Financial Integrity Act and Office of Management and Budget Circular A-123, "Management Accountability and Control." This assessment recognized the Department's significant progress in mitigating 70% of the FMFIA material weaknesses carried forward from the prior year. Based on the results of this assessment, with the exception of the four material weaknesses noted herein, the Department can provide reasonable assurance that its systems of management, accounting, and administrative controls, taken as a whole, meet the objectives specified in Section 2 of FMFIA and OMB Circular A-123.

The Department conducted an annual evaluation of its Information Technology (IT) Security Program as required by the Federal Information Security Management Act. The results of this evaluation led the Department and the Office of Inspector General to conclude that: significant improvements in the information technology security program had been achieved; the IT security program generally meets the requirements of FISMA; and, most of Interior's information systems have the levels of security needed to safeguard information and related assets.

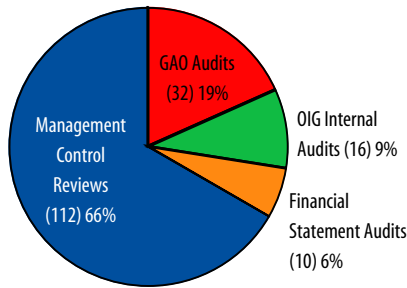
The Department again received an unqualified audit opinion from the independent audit of its financial statements. However, the results of the audit indicated that several Department entities were not in full compliance with applicable Federal financial management system requirements, Federal accounting standards, and the U.S. Government Standard General Ledger based on OMB guidance and materiality thresholds prescribed for the FMFIA, which differed from those prescribed under FISMA. As a result, the Department does not fully comply with, or meet the objectives of, Section 4 of the FMFIA, OMB Circular A-127, "Financial Systems," and OMB Circular A-130, "Management of Federal Information Resources." The Department has implemented a remediation plan to resolve these deficiencies and expects to complete corrective actions in FY 2005.



Secretary of the Interior

FIGURE 1-17

Basis for FY 2003 Assurance Statement



systems controls in accordance with FMFIA and OMB guidelines. The conclusions in the Secretary’s Annual Assurance Statement are based on the results of 112 management control reviews of programs and administrative functions conducted by bureaus and offices (66%), 16 OIG internal program audits (9%), 32 GAO program audits (19%), and the 10 financial statement audits (6%) conducted by the independent public accounting firm, KPMG LLP, under the auspices of the Chief Financial Officers (CFO) Act of 1990 and the Government Management Reform Act (GMRA) of 1994. It should be noted that, as in prior years, management control reviews performed by the

Department and its bureaus provided the majority of the support (66%) for the Annual Assurance Statement. In addition, many of Interior’s management control reviews and related accountability and integrity program activities were focused on areas identified as major management challenges and components of the President’s Management Agenda. *Figure 1-18* presents a crosswalk of those activities.

Material Weaknesses and Accounting System Non-conformances

Prior to FY 2004 and since the inception of the FMFIA in 1982, Interior had identified and reported 172 material weaknesses and 65 accounting system non-conformances. Interior had corrected 162 of these material weaknesses (94%) and 64 of these accounting system non-conformances (98%). During FY 2004, one new material weakness was identified while 7 material weaknesses were corrected or downgraded. All accounting system non-conformances identified through FY 2000 were previously corrected. The remaining accounting system non-conformance for financial management system security controls was downgraded as a result of significant progress achieved during FY 2004.

FIGURE 1-18

Crosswalk of Activities Related to Major Management Challenges and the President’s Management Agenda

Management Accountability and Integrity Program Activities in FY 2004 Related to Interior’s Major Management Challenges and President’s Management Agenda (Update as of 8/31/04)	Interior’s Top Management Challenges							President’s Management Agenda				
	Financial Management	Information Technology	Health, Safety, and Emergency Management	Maintenance of Facilities	Responsibilities to Indian and Insular Affairs	Resource Protection and Restoration	Revenue Collections	Procurement, Contracts, and Grants	Competitive Sourcing	Strategic Management of Human Capital	Expanded Electronic Government	Improved Financial Management
Management Control Reviews/Management Studies and Initiatives	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Office of Inspector General Audits												
- Program Audits Completed	✓	✓			✓		✓					✓
- Financial Statement Audits Completed	✓		✓				✓	✓				✓
U.S. Government Accountability Office Audits Completed	✓	✓			✓	✓		✓			✓	
Federal Manager’s Financial Integrity Act (FMFIA) Material Weaknesses												
- Corrected or Downgraded During FY 2004	✓	✓	✓			✓	✓					✓
- Pending and Carried Forward to FY 2005			✓	✓	✓							

TABLE 1-9

Number of Material Weaknesses Reported and Corrected or Downgraded			
Period Reported	Reported	Corrected or Downgraded	Pending at Year End
Prior Years	169	152	17
FY 2001	1	1	17
FY 2002	2	8	11
FY 2003	0	1	10
FY 2004	1	7	4
Total	173	169	4

The Department's progress in correcting material weaknesses and accounting system non-conformances is presented in *Tables 1-9 and 1-10*. These tables present the number of new material weaknesses and accounting system non-conformances reported and corrected by fiscal year and the number pending at year-end. *Table 1-11* presents the 10 material weaknesses that were pending at the beginning of FY 2004, including those designated as "mission critical weaknesses," and the status (correction or downgrade) of these weaknesses. Interior will carry forward only four material weaknesses to FY 2005, the lowest total of pending material weaknesses since the inception of the FMFIA.

GPRA Goal for Timely Correction of Material Weaknesses

Interior is committed to the timely correction of material weaknesses in order to improve integrity and accountability in its programs, organizations, and functions. To ensure that the material weaknesses identified and reported in the FMFIA program are corrected in a timely manner, the Department established a GPRA performance measure. The Department's performance goal for FY 2004 was to substantially complete at least 80% of the material weaknesses targeted for completion in FY 2004.

The Department met this performance goal in FY 2004 by correcting or downgrading 5 of 6 material weaknesses targeted for completion in FY 2004, for an 83% performance goal achievement (*Table 1-11*). In addition, 2 material weaknesses targeted for correction after FY 2004 were downgraded. The extensive accomplishments of Office of the Special Trustee for American Indians (OST) in improving Records Man-

TABLE 1-10

Number of Material Non-Conformances Reported and Corrected or Downgraded			
Period Reported	Reported	Corrected or Downgraded	Pending at Year End
Prior Years	64	64	0
FY 2001	1	0	1
FY 2002	0	0	1
FY 2003	0	0	1
FY 2004	0	1	0
Total	65	65	0

agement, and the efforts of BOR and FWS in improving Real Property Management weaknesses ahead of schedule contributed to Interior exceeding this GPRA performance goal.

Mission Critical Material Weaknesses

OMB Circular A-123, "Management Accountability and Control," requires that each agency identify and report on the most critical material weaknesses affecting the agency. The Department has adopted the guidelines for mission critical material weakness designations recommended by the GAO. These guidelines are noted in *Figure 1-19*. Interior recognizes the importance of correcting mission critical weaknesses in a timely manner. The Department and senior program management officials continuously monitor corrective action progress for all mission critical weaknesses.

Federal Financial Management Improvement Act (FFMIA)

The Federal Financial Management Improvement Act (FFMIA) builds upon and complements the CFO Act, the Government Performance and Results Act, and the Government Management Reform Act. The FFMIA requires that Federal agencies conform to the government-wide Standard General Ledger (SGL), 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 representation letter to the financial statement auditor. The

TABLE 1-11

Pending FMFIA Material Weaknesses as of September 30, 2004					
Bureau	Date First Reported	Description	Corrective Actions	FY 2004 Progress	
OST, BIA and OS/OHTA	FY 1991	Indian Trust Assets: Improve trust policies, procedures, systems, training, and internal controls.	Improve procedures, systems, and internal controls over the billing and collection of lease revenue, eliminate the backlog of unprocessed probates, update land ownership records, and address any remaining historical accounting concerns.	<p>During FY 2004, the OIG commenced a performance audit to ensure appropriate collection of funds and adherence to internal controls. The OIG will complete the audit in FY 2005. When the results of that audit are distributed, additional improvements will be implemented where appropriate, along with the additional improvements that are planned and underway in the areas of land records, probate, and leasing.</p> <p>While improvements in systems, procedures, and controls have been implemented, there has been no determination that the trust fund balances need to be adjusted. OST acknowledges that the accuracy of balances in the trust fund accounts has been challenged, and the Court has directed Office of Historical Trust Accounting (OHTA) to conduct an historical accounting. OST also acknowledges that the outcome of the historical accounting may lead to a future direction from the Court or Congress to adjust those balances.</p>	<p>FY 2007</p> <p>Ongoing. No change in the FY 2007 targeted correction date.</p>
OST and BIA	FY 1991	Records Management: Long standing deficiencies in the records management program have made it difficult to ensure the maintenance and preservation of Indian Trust records.	An updated work plan with strategies, tasks, timelines and resource requirements have been developed by the Office of Trust Records. The implementation of this work plan will resolve many of the identified deficiencies and establish an active and comprehensive records management program for BIA and OST.	<p>The Office of Trust Records (OTR) identified the following six strategies and related action milestones to achieve an effective records management program: (1) records retention schedules; (2) record-keeping requirements; (3) safeguarding records; (4) training programs; (5) evaluation of records programs; and, (6) record retrieval and document production requirements. The six strategies have been substantially completed. Major milestones include: the BIA Indian Affairs Records and Files Disposition Handbook was updated and approved by the Archivist of the United States; the Indian Affairs Records Management Manual has been developed and published; the American Indian records Repository was constructed and now contains 32,000 boxes of indexed records previously stored in several records centers across the country; 530 pieces of fireproof records storage equipment have been provided to BIA and OST offices; training and technical guidance has been provided to over 192 line officers; protocols for retiring inactive trust records have been developed and implemented; and, a central database for all inactive Indian Affairs records has been developed, implemented, and over 65,000 boxes of records have been indexed and entered into the database. The remaining action milestones in each strategy are ongoing activities and routine business practices. OTR will continue to monitor and report to the Office of the Assistant Deputy Secretary on the status of these ongoing activities and routine business practices.</p>	<p>FY 2006</p> <p>Downgraded</p>

TABLE 1-11

Pending FMFIA Material Weaknesses as of September 30, 2004				
Bureau	Date First Reported	Description	Corrective Actions	FY 2004 Progress
Mission Critical Material Weaknesses				
NPS	FY 2002	Oil and Hazmat Incident Preparedness and Response Program: The lack of an adequate oil and hazardous material incident preparedness and response program potentially endangers the safety of the public, employees, and park resources.	NPS will develop and implement a comprehensive corrective action plan to ensure full and complete compliance with applicable laws, regulations, Executive orders, and policies to ensure the safety of the public, employees, concessionaires and park resources.	NPS designated an Associate Director for the Hazmat Response Program within NPS, and implemented a comprehensive corrective action plan to ensure full and complete compliance with applicable laws, regulations, Executive orders, and policies to ensure the safety of the public, employees, concessionaires, and park resources. NPS conducted follow-up assessments at high-risk parks to measure compliance with fuel transfer, storage and handling operations policies, procedures, and regulations. The results of the assessment indicated there were no material instances of non-compliance.
NPS	FY 2000	Inadequate Structural Fire Program: The current program does not provide adequate protection of employees and visitors, contents, structures, and resources for the effects of fire as required by Director's Order No. 58.	NPS will develop and implement a comprehensive structural fire program plan as directed by Congress. The plan will include specific milestones to address the operational, organizational, technical, and staffing deficiencies cited in the May 2000 GAO audit report and July 2000 Congressional hearing on fire safety failures of the NPS.	NPS has implemented a requirement that fire safety reviews of all new construction and major facility rehabilitation projects be conducted by a trained, qualified inspector; developed a facilities liaison position to conduct fire protection condition assessments of concessions facilities in national parks; implemented a requirement that any new fire alarm or sprinkler system must be tested before installation for compliance with National Fire Protection Codes; and implemented a phased training program for park personnel on inspection, testing, and maintenance of sprinkler and alarm systems. Remaining training courses have been funded and scheduled for FY 2005.
				FY 2004 PAR Target Date
				FY 2004
				Corrected
				Downgraded

TABLE 1-11

Pending FMFIA Material Weaknesses as of September 30, 2004						
Bureau	Date First Reported	Description	Corrective Actions	FY 2004 Progress	FY 2003 PAR Target Date	Status
DEPT	FY 1999	Inadequate Department-wide Maintenance Management Capability: Interior lacks consistent, reliable, and complete information to plan for, budget, and account for resources dedicated to maintenance activities.	Identify and implement a comprehensive maintenance management system with an appropriate linkage to the accounting system; conduct comprehensive condition assessments; make determinations to repair, replace, or relocate facilities; develop a 5-year Deferred Maintenance Plan and Capital Improvement Plan; repair, replace, and relocate facilities to "good condition"; and reduce deferred maintenance to established goals (5 percent or less of replacement cost).	Interior identified and commenced implementation of a comprehensive maintenance management system (MAXIMO) with an appropriate linkage to the accounting system. All bureaus are in various stages of implementation, except BIA which is using its own "Legacy" system. All bureaus are starting the 5th year of the 5-year plan to conduct comprehensive condition assessments on all constructed assets with a current replacement value of more than \$50,000. With this information, bureaus are making the determination to repair, replace, or relocate facilities. A 5-year Deferred Maintenance Plan and Capital Investment Plan have been developed and are updated annually. Facilities are being repaired, replaced, and relocated to good condition based on priorities from condition assessments. At the completion of the first cycle of 5-year condition assessments, a baseline of outstanding deferred maintenance will be established and annual reductions toward the goal of 5% or less of replacement cost will be measured.	FY 2004	Ongoing. A targeted correction date of FY 2006 has been assigned by the Department.

