Compliance With Legal and Regulatory Financial Requirements

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

- Federal Managers' Financial Integrity Act (FMFIA);
- Federal Financial Management Improvement Act (FFMIA);
- Inspector General Act Amendments (Audit Follow-Up);
- Biennial review of user fees; and
- Other key legal and regulatory requirements

Federal Managers' Financial Integrity Act (FMFIA)

The FMFIA requires agencies to provide a statement of assurance annually regarding the effectiveness of their management, administrative and accounting controls, and financial management systems. The 2001 Annual Assurance Statement is provided in *Figure 12*.

Interior believes that maintaining integrity and accountability in all programs and operations: (1) is critical for good government; (2) demonstrates responsible stewardship over assets and resources; (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 decisionmaking at all levels.

Figure 12

FISCAL YEAR 2001
ANNUAL ASSURANCE STATEMENT

"The Department conducted the annual assessment of its systems of management, accounting, administrative and financial systems controls in accordance with the requirements and guidelines prescribed by the Federal Managers' Financial Integrity Act (FMFIA) and the Office of Management and Budget (OMB). Based on the results of this assessment, with the exception of the Department's concerns regarding the controls over the accuracy of ownership records and propriety of account balances in the Indian Trust Fund and the other 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, "Management Accountability and Control."

Based on the results of the annual independent audited financial statement process, the Department is in substantial compliance with applicable federal accounting standards and the U.S. Government Standard General Ledger at the transaction level. However, due to the material weaknesses in information system security controls, the Department does not substantially comply with federal financial management systems requirements specified in OMB Circular A-130, "Management of Federal Information Resources." Therefore, the Department does not fully comply with, or meet the objectives of, Section 4 of the FMFIA and OMB Circular A- 127, "Financial Systems." The Department will develop a remediation plan to resolve these material weaknesses.

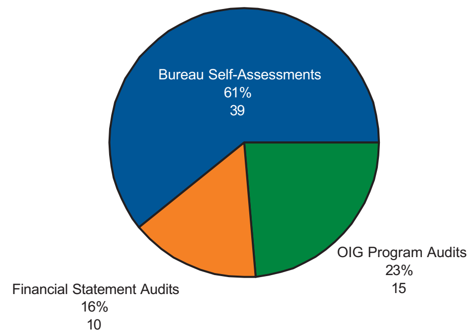
Gale A Norton

Secretary of the Interior

Interior's management control program ensures 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. Interior conducted its 2001 annual assessment of the effectiveness of its management, administrative, and accounting systems controls in accordance with the FMFIA and OMB guidelines. Interior relied on the results of management control assessments conducted in programs and administrative functions, as well as the findings and results of Office of Inspector General (OIG) and General Accounting Office (GAO) program audit reports issued during the year. In addition, Interior considered the results of the financial statement audits conducted by the independent public accounting firm, KPMG, under the auspices of the Chief Financial Officers (CFO) Act of 1990 and the Government Management Reform Act (GRMA) of 1994.

Figure 13

2001 Management Control Assessments Summary



In 2001, Interior planned and conducted a total of 39 management control self-assessments, of which 11 (28 percent) were conducted using an automated assessment approach developed and recommended by the Department. In addition, Interior utilized the findings and results in 15 OIG and GAO program audits and 10 financial statement audits. The 39 management control assessments represent 61 percent of the total of 64 assessments and audits relied upon in reaching the Secretary's annual assurance statement. *Figure 13* summarizes the distribution of 2001 management control assessments.

Automated Approach to Management Control Assessments

The automated assessment approach was developed in a Management Control Reengineering Laboratory conducted by the Department in 1996. Among other things, this approach offers a new, fully automated, less resource-intensive approach for targeting and conducting management control assessments. The automated assessment approach is built around seven management integrity measures that support the general and specific management control standards prescribed in OMB Circular A-123, and GAO's Internal Control Standards. A unique feature of the automated approach is that it provides for identifying both potential material deficiencies and best practices. The automated assessment is conducted electronically over the Internet using an off-the-shelf surveying and analytical software tool, providing much improved diagnostic and executive-level reporting.

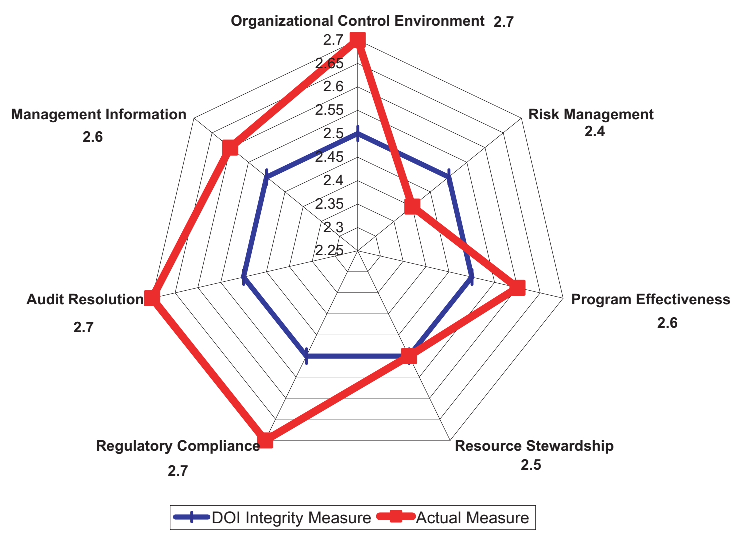
A pilot test of the automated assessment approach was conducted for 21 different bureau program and administrative functions between 1997 and 1999. The most significant result was a 90 percent overall reduction in staff time required for planning, conducting, analyzing, and reporting the results of the assessments.

In 2001, the Department encouraged bureaus and offices to use the automated assessment approach for all assessments. However, as a result of unanticipated delays in upgrading the surveying and diagnostic software tool to the Internet version, obtaining vendor training for bureau and office staff, and the "learning curve" associated with using the Internet version of the automated assessment approach, only 11 automated assessments could be conducted in 2001.

The consolidated summary report for the 2001 automated assessments is presented in *Figure 14* (Spider Diagram). The Spider Diagram presents the results of these assessments on a comparative basis using the seven management integrity measures. The seven measures are arrayed around the axis of the web and are scored on a numerical scale of 0 to 3.5, where 0 is the most unacceptable score for the measure. The blue symmetrical line with the value of 2.5 for each measurement represents the Department's minimum acceptable score for each integrity measure. The red line represents the actual summary assessment score for each measure. Scores above the 2.5 value represent areas of sound management controls and potential best practices, while scores less than the 2.5 value represent areas needing improvement and potential material deficiencies. Only the Risk Management integrity measure (2.4) fell below the Department's minimum acceptable score of 2.5. This is attributable to the extent of identified weaknesses in computer security along with employee and public safety-related programs in two bureaus. On an overall basis, this summary report indicates that the results of the automated assessments provide sound support for the conclusions in the Secretary's annual assurance statement.

Figure 14

2001 Management Control Assessment Summary



Results of the 2001 Management Control Program

Since the inception of the FMFIA in 1982, Interior has identified and reported 170 material weaknesses and 65 accounting system nonconformances. By the end of 2001, Interior had corrected 153 of these material weaknesses (90 percent). These totals reflect the addition of one new material weakness identified during 2001 and the correction of three material weaknesses. All accounting system nonconformances identified through 2000 have been corrected. In 2001, a new accounting system nonconformance was reported for information system security controls.

With the exception of the new accounting system nonconformance identified in 2001, Interior has corrected all reported accounting system nonconformances. Interior is also aggressively pursuing initiatives to ensure that:

- All financial systems are linked electronically;
- The migration to a single, integrated accounting system is achieved; and
- Data integrity and consistency are provided for all financial system components.

Progress in correcting material weaknesses and accounting system nonconformances exemplifies Interior's commitment to improving integrity and accountability in all its programs, organizations, and functions. This commitment is further demonstrated by the establishment of new accountability goals for the timely correction of material weaknesses, timely implementation of OIG and GAO audit recommendations, and the achievement of unqualified

Figure 15

Number of Material Weaknesses			
Period Reported	Reported	Corrected	Pending
Prior Years	161	151	10
1998	1	1	0
1999	4	1	3
2000	3	0	3
2001	1	0	1
Total	170	153	17

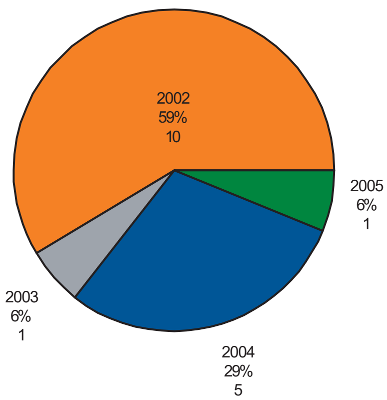
Figure 16

Number of Material Non-Conformances			
Period Reported	Reported	Corrected	Pending
Prior Years	64	64	0
1998	0	0	0
1999	0	0	0
2000	0	0	0
2001	1	0	1
Total	65	64	1

(clean) financial statement audit opinions. These new goals are included in the Department's 2002 Annual Performance Plan.

Figure 17

Planned Correction of the 17 Pending Material Weaknesses



The Department's progress in correcting material weaknesses and accounting system nonconformance is presented in *Figures 15 and 16*. Interior will carry forward 17 material weaknesses to 2002. As shown in *Figure 17*, Interior plans to complete corrective actions on 10 of the 17 material weaknesses (59 percent) during 2002. If this goal is achieved, it will represent Interior's largest single-year reduction in material weaknesses since the inception of the FMFIA. *Figure 18* presents a description of these 17 material weaknesses, including those designated as "mission critical weaknesses," summaries of planned corrective actions, and targeted completion dates.

GPRA Performance Goal

In order to ensure that the material weaknesses identified and reported in the FMFIA program are corrected in a timely manner, the Department's Management Control and Follow-up (MCAF) Council established a GPRA performance measure. The Department's annual performance target is to complete 75 percent of material weakness corrective action plans by the targeted completion date reported in the Department's Annual Accountability Report. Corrective actions for five material weaknesses were targeted for completion in 2001. The status of these five corrective action plans, plus a BLM corrective action plan completed one year ahead of schedule, are as follows:

Bureau Or Office	Material Weakness	Department Mission Critical Material Weakness	Date Identified	Target Correction Date	Status at July 31, 2001
BOR	Irrigation of Ineligible Lands	Yes	1994	2001	Slipped to 2002
DEPT	Lack of Accountability and Control over Artwork and Artifacts	Yes	1990	2001	Slipped to 2002
BLM	Management and Oversight of the Land Exchange	No	1997	2001	Slipped to 2002
BIA	Inadequate Facilities Program	No	1996	2001	Completed as scheduled
BLM	Insufficient Safety Management Program	No	1999	2001	Completed as scheduled
BLM	Inadequate Range Monitoring	Yes	1992	2002	Completed one year ahead of schedule

Results: The Department did not achieve its performance target in 2001. Only three of six (50 percent) material weaknesses targeted for completion in 2001 and beyond were corrected. All three of the material weaknesses that slipped are now targeted for correction in 2002.

Figure 18

Pending FMFIA Material Weaknesses as of September 30, 2001			
Bureau	**Material Weakness**	**Corrective Actions**	**Target Correction Date**
	Mission Critical Material Weaknesses		
OST	Inadequate Management of Trust Funds: The management of Indian Trust Funds needs to be improved. The trust funds lack effective internal controls, dependable accounting systems, and reliable accounting information.	The Trust Funds Accounting System and the Trust Asset and Accounting Management System will be extended to all locations. Departmental trust policies and procedures will be developed, internal controls enhanced, and training provided.	2004
OST and BIA	Inadequate Records Management: The records management system has made it difficult to properly administer the records management function.	A joint plan will be developed under the High Level Implementation Plan for the Trust Management Improvement Project. Initiatives will include cleaning up disposition backlog, developing policies, records manuals and training aids, providing technical assistance, implementing electronic records and imaging technology, developing record control schedules, conducting program evaluations, and publishing an Indian Trust Desk Guide with history, processes, and recordkeeping requirements.	2002
BOR	Irrigation of Ineligible Lands: Adequate attention was not given to identifying and resolving instances of federal water being delivered to ineligible lands on 24 projects in eight States. As a result, the federal government has provided unintended benefits to water users who did not pay the full cost of supplying the water used to irrigate ineligible lands.	Develop an alternative plan to resolve the issue of ineligible lands that receive federal irrigation water.	2002
DEPT	Lack of Accountability and Control Over Artwork and Artifacts: Develop and implement Department policies and guidance to establish appropriate accountability and control over artwork and artifacts.	Department policies, procedures, and implementation guidance have been developed. Bureau implementation of Department guidance is ongoing and being monitored. Remaining actions are focused on cataloging museum property. The annual goal is to catalog at least 5 percent of the baseline estimate of museum property until the cataloging level is 80 percent or greater.	2002
NPS	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.	2004
DEPT	Inadequate Computer Security: The increasing growth in electronic commerce, the heightened reliance on information systems to accomplish basic missions, and the growing vulnerabilities of information systems to unauthorized access have resulted in the need for a comprehensive Department program to improve computer security.	In its annual evaluation of the Department's security program and practices, the OIG reported that the Department did not have adequate information security policies, procedures, or controls to protect all information systems supporting its operations and assets. Also, the OIG has audited two bureaus and reported a series of comprehensive recommendations to address and improve system security and general control over automated information systems. The Department will conduct a comprehensive computer security assessment consistent with the scope of these OIG audits to determine the security and control issues in other bureaus and offices. Based on its findings, the Department will develop and implement a comprehensive information security plan, including capital budgeting requirements, and implement it on a phased basis.	2004
DEPT	Inadequate Wireless Telecommunications: Effective radio communications is critical to employee and public safety, and the efficient management of the parks and public lands. The current wireless telecommunications program in some bureaus does not effectively support bureau and public safety operations, does not comply with Department management directives, and is not funded to achieve timely compliance.	The Department will develop and implement a plan to meet employee and public safety objectives, and restore the program to efficiency by reviewing bureau narrowband capital investment and implementation plans; revise plans to maximize radio system sharing, minimize supporting infrastructure requirements; and ensure maximum use of alternative wireless services.	2004
DEPT	Inadequate Departmentwide 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 five-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).	2004