TABLE 1-11
Pending FMFIA Material Weaknesses as of September 30, 2004

Bureau	Date First Reported	Description	Corrective Actions	FY 2004 Progress	FY 2003 PAR Target Date	Status
BIA (New)	FY 2004	<p>Indian Detention Facilities: After years of inadequate management attention and funding priorities, serious safety, security, and maintenance deficiencies exist at the majority of BIA detention centers. These deficiencies are a hazard to inmates, staff, and the public.</p>	<p>BIA will immediately commence the implementation of corrective actions that will improve the security, safety, management, and operating efficiency of detention facilities. These actions will include:</p> <ul style="list-style-type: none"> • The Deputy Assistant Secretary for Law Enforcement will become actively engaged in managing the detention program; • The Department's Office of Law Enforcement will conduct frequent scheduled and unscheduled compliance inspections; • Clear "serious incident" reporting and follow-up protocols will be established and implemented; • Facility staffing models will be developed, and shortages related to officer safety should be immediately identified and corrected; • Recruiting standards and guidelines for detention officers will be developed and adhered to; • A system for identifying and prioritizing facilities repairs impacting inmate and officer safety will be implemented; • Internal controls and other improvements for budgeting, cost tracking, and reporting purposes will be developed and implemented; • Strategic plans for jail replacement and renovation based on comprehensive condition assessments will be developed; • Training standards and models for detention offices will be developed and compliance/certification reviews will be conducted; and, • Regular regional meetings of detention administrators will be held to identify best practices and address and resolve emerging issues. 	<p>Before the end of FY 2004, BIA commenced restructuring of the Office of Law Enforcement; issued the Indian Country Detention Strategic Planning summary; developed a staffing plan to address critical staffing shortages; and, commenced development of revised training programs.</p> <p>OIG audit report with recommendations was issued in September 2004.</p>	N/A	<p>Ongoing. A targeted correction date of FY 2005 has been assigned by BIA.</p>

TABLE 1-11

Pending FMFIA Material Weaknesses as of September 30, 2004						
Bureau	Date First Reported	Description	Corrective Actions	FY 2004 Progress	FY 2003 PAR Target Date	Status
Other Material Weaknesses						
BIA	FY 1984	Irrigation Operations and Maintenance: The establishment of irrigation assessment rates and collection, recording, investment, and utilization of irrigation receipts are inadequate. Operation and maintenance (O&M) receivable balances have not been kept current and billing and debt collection processes have not been consistently followed.	The BIA will: (1) convert irrigation project billings and collections to the National Irrigation Information Management System (NIIMS) and interface it with Federal Financial System (FFS); complete and forward the construction debt cancellation package to the Assistant Secretary - Indian Affairs; develop Operations Handbook regarding project operations and keeping O&M assessments and collection processes current; and, develop and publish revised irrigation regulations in 25 CFR 171 A and B as a Final Rule,	All irrigation projects have been converted and billings and collections are now processed through NIIMS and reported in FFS. The construction debt cancellation package has been completed and approved by the Assistant Secretary - IA. The Operations Handbook has been issued. Tribal consultations for the Notice of Proposed Rulemaking (NPR) on the revised irrigation regulations have been completed. The NPR will be issued in December 2004.	FY 2004	Downgraded
BLM	FY 2002	Land Appraisal and Exchange Functions: Management and oversight of the land appraisal and exchange functions do not ensure that objective and independent market value opinions from qualified appraisers are used in land transactions.	The BLM will establish an independent appraisal function to review all land exchange transactions and establish a multi-agency team to review and identify appraisal and exchange function deficiencies and implement appropriate corrective actions.	Secretarial Order No. 3251 issued and implemented on November 12, 2003, consolidated and transferred real estate appraisal functions of all Interior bureaus into the Office of the Secretary (Office of Appraisal Services in the National Business Center). The consolidation ensures appraisal independence, accountability, high standards, and appropriate training and oversight for Departmental appraisal functions.	FY 2004	Corrected

TABLE 1-11

Pending FMFIA Material Weaknesses as of September 30, 2004						
Bureau	Date First Reported	Description	Corrective Actions	FY 2004 Progress	FY 2003 PAR Target Date	Status
BOR and FWS	FY 2000/ FY 2003	Improving Controls and Systems for Accounting and Reporting Real Property: The Bureau of Reclamation and U.S. Fish and Wildlife Service do not have the internal controls, accounting procedures, and/or systems to properly account for real property.	The BOR will improve its land inventory and financial reconciliations by (1) conducting reconciliations and searches to validate the accuracy of its land records; (2) populating its new real property system with such data; (3) developing and issuing policy and procedures to ensure future quality, accuracy, and completeness of data captured in the lands and finance systems; and (4) conducting an initial and periodic reconciliation between the detailed land data maintained in its real property system and FFS to ensure the quality of information contained in both systems. FWS will improve the processes, procedures, controls, and systems to ensure that regions provide accurate and timely information for the real property system.	Other Material Weaknesses BOR has revised policies and procedures for recording land records in the property management system (FIRM) to ensure and complete reconciliations quality, accuracy, and completeness of data captured in the lands and finance systems; assessed and approved regional reconciliation methodologies; and, completed more than 90% of the project reconciliations to date. The remaining project reconciliations will be completed in FY 2005. FWS implemented a comprehensive corrective actions plan. Completed actions to date include: assessment of regional responsibilities and capabilities to ensure transactions are timely and accurate; property management training; implementation of processes and internal controls to ensure transactions are processed timely and accurately in the financial records; performance of quarterly reconciliations of Construction Work In Progress (CWIP) and other subsidiary systems and the General Ledger; and, implementation of procedures to determine and properly account for capital leases at lease inception.	FY 2005	Downgraded

FIGURE 1-19

Material Weakness Guidelines
<p>The Department defines a mission critical material weakness as:</p> <ul style="list-style-type: none"> • An inherent program or administrative functional material weakness that makes the program or activity susceptible to fraud, waste, and abuse. • A systemic deficiency caused by ineffective program or management support, financial systems, policies, and/or procedures established by a bureau or reporting entity to carry out a major program or administrative function. • A practice that is seriously detrimental to public health or safety, a program or administrative activity, service delivery, national security, economic growth, privacy, or citizens' rights. • A practice that could result in significantly impaired service, program failure, significantly reduced program effectiveness or efficiency, public injury or loss of life, unreliable decisionmaking data, reduced confidence in government, and unauthorized disclosure, manipulation or misuse of sensitive information such as personal, financial management, or programmatic data maintained in computerized systems. <p>The Department will remove a mission critical designation or report a material weakness corrected or downgraded when:</p> <ul style="list-style-type: none"> • Senior management has demonstrated its commitment to resolving the material weakness as evidenced by resource deployment and frequent and regular monitoring of corrective action progress. • Substantial and timely documented progress in completing material weakness corrective actions is provided. • Corrective actions have been substantially completed, and the remaining actions are minor in scope and will be completed within the next fiscal year. • Implemented corrective actions have eliminated or minimized the root cause(s) of the material weakness. • Substantial validation of corrective action effectiveness has been performed.

auditor is required to report on the agency's compliance with FFMIA requirements in the Independent Auditor's Report and in the Internal Control and Compliance Report. If an agency is not in compliance with the requirements of the FFMIA, the agency head is required to establish a remediation plan to achieve substantial compliance.

As a result of material weaknesses and other reportable conditions identified in the FY 2004 financial statement audits, Interior concluded that it did not substantially comply with the FFMIA. The Department has reported the areas requiring improvement in the associated remediation plan.

Highlights of FFMIA Remediation Plan *Information Technology Security*. Interior developed an Information Technology (IT) Security Plan to improve controls over financial and information technology systems, and protect information resources. Under the leadership of the OCIO, the Department has achieved substantial progress in implementing the plan at both the Department and bureau levels. Sound guidance has been provided to bureaus and offices regarding desired implementation of IT security requirements. The FY 2004 FISMA annual evaluation of the IT security program by the Department and the OIG concluded that: (1) significant improvements had been achieved; (2) the IT security program generally meets the requirements of FISMA; and, (3) most of Interior's information systems have the level of security needed to safeguard information and related assets. The Department recognizes that additional improvements in these areas are desired to raise all aspects of the IT security program to targeted performance levels. The Department will focus on these improvements in FY 2005.

Segregation of Duties. The Department will continue to work with those bureaus with reported vulnerabilities in this area to review and restructure employee roles and responsibilities to achieve a higher degree of segregation of duties in information technology system-related operations where it is cost-effective. Bureaus

with vulnerabilities in this area, and the related corrective action plans, are noted in *Table 1-20*.

Access Controls. The Department has taken action to secure network vulnerabilities and improve access control in each of the following areas: network configuration management; password management; monitoring of security violation logs; access to program and sensitive files that control computer hardware and sensitive applications; and physical security controls. Some bureaus have not followed existing access control procedures that limit or detect inappropriate access to information technology systems and related

resources. Bureaus with vulnerabilities in this area are noted in *Table 1-20*.

Change Controls. The Department's IT Security Plan seeks to assure that appropriate policies, procedures, and operational controls are developed and implemented to prevent unauthorized system, program, or application modifications. Some bureaus have not fully implemented change controls, or followed existing procedures over application software development and change controls for all financial systems and applications. The bureaus with vulnerabilities in this area are noted in *Table 1-20*.

Service Continuity. As noted in the FY 2004 FISMA evaluation, not all bureaus have completely implemented and tested Continuity of Operation Plans for major systems. These bureaus need to ensure that plans are in place and tested to minimize the risk of loss from unplanned interruptions, and to protect data should interruptions occur. Bureaus with vulnerabilities in this area are noted in *Table 1-20*.

Federal Accounting Standards. Interior has strived to fully develop and implement strengthened policies, procedures, and controls to ensure that financial statements and related disclosures are prepared in accordance with Federal accounting standards and the U.S. Standard General Ledger, specifically the standards concerning intragovernmental eliminations and real property. The Department consolidated and bureau material weaknesses in these areas, and the related corrective action plans, are noted in *Tables 1-19* and *1-20*.

Inspector General Act Amendments (Audit Follow-Up)

Interior believes that the timely implementation of OIG and GAO audit recommendations is essential to improving efficiency and effectiveness in its programs and operations, as well as achieving integrity and accountability goals. As a result, Interior has instituted a comprehensive audit follow-up program to ensure that audit recommendations are implemented in a timely and cost-effective manner and that disallowed costs and other funds due from contractors and grantees are collected or offset. In FY 2004, Interior monitored a substantial amount of Single Audit, OIG, and GAO audit activity, including 101 Single Audits,

72 OIG audits, and 61 GAO audits. Audit follow-up actions include analyzing audit reports referred; advising grantors of audit findings; tracking, reviewing, and validating audit recommendations; developing mutually acceptable and timely resolution to disputed audit findings and recommendations; and monitoring the recovery of disallowed costs.

GPRa Goal for Timely Implementation of Audit Recommendations

To further demonstrate the importance of timely implementation of OIG and GAO audit recommendations, beginning in FY 2001, Interior established an aggressive annual GPRa performance goal of implementing 75% of all GAO and OIG audit recommendations within one year of the referral of those recommendations to the Department for tracking of implementation. After successfully meeting that goal for the first time in FY 2002, Interior elected to raise the performance goal to 80% for FY 2003 and FY 2004.

Interior was able to meet its GPRa performance goal for FY 2004. A composite implementation rate of 88% was achieved (*Table 1-12*). The primary reason for Interior's success in achieving the GPRa performance goal for the second consecutive year was the aggressive progress monitoring plan implemented at the direction of the Assistant Secretary – Policy, Management and Budget. In addition to the quarterly management control and audit follow-up program progress scorecard prepared for each bureau and office, a monthly progress scorecard for audited financial statement recommendation implementation progress was established to ensure audit recommendation implementation commitments were being met, and that immediate senior management attention was directed to slippage when it occurred. Interior plans to employ the same aggressive progress monitoring plans in FY 2005 to ensure the continued achievement of this GPRa performance goal.

Single Audits

Interior provides over \$2 billion each year in funding for grants, cooperative agreements, Indian self-determination contracts, and self-governance compacts to State and local governments, Indian tribes, colleges and universities, and other nonprofit organizations. Under the provisions of the Single Audit Act, the grantees' financial operations, management control

TABLE 1-12

FY 2004 GPRA Performance Goal for Implementation of OIG and GAO Audits			
Bureau/Office	Number of Recommendations Meeting GPRA Goal Criteria	Number of Recommendations Implemented Within Planned One Year Target	Percentage Implementation
BIA	31	30	97%
NPS	27	21	78%
FWS	43	35	81%
BLM	25	13	52%
MMS	23	21	91%
OSM	10	10	100%
BOR	33	30	91%
USGS	63	63	100%
OS (Dept)	23	20	87%
PIA (Dept)	2	2	100%
OST (Dept)	26	24	92%
TOTAL	306	269	88%

structure, and level of compliance with applicable laws and regulations must be audited each year. All Single Audit reports are forwarded to and screened by the Federal Single Audit Clearinghouse (Clearinghouse). Those Single Audit reports, with findings and recommendations requiring audit follow-up, are forwarded to the Department for distribution to the appropriate bureaus for audit follow-up, resolution, and tracking. Each bureau is responsible for meeting with grantees and negotiating a resolution to the deficiencies identified in the audit reports, as well as for determining the allowability of any expenditure of Federal funds that has been questioned by the auditors.

Collecting and Offsetting Disallowed Costs in Single Audits

As shown in *Table 1-13*, Interior closed only 4 of 65 (6%) audits in tracking during FY 2004. There was a substantial increase in the number of audits referred for tracking with disallowed costs (32 audits with \$12.5 million in disallowed costs). The \$710,000 in disallowed costs recovered represented about 2% of total disallowed costs in tracking during the year. Of the 61 audits in tracking at the end of the year, 28 (46%) had management decision dates greater than 1 year old. The Department plans to be more aggressive in its monitoring and follow-up activities during FY 2005, and expects to achieve significant increases in

the number of audit reports closed and disallowed costs recovered, or offset.

Internal Audits

Internal audits are audits conducted by the OIG of Interior's programs, organizations, and financial and administrative operations. During FY 2004, 72 audits were being tracked (46 audits carried over from FY 2003 and 26 new audits were referred for tracking during FY 2004), and 30 of those audits were closed (42%). A total of 536 recommendations from OIG internal audit reports were in tracking during the year, of which 267 were completed or closed during FY 2004. For the 42 audits pending at the end of FY 2004, there are 269 recommendations awaiting final implementation action.

One category of OIG internal audits is those audits where the OIG presents recommendations to improve efficiency and where funds can be put to better use (FBU audits). Interior tracks the successful implementation of FBU audit recommendations and FBU dollar estimates, which are agreed to by management. As noted *Table 1-14*, there were 5 audits with \$128.6 million in FBU dollars tracked during FY 2004. Three audits (60%) with \$90.4 million (70%) in FBU dollars were closed during the year.