Figure 18 (Continued)

Pending FMFIA Material Weaknesses as of September 30, 2001			
Bureau	**Material Weakness**	**Corrective Actions**	**Target Correction Date**
Other Material Weaknesses			
BIA	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.	Publish 25 CFR 171 A and B as a Final Rule. Reconcile past O&M receivables and bring all accounts to current status. Develop Operations Handbook regarding project operation and keeping O&M assessments and collection processes current.	2002
BIA	Deficiencies in Real Property Management: There are deficiencies in real property management and accounting. Differences between balances reported in the general ledger and balances in the subsidiary ledger for real property are unreconciled. BIA has not completed real property inventories or adjusted the subsidiary ledger. There are no written policies and procedures to ensure accuracy of real property accounts.	Inventories have been taken and accounting-adjusting entries made. The BIA will verify data, maintain records, and enhance documentation. Develop new procedures on construction-in-progress data. Finalize computer screens and software implementation, revise procedural handbooks, and develop additional procedures as needed.	2002
BIA	Inadequate Acquisition Management Program: BIA's Acquisition Management organization, policies, procedures, and guidelines are inadequate.	Guidance has been developed. The BIA will establish performance appraisal standards for contracting personnel, establish a BIA Acquisition Review Board, perform administrative management reviews and follow-up Quality in Contracting Review, and publish regulations on the Buy Indian Act.	2002
BLM	Management and Oversight of the Land Exchange Program: Policy guidance and procedures and personnel training do not ensure that appropriate appraisals are being developed and used in land exchange determinations.	Complete land exchange training module. Implement and monitor compliance with new land appraisal polices, procedures, and standards identified in the 2001 appraisal review conducted by the bureau.	2002
BLM (New)	Wild Horse and Burro Program: Ensure appropriate guidance is provided to field staff to implement the Animal Management Level strategy on all Herd Management Areas by 2005.	BLM will prepare and issue an Instruction Memorandum (IM) to the field providing comprehensive guidance on the implementation of the strategy. The IM will define targets and provide other strategic goals, which will be monitored on a periodic basis.	2002
BIA	Inadequate Debt Collection: Bureau regulations, procedures, and guidelines are inadequate and obsolete to properly administer current debt collection functions.	Set timeframe to run periodic delinquent debt referral to Treasury with automated interface program. Convert irrigation projects to National Irrigation Information Management System with Federal Financial System interface. Routinely reconcile Irrigation and Power subsidiary ledgers and general ledger. Complete construction debt reconciliation.	2002
MMS	Inadequate Internal Controls Over Accounting Operations: Ineffective controls have prevented the timely reconciliation of general ledger accounts and production of timely, accurate, and reliable financial data required for annual audited financial statement preparation (exclusive of the Royalty Management Program).	MMS will reassign and segregate duties and responsibilities within the Financial Management Branch; implement a plan to ensure specific individuals and officials are held accountable for non-compliance with established internal controls; establish a special project team in conjunction with the Department and the OIG to complete year-end account reconciliations; develop and enter correcting adjusting journal entries; and produce reliable and accurate financial statements in accordance with governmentwide standards.	2002
FWS	Inadequate Management Controls and Audit Follow-up in the Federal Aid Program: The absence of effective management controls, a centralized audit follow-up program, and guidance governing the administration of the Federal Aid Program has resulted in the ineffective management oversight and accountability for Federal Aid grant funds on a Servicewide basis.	Federal Aid process improvement teams will review reported program deficiencies in the Federal Aid Information Management System, Financial Reconciliation, Safety Margin, Grant Operations, Audit Review and Resolution, and Organization Function and Staffing Review. FWS management will evaluate the findings and recommendations of the process improvement teams and develop and implement comprehensive guidelines and organizational changes to govern the administration of the Federal Aid Program.	2003
BOR	Inadequate Land Inventory and Financial Reconciliations: The Bureau does not have a complete and accurate inventory system to support $1.7 billion in land and land rights.	BOR will (1) conduct reconciliation and research to validate the accuracy of its land records; (2) populate its new real property system (Foundation Information for Real Property Management or FIRM) with such data; (3) develop and issue policy and procedures to ensure future quality, accuracy, and completeness of data captured in the lands and finance systems; and (4) conduct an initial and periodic reconciliation between the detailed land data maintained in FIRM and the financial accounting system to ensure the quality of information contained in both systems.	2005

Material Weaknesses Corrected

Interior completed corrective actions for three pending material weaknesses as noted above. The weaknesses corrected were:

1. BLM's Safety Management Program. In 1999, BLM identified the oversight of its Safety Management Program as a material weakness. Since that time, BLM has implemented numerous actions to correct the noted deficiencies, including the issuance of the BLM Safety Core Competency Document, conducting Safety Program assessments in six states, issuing a new Safety Manual, establishing a BLM Safety Web site, and integrating Risk Management into all BLM decisionmaking processes. As a result of these actions, the BLM Safety Management Program has now achieved a high level of visibility with employees and increased management oversight.

2. BIA's Facilities Program. In 1996, the OIG determined that the BIA Facilities Program did not have a reliable system to ensure that critical repairs and maintenance of facilities were conducted in a timely and cost-effective manner. As a result, health and safety hazards existed in BIA schools, employee housing, and other facilities. This material weakness was designated and reported as a "mission critical" weakness for BIA from 1996 until 2000, when cumulative corrective actions no longer warranted the designation. To address the identified deficiencies, BIA implemented a new facilities information system (FMIS), conducted on-site validations of the inventory entered in FMIS to ensure that the system information is accurate and complete, and issued instructional guidance to ensure appropriate and timely system updates. The Inventory and Backlog and Safety Tracking system modules now allow BIA to identify, prioritize, and track the status of deficiencies in all BIA facilities so that critical and routine repairs and maintenance can be addressed in a timely manner.