Government Accountability Office Audits

GAO audits are a major component of Interior's audit follow-up program workload and cover a variety of programs, operations, and activities. A total of 25 GAO reports with 57 recommendations were carried over from FY 2003. GAO issued a total of 26 new reports with 51 recommendations during the year. The Department was successful in closing 28 of the 51 (55%) reports in tracking during FY 2004, along with 13 (12%) recommendations (*Table 1-15*).

TABLE 1-13

FY 2004 Summary of Actions Taken on Contract, Grant, and Single Audits with Disallowed Costs			
		Number of Reports	Disallowed Costs
(A) Reports on Hand at Beginning of Period *		33	\$22,575,433
(B) New reports		32	\$12,537,394
Total reports in tracking		65	\$35,112,827
(C) Final action taken during period		4	\$710,213
Collected	3	\$429,738	
Written Off	0	0	
Offset	0 **	\$140,359	
Reinstated	1	\$140,116	
Referred to Treasury for Collection Action	0	0	
(D) Reports in progress at end of period		61	\$34,402,614
Mgmt Dec < 1 yr old	32	\$12,537,394	
Mgmt Dec > 1 yr old	28	\$19,695,605	
Mgmt decision under formal appeal	1	\$2,169,615	

* Fiscal Year 2004 beginning balances have been restated to eliminate 53 audit reports with non-monetary findings (internal control issues, etc.) and \$23,016,670 million in funds not subject to Interior audit follow-up that were included in FY 2003 ending balances.

** Report has costs in multiple categories.

TABLE 1-14

Summary of Actions Taken with Funds to be Put to Better Use (FBU) in FY 2004			
		Number of Reports	FBU Dollars
(A) Reports on hand at beginning of report period		2	\$14,435,553
(B) New reports received during report period		3	\$114,139,271
Total reports in tracking		5	\$128,574,824
(C) Reports closed during report period		3	\$90,355,553
(D) Reports in progress at end of report period		2	\$38,219,271
Mgmt dec < 1 yr old	2	\$38,219,271	
Mgmt dec > 1 yr old	0	0	
Mgmt dec under formal appeal	0	0	

Note - Includes only audits with monetary impact of Federal funds (excludes audits of non-Federal funds for insular area governments and indirect cost proposals negotiated).

Audited Financial Statement Results

As required by the Government Management Reform Act, Interior 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). Additionally, each individual bureau prepares financial statements that are also audited.

The preparation and audit of financial statements are an integral part of the Department's centralized process to ensure the integrity of financial information maintained by Interior.

The results of the FY 2003 and FY 2004 audited financial statement process are summarized in *Table 1-16*. As shown in the table, there were instances where exceptions on internal controls were noted as material weaknesses or reportable conditions, as well as instances of noncompliance with laws and regulations other than compliance with the Federal Financial Management Improvement Act (FFMIA).

Resolution of Internal Control Weaknesses and Non-Compliance Issues Reported in FY 2003 Audited Financial Statements

Tables 1-17 and 1-18 summarize the status of material weaknesses and non-compliance issues reported in the FY 2003 audited financial statements. The Department has established an internal goal of completing corrective actions for material weaknesses and non-compliance issues by the end of the following fiscal year, unless the magnitude of the corrective action plans involves a multi-year effort.

While the Department made progress in correcting material weaknesses reported in the FY 2003 audits, delays in completing corrective actions in some bureaus and several multi-year corrective action plans precluded the achievement of the internal goal in FY 2004. In summary, 7 of the 17 (41%) total material weaknesses reported in FY 2003 financial statements were corrected or downgraded to reportable conditions during FY 2004. Moreover, 7 of the 14 (50%) material weaknesses reported in FY 2003

TABLE 1-15

Summary of Actions Taken on Reports Issued by the GAO in FY 2004					
				Number of Recommendations	Number of Reports
In tracking at the beginning of reporting period				57	25
Issued during the reporting period				51	26
Subtotal				108	51
Closed during the reporting period				13	28
In tracking at the end of the reporting period				95	23
Code	Status of final reports in tracking	No. of Recommendations	No. of Reports		
D1	Management decisions < 1 yr old	43	12		
D2	Management decisions > 1 yr old	53	21		
D3	Mgmt decisions under formal appeal	0	0		

TABLE 1-16

Summary of FY 2003 and FY 2004 Financial Statement Audits											
	Unqualified Opinion on Financial Statements		Material Weakness in Report on Internal Controls		Full Compliance with Laws and Regulations (Non FFMIA)		Full Compliance with Laws and Regulations (FFMIA)		Full Component Compliance with Laws and Regulations (FFMIA)		
	FY 2003	FY 2004	FY 2003	FY 2004	FY 2003	FY 2004	FY 2003	FY 2004	Systems	Accounting	SGL
									FY 2004	FY 2004	FY 2004
Dept	Yes	Yes	Yes	Yes	No (2,3,4)	No (2,3,4)	No	No	No	No	No
FWS	Yes	Yes	Yes	Yes	Yes	Yes	No	No	No	No	Yes
USGS	Yes (1)	Yes	Yes	No	Yes	Yes	No	No	No	Yes	Yes
BIA	Yes	Yes	Yes	Yes	No (2,3,4)	No (2,4)	No	No	No	No	No
BLM	Yes	Yes	No	Yes	Yes	Yes	No	No	No	No	Yes
MMS	Yes	Yes	No	Yes	Yes	No (2,3)	No	No	No	No	Yes
NPS	Yes	Yes	No	No	No (4)	No (4)	No	No	No	No	Yes
BOR	Yes	Yes	Yes	Yes	Yes	Yes	No	No	Yes	No	Yes
OSM	Yes	Yes	No	No	Yes	Yes	No	Yes	Yes	Yes	Yes
DO	Yes	Yes	Yes	Yes	No (4)	No (3,4)	No	No	No	No	Yes

(1) Balance sheet only

(2) Debt Collection Improvement Act

(3) Prompt Payment Act

(4) Single Audit Act

and targeted for correction in FY 2004 were corrected or downgraded to reportable conditions. The decline in the correction percentage over the prior year was directly attributable to several bureaus failing to meet corrective action commitments.

The Department did not make progress in correcting non-compliance issues reported in the FY 2003 audits as delays in completing corrective actions in a few bureaus precluded the achievement of the internal goal in FY 2004. In summary, only 2 of the 18 (11%) total

non-compliance issues reported in FY 2003 financial statements were corrected or downgraded during FY 2004. However, it should be noted that the correction rate is somewhat understated as several bureaus corrected one or more of the FFMIA non-compliance components reported in FY 2003. For example, the USGS achieved compliance of the corrective actions related to its accounting standard component but not its financial system component. As a result, the FFMIA non-compliance was carried forward to FY 2005.

TABLE 1-17

FY 2003 Audited Financial Statements Status of Material Weakness Corrective Actions (as of 9/30/04)				
Bureau	Material Weakness Description	Corrective Action	Original Target Date	Corrective Action Status
DEPT	Controls over Property, Plant, and Equipment	Implement controls to improve reporting of additions and disposals, land and land rights, construction-in-progress, leased property, depreciation, and reconciliations between general and subsidiary ledgers.	9/30/04	Delayed
DEPT	Financial Reporting Controls	Improve controls and process for financial analysis, transaction entry, and reconciliations. Continue to enhance financial staff resources.	9/30/04	Partially Corrected and Restated
DEPT	Intra-Governmental Eliminations	Implement policies and procedures and work with other Federal agencies to provide streamlined and efficient year-end eliminations and reporting processes.	9/30/04	Delayed
DEPT	Controls Over Trust Funds	Implement the Department's plans to achieve comprehensive Indian Trust reform, including vital improvements to systems, policies, and operations necessary to fulfill the trust obligations to Indian tribes and individuals.	9/30/05	Ongoing
DO	Controls Over Tribal and Other Special Trust Funds	Implement policies, procedures, controls, and systems to effectively manage Tribal and Other Special Trust Funds.	9/30/05	Ongoing
DO	Suspense Accounts	Adopt procedures to reconcile the customer payroll suspense accounts and investigate and resolve the contents of suspense accounts on a monthly basis. Adopt procedures to ensure that entries to resolve suspense accounts are properly supported.	9/30/04	Corrected
FWS	Real Property Controls and Processes	Develop and implement procedures to assess regional responsibilities and capabilities related to real property inventory and make changes as necessary to ensure that real property transactions are recorded in the subsidiary ledger and general ledger at the time the financial event occurs and at the proper amount.	9/30/04	Downgraded
BOR	Controls Over Land Inventory	Develop a complete and accurate inventory system that identifies by project all land and land rights.	9/30/05	Ongoing
USGS	Unbilled Accounts Receivable and Deferred Revenue Related to Reimbursable Agreements	Implement more effective internal controls through a centralized review and analysis of agreements with abnormal billed and unbilled accounts receivable and deferred revenue balances. Also, enforce current policies and procedures for conducting reviews of agreements.	9/30/04	Downgraded
BIA	Financial Reporting Controls	Improve controls and process for financial analysis, transaction entry, and reconciliations. Continue to enhance financial staff resources.	9/30/04	Downgraded
BIA	Legal Liabilities	Implement controls and processes to provide complete, timely, and accurate data for contingent liabilities.	9/30/04	Downgraded

TABLE 1-17

FY 2003 Audited Financial Statements Status of Material Weakness Corrective Actions (as of 9/30/04)				
Bureau	Material Weakness Description	Corrective Action	Original Target Date	Corrective Action Status
BIA	Year-End Accruals and Deobligations	Develop and implement policies and procedures to ensure that appropriate accruals and deobligations are recorded in financial management systems.	9/30/04	Corrected
BIA	Controls Over Property	Implement controls to improve reporting of additions and disposals, construction-in-progress, leased property, depreciation, and reconciliations between general and subsidiary ledgers.	9/30/04	Delayed
BIA	Controls Over Procurement Activity	Implement controls and processes to improve the timely, accurate, and complete recording of acquisitions. Ensure that documentation complies with policies and procedures.	9/30/04	Downgraded
BIA	Controls Over Processing Trust Transactions	Improve fiduciary controls over the processing of Trust transactions including segregation of duties, related party transactions, probate backlogs, and appraisal compacts.	9/30/04	Delayed
OST	Reliance on Processing of Trust Transactions in the BIA	Work collaboratively with Departmental offices to monitor progress, ensure timely completion of Trust reform initiatives, and fulfill fiduciary responsibility to Trust fund beneficiaries.	9/30/04	Delayed
OST	Resolution of Financial Reporting Issues from Prior Periods	Continue to develop issue papers and action plans to address and resolve prior period issues.	9/30/04	Delayed

TABLE 1-18

FY 2003 Audited Financial Statements Non-Compliance with Laws and Regulations Status Report (as of 9/30/04)				
Bureau	Non-Compliance Description	Corrective Action	Target Date	Status
DEPT	Debt Collection Improvement Act of 1996	Interior should establish a process to ensure eligible receivables in all bureaus are referred to the U.S. Department of the Treasury in a timely manner.	9/30/04	Delayed
DEPT	Single Audit Act Amendments of 1996	Improve grantee monitoring processes to ensure compliance with reporting requirements	9/30/04	Delayed
DEPT	Prompt Payment Act of 1982 (P.L. 97-177)	Ensure that all bureaus correctly enter payment data into FFS in order to properly calculate and pay prompt pay interest due.	9/30/04	Delayed
DEPT	Federal Financial Management Improvement Act (FFMIA)	Develop and implement appropriate controls to ensure full compliance with Federal financial system requirements and U.S. Standard General Ledger accounting standards at the transaction level.	9/30/04	Delayed
BIA	Federal Financial Management Improvement Act (FFMIA)	Develop and implement appropriate controls to ensure full compliance with Federal financial management systems, accounting standards, and the SGL at the transaction level.	9/30/04	Delayed
BIA	Single Audit Act Amendments of 1996	Ensure that monitoring activities in the Office of Audit and Evaluation over A-133 audits result in full compliance.	9/30/04	Delayed
BIA	Prompt Payment Act of 1982 (P.L. 97-177)	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.	9/30/04	Corrected
BIA	Debt Collection Improvement Act of 1996	Establish, implement, and monitor policies and procedures addressing debt collection issues to ensure compliance with the Debt Collection Improvement Act.	9/30/04	Delayed
DO	Federal Financial Management Improvement Act (FFMIA)	Develop and implement appropriate controls to ensure full compliance with Federal financial systems and accounting standards.	9/30/04	Delayed
DO	Single Audit Act Amendments of 1996	Ensure that monitoring activities in the Office of Audit and Evaluation over A-133 audits result in full compliance.	9/30/04	Delayed
MMS	Federal Financial Management Improvement Act (FFMIA)	Develop and implement a process to ensure that the Minerals Revenue Management Financial System (MRMFS) is able to produce timely and accurate financial information to meet the requirements of FFMIA	9/30/04	Delayed
FWS	Federal Financial Management Improvement Act (FFMIA)	Develop and implement appropriate controls to ensure full compliance with Federal financial management systems and accounting standards.	9/30/04	Delayed
BLM	Federal Financial Management Improvement Act (FFMIA)	Develop and implement appropriate controls to ensure full compliance with Federal accounting standards.	9/30/04	Delayed
NPS	Single Audit Act Amendments of 1996	Ensure that monitoring activities in the Office of Audit and Evaluation over A-133 audits result in full compliance.	9/30/04	Delayed
NPS	Federal Financial Management Improvement Act (FFMIA)	Develop and implement appropriate controls to ensure full compliance with Federal financial management systems and accounting standards.	9/30/04	Delayed
BOR	Federal Financial Management Improvement Act (FFMIA)	Develop and implement appropriate controls to ensure full compliance with Federal financial management systems and accounting standards.	9/30/04	Delayed
USGS	Federal Financial Management Improvement Act (FFMIA)	Develop and implement appropriate controls to ensure full compliance with Federal financial management systems.	9/30/04	Delayed
OSM	Federal Financial Management Improvement Act (FFMIA)	Develop and implement appropriate controls to ensure full compliance with Federal financial management systems requirements.	9/30/04	Corrected

The Department intends to implement more aggressive monitoring actions during FY 2005 in order to substantially correct all of the material weaknesses and noncompliance issues reported in FY 2004 by the end of the third quarter of FY 2005.

Tables 1-19 and 1-20 present summaries of each of the material weaknesses and non-compliance issues reported in Department consolidated and bureau FY 2004 financial statement audit opinions. A total of 15 material weaknesses were reported, of which 10 (67%) were carried over from FY 2003. A total of 19 non-compliance issues were reported, of which 16 (84%) were carried over from FY 2003.

Major Management Challenges Confronting Interior

The OIG and the GAO annually advise Congress what they consider to be the Major Management Challenges facing the Department. *Table 1-21* presents a summary of the Major Management Challenges identified by the OIG and GAO and actions taken to address these challenges to date.

Improper Payments Information Act of 2002

The Improper Payments Information Act (IPIA) of 2002 (P.L. 107-300) requires Federal agencies to carry out a cost-effective program for identifying payment errors and recovering any amounts overpaid. An improper (or erroneous) payment includes 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. Incorrect amounts include: overpayments; underpayments (including inappropriate denials of payment or service); any payment made to an ineligible recipient or for an ineligible service; duplicate payments; payments for services not received; and payments that do not account for credit for applicable discounts.

To implement IPIA, the Office of Management and Budget (OMB) required agencies to review all programs (meeting OMB's definition of "program") to determine the risk susceptibility of making improper payments and to perform more in depth assessments for those programs meeting OMB's criteria for "significant erroneous payments." The threshold for significant erroneous payments is: program payments

exceeding both 2.5% and \$10 million annually. For all programs meeting the criteria, agencies were required to quantify the amount of erroneous payments using a statistically valid method with a 90% confidence level.

Summary of Implementation Efforts for FY 2004

Based on a series of internal control review techniques, Interior determined that none of its programs are risk-susceptible for making significant improper payments at or above the threshold levels set by OMB. It should be noted that these reviews were conducted in addition to audits under the Single Audit Act Amendments of 1996, the Chief Financial Officers Act of 1990, GAO reviews, and reviews by Interior's Inspector General. Three different techniques were used to arrive at this determination: (1) risk assessments of internal controls related to payments for all programs; (2) Departmental Functional Reviews (DFRs) focusing on the general control environment for making payments and the controls related to specific payment types; and (3) pre-payment and post-payment audits and recoveries. Each of the three techniques is summarized below:

1. Risk Assessments. Interior's Management Control Guidance for FY 2004 required managers to conduct risk assessments of all programs to determine if any were risk-susceptible for making significant improper payments. The assessments were used to establish risk profiles for all bureau programs. In particular, three programs of the Department were initially thought to have the potential for meeting the OMB threshold for significant erroneous payments. This initial assessment was based on prior audit and management control review efforts. The programs included were: Indian Self-Determination and Education Act (P.L. 93- 638) of the Bureau of Indian Affairs, Federal Aid of the U.S. Fish and Wildlife Service, and Financial Assistance of the Office of Insular Affairs. These three programs were required to make a more in-depth risk assessment. The results of these reviews and the reviews of all other Interior programs come to the conclusion that none of Interior's programs pose a high-risk of making significant improper payments based on OMB's criteria.

TABLE 1-19

FY 2004 Audited Financial Statements Material Weakness Corrective Action Plan				
Bureau	Material Weakness Description	Corrective Action	Target Date	New Weakness or Carryover from FY 2003
DEPT	Intragovernmental Eliminations	Implement policies and procedures and work with other Federal agencies to provide streamlined and efficient year-end eliminations and reporting processes.	9/30/05	Carryover
DEPT	Controls Over the Year-End Closing Process	Implement procedures to ensure transactions are promptly and accurately recorded to minimize year-end and post-certification adjustments. Ensure supervisors review and approve all journal entries.	9/30/05	Partial Carryover
DEPT	Controls Over Trust Funds	Implement and/or revise controls and procedures to ensure that the Indian Trust Funds' activity and balances are properly and timely recorded, and controls and plans are in place to resolve the other deficiencies noted.	9/30/05	Carryover
DEPT	Controls Over Property, Plant, and Equipment	Complete land inventory and reconciliation and implement controls and procedures to ensure transactions are promptly and accurately recorded.	9/30/05	Carryover
DO	Budgetary Transactions	Improve controls to ensure that budgetary transactions promptly recorded, properly classified and accounted for in order to prepare timely and reliable financial reports.	9/30/05	New
DO	Accruals	Test and finalize the accrual methodology for interim financial reporting to reduce year-end accrual effort, and reconcile accrual calculations to the general ledger.	9/30/05	New
DO	Controls Over Tribal and Other Special Trust Funds	Implement policies, procedures, controls and systems to effectively manage Tribal and Other Special Trust Funds.	9/30/05	Carryover
BOR	Controls Over Land Inventory	Develop a complete and accurate inventory system that identifies by project all land and land rights, and reconcile system balances to the general ledger.	9/30/05	Carryover
MMS	Controls Over the Year-End Closing Process	Implement procedures to ensure transactions are promptly and accurately recorded to minimize year-end and post-certification adjustments. Ensure supervisors review and approve all journal entries.	9/30/05	New
BLM	Accounting for Mineral Leases	Implement procedures to ensure that mineral lease transactions are promptly and accurately recorded. Ensure supervisors review and approve all journal entries.	9/30/05	New
BIA	Controls Over Processing Trust Transactions	Improve fiduciary controls over the processing of Trust transactions including segregation of duties, probate backlogs, probate backlogs and appraisal compacts.	9/30/05	Carryover
BIA	Controls Over Fund Balance with Treasury	Improve controls and procedures to ensure timely transaction entry and reconciliations, and supervisors review and approve adjusting entries.	9/30/05	New
BIA	Controls Over Property, Plant, and Equipment	Develop and implement policies and procedures to ensure that property, plant, and equipment accounts are stated in accordance with Federal accounting standards. Address construction grants, inventory observations, construction in progress, depreciation expense, and fixed asset subsidiary ledger.	9/30/05	Carryover
OST	Reliance on Processing of Trust Transactions at the BIA	Work collaboratively with Departmental offices to monitor progress and ensure timely completion of trust reform initiatives, and fulfill trust fiduciary responsibilities to trust fund beneficiaries.	9/30/05	Carryover
OST	Resolution of Financial Reporting Issues from Prior Periods (six part material weakness)	Continue to develop issue papers and action plans to address and resolve prior period issues.	9/30/05	Carryover

TABLE 1-20

FY 2004 Audited Financial Statements Non-Compliance with Laws and Regulations				
Bureau	Non-Compliance Description	Corrective Action	Target Date	New or Carryover from FY 2003
DEPT	Federal Financial Management Improvement Act	Improve controls to comply with Federal financial management system requirements, and accounting standards.	9/30/05	Carryover
DEPT	Debt Collection Improvement Act of 1996	Establish a process to ensure eligible bureau receivables are referred to the U.S. Department of Treasury in a timely manner.	9/30/05	Carryover
DEPT	Prompt Payment Act of 1982	Ensure that all bureaus correctly enter payment data voucher into FFS in order to properly calculate and pay prompt pay interest due.	9/30/05	Carryover
DEPT	Single Audit Act Amendments	Improve grantee monitoring processes to ensure compliance with the reporting requirements of the Single Audit Act Amendments.	9/30/05	Carryover
BOR	Federal Financial Management Improvement Act	Develop and implement appropriate controls to ensure full compliance with Federal accounting standards.	9/30/05	Carryover
FWS	Federal Financial Management Improvement Act	Develop and implement appropriate controls to ensure full compliance with Federal financial management systems and accounting standards.	9/30/05	Carryover
MMS	Federal Financial Management Improvement Act	Develop and implement appropriate controls to ensure full compliance with Federal financial management systems.	9/30/05	Carryover
MMS	Prompt Payment Act of 1982	Ensure that payment data vouchers are entered correctly into FFS in order to properly calculate and pay prompt pay interest due.	9/30/05	New
MMS	Debt Collection Improvement Act of 1996	Establish, implement and monitor policies and procedures addressing debt collection issues to ensure full compliance with the Debt Collection Improvement Act of 1996.	9/30/05	New
NPS	Single Audit Act Amendments	Develop controls to ensure grantees complete, report on, and implement timely corrective actions for single audits.	9/30/05	Carryover
NPS	Federal Financial Management Improvement Act	Develop and implement appropriate controls to ensure full compliance with Federal financial management systems and accounting standards.	9/30/05	Carryover
DO	Federal Financial Management Improvement Act	Continue to improve and implement appropriate controls to ensure full compliance with Federal financial management systems requirements and accounting standards.	9/30/05	Carryover
DO	Single Audit Act Amendments	Improve grantee monitoring processes to ensure compliance with the reporting requirements of the Single Audit Act Amendments.	9/30/05	Carryover
DO	Prompt Payment Act of 1982	Train and monitor employees to ensure that the acceptance dates per the invoice and receiving port are correctly transferred to the payment voucher and that the information should also be correctly entered into FFS.	9/30/05	New
BIA	Debt Collection Improvement Act of 1996	Establish, implement and monitor policies and procedures addressing debt collection issues to ensure full compliance with the Debt Collection Improvement Act of 1996.	9/30/05	Carryover
BIA	Federal Financial Management Improvement Act	Develop and implement appropriate controls to ensure full compliance with Federal financial management systems, accounting standards, and the SGL at the transaction level.	9/30/05	Carryover
BIA	Single Audit Act Amendments	Improve grantee monitoring processes to ensure compliance with the reporting requirements of the Single Audit Act Amendments.	9/30/05	Carryover
USGS	Federal Financial Management Improvement Act	Develop and implement appropriate controls to ensure full compliance with Federal financial management systems requirements.	9/30/05	Carryover
BLM	Federal Financial Management Improvement Act	Develop and implement appropriate controls to ensure full compliance with Federal financial management systems and accounting standards.	9/30/05	Carryover

TABLE 1-21

Summary of Major Management Challenges Facing Interior				
Major Management Challenge	Description	New or Carryover from FY 2003	Interior Actions to Date	Status at end of FY 2004
Financial Management	Sound financial management is critical to providing accurate financial information, managing for results, and ensuring operational integrity. Although the Department has made some progress, internal control weaknesses continue to hinder DOI financial management reporting and related systems.	Carryover	<p>The Department has several initiatives aimed at improving financial management, most notably: the Financial and Business Management System (FBMS), and Activity Based Costing/Performance Management (ABC/PM). While these initiatives should upgrade financial management in the future, they are placing increased demands on already stretched financial resources.</p> <ul style="list-style-type: none"> Financial and Business Management System In 2003, DOI launched a comprehensive plan to transform its financial management functions and create a world-class financial management structure. The cornerstone of the Department's plan to transform financial management is the FBMS, which will replace a variety of outdated, stand-alone, mainframe-based systems. Computer Labs have been set up to enable staff to test the new FBMS software. In addition, a capstone business case is being prepared for FBMS that will discuss other systems that will be retired. About 160 systems will be affected by the implementation of the FBMS, and currently, 80 of those systems have been identified for retirement. <p>FBMS will be phased into implementation over the coming years, starting in FY 2005 and continuing through FY 2008. Successful implementation of FBMS will be key to addressing DOI's financial management challenges.</p> <ul style="list-style-type: none"> Activity-Based Costing/Performance Management Activity-Based Costing/Performance Management comprises management tools that will help DOI better understand the costs of conducting business because it allows management to examine how program activities consume resources and produce outputs. Formal Department-wide ABC/PM implementation started in October 2003, when DOI employees began documenting their time, purchases, travel related costs, and training to the work activities they performed. Employees used the time and attendance systems, financial data recording processes, and methodologies specified by their bureaus/offices to capture time and expenses against work activities to record outputs. Because DOI is so early in the implementation process, it is difficult to assess how effective the implementation of ABC/PM has been. DOI will monitor the implementation of ABC/PM and make modifications, as necessary, to ensure that ABC/PM provides useful information. 	Ongoing

TABLE 1-21

Summary of Major Management Challenges Facing Interior				
Major Management Challenge	Description	New or Carryover from FY 2003	Interior Actions to Date	Status at end of FY 2004
Information Technology	<p>The Department has made information technology (IT) security maintenance a high priority for all bureaus. DOI is continuing to make substantial progress in strengthening IT security. Sound guidance has been provided to bureaus and offices regarding desired implementation of IT security requirements. Although substantial improvements have been made and sound operations are prevalent, some DOI entities do not fully comply with all Federal financial management systems requirements specified in OMB Circular A-130, "Management of Federal Information Resources." Therefore, as a whole, the Department does not fully comply with, or meet the objectives of, Section 4 of the Federal Financial Management Improvement Act and OMB Circular A-127, "Financial Systems." The Department has implemented a remediation plan to resolve remaining material weaknesses and expects to complete corrective actions in FY 2005.</p>	Carryover	<p>DOI has significantly improved its information security program, as demonstrated by the increase in the percentage of systems that were certified and accredited from 6% in 2003 to 98% in 2004. To foster this effort, the Department has invested more than \$100 million in its security program over the past three years. Based on these efforts, DOI believes that its information security program generally meets the requirement of FISMA and that most of its information systems have levels of security to safeguard Department information and related assets.</p> <p>DOI has made efforts to further (1) improve the IT business cases; (2) prioritize IT investments; and (3) develop a strategy to fund enterprise IT investment. DOI is continuing to make progress in strengthening IT security. For example, DOI has developed an information technology security program that meets the financial accounting systems application and general control requirements of the Federal Information Security Management Act. DOI evaluated the perimeter security of its computer systems on a monthly basis and currently shows zero potential vulnerability when measured against an industry standard. Also, DOI has established security processes and documentation for its Indian Trust systems.</p>	Ongoing