3. BLM's Range Monitoring Program. In 1992, an assessment of BLM's monitoring process found that not all high priority allotments were being monitored consistently. As a result, many grazing decisions were being issued because of a lack of quality monitoring data, and many grazing decisions that were issued were not adequately documented with monitoring data. This material weakness was designated and reported as a "mission critical" weakness for the BLM. Since that time, the BLM developed and implemented a Standards and Guidelines Implementation Policy and related instructional guidance; conducted training workshops; conducted rangelands validation reviews in four states to assess progress in meeting congressional mandates for grazing permit renewal; and provided annual work plan guidance for setting priorities and monitoring and evaluating rangeland health. Collectively, these actions enable the BLM to issue grazing decisions based on qualitative and quantitative data collection, interpretation, and evaluation.

New Material Weaknesses

Interior's Management Control Audit Follow-up (MCAF) Council reviewed and analyzed the results of the 2001 management control assessment process and determined that the material weakness concerning BLM's Administration and Oversight of the Wild Horse and Burro Program, which was reported as corrected in 2000, should be reinstated.

During a post-correction validation review conducted by the OIG in 2001, the OIG determined that BLM had not developed or issued appropriate instructional guidance to the field personnel to ensure that the new strategic goals for the Wild Horse and Burro Program would be achieved. As a result, the BLM will issue an Instruction Memorandum (IM) to field personnel on the implementation of the strategy in order to achieve appropriate management level goals

Figure 19

Mission Critical Material Weakness Guidelines

The Department defines a mission critical material weakness as:

- 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.

The Department will remove a mission critical material weakness designation when:

- 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.

on all herd management areas by 2005. The IM will define targets and provide other necessary guidance to attain the strategic goals. The BLM has targeted completion of corrective actions on or before the second quarter of 2002.

Mission Critical Material Weaknesses

OMB Circular A-123 reporting guidance requests that each agency identify and report on the most critical material weaknesses affecting the agency. In response to this reporting requirement, Interior's Management Control and Audit Follow-up Council has identified eight of its 17 pending material weaknesses as "mission critical weaknesses." The Department has adopted the guidelines for mission critical material weakness designations recommended by the GAO. These guidelines are noted in *Figure 19*.

Interior recognizes the importance of correcting these mission critical weaknesses in a timely manner. Corrective action plans with key milestones, target dates, and accountable officials have been established and approved by Interior. The MCAF Council and senior program management officials continuously monitor corrective action progress for each mission critical weakness. The eight mission critical material weaknesses and corrective action progress to date are as follows:

1. Inadequate Management of Trust Funds. Management of Individual Indian Monies (IIM), Tribal Trust Funds, and other Special Trust Funds is insufficient to properly maintain and administer the approximately $3.2 billion fund. The trust funds lack effective internal controls, dependable accounting systems, and reliable accounting information. The Office of Trust Funds Management has been reorganized to improve management by establishing a Quality Assurance Division and consolidating accounting functions under the Accounting Division. There is an ongoing effort to standardize and verify Individual Indian Monies system data by cross-checking trust resource records.

The management of Individual Indian trust funds is currently the subject of a lawsuit against the Secretary of the Interior. On December 21, 1999, the United States District Court for the District of Columbia ordered the Department to submit quarterly progress reports on actions taken to correct problems identified by the Court that relate to the government's trust responsibility to individual Indians.

The Department developed a High Level Implementation Plan (HLIP) with 11 subprojects that collectively constitute the Trust Management Improvement Project. Implementation of the HLIP will systematically address the decades-old problems in Indian Trust Fund management. The 11 HLIP subprojects include actions for establishing new trust fund management and financial systems to handle the millions of records that are the foundation of a reliable trust management program. The strategy for reform is being revised in response to court reports and independent consultant reviews.

The Trust Funds Accounting System (TFAS) provides the basic receipting, accounting, investment, disbursing, and reporting functions common to commercial trust funds management operations. TFAS became operational in all regions in March 2000. The Office of the Special Trustee's (OST's) Office of Trust Funds Management (OTFM) has significantly improved accountability over current trust receipts and disbursements; however, the inability of the Department to document all past transactions remains.

During 2001, the Department established the Office of Historical Trust Accounting to be responsible for verifying the historical accounting for trust funds. This effort, and ongoing litigation, should resolve the questions about the propriety of beginning account balances. Until the beginning balance propriety questions are resolved, the Department will be unable to obtain an unqualified audit opinion on Indian trust fund financial statements.

The Trust Asset and Accounting Management System (TAAMS) is designed to include master lease, billing, accounts receivable, and land collection subsystems, as well as land title functions. The development and implementation of TAAMS has been delayed, and its status is currently under review by the Department. In June 2001, OST contracted with Electronic Data Systems Corporation (EDS) to provide an independent analysis of the TAAMS project and the associated BIA data cleanup effort. EDS performed a comprehensive assessment of the project and recommended a "roadmap" for successful TAAMS implementation. The final EDS report was received January 24, 2002.

OST is currently in the process of assessing and redesigning its system of Indian trust fund management controls. While adequate controls exist for OST appropriated funds, OTFM does not currently have a system of management control in place to fully comply with the objectives of the FMFIA. Each functional unit in OTFM has reviewed its responsibilities, identified associated risks, assessed the risks, and begun developing and implementing relevant (mitigating) management controls. Implementation will be completed during 2002.

Independent financial statement audits for Indian trust funds have been completed for 1995 (balance sheet only) and 1996 through 2001. Generally, the deficiencies referenced above continue to be assessed during the annual independent financial statement audit.

2. Inadequate Records Management. The Bureau of Indian Affairs records system is inadequate to properly administer the records management function. As part of a comprehensive corrective action plan, the Office of the Special Trustee for American Indians initiated a process for ensuring the proper handling of all agency records, with an emphasis on trust records.

The BIA and OST have established a combined records management program office, the Office of Trust Fund Litigation and Support, with line responsibility over records management policy, guidance, training, and evaluation nationwide. This office is responsible for developing and implementing a uniform records management program with authoritative policies, guidance, and training requirements for both BIA and OST.

In addition, the OST, BIA, Minerals Management Service (MMS), Bureau of Land Management (BLM), and Office of Hearings and Appeals (OHA) will actively interact and work together to develop an agreed-upon approach to managing Indian trust records.

3. Irrigation of Ineligible Lands. The Bureau of Reclamation has not given sufficient priority to identifying and resolving instances of federal water being delivered to ineligible lands on at least 24 projects in eight states. Consequently, the federal government has provided unintended benefits to water users who did not pay the full cost of supplying the water used to irrigate ineligible lands.

The Bureau of Reclamation has completed an internal assessment of unauthorized use of federal project water to define the data requirements needed to ascertain the extent to which ineligible lands receive federal water. Seven of the 24 projects have resolved the unauthorized water use issue. Several projects have made significant progress and have plans in place to correct the unauthorized water use issue through a combination of land classification, water conservation, environmental assessments, prioritization of projects within regions, and compliance enforcement on contract violation issues. A methodology for addressing the general issue of unauthorized use is under development, including an expansion of programs and policies promoting efficient district water use and pricing. The development was delayed due to litigation. The proposed bureauwide methodology is expected to be finalized in the third quarter of 2002.