TABLE 1-21

Summary of Major Management Challenges Facing Interior				
Major Management Challenge	Description	New or Carryover from FY 2003	Interior Actions to Date	Status at end of FY 2004
Health, Safety, and Emergency Management	Annually, DOI has nearly 260 million visits to national parks, 68 million visits to public lands, and 39 million visits to national wildlife refuges. In addition, there are 90 million visitor days of use at 308 Bureau of Reclamation (BOR) recreation sites. Accordingly, DOI must protect these visitors, hundreds of thousands of employees and volunteers, thousands of facilities, and millions of acres of property from both internal and external threats. The physical isolation of some DOI lands and facilities increases their vulnerability to threats and inhibits DOI's response time.	Carryover	<p>In summary, DOI's areas of concern and actions have been focused on the following areas:</p> <p>Radio Communications Effective radio communications are critical to employee and public safety and the efficient management of the parks and public lands. The current wireless telecommunications program in some bureaus does not effectively support bureau and public safety operations, does not comply with Departmental management directives, and is not funded to achieve timely compliance. The Department has developed and commenced implementation of a plan to meet employee and public safety objectives; restore program efficiency by reviewing bureau Narrowband Capital Investment and Implementation Plans; revise plans to maximize radio system sharing and minimize supporting infrastructure requirements; and ensure maximum use of alternative wireless services by FY 2005.</p> <p>NPS's Structural Fire Program The Structural Fire Program has not provided adequate protection of employees and visitors, structures, and resources from the effects of fire as required by Director's Order No. 58. NPS has developed and made substantial progress in implementing a comprehensive structural fire program plan as directed by Congress. The plan includes specific milestones to address the operational, organizational, technical, and staffing deficiencies.</p> <p>NPS's Hazardous Material Program In FY 2003, DOI reported that the lack of an adequate oil and hazardous material incident preparedness and response program seriously endangered the safety of the public, employees, and park resources. NPS has developed and made substantial progress in implementing a comprehensive corrective action plan to ensure full and complete compliance with applicable laws, regulations, Executive orders, and policies to ensure the safety of the public, employees, concessionaires, and park resources.</p> <p>Security Surrounding National Icons Security surrounding the National Park Service's Icon Parks is a key focus of the Department's Homeland Security efforts. The Office of Law Enforcement and Security (OLES) has installed a security professional and has been involved with the implementation of homeland security and related Departmental policies. However, NPS has yet to put in place a security professional or embrace many of the recommendations presented by OLES to enhance security because funding for enhanced security competes with other park projects. DOI will focus on providing the appropriate balance for these competing priorities.</p> <p>DOI Law Enforcement OLES and the bureaus have been working towards implementing 25 Secretarial directives to improve law enforcement. There has been some progress in improving the oversight and coordination of the law enforcement programs. Each bureau now has senior-level law enforcement managers in place and an internal affairs office to address integrity-related issues. Also, a Department-wide policy to provide guidance on internal affairs will be issued.</p>	Ongoing

TABLE 1-21

Summary of Major Management Challenges Facing Interior				
Major Management Challenge	Description	New or Carryover from FY 2003	Interior Actions to Date	Status at end of FY 2004
Maintenance of Facilities	DOI owns, builds, purchases, and contracts services for assets such as visitor centers, schools, office buildings, roads, bridges, dams, irrigation systems, and reservoirs. According to the January 2003 Government Accountability Office (GAO) report titled, "Major Management Challenges and Program Risks, Department of the Interior," DOI needs to more aggressively address the deferred maintenance backlog because the deterioration of facilities can adversely impact public health and safety, reduce employee morale and productivity, and increase the need for costly major repairs or early replacement of structures and equipment. DOI has undertaken facility condition assessments throughout all bureaus. These assessments are producing a facility condition index for each facility and, in the aggregate, for different facility categories. This index provides a measure of whether facilities are in acceptable condition or have a backlog of maintenance needs.	Carryover	<p>DOI has embarked on a comprehensive approach to maintenance management that includes implementation of a comprehensive maintenance management system to effectively plan, prioritize, conduct, and track the condition and maintenance of facilities within all bureaus, especially NPS, and provide long-term leadership to keep money available to address the long-standing issues of deferred maintenance. The key elements of that plan and status at the end of FY 2004 are as follows:</p> <ul style="list-style-type: none"> • Identify and implement a comprehensive maintenance management system with an appropriate linkage to the accounting system (completed); • Conduct comprehensive condition assessments (5-year plan for assessments underway – approximately 73 percent completed); • Make determinations to repair, replace, or relocate facilities (underway); • Develop a 5-year Deferred Maintenance Plan and Capital Improvement Plan (completed and updated annually); and • Repair, replace, and relocate facilities to good condition, and reduce deferred maintenance to established goals (underway). <p>DOI has adopted a computer-based facilities maintenance management system, which it tested at multiple locations, and implementation will be completed in FY 2005. The Department has been assessing the condition of facilities, developing a 5-year maintenance plan, and establishing goals to reduce the deferred maintenance backlog. Also, DOI has established a Facilities Management Systems Partnership (FMSP) that provides a forum for the Department and its facilities managing bureaus to coordinate the development and use of facilities management systems. While the FMSP has made demonstrable strides in developing a framework within which to address facilities management issues, deferred maintenance in the Department remains a material weakness and an enormous challenge to be managed.</p>	Ongoing

TABLE 1-21

Summary of Major Management Challenges Facing Interior				
Major Management Challenge	Description	New or Carryover from FY 2003	Interior Actions to Date	Status at end of FY 2004
Responsibility to Indians and Insular Areas	<p>DOI needs to address persistent management problems in programs for Indians and island communities. DOI is responsible for administering the Federal government's trust responsibilities to Indian Tribes and individual Indians, and it provides more than \$750 million annually for basic Tribal services, such as social services, Tribal courts, and natural resource management. In addition, over the years, GAO and OIG have reported on DOI's management of Indian trust funds and programs. Despite DOI's efforts, inadequate accounting and information systems and internal controls prevent DOI from completely ensuring that trust and program funds are properly managed. Further, DOI has various responsibilities to seven island communities - four U.S. territories and three sovereign island nations. The Insular Area governments have serious long-standing financial and program management deficiencies.</p>	Carryover	<p>Indian Affairs</p> <p>Indian Trust Records - The independent certified public accounting firm of KPMG LLP, under contract with the Office of Special Trustee for American Indians (OST), rendered qualified opinions on OST's FY 2003 and FY 2004 financial statements. KPMG qualified its opinion because of internal control inadequacies in certain trust-related systems and procedures which provide required financial/trust information for OST. Also, KPMG noted that certain parties for whom OST holds monetary assets in trust do not agree with the balances recorded by OST, and have either filed or are expected to file claims against the U.S. Government, or have filed a request for an accounting which may or may not lead to claims against the U.S. government.</p> <p>DOI 's conversion to a commercial trust fund accounting system and the implementation of enhanced OST management controls have helped ensure that all trust funds we account for are properly collected. Historical accounting methods and existing system of controls are being strengthened to ensure that BIA ownership and distribution information is correct. The Department will continue to improve its trust policies, procedures, systems, and internal controls and provide training to achieve the goals of the Comprehensive Trust Management Plan by FY 2006.</p> <p>Indian Country Detention Facilities - In September 2004, the OIG informed the Department of the deplorable conditions existing at some of the detention facilities that may lead to life-threatening situations and management deficiencies in the Office of Law Enforcement Services detention program. DOI is assisting the BIA in immediately developing and implementing an action plan to address and alleviate the potentially life-threatening situations at its detention facilities and improve detention program management.</p> <p>Native American Schools – BIA funds or operates schools in 23 States, providing education services to about 48,000 students that attended 184 elementary and secondary schools and dormitories at the outset of FY2004, and supports 29 Tribally controlled community colleges, universities, and post-secondary schools. A significant number of the schools built in the 1940s and 1950s have been poorly maintained, with inadequate roofing and floors, plumbing, heating, and lighting. They are also obsolete and lack critical capabilities such as science and computer labs.</p> <p>To address the problem of inadequate facilities, Congress increased funding to replace and repair American Indian Schools. Six of the seven replacement projects funded from FY 1998 through FY 2000 have been completed and one is awaiting Certificate of Occupancy. Of the thirteen replacement projects funded in FY 2001 and FY 2002, five schools are completed, seven schools are in construction and one school is in design. Of the fourteen replacement projects funded in FY 2003 and FY 2004, one school is complete, two are in construction, and the remaining ten are in Planning or Design phase. BIA is also making significant progress in addressing the Indian school maintenance backlog by providing for a total of 19 facilities improvement and repair projects from FY 2003 to FY 2004.</p>	Ongoing

TABLE 1-21

Summary of Major Management Challenges Facing Interior				
Major Management Challenge	Description	New or Carryover from FY 2003	Interior Actions to Date	Status at end of FY 2004
			<p>DOI's FY 2004 budget included \$294.9 million for school construction which provided funding for 8 replacement school projects as well as several major improvement and repair projects at Indian schools. The FY 2004 funding improved the facility condition index for BIA schools to .124 with 106 schools or 58% in fair or good condition as compared with 91 or 48% in fair or good condition in FY 2003. The FY 2004 budget also included \$520.6 million in school operations funding to continue to address the President's commitment to "Leave No Child Behind."</p> <p>Insular Affairs Insular Area governments generally lack the standard business practices essential to financial accountability. OIG audits have identified serious administrative and accounting deficiencies, including property management practices that were not sufficient to satisfactorily account for and safeguard equipment purchased with grant funds; improper procurement practices that allowed purchases without competition; poor records management; inadequate accounting practices that resulted in questioned costs, incorrect grant balances, and poor reporting practices to the Office of Insular Affairs (OIA) that unnecessarily delayed projects.</p> <p>Although the OIG is authorized to audit all revenues and expenditures of Insular Area governments, DOI does not have the authority to enforce audit findings and recommendations for funds provided by other Federal agencies or for funds provided by DOI that have Federally imposed entitlement conditions. While OIA has taken steps to strengthen controls over its grants, OIG's follow-up audits highlighted the necessity of continuing to urge other Federal agencies providing funds to the Insular Areas to become more involved in monitoring these funds and ensuring their proper use.</p> <p>DOI has reviewed and implemented improvements in the process used by the OIA to award and monitor grants to Insular Areas. OIA awards over \$50 million in grants each year that provide Insular Areas with technical and financial assistance to develop more dynamic economies and improve the quality of life for the citizens. While OIA properly processed grants, weaknesses in monitoring grants resulted in public projects that were not completed on time, essential services that were delayed or not provided at all, and Federal monies that were wasted.</p>	

TABLE 1-21

Summary of Major Management Challenges Facing Interior				
Major Management Challenge	Description	New or Carryover from FY 2003	Interior Actions to Date	Status at end of FY 2004
Resource Protection and Restoration	<p>DOI resource managers face the challenge of balancing the competing interests for use of the Nation's natural resources. DOI manages 507 million acres, or about one-fifth, of the land area of the United States and 700 million acres of subsurface minerals. Federal lands account for 30 to 35 percent of energy produced in the United States. DOI has jurisdiction over an additional 1.76 billion acres of the Outer Continental Shelf. In addition, DOI manages 542 national wildlife refuges, 388 units of the national park system, 70 national fish hatcheries, 15 national monuments in the national landscape conservation system, and 13 national conservation areas.</p> <p>Major contributors to the challenge of effective resource management include increased population, environmental issues, shortages of resources such as water, oil and gas, and demands for more recreational areas. DOI faces challenges in implementing policy goals for repairing and maintaining ecosystems within budget limitations. Of special concern are wildfires, water allocations, a changing land and recreation base, and invasive (non-native) species.</p>	Carryover	To achieve its Department-wide mandate for protecting and preserving the natural resources under its management, DOI has developed long-term goals of restoring the health of public lands and maintaining ecosystems. The Department has made significant progress in restoring significant national ecosystems to health by (1) addressing the growing wildland fire threat to communities and resources caused by the excessive buildup of fuels in forested ecosystems, such as those located in the interior Western States; (2) restoring the South Florida ecosystem, which includes the Everglades; and (3) controlling and eradicating invasive non-native species.	Ongoing

TABLE 1-21

Summary of Major Management Challenges Facing Interior				
Major Management Challenge	Description	New or Carryover from FY 2003	Interior Actions to Date	Status at end of FY 2004
Revenue Collections	DOI annually collects from \$6 to \$11 billion in revenues from energy, minerals, grazing, timber, lands sales, and other revenue producing activities. The highest revenue collector in DOI is MMS, which annually collects more than \$6 billion in mineral revenues from more than 84,260 onshore and offshore Federal leases. Since 1982, the MMS Minerals Revenue Management Program has collected and distributed approximately \$127 billion to Federal, State, and Indian accounts. The MMS also conducts a comprehensive compliance effort to ensure that royalty payments from lessees are on time and accurate. Because of the amount of collections and the significant potential for underpayments, the OIG believes that revenue collections should be a management challenge for the Department.	Carryover	MMS has implemented comprehensive systems and other program improvements to address OIG audit concerns with the Minerals Revenue Management Program. MMS has assisted the OIG with investigations which have uncovered multi-million dollar royalty underpayments. One recent investigation resulted in a \$49 million settlement agreement with a major oil company for failure to pay royalties on natural gas production from offshore leases.	Ongoing
Procurement, Contracts, and Grants	DOI spends substantial resources each year in contracting for goods and services and in providing Federal assistance to States and Indian organizations. Managing procurement activities is an unending challenge requiring constant attention.	Carryover	DOI has developed and implemented comprehensive plans to continue to address OIG-identified deficiencies such as: <ul style="list-style-type: none"> • BIA's acquisition management organization, policies, procedures, and guidelines; • The lack of management supervision by DOI bureaus and offices over purchases made with credit cards; and • Contract administration for construction projects such as the 12 procurements for interrogation, intelligence, logistics, and security services valued at \$81 million placed by the Southwestern Branch of the National Business Center's Acquisition Services Division (NBC) which were made under General Services Administration (GSA) schedules for Information Technology and Professional Engineering Services. 	Ongoing

Table 1-22 is a summary listing of all Interior program outlays by bureau. Although not required, the table is provided to disclose the Department's outlays and cite the major programs reviewed under the IPIA.

2. Department-Wide Functional Reviews (DFRs).

Interior conducted DFRs in FY 2004 for the following payment processes: vendor, travel, grants, purchase card, and payroll/time keeping. Using a proprietary automated assessment tool, the DFR included a review of internal controls surrounding all payment processes and collected responses from 70 finance office and program employees. The results of the DFRs indicated that internal controls were adequate and working as intended in the vendor, grant, travel, and purchase card processes. Additional opportunities for strengthening controls were identified in the payroll processing area; however, it was determined that payroll processing internal control requirements were sound based on a Statement of Auditing Standard 70 review conducted by independent audit.

3. Pre- and Post-Payment Audits and Recoveries.

A. Prepayment Audit of Government Bills of Lading (GBLs) - Interior has been conducting prepayment audits of its freight bills via GBL for a number of years. This effort is required by the Travel and Transportation Reform Act of 1998. We are continuing that effort and have worked with our bureaus to reasonably assure that all freight bills receive pre-payment audits. During FY 2004, pre-payment audit contractors identified \$611,813 in savings for about 18,500 bills of lading reviewed.