4. Lack of Accountability and Control Over Artwork and Artifacts. Accountability for, control over, and protection of artwork and artifacts administered by the bureaus and offices throughout Interior are inadequate to ensure the preservation of these objects. Until improved policies, procedures, and controls are implemented, the risk of significant loss of or damage to irreplaceable artwork and artifacts will remain high.

Interior has developed and implemented a revised museum property strategy and related policies and procedures. In addition, plans to implement an appropriate infrastructure in each bureau have been developed and approved for all but one bureau. A progress assessment in 2001 found that implementation has not proceeded at the pace originally anticipated in some bureaus due to resource restrictions and competing priorities. Cataloging of museum property objects in three bureaus has been completed, while a fourth bureau is expected to complete cataloging activities in 2002. The remaining bureaus are not expected to complete cataloging activities for several years. As a result, Interior's strategy has been revised; each bureau is now expected to implement its plan within broad targets defined by Interior. In summary, bureaus are expected to complete cataloging of a minimum of five percent of their baseline estimates of museum property objects each year, until a minimum of 80 percent of the museum property objects are cataloged. Until that time, bureau-specific material weaknesses will be reported.

The current strategy for correcting this weakness is to give priority both to completing basic inventories (cataloging) of all museum property and to addressing the most sensitive portions of the collections first. Basic inventories establish accountability and improve security. The most sensitive collections are those subject to possible repatriation to tribes under the Native American Graves Protection and Repatriation Act (NAGPRA). Additional funds have been requested to accelerate progress on completing inventories of all museum property and to achieve full compliance with NAGPRA.

5. Inadequate Structural Fire Program (NPS). This material weakness was identified in 2000. NPS management determined that the current Structural Fire Program does not provide adequate protection of people, contents, structures, and resources from the effects of fire as required by Director's Order No. 58. Corrective action is underway. The NPS will develop and implement a comprehensive improvement plan to address the operational, technical, and organizational deficiencies cited in the May 2000 GAO audit report and a July 2000 congressional hearing on fire safety failures in the NPS.

6. Inadequate Computer Security (Department). The increasing growth in electronic commerce, the heightened reliance on information systems to accomplish basic missions, and the growing vulnerabilities of information systems to unauthorized access have all resulted in the need for a comprehensive Department program to improve computer security.

The OIG audited two bureaus in 2000 and reported a series of comprehensive recommendations to address and improve system security and general controls over automated information systems. The 2001 audited financial statement process identified significant computer security breaches in most other bureaus, all of which were related to unauthorized Internet access. The Department will conduct a comprehensive assessment of computer security consistent with the scope of these OIG audits, as well as the findings from the 2001 audited financial statement process, to determine the security control issues in bureaus and offices. Based on its findings, the Department will revise its comprehensive information security plan, including capital budgeting requirements, and continue to implement the plan on a phased basis.

7. Inadequate Wireless Telecommunications (Department). This material weakness was identified in 2000. Effective radio communications are critical to employee and public safety, as well as efficient management of the parks and public lands. The current wireless telecommunications program in at least two bureaus does not effectively support bureau and public safety operations and does not comply with Department management directives. The Department has developed and is implementing a comprehensive Wireless Communications Plan to meet employee and public safety objectives and restore program efficiency by reviewing bureau narrowband capital investment levels and implementation plans, revising plans to maximize radio system sharing, minimizing supporting infrastructure requirements, and ensuring maximum use of alternative wireless services.

8. Inadequate Departmentwide Maintenance Management Capability. Interior lacks consistent, reliable, and complete information to plan, budget, and account for resources dedicated to maintenance activities. As a result, Interior does not have ready access to the information needed to report on deferred maintenance in its financial statements as required by the Statement of Federal Financial Accounting Standard (SFFAS) No. 6, "Accounting for Property, Plant, and Equipment." The Department has established a Facilities Management Systems Partnership that provides a forum for the Department and its facilities-managing bureaus to coordinate the development and use of facilities management systems.

To address substantive issues in a systematic manner, the Department conducted a departmentwide review of maintenance and repair issues to reduce financial, health, and safety liability to Interior; increase the effectiveness and awareness of facilities maintenance; manage deferred maintenance; and ultimately improve the stewardship of Interior's constructed assets.

Based on this review, the Department has established the following three facilities maintenance objectives: (1) to properly manage and account for maintenance and construction funds from appropriations and fee receipts; (2) to identify the highest priority facilities maintenance and construction needs of the Department by using standard definitions and data; and (3) to formulate and implement a Five-Year Maintenance and Capital Improvement Plan (Five-Year Plan) for infrastructure, which began with the 2000 Budget.

Concurrent with the development of the Five-Year Plan, improvements to the Department's budget structure and accounting systems are being made to enable the Department to measure the effectiveness of its facilities management programs more accurately.

Interior has adopted MAXIMO, a commercial off-the-shelf product, as the core management enterprise software system to manage its facilities inventories, condition assessments, and work management and reporting requirements. The implementation status of MAXIMO varies among bureaus and offices, ranging from pilot testing and evaluation in the Fish and Wildlife Service to full implementation and training in 123 parks within the National Park Service.

Other Management Challenges Confronting Interior

Recently, the Office of Inspector General and the General Accounting Office have advised Congress regarding what they consider to be the major management challenges and other issues facing the Department. As shown in *Figure 20*, most of these issues have met the FMFIA criteria for, and been reported as, material weaknesses in the Department's Annual Accountability Report. The others, while not meeting the FMFIA material weakness criteria, are receiving priority management attention.

Figure 20

Major Department Management Challenges

Management Challenges	Existing FMFIA Material Weaknesses
Information Technology	Yes
Health and Safety	Yes
Procurement, Contracts, and Grants	Yes
Financial Management	Yes
Facilities Management	Yes
Responsibilities to Indians and Insular Areas	Yes
Resource Protection and Restoration	Yes
Revenue Collections	No
Government Performance and Results Act	No
Emergency Management	No

Progress in addressing these major management challenges and other issues is being monitored through the Department's FMFIA program and annual audited financial statements, as well as by the OIG and GAO through mandatory, requested, and discretionary audits (those audits initiated at the discretion of the auditor), evaluations, and follow-up reviews.

Audited Financial Statement Results

As required by the Government Management Reform Act, Interior prepares departmentwide consolidated financial statements. These financial statements are audited by independent auditors (the Office of Inspector General for 2000 and prior years, and KPMG beginning in 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 2000 and 2001 audited financial statement process are summarized in *Figure 21.* 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.

Figure 21

Summary of 2000 and 2001 Financial Statement Audits

	Unqualified Opinion on Financial Statements		Clean 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)*		
									Systems	*Accounting*	*SGL*
	2000	*2001*	*2000*	*2001*	*2000*	*2001*	*2000*	*2001*	*2001*	*2001*	*2001*
Dept	Yes	Yes	No	No	No	No	No	No	No	No	No
FWS	No	Yes	No	No	No	Yes	No	No	No	No	Yes
USGS	Yes	No	No	No	No	No	Yes	No	No	No	No
BIA	Yes	Yes	No	No	No	No	No	No	No	No	No
BLM	Yes	Yes	No	No	Yes	Yes	Yes	No	No	Yes	Yes
MMS	No	Yes *	No	No	No	No	No	No	No	Yes	No
NPS	Yes	Yes	No	No	Yes	Yes	No	No	No	Yes	Yes
BOR	Yes	Yes	No	No	Yes	No	Yes	No	No	Yes	Yes
OSM	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
DO	Yes	Yes	No	No	Yes	No	Yes	No	No	No	Yes

* Balance Sheet and Statement of Custodial Activity only.

Resolution of Internal Control Weaknesses Reported in 2000 Audited Financial Statements

The table in *Figure 22* summarizes the status of material weaknesses reported in the 2000 audited financial statements. The Department has established an internal goal of completing corrective actions for these material weaknesses within one year. However, delays in receiving final 2000 audit opinions and several multi-year corrective action plans precluded the achievement of this internal goal. In summary, 25 of the 40 (63 percent) material weaknesses reported in 2000 were downgraded to reportable conditions or corrected in 2001.

Figure 22

Status of Material Weaknesses Reported in the 2000 Annual Financial Statement Audit Process

Bureau/Office	Material Weaknesses Reported in 2000	Material Weaknesses Downgraded or Corrected in 2001	Targeted Completion Dates for Remaining Weaknesses
DEPT (Consolidated)	11	5	2002-2005
OSM	0	0	N/A
BLM	1	1	N/A
MMS	8	8	N/A
BIA	7	6	N/A
FWS	4	3	2002
NPS	2	0	2002
USGS	2	1	2002
DO	4	1	2004
BOR	1	0	2005
Total	40	25	N/A

Figure 23 presents a summary of each of the material weaknesses reported in the Department's and bureaus' 2001 audit opinions. A total of 38 material weaknesses were reported, of which 15 (39 percent) were carried over from 2000.

Figure 23

2001 Audited Financial Statements
Material Weaknesses Remediation Status Report

Bureau	Material Weakness Description	Corrective Action	Target Date	New Weakness or Carryover from 2000
DO	Improve Controls Over Undelivered Orders and Accruals	Enhance existing processes and controls to ensure that accruals are recorded and undelivered orders are adjusted for services and products received prior to the end of the reporting period	9/30/02	Carryover
DO	Inadequate Accounting Controls Over Interior Franchise Fund	Establish and implement policies and procedures to monitor service provider disbursements, update pricing schedules, improve controls over receipts and accounts receivables, and improve software change control.	9/30/02	Carryover
DO	Inadequate Controls Over Tribal and Other Special Trust Funds	Implement policies, procedures, controls and systems to effectively manage Tribal and Other Special Trust Funds, and implement the High Level Implementation Plan as revised and amended.	9/30/04	Carryover
DO	Inadequate Reconciliation of Transactions with Other Interior Components	Adopt procedures to reconcile and clear balances with other Interior components on a quarterly basis.	9/30/02	New
FWS	Inadequate Security and Controls Over Information Technology Systems	Develop and implement the Department IT Security Plan to provide appropriate policies, procedures, controls, and segregation of duties to effectively control and protect information technology systems	9/30/03	New
FWS	Inadequate Controls for Processes and Systems Relating to Capital Equipment	Continue ongoing assessment of capital equipment processes for acquiring, tracking, and reporting capital equipment.	9/30/02	Carryover
FWS	Improve the Financial Reporting Process	Assess and re-evaluate the financial reporting process to improve its efficiency and effectiveness	9/30/02	New
FWS	Improve Controls, Systems, and Reporting Related to Buildings, Structures, and Capital Improvements	Continue assessing and evaluating the capital equipment process and implement needed improvements.	9/30/02	New
NPS	Inadequate Accounting Controls and Procedures for Undelivered Orders and Accounts Payable Accrual Recognition	Establish and implement policies and procedures to review year-end undelivered orders to ensure proper accruals and de-obligations.	9/30/02	Carryover
NPS	Inadequate Accounting Controls and Procedures for Personal Property	Develop and implement policies and procedures which ensure physical inventories are adequate and complete; additions and disposals are recorded timely and accurately; appropriate supporting documentation is maintained; and, depreciation expense is timely and accurately recorded.	9/30/02	Carryover
NPS	Inadequate Security and Controls Over Information Technology Systems	Develop and implement the Department IT Security Plan to provide appropriate policies, procedures, controls, and segregation of duties to effectively control and protect information technology systems.	9/30/03	New
NPS	Inadequate Controls Over Preparation, Analysis, and Monitoring of Financial Information	Improve communications between the NPS budget and accounting offices, and perform adequate reviews of external reports prepared for submission by these entities.	9/30/02	New
MMS	Inadequate Security and Controls Over Information Technology Systems	Develop and implement the Department IT Security Plan to provide appropriate policies, procedures, controls, and segregation of duties to effectively control and protect information technology systems.	9/30/03	New
BLM	Inadequate Accounting for Property	Implement controls and procedures to ensure property balances are materially accurate and supported.	9/30/02	New
BLM	Inadequate Accounting for Intra-departmental Transactions	Implement procedures to identify and correct out of balance intra-bureau transfers.	9/30/02	New
BLM	Inadequate Accounting for Effects of New Legislation	Assess the effects of new legislation and revise the accounting for timber sales to counties.	9/30/02	New
USGS	Inadequate Account Analysis and Adjustments	Develop and implement procedures to ensure that all accounting adjustments are reconciles adequately supported, timely and independently reviewed throughout the year.	9/3002	Carryover
USGS	Inadequate Security and Controls Over Information Technology Systems	Develop and implement the Department IT Security Plan to provide appropriate policies, procedures, controls, and segregation of duties to effectively control and protect information technology systems	9/30/03	New
USGS	Inadequate Controls Over Property, Plant, and Equipment	Implement policies and procedures to ensure the proper accounting for and reconciliation of Property, Plant, and Equipment.	9/30/02	New
USGS	Inadequate Financial Management Organization Structure	Improve controls over processing field office information; delegate authority to ensure uniform administration of and compliance with accounting policies Survey-wide; review decentralized financial management systems and internal controls; and fill existing vacancies and provide accounting training programs.	9/30/02	New