B. Single Audit Act - Under the provisions of the Single Audit Act, grantees' financial operations, management control structures, and level of compliance with applicable laws and regulations must be audited periodically. All Single Audit reports are submitted to the Federal Single Audit Clearinghouse (Clearinghouse), U.S. Bureau of the Census. Interior provides funding for grants, cooperative agreements, Indian self-determination contracts, and self-governance compacts to State and local governments, Indian tribes, colleges and universities, and other nonprofit organizations. Those Single Audit reports, with findings and recommendations are forwarded to the Office of Financial Management for Audit Follow-up actions. Each bureau is responsible for meeting with grantees and negotiating a resolution of the deficien-

TABLE 1-22

FY 2004 Outlays by Major Program Area		
Bureau or Office	Major Program Area	FY 2004 Outlays (millions)
BIA	Operation of Indian Programs, Construction, Land and Water Settlements, Water Rights, and Habitat Acquisition	\$2,161
BLM	Management of Land and Resources, Fire	1,761
BOR	Water and Related Resources, Central Valley Project Restoration, California Bay Delta	1,101
FWS	Resource Management, Federal Aid in Wildlife Restoration, Cooperative Endangered Species Fund, Federal Aid in Sport Fisheries, Construction, Land Acquisition	1,999
USGS	Geologic Hazards Resources, Water Resources Investigation, Biological Research, National Mapping, Science Support	841
MMS	Mineral Leasing, Royalty and Offshore Management	923
NPS	Operation of the NPS, Construction and Maintenance, Land Acquisition and State Assistance, National Recreation and Preservation, Historic Preservation, Park Police	2,586
OSM	Abandoned Mine Reclamation, Regulation and Technology	317
OIA	Compact of Free Association, Payments to U.S. Territories, Assistance to Territories	397
OS	Payments in Lieu of Taxes (1)	216
Total		\$12,302

(1) Payments in Lieu of Taxes Program was transferred to the Office of the Secretary from BLM in FY 2004.

cies identified in the audit reports, as well as, determining the acceptability of any expenditure of Federal funds questioned by the auditors. Interior recovered \$570,079 in disallowed costs in FY 2004 identified via prior audits under the Single Audit Act.

C. Recovery Audits - In response to Section 831 of the Defense Authorization Act for FY 2002 (U.S. Code 31 USC 3561-3567), Interior contracted with a recovery audit firm near the end of FY 2003. A pilot program was conducted for the Office of the Secretary (Departmental Management) in early FY 2004. This effort recovered \$39,875 at a cost of \$7,975. A performance goal of the Department was to have recovery audit programs initiated in all bureaus by the end of FY 2004. This was accomplished and the contractor (PRG Schultz) has been engaged by task order and has initiated recovery audit recovery efforts in each bureau.

Additional detail on the Department's risk assessments, Departmental Functional Reviews, and recovery audits are contained in Appendix A of this report.

Interior Plans for FY 2005 – FY

2007. Annual performance goals are to maintain adequate controls over payment processes to ensure that erroneous payments are minimized. *Table 1-23* displays future plans and current year performance on measures to maintain a focus on recovery efforts. The Department will continue using contractor assistance to perform pre-payment audits of bills of lading and will proceed with post-payment audits (recovery audits) initiated in FY 2004.

In addition to the measures listed in *Table 1-23*, Interior will complete the following tasks in FY 2005 to ensure compliance with the IPIA:

First Quarter

- Issue management control guidance for FY 2005 requiring bureau annual risk assessments of all programs.

Second Quarter

- Complete recovery audit for vendor payments (FY 2001-2003) in all bureaus.

Third Quarter

- Continue recovery audits to include FY 2004 vendor payments and complete all bureau risk assessments.

Fourth Quarter

- Review and analyze bureau's risk assessment reports to determine if any corrective action plans are necessary, and if so, have the appropriate bureaus provide the plans.
- Prepare data to fulfill the reporting requirements of the Improper Payments Information Act and OMB for inclusion in Interior's Performance and Accountability Report for FY 2005.

TABLE 1-23

Erroneous Payments					
Performance Measure	FY 04 Plan	FY 04 Actual	FY 05 Plan	FY 06 Plan	FY 07 Plan
Federal Assistance - Percent of Audit Disallowances	.06%	.02%	.05%	.04%	.03%
Federal Assistance - Percent of Disallowances Returned to Government	60%	80%	70%	75%	80%

Federal Information Security Management Act (FISMA)

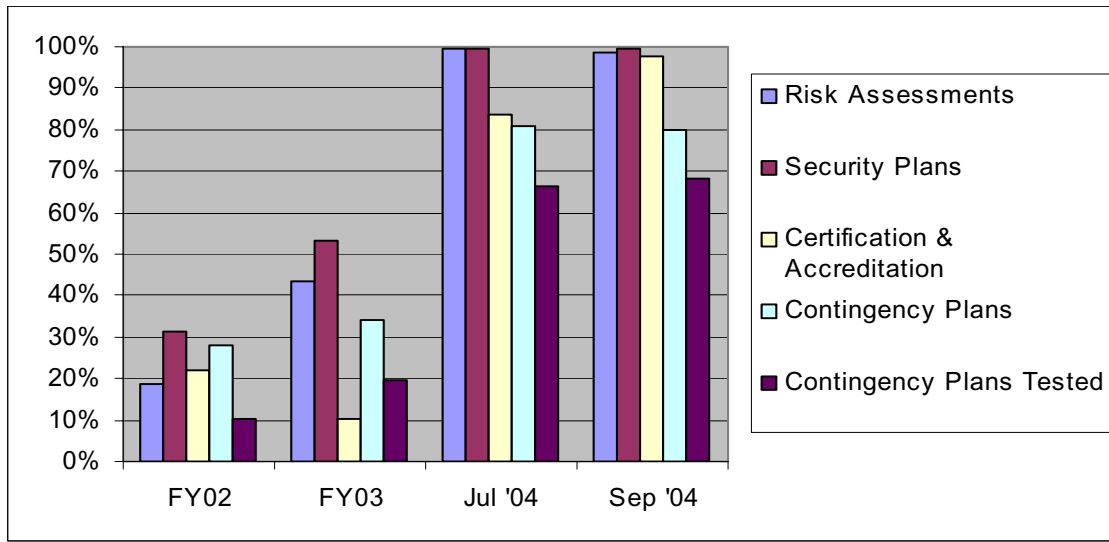
The inception of the Federal Information Security Management Act (FISMA), and the preceding Government Information Security Reform Act (GISRA) clarified a framework and relevant agency roles in ensuring the effectiveness of security controls with regard to information resources that support Federal operations and assets. The law gives latitude for OMB and the Department of Commerce through the National Institute of Standards and Technology (NIST) to identify minimum standards of operating information systems within the Federal government.

DOI quickly responded to the enactment of FISMA and prior guidance from OMB. Before FY 2002, the Department IT Security Program budget was approximately \$4 million per year. Additionally, in FY 2003 less than 10% of DOI systems had documented authorization to operate as required by OMB Circular A-130. In FY 2004, the annual IT Security Program budget had grown to \$30 million, or approximately 5% of total IT outlay. Twelve million dollars of that investment was focused directly on certification and accreditation activities (C&A), which largely address the requirements of FISMA with regard to assessing risk, demonstrating commensurate controls, and documenting agency official approval of operations (*Figure 1-20*).

The Interior IT Security Program has taken a comprehensive approach to meeting FISMA requirements and aligning with the prevailing guidance from NIST and OMB. DOI developed meaningful criteria for all elements of FISMA emphasis. Associated initiatives are active to (1) develop policy, (2) define procedures, (3) implement procedures, (4) train staff, and (5) validate systems against the established criteria. These

FIGURE 1-20

Certification and Accreditation Activities



five phases occurred for all FISMA areas and represent the required activities in creating organizational change.

Specific milestones achieved in FY 2004 include:

- **Assess Risk / Commensurate Controls / System Specific Plans (C&A).** C&A process guides finalized, 258 security staff trained in C&A procedures, Department-wide Blanket Purchase Agreement (BPA) with 10 qualified vendors established for C&A implementation, \$12 million in funding distributed to bureaus to provide for C&A activities, which resulted in 98% of systems completing certification and accreditation by September 2004. This includes all operational financial systems. Twenty-one percent of these C&A packages were quality assured by an independent contractor and all procedures are in strict compliance with NIST guidance.
- **Integration with Strategic and Operational Planning.** Interior includes all security program budget costs in appropriate OMB submissions. Furthermore, Enterprise Architecture (EA) is a means of capital asset control in which DOI has made substantial progress. Clear security architecture will enable system owners to build and change systems in accordance with pre-approved patterns. Benefits of architecture include operational consistency, cost-effective licensing, and ease of security control maintenance/validation. DOI received the E-Gov-

ernment Institute's Federal Civilian Leadership in Government Transformation Award for the DOI Enterprise Architecture.

- **Minimum Configurations.** Established a Technical Reference Model and approved Security Technical Implementation Guides (STIGS) for critical IT security components, such as operating systems, router configuration, data-base hardening, etc.
- **Process for Deficiency Resolution.** The Plan of Actions & Milestones (POA&M) is the OMB required, authoritative format for tracking identified deficiencies in operations. System owners must review this list and determine reasonable remediation schedules within their system release plans. DOI has identified a policy for maintaining POA&M entries and has deployed an automated support tool for collaborative entry of a single authoritative repository for deficiencies. Eighty-six IT security staff have been trained in procedures and the tool for resolving POA&M entries.
- **Incident Response.** Completed incident response policy definition within Departmental Manual (DM) 375.19. Continued outsourcing of agency incident response handling to the Department of Homeland Security (DHS) US Computer Emergency Readiness Team (US CERT). One hundred fifty-four DOI technical staff trained in incident response procedures.

- **Training.** Ninety-three percent of DOI employees and contractors (76,888) completed IT security awareness training by July 2004. Certification training programs for IT security professionals resulted in 56 DOI security staff attaining the ISC2 Certified Information System Security Professional (CISSP) including the agency CIO.
- **Periodic Testing.** In addition to C&A Security Test & Evaluations, Interior followed NIST guidance in conducting self-assessment reviews (NIST 800-26) for all systems. Independent technical testing was commissioned via monthly scanning of perimeter networks utilizing the SANS Top 20 vulnerability list as the standard. In September 2003, almost one hundred hosts had vulnerabilities that appeared on the SANS Top 20 list. By March 2004, Interior achieved no related vulnerabilities and has maintained that status to this day (*Figure 1-21*).

- **Continuity of Operations.** Established a contingency planning technical guide as part of security planning guidance. Eighty percent of systems have completed contingency plans with 68% completing annual testing requirements.
- **Critical Infrastructure.** Created a methodology for evaluating systems for relevance to critical infrastructure Presidential directives and identified five as relevant.

As demonstrated, the nearly \$100 million identified for DOI IT Security Program initiatives in FY 2003 - FY 2005 is both focused on the right objectives and achieving lasting results. In the FY 2004 FISMA Annual Report, the Inspector General observed that Interior has "...significantly improved its information security program..." and that it "... generally meets the requirements of FISMA ...".

Appropriately, the OIG and CIO recognize the need for improvement. C&A quality will continue to be reviewed and bolstered. Contingency plan tests must occur with greater frequency and the methods of information assurance must be demonstrably validated in contract organizations that maintain Interior information assets or services.

The Finance and Business Management System (FBMS) demonstrates the forward thinking Interior is applying to improve the level of mission performance using information management. This new system is applying FISMA principles on a recurring basis. C&A activities have been embedded in every phase of the life cycle with the IT security office participating in weekly reviews of progress and tracking towards the second quarter of FY 2005 initial deployment. The C&A will be updated as required for each subsequent deployment. Enterprise Architecture (EA), including reusable security patterns, are being applied and updated as the real project precipitates new scenarios and considerations. This feedback cycle between architecture, security, system development, and business stakeholders achieves the awareness of risk, application of commensurate controls, and support of business processes desired. FBMS is the largest case study to test organizational implementation of FISMA principles and is the prototype for DOI systems management going forward.

FIGURE 1-21

Count of Perimeter Servers with SANS Top 20 Listed Vulnerability

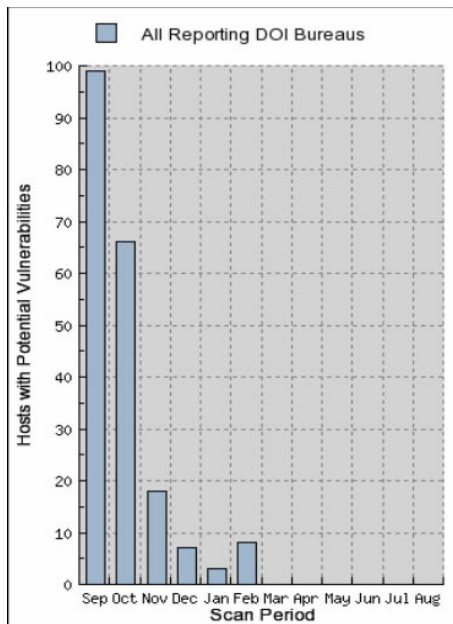


FIGURE 1-22

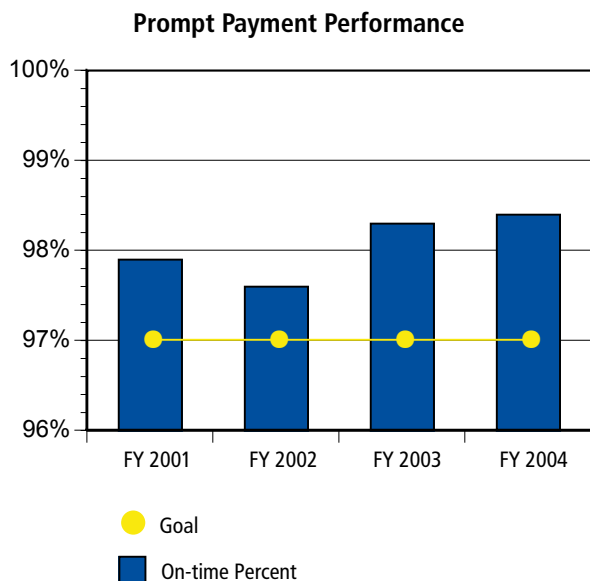
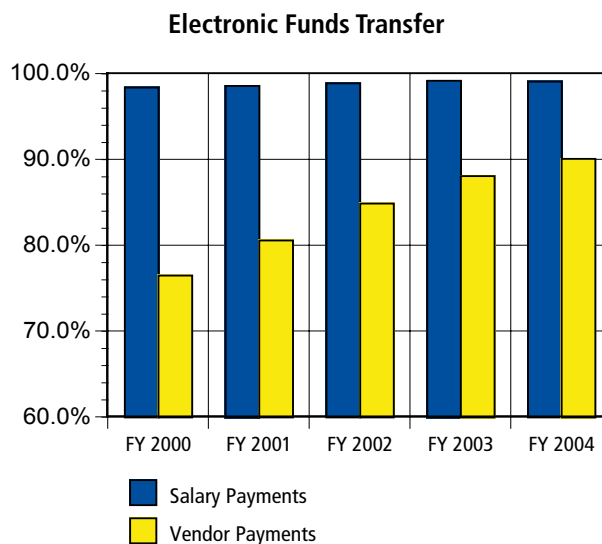


FIGURE 1-23



Compliance With Key Legal and Financial Regulatory Requirements

Interior 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 Appropriation Act (User Fees).