Figure 23 Continued

2001 Audited Financial Statements Material Weaknesses Remediation Status Report				
Bureau	**Material Weakness Description**	**Corrective Action**	**Target Date**	**New Weakness or Carryover from 2000**
USGS	Inadequate Reconciliation of Proprietary and Budgetary Accounts	Conduct regular analyses and reconciliations proprietary and budgetary accounts, and routinely monitor compliance with Anti-Deficiency Act.	9/30/02	New
USGS	Inadequate Reconciliation of Fund Balance with Treasury	Develop and implement procedures to ensure that all Fund Balance with Treasury reconciliations are accurately performed after month-end, and any difference are cleared in a timely manner.	9/30/02	New
USGS	Inadequate Accounting and Reconciliation of Suspense Accounts	Develop and implement procedures to ensure that the liability for suspense account is timely reconciled after month-end and implement a policy that all transactions are cleared in less than six-months.	9/30/02	New
USGS	Inadequate Controls Over Revenue Cycle	Perform a study of the entire revenue cycle and consider redesigning or reengineering the process to achieve greater efficiency and simplicity.	9/30/02	New
USGS	Inadequate Accounting for Inventory	Establish policies and procedures to account for map and hydrological inventory that will ensure full compliance with SFFAS No. 3 – Accounting for Inventory and Related Property	9/30/02	New
BOR	Inadequate Controls Over Land Inventory	Develop a complete and accurate inventory system that identifies by project all land and land rights.	9/30/05	Carryover
BOR	Inadequate Security and Controls Over Information Technology Systems	Develop and implement the Department IT Security Plan to provide appropriate policies, procedures, controls, and segregation of duties to effectively control and protect information technology systems.	9/30/03	New
BIA	Inadequate Controls Over Processing Trust Transactions	Improve fiduciary controls over the processing of Trust transactions including segregation of duties, related party transactions, probate backlogs, and appraisal compacts	9/30/04	New
BIA	Inadequate Security and Controls Over Information Technology Systems	Develop and implement the Department IT Security Plan to provide appropriate policies, procedures, controls, and segregation of duties to effectively control and protect information technology systems	9/30/03	Carryover
BIA	Inadequate Controls Over Financial Reporting	Recruit a Chief Accountant, implement a redesigned organizational structure, and implement a routine financial reconciliation process.	9/30/03	New
DEPT	Inadequate General and Application Controls Over Financial Management Systems	Establish and implement controls and other safe-guards to ensure that sensitive and critical financial data and systems are protected.	9/30/03	Carryover
DEPT	Improve Timeliness of Transaction Entry and Reconciliations	Implement policies and procedures to ensure account analyses and reconciliations between accounts, subsidiary records, and financial statements are performed routinely throughout the year.	9/30/02	Carryover
DEPT	Inadequate Controls Over Undelivered Orders and Accruals	Establish and implement policies and procedures to review year-end undelivered orders and accruals to ensure proper accruals and de-obligations are recorded.	9/30/02	Carryover
DEPT	Inadequate Reconciliation of Trading Partner Data	Implement policies and procedures to ensure the timely reconciliation of trading partner data, and a more streamlined and efficient year-end reporting process.	9/30/02	Carryover
DEPT	Inadequate Controls Over Property, Plant, and Equipment	Implement policies and procedures to ensure the proper accounting for and reconciliation of Property, Plant, and Equipment.	9/30/04	Carryover
DEPT	Inadequate Controls Over Trust Funds	Implement the Department's High level Implementation Plan to achieve comprehensive Indian Trust reform, including vital improvements to systems, policies and operations necessary to ensure meeting the trust obligations to Indian tribes and individuals.	9/30/04	Carryover
OST	Reliance on Processing of Trust Transactions in the Bureau of Indian Affairs	Work collaboratively with Departmental offices to monitor progress and ensure timely completion of trust reform subprojects.	9/30/02	New
OST	Resolution of Financial Reporting Issues from Prior Periods	Continue to develop issue papers and action plans to address and resolve prior period issues.	9/30/03	New

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, comply with all applicable federal accounting standards, and establish financial management systems that meet governmentwide standards and requirements, and support full disclosure of federal financial data, including the costs of federal programs and activities.

Federal agencies are required to address compliance with the requirements of the FFMIA in the representative letter to the financial statement auditor. The auditor is required to report on the agency's compliance with FFMIA requirements in the financial statement audit opinion. If an agency is not in compliance with the requirements of the FFMIA, the agency head is required to establish a remediation plan to achieve substantial compliance.

As a result of the material weaknesses identified in security and other controls over information technology systems and resources during the 2001 financial statement audit, Interior concluded that its financial management systems did not substantially comply with the financial management systems requirements of the FFMIA. In addition, the results of the financial statement audit did not allow Interior to conclude that it was in substantial compliance with all applicable federal accounting standards.

The Department is in the process of developing a remediation plan to correct the material weaknesses in security and other controls over information technology systems and resources as well as comply with all federal accounting standards. The corrective actions are targeted for completion by 2004.

Remediation Plan

Information Technology Security. Interior will develop an Information Technology (IT) Security Plan to improve controls over financial and information technology systems, and protect information resources. The implementation of the IT Security Plan should bring Interior's financial management and information technology systems into substantial compliance with the requirements of the FFMIA and OMB Circular A-130, "Management of Federal Information Resources." The IT Security Plan will include actions in the following control areas:

IT Security Management Structure. The Department's IT Security Management Structure is aimed at providing a framework and a continuing cycle of activity for managing risks, developing and implementing security policies, assigning responsibilities, and monitoring the adequacy of Department and bureau information technology system controls.

Segregation of Duties. In some instances, the Department has not ensured proper segregation of duties for personnel working with information technology systems and applications through its policies, procedures, and organization structures. As a result, it is possible for a single individual to control key aspects of information system-related operations and thereby possibly conduct unauthorized actions or gain unauthorized access to assets or records without detection. The Department's IT Security Plan will require review and restructuring of employee roles and responsibilities to achieve a higher degree of segregation of duties in information technology system-related operations.

Access Controls. In some instances, the Department has not established access controls that limit or detect inappropriate access to information technology systems and related resources, thereby increasing the risk of unauthorized modification, loss, or disclosure of sensitive or confidential data. The Department will take action to secure network vulnerabilities and improve access control deficiencies in each of the following areas: network configuration management; password management; monitoring of security violation logs; access to program and sensitive files that control computer hardware and sensitive applications; and, other physical security controls.

Software Development and Change Controls. The Department does not have adequate controls over application software development and change controls for all of its information technology systems and applications. The Department's IT Security Plan will seek to ensure that appropriate policies, procedures and operational controls are developed and implemented to prevent unauthorized system, program or application modifications.

Service Continuity. The Department does not have adequate controls in place in all bureaus, programs and operations to minimize the risk of unplanned interruptions, to recover critical operations and to protect data should interruptions occur. The Department IT Security Plan provides a framework for all bureaus and offices to: identify critical operations and resources; prioritize data and operations; document emergency processing priorities; provide current backup tapes and files to secure off-site facilities; and, ensure comprehensive Continuity of Operations Plans are established and communicated for all major system applications and operation centers.