Based on the results of the FY 2004 independent financial statement audit, Interior was determined to be non-compliant with several legal and regulatory financial requirements, in addition to the three components of the FFMIA. As noted earlier in this section, *Table 1-20* presents a summary of the areas of non-compliance reported in the FY 2004 financial statement audit opinions, as well as planned corrective actions and target dates.

Prompt Pay, Debt Collection, and Electronic Funds Transfer (EFT)

The Department is continuing to strive to improve performance under the requirements of the Prompt Payment Act and the Debt Collection Improvement Act. The Prompt Payment Act requires that payments be made within 30 days of receipt of invoice; otherwise, the Federal Government is required to pay interest.

The Department's FY 2004 performance resulted in achieving goals for Prompt Pay (*Figure 1-22*) and

payments made by Electronic Funds Transfer (*Figure 1-23*).

The results of the FY 2004 consolidated financial statement audit indicated that Interior is not in compliance with the Debt Collection Improvement Act. This non-compliance is attributable to the BIA because its eligible delinquent debt represents a significant share of the Department's total. The BIA only referred 49% of its eligible delinquent debt to Treasury in FY 2004, which negatively impacted the overall performance of the Department and resulted in a Departmental referral rate of 62%. It is significant to note that by excluding the BIA, the Department's total referral performance would be 96%, exceeding the performance goal target of 94%.

OMB Memorandum M-04-10 dated April 19, 2004, requested agencies to disclose their debt management policies. Interior recently issued a Credit and Debt Management Handbook containing current policies in this area. The Credit and Debt Management Handbook can be found on the Internet at www.doi.gov/pfm (click on Policy and Financial Management Handbooks). The Handbook includes requirements for (1) referring delinquencies in excess of 181 days to the U.S. Treasury; (2) compromising, writing-down, forgiving or discharging debt; and, (3) preparing Internal Revenue Service Form 1099-C when debts are written-off.

Biennial Review of Fees

The Chief Financial Officers Act of 1990 requires biennial reviews by Federal agencies of agency fees, rents, and other charges imposed for services and things of value provided to specific beneficiaries, as opposed to the American public in general. The objective of these reviews is to identify such activities and begin charging fees, if permitted by law, and to periodically adjust existing fees to reflect current costs or market value. This minimizes the general taxpayer subsidy of specialized services or things of value (such as rights or privileges) provided directly to identifiable non-Federal beneficiaries.

Interior conducted a biennial review of its user fee programs during FY 2004. This review was based on FY 2003 data and indicates Interior does not have any significant deficiencies in the bureaus. However, we will continue to strive to improve cost accounting methods including the use of ABC/PM concepts that were implemented Department-wide in FY 2004.

Financial Management Improvement Initiatives

The Department has several ongoing initiatives that address the President's Management Agenda goal to improve financial performance. These initiatives are discussed in the sections that follow.

Financial Management Systems

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

Financial Management Systems Improvement Strategy

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

The Department relies on a unified set of financial management systems planned for and managed together and operated in an integrated fashion to collectively support program and financial managers. These systems are managed at various levels within the Department. Some of these systems are managed on a Departmental level, others are maintained at a bureau or local level, and some are government-wide systems on which the Department relies on. Collectively, they represent the Department's financial management systems architecture. The current financial system architecture is shown in *Figure 1-24*, arrayed by the different types of management approaches being used. *Figure 1-25* lists the Department's current financial management systems and applications.

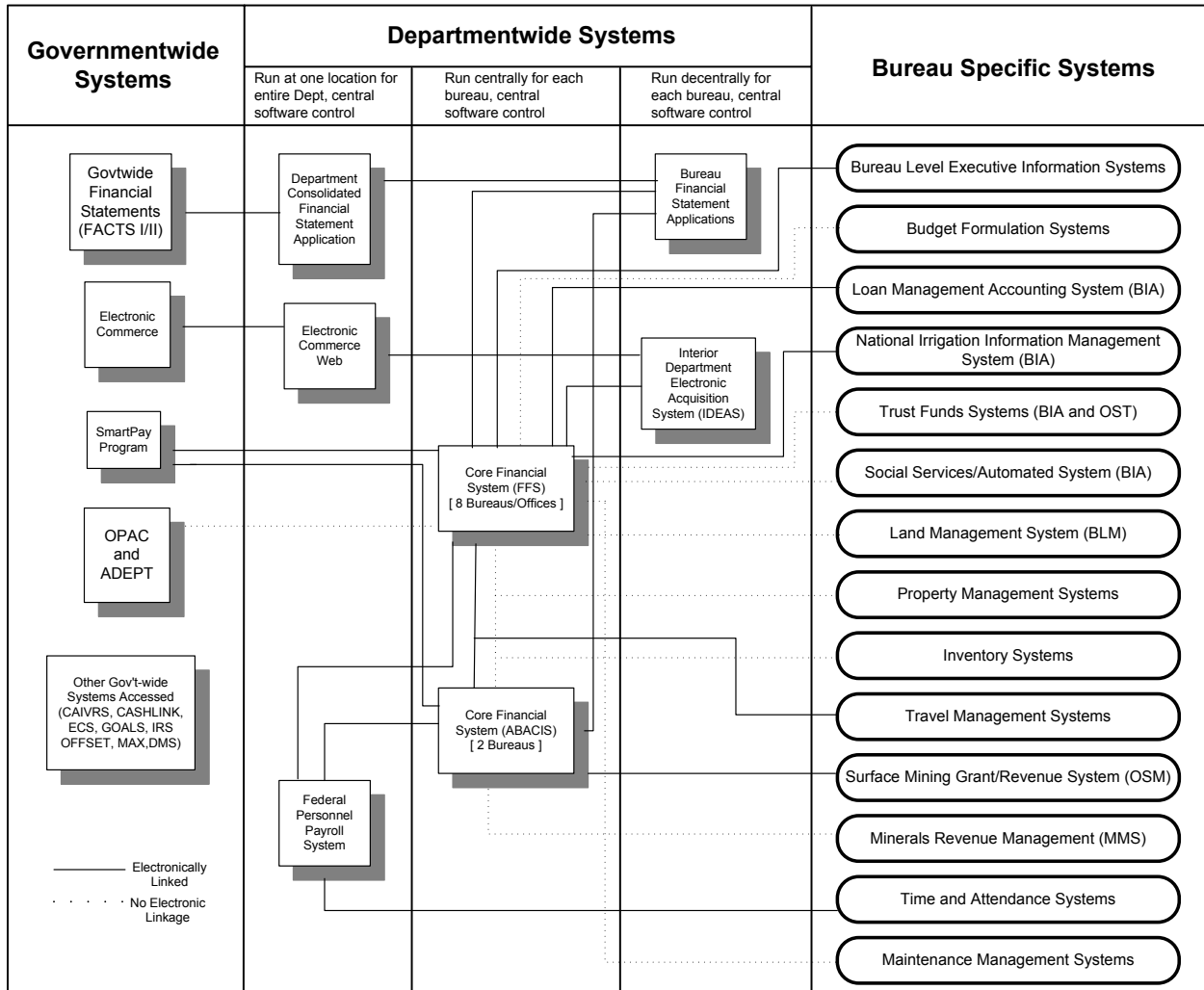
The Department has viewed the movement toward a single, integrated financial system as encompassing four interrelated elements: (1) migrating to and enhancing standard department-wide systems; (2) improving or replacing financial and mixed systems to take advantage of new technological capabilities (e.g.,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

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

- **Financial and Business Management System.** Define, carefully plan, and implement a new generation of financial management systems to take advantage of new technology and processing opportunities.

FIGURE 1-24

Interior Financial Management System Architecture



- **Critical Programmatic/Financial Management Systems.** Continue to improve certain critical bureau-based programmatic/financial management programs: Minerals Revenue Management, and Indian Trust Funds.
- **Improve the Information Technology (IT) Infrastructure Supporting Financial Systems.** The IT infrastructure is critical to maintaining quality financial management systems. One of the major IT infrastructure efforts is the Interior Information Architecture Program.

Financial and Business Management System

The Department of the Interior is in the process of implementing the Financial and Business Manage-

ment System (FBMS). The FBMS will provide Interior with standard business practices supported by a single, integrated finance and administrative system for all bureaus. FBMS is an integrated suite of software applications that will help Interior to manage a variety of business functions, including core financials, acquisition, budget formulation, personal property and fleet management, real property, travel, financial assistance, and enterprise management information.

The financial systems and tools that are in place today do not meet the needs of the employees who report on key information, make decisions based on that information, and apply the limited resources that they have to serve each bureau's mission. In many areas, redundant administrative tasks take away time that

could be better spent on mission-focused activities.

The FBMS is taking a comprehensive approach to improving the current business functions in its core systems by replacing the current computer systems with state-of-the-art software. The combination of business practices and new computer system functionality will enable the bureaus to improve service to their customers and to operate more efficiently. Benefits gained from implementing this suite of applications will include the ability to access and share real-time, accurate business information; support effective business decisions for mission delivery; issue accurate financial reports and analysis of managerial data; support timely decision-making in the field; free-up more time for mission-focused activities; focus on value-added analysis rather than data gathering; and eliminate redundant administrative tasks and multiple login screens.

Interior has adopted a multi-year, phased approach to implementing the FBMS in its bureaus/offices. The implementation of this enterprise system solution will enable the incremental retirement of at least five major administrative systems, as many as 30 bureau-specific systems, and hundreds of cuff records now used by individual managers to track their programs as individual bureaus implement the new software/solutions. The following is the current FBMS implementation schedule:

- 2/28/05 - Implement the financial assistance module in the Minerals Management Service, Office of Surface Mining, and the Fish and Wildlife Service (except for the Federal Aid Program.

FIGURE 1-25

Interior Financial Management Systems and Applications

DEPARTMENTWIDE SYSTEMS

Core Financial System (FFS)
- Federal Financial System (8 Bureaus/Offices)

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

Payroll Personnel System
- Federal Personnel/Payroll System (FPPS)

Interior Department Electronic Acquisition System

Consolidated Financial Statement System

BUREAU SPECIFIC SYSTEMS

Bureau Level Executive Information Systems
- Management Information System (BLM)
- Administrative Financial System III (NPS)
- Federal Aid Information Management System (FWS)
- Financial Reporting and Reconciliation System (NPS)
- Budget and Science Information System (GS)
- TSC Management Information System (BOR)

Budget Formulation Systems
- Budget Allocation System (FWS)
- Program and Budget System (BOR)
- Operations Formulation System (NPS)
- Project Management Information System (NPS)
- Budget Planning System (BLM)

Loan Management Accounting System (BIA)

National Irrigation Information Management System (BIA)

Social Services Automated System (BIA)

Trust Funds (BIA, OST)
- Trust Funds Accounting System
- Integrated Resources Management System

Land Management System (BLM)
- Collection and Billing System

Property Management Systems
- FFS Fixed Assets Subsystem (BIA, BLM, GS, NPS)
- Moveable Property System (BOR)
- Property Management System (MMS)
- Personal Property Management Information System (FWS)
- Federal Real Property Management (GS)
- Property Accountability Ledger System (OSM)
- Refuge Management Information System (FWS)

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

Travel Management Systems
- Travel Manager Plus

Minerals Revenue Management (MMS)

Surface Mining Grant/Revenue System (OSM)
- Grant Information Financial Tracking System
- Fee Billing and Collection System
- Audit Fee Billing and Collection System
- Civil Penalty Accounting Control System

Time and Attendance Systems (Various)

Maintenance Management Systems (Various)

- 10/01/05 - Implement all remaining FBMS modules (except budget formulation) in the Minerals Management Service, Office of Surface Mining, and the Bureau of Land Management.
- 11/01/05 - Implement the budget formulation module in the Minerals Management Service, Office of Surface Mining, and the Bureau of Land Management.
- 10/01/06 - Implement all FBMS modules in the Fish and Wildlife Service, the National Park Service, and the Office of the Secretary.
- 10/01/07 - Implement all FBMS modules in the U.S. Geological Survey, the Bureau of Reclamation, and the Bureau of Indian Affairs.

FY 2004 Accomplishments

- Awarded a contract to BearingPoint, Inc. as the FBMS solution provider.
- Developed a Departmental blueprint which will govern the operation and configuration of the FBMS modules.

FY 2005 Planned Activities

- Decide on the FBMS hosting solution.
- Accomplish the necessary activities to ensure a successful February 2005 implementation of the financial assistance module as described above.
- Accomplish the necessary activities to ensure successful 10/01/05 and 11/01/05 implementations as described above.

Critical Programmatic/Financial Management Systems

The Department has two critical categories of programmatic/financial management systems that process financial data. They are the Minerals Revenue Management System and the American Indian Trust Funds Systems.

Minerals Revenue Management System

Minerals Revenue Management (MRM) is responsible for ensuring that all mineral revenues from Federal and Indian lands are efficiently, effectively, and accurately collected, accounted for, verified, and disbursed to recipients in a timely manner. These revenues average more than \$8 billion annually. To ensure revenues are properly collected and disbursed, MMS utilizes a broad range of financial services, and pursues a comprehensive compliance strategy that includes an automated compliance verification program to validate the accuracy and timeliness of revenues paid. MRM also administers a robust Royalty-In-Kind (RIK) program, which utilizes an asset management approach to ensure the optimal value of mineral resources.

FY 2004 Accomplishments

- Received an unqualified opinion on MRM's portion of the FY 2003 DOI financial statements.
- In response to CFO audit recommendations, improved accounts receivable management, enhanced security policies, and implemented system software

changes to obtain substantial compliance with applicable standards.

- Reduced royalty error rates to the lowest level in three years.
- Initiated a multi-year Records Management Improvement Project (RMIP) to ensure MRM's Indian Fiduciary trust records and other Federal records are managed in accordance with Federal and Departmental policies.
- Developed and published a strategic Five Year Business Plan for implementation of a permanent and expanded RIK program.
- Continued to implement the President's November 2001 directive to fill the remaining capacity of the Strategic Petroleum Reserve (SPR) utilizing Gulf of Mexico Federal RIK Oil. The current full deployment delivery rate is 105,000 barrels per day and the initiative is targeted for completion by the end of FY 2005.
- Published the final rule amending Federal Oil Valuation regulations on May 5, 2004. A final Federal gas rule is anticipated to be drafted in FY 2005.
- Published a final Accounting and Auditing Relief for Marginal Properties rule on September 13, 2004. This rule implements accounting and auditing relief for marginal properties, as authorized by the Federal Oil and Gas Royalty Simplification and Fairness Act of 1996.

FY 2005 Planned Activities

- Implement the 5-year RIK Business Plan and conduct the action items within the plan, which are anticipated to include actions involving organizational realignments, human resources, marketing strategies, and cost accounting measurements.
- Complete SPR Fill Initiative by the end of calendar year 2005, depending on crude oil production levels in the Gulf of Mexico.
- Establish an ongoing continuous improvement cycle for compliance processes and systems.
- Publish a final Federal gas valuation rule.

- Publish a rule for proposed pre-payments of royalty relief to marginal properties.
- Publish a proposed rule on late-payment and over-payment interest.
- Administrative services that (1) enable and empower the organization and workforce to be an effective fiduciary trustee, and (2) provide modern, appropriate systems and tools to manage the fiduciary trust.

American Indian Trust Funds Systems

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

In FY 2001, the Department commissioned an independent review which concluded that the previous reform results were not satisfactory. Accordingly, the Department developed a more comprehensive and integrated approach—the Comprehensive Trust Management Plan, dated March 28, 2003. It sets forth a strategic framework, including six strategic goals (and various objectives) for the Department to meet, to fulfill its obligations to its fiduciary trust beneficiaries:

- Beneficiary services that are trusted, accurate, and responsive;
- Tribal self-governance and self-determination that increase participation in managing assets;
- Ownership information that is accurate, timely, and reliable;
- Land and natural resources management that maximizes return while meeting beneficiary desires;
- Trust fund assets management that meets fiduciary standards; and
- Completed the development of the “To-Be Business Process” re-engineering effort to standardize and streamline trust business processes.
- Worked on a Trust Asset and Accounting Management System (TAAMS) Title and Trust Funds Accounting System (TFAS) enhancement to produce performance statements that identify the source of income and list assets owned by each account holder. Finalized the technical design to distribute income from real property assets to owners; testing continues.
- Installed ProTrac, the new probate case management system; when fully operational, it will enable the Department to track cases within BIA, OHTA, and OST throughout their lifecycle.
- Completed Certification and Accreditation of TAAMS and TFAS in accordance with OMB Circular A-130, Appendix III.

The Plan identifies primary business lines: beneficiary trust representation, trust financial management and stewardship, and management of land and natural resources. Strategic goals and specific related objectives fit within these business lines. The As-Is Study/Business Process Documentation provides details on how trust business processes are now being performed. The court-ordered Fiduciary Obligations Compliance Plan addresses how the Department intends to comply with certain fiduciary obligations owed to IIM account holders; the accounting systems must maintain accurate account balances and report information to beneficiaries. In addition, the Historical Accounting Plan for Individual Indian Money Accounts is being implemented.

FY 2004 Accomplishments

FY 2005 Planned Activities

- Continue implementation of the “To-Be-Business Process” business model which is referred to as the Fiduciary Trust Model (FTM). Acquire the best automated systems to support the FTM trust business processes and fulfill beneficiary needs and fiduciary requirements.
- Utilize the MRM function, which collects, accounts for, and distributes mineral revenues, to identify incorrect information so beneficiary accounts can be corrected.
- Based upon metrics gathered from the pilot Beneficiary Call Center, prepare a Statement of Work and advertise for a nationwide call center.
- Seek a commercial off-the-shelf Land and Resource Management System.

Improve the Information Technology (IT) Infrastructure Supporting Financial Systems

The IT infrastructure is critical to maintaining quality financial management systems. One of the major IT infrastructure efforts is the Interior Information Architecture Program.

Interior Information Architecture Program

When the Department looked for management strategies for improving services to citizens and its business partners, one solution that presented itself was similar to what private corporations have been looking at when faced with similar problems: Enterprise Architecture. Under Interior’s Enterprise Architecture (IEA) Program, modernization blueprints have been developed for key lines of businesses (e.g., Wildland Fire, Recreation, Law Enforcement, and Financial Management) that outline a road map for leveraging information technology to meet strategic and programmatic goals and objectives efficiently and effectively. These blueprints identify gaps in Interior’s existing IT portfolio that hamper the successful achievement of goals and objectives as well as minimizing system redundancy, and improving data sharing. The IEA has proven to be so successful that Interior was recently awarded the prestigious ‘Excellence in Enterprise Architecture’ award.

FY 2004 Accomplishments

- Developed a modernization blueprint methodology to provide structure and consistency in Interior’s architecture development. The methodology encompasses analyses of organizational structures, business functions, processes, data requirements, existing systems, and planned investments to achieve improved performance in accomplishing Interior’s strategic and tactical goals.
- Developed Modernization Blueprints for the Financial Management, Recreation, Wildland Fire, and Law Enforcement lines of business. Each blueprint provides a detailed plan for improving internal efficiencies and end services, minimizing security and privacy risks, and reducing Interior’s total cost of ownership through elimination of redundant systems and investments. Combined, the four modernization blueprints have identified approximately 100 redundant systems that DOI will retire within the next 1-3 years, resulting in millions of dollars in savings.
- Developed the Department Enterprise Architecture Repository (DEAR). DEAR aligns with the Office of Management and Budget’s Federal Enterprise Architecture for improved information sharing with other Federal agencies. The repository unifies all development efforts and artifacts under one taxonomy in a centralized source accessible to all Interior bureaus and offices. The repository is “mined” throughout Interior to identify cross-cutting solutions, reduce redundancies, and identify reusable and sharable service components that ultimately reduce Interior’s infrastructure costs.

FY 2005 Planned Activities

- Implement a Department-level Business Process Re-engineering Lab to provide a methodology, facilities, and professional services support for intensive business process modernization.
- Provide support for the implementation of recommendations within the 2004 Line of Business Modernization Blueprints.

- Leverage the IEA Blueprint Methodology to develop additional Modernization Blueprints that are prioritized by the Interior Investment Review Board (IRB).
- Provide support for the DEAR tool including training for other architecture programs, user training within DOI, user feedback management, and the coordination of enhancement requests implementation.
- A strategic focus on new employee recruitment,
- Retention of employees who have (or can develop) needed competencies,
- Career paths to develop employees at all levels of experience with “workforce of the future” skills, and
- Training and professional development opportunities for both the technical/analytical and the business/organization skills to enhance competencies and develop employees with flexibility.

Financial Management Human Capital

The Department of the Interior’s financial management community is facing a number of critical human capital issues. The decade of the 1990s brought significant legislation and organizational rightsizing to the Federal community. Both rightsizing and the legislative requirements of the CFO Act, GPRA, and GMRA increased the demands on financial management personnel. With the advent of the 21st century, there are additional issues. The next 5 years (2005-2010) bring the potential for a major loss of financial management leadership and expertise as the baby boomers reach retirement age. At the same time, Interior is engaged in a Department-wide effort to implement a fully integrated information management system, the Finance and Business Management System (FBMS).

It is imperative that Interior have adequate numbers of qualified financial management personnel and that these individuals have the competencies required to successfully support both the transition to and implementation of the FBMS, and to lead a world-class finance organization in the future.

In 2003, the Department implemented a Financial Management (FM) Transformation Plan. In the summer of 2003, the Department began to develop a financial management workforce plan to support this transformation effort and to identify the critical competencies needed for future, world-class financial management. The FM Workforce Plan was completed in the summer of 2004. Interior’s CFO Council approved the Plan’s major recommendations and is responsible for implementing these recommendations in support of the Department’s FM Transformation Plan. These recommendations include:

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

A critical component of the Financial Management Human Capital Program is enhancing the Department’s ability to meet its need for qualified accounting, financial systems, financial analysis, and other personnel to fill anticipated vacancies from projected retirements and other attrition factors. In 2002, the Department established the Financial Management Career Intern Program (FMCIP) to recruit and train entry-level professionals in accounting and financial analysis for the Department and the bureaus. Both the FM Transformation Plan and the FM Workforce Plan stress the need for strategic recruitment and retention, with particular emphasis on using programs such as career intern programs and making use of existing recruitment and retention authorities and incentives.

FY 2004 Accomplishments

- Recruited 12 new interns as part of the 2004 class of the FMCIP.
- Graduated the 2002 FMCIP Class. The 2002 class was the first graduating class of the Department’s new 2-year developmental program for accountants and financial analysts.
- Expanded efforts to recruit for the FMCIP at various multi-school career fairs on the east coast, in the Midwest, Southwest, and in Colorado.

FY 2005 Planned Activities

- Develop a strategy for consolidated recruitment and retention efforts for critical financial positions.
- Recruit for the fourth Financial Management Career Intern class.
- Identify and recommend use of long-term recruitment and retention incentives.

Sponsor Comprehensive Training and Career Development Programs in Financial Management

The other critical component of the Financial Management Human Capital Program is to provide appropriate training and professional development opportunities to financial management personnel so that they are adequately prepared to carry out their growing responsibilities. The FM Workforce Plan noted specific competencies Interior's workforce must develop to support the implementation of the FBMS and the successful transformation to a world-class finance organization. The plan emphasized the need for a simultaneous focus on competency training and development for both the current transition period and for the future.

The Department plans to expand training and career development opportunities to support the career paths identified in the new FM Careers Program. The Careers Program will be built on the JFMIP published core competencies and those critical competencies identified in the FM Workforce Plan. Some of the critical competencies identified are change management, project management, problem solving, analysis, consulting, coaching, knowledge sharing, and interpersonal skills.

FY 2004 Accomplishments

- Conducted an FM Transformation Summit with participants from Departmental offices, bureaus, and the two FMCIP intern classes.
- Sponsored courses in the following subject areas:
 - Appropriations Law
 - Standard General Ledger
 - Problem Solving
 - Formal Mentoring
 - Budget Formulation and Execution
 - Effective Briefing and Presentation Skills

- FASAB Standards
- Analysis
- CGFM series
- Leadership

- Visited Proctor & Gamble and conducted an extensive interview with the Director of Proctor and Gamble's Finance and Accounting Learning Program.

FY 2005 Planned Activities

- Plan and conduct another Department-wide conference for finance, budget, acquisition, performance, property, and grants management participants.
- Plan and conduct training in support of the new FM Careers Program, with particular emphasis on the critically needed competencies identified in the FM Workforce Plan. This includes the FM Career Intern Program.
- Promote participation in government-wide training and career development opportunities, including interagency team efforts.

Financial Data Stewardship

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

The Office of Financial Management (PFM) provides overall coordination of data stewardship functions for financial data in the Department. The data steward-

ship function involves two levels of activities: (1) participation in setting government-wide financial data standard; and (2) setting financial data standards in coordination with the bureau's finance operations.

PFM has dedicated one staff person to focus on data stewardship functions, participate in government-wide financial data standard setting activities, and coordinate with the Standard Accounting Classification Advisory Team (SACAT) on setting standards for financial data for use throughout the Department. The PFM data steward monitors the department-wide data definition process, monitors data creation and compliance processes, ensures data usage relies on information derived from data consistent with the intended definition, and ensures adjustments are made to data definitions when data are inadequate to meet user needs. In addition, the PFM data steward will participate in the development and implementation of the Financial Business Management System. This function also coordinates Departmental financial data definitions with the two key government-wide financial data standard setting groups—the Financial Management Service's Standard General Ledger (SGL) and the Office of Management and Budget.

To coordinate the establishment and implementation of financial data standards in the Department, the bureaus and PFM have chartered the SACAT, under the leadership of the Finance Officers' Partnership, to establish and maintain a common approach among the bureaus for addressing SGL issues that relate to accounting policy and procedures, reporting requirements, internal controls, and SGL maintenance. The PFM data steward is a member of the SACAT.

FY 2004 Accomplishments

- Participated in the Standard General Ledger Board and Issue Resolution Committee to ensure that the Department's position is fairly presented and defended.
- Continued to participate in the Intragovernmental Eliminations Taskforce (IGET) to develop strategies and procedures to be applied by all Departments to identify and prepare proper intra-departmental and intragovernmental elimination accounting entries for the government-wide consolidated financial statements.

- Participated in the SACAT to ensure that the bureaus' data structure is consistent with the government-wide data model.
- Reviewed SGL voting ballots with SACAT to determine if proposed changes would meet the Department's data needs and formed consensus on voting ballots.
- Participated in the FBMS blueprinting to ensure that the data structure is consistent with the government-wide data model.

FY 2005 Planned Activities

- Continue to analyze and enhance the reporting process to support performance reporting under the GPRA and the timely preparation of the Annual Performance and Accountability Report.
- Work closely with the Decision Support System/ Executive Information System (DSS/EIS) Team to ensure that pertinent information is delivered to executives for decision-making purposes.
- Coordinate, on a Department-wide basis, critical financial data definitions necessary for reporting to OMB, the Department of the Treasury, and for Department-wide decision-making and management. This effort will be implemented by SACAT.
- Work closely with the FMBS Steering Committee to monitor implementation progress; address and resolve accounting and reporting issues; and ensure appropriate internal controls are planned, implemented, and functioning as intended.