National Business Center. Interior's National Business Center (NBC) administers several financial management systems for its bureaus and external agency customers including the Federal Personnel and Payroll System, the Federal Financial System, Hyperion, and the Interior Department Electronic Acquisition System. Material weaknesses and other control deficiencies recently identified could affect the NBC's ability to prevent and detect unauthorized access and changes to its financial information, and increase the need for costly and less efficient manual controls to monitor and reconcile financial information. Although the NBC has taken prompt action to improve security and controls for its information technology systems, the NBC will take steps to improve entity-wide security planning, system configuration and operating systems, system software controls, software development and change controls, and service continuity.

Federal Accounting Standards. Interior will also fully develop and implement strengthened procedures and controls to ensure that financial statements and related disclosures are prepared in accordance with federal accounting standards.

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.

Figure 24

2001 GPRA Goal for Implementation of OIG and GAO Audits			
Bureau/Office	No. of Recommendations Meeting GPRA Goal Criteria	No. of Recommendations Implemented Within One Year	Percentage Implemented Within One Year
DEPT/OS	4	4	100%
BIA	1	1	100%
USGS	5	5	100%
OST	24	22	92%
BLM	11	9	82%
MMS	8	6	75%
NPS	21	13	62%
BOR	22	11	50%
FWS	11	2	18%
OIA	8	0	0%
OSM	0	0	N/A
Total	115	73	63%

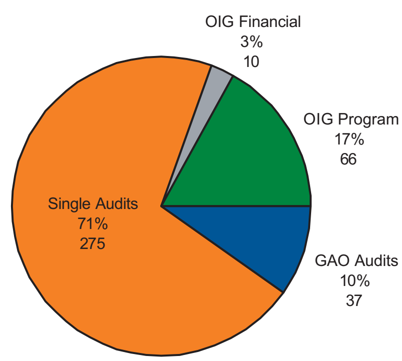
To further demonstrate the importance of timely implementation of OIG and GAO audit recommendations, Interior established an aggressive annual GPRA performance goal, beginning in 2000, of implementing 75 percent of all GAO and OIG audit recommendations within one year of the referral of those recommendations to the Department for tracking of implementation.

Interior was unable to meet its GPRA performance target in 2001. A composite implementation rate of 63 percent was achieved for 2001 (see *Figure 24*). The composite rate included a 71 percent implementation rate for OIG audit recommendations and an 18 percent implementation rate for GAO audit recommendations. The implementation rate for GAO is lower because GAO recommendations often require multi-year actions and/or legislative changes.

There were two primary reasons for not achieving the GPRA performance target in 2001. First, the implementation of several OIG audit recommendations was delayed due to the confirmation and appointment of policy officials. Second, many of the GAO audit recommendations involve policy issues, the issuance of new or revised regulations through public rulemaking processes, or seeking new or amended legislation. As a result, implementation of these recommendations cannot be realistically accomplished with the one-year time constraint. Appropriate GPRA goal criteria revisions will be incorporated for 2002 and the future.

Figure 25

Audit Follow-Up Program Workload

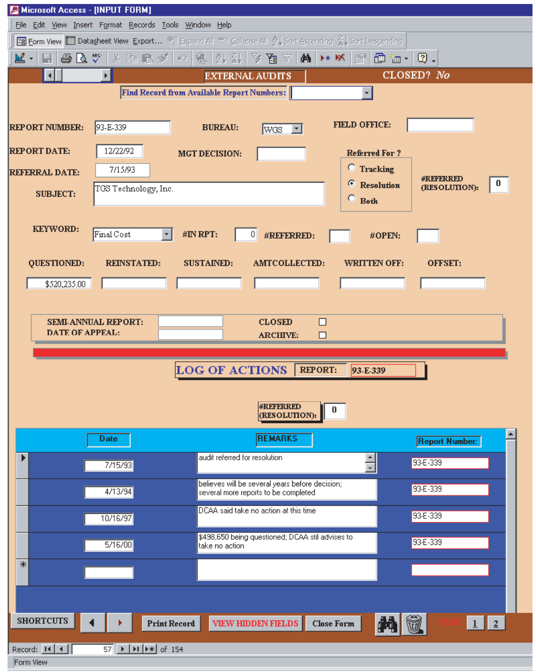


In 2001, Interior's Audit Follow-up Program monitored a substantial amount of Single Audit, OIG, and GAO audit activity, including 275 Single Audits, 76 OIG audits, and 37 GAO audits (see *Figure 25*). Audit follow-up actions included tracking, reviewing, and validating audit recommendations; developing mutually acceptable and timely resolutions to disputed audit findings and recommendations; assisting in developing timely exit strategy for the change in independent auditors for the FWS Federal Aid Audit Program; and monitoring the recovery of disallowed costs.

Interior continued to make significant improvement in the timely implementation of audit recommendations, closure of pending audit reports, and recovery of disallowed costs and other funds owed the government. For example, Interior closed 35 audit reports that had been referred during 2001 or prior years. In addition, a total of 101 of all of the recommendations referred for tracking during 2001 or prior years were implemented by the end of the year. Additionally, an 18 percent closure rate and a 13 percent recovery rate on disallowed costs were achieved.

New Management Control and Audit Follow-up Tracking System

Figure 26



During 2002, the Office of Financial Management (PFM) will launch its new Management Control and Audit Follow-up Tracking System (MCAF-TS). This new system (see *Figure 26*) was developed internally using off-the-shelf software. The MCAF-TS is a shared password protected database accessible to all users on the PFM local area network. The database allows PFM staff to track implementation progress for OIG and GAO final audit report recommendations, Single Audits, and other external audits referred to the Department for follow-up actions; FMFIA material weakness corrective actions; and audited financial statement material weaknesses, reportable conditions, and non-compliance issues. The database maximizes the use of macros and Visual Basic programming to eliminate input redundancy, enhance data integrity and data validation, and provide users with point and click options for generating summary and detailed status reports. During 2002, MCAF-TS will be enhanced to provide for ad hoc reporting formats, information queries, and data sharing with other Interior bureaus and offices.

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 structure, and level of compliance with applicable laws and regulations must be audited each year. All Single Audit reports are now forwarded to and screened by the Federal Single Audit Clearinghouse (Clearinghouse). Those Single Audit reports, with findings and recommendations requiring OIG processing (review and audit follow-up actions), are then forwarded to the OIG for distribution to the appropriate bureaus for tracking. Each bureau is responsible for meeting with grantees and negotiating a resolution of 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.

Reaching Timely Management Decisions on Single Audits

Management decisions (agreement on actions to implement audit recommendations between the bureau and grantee) are expected to be agreed to within six months from receipt of the audit report. If an audit results in disallowed costs, bureaus are responsible for collecting the disallowed costs from the grantees.

During 2001, 16 audits were referred to the Department for tracking, of which 7 had management decision dates less than six months from the date of the audit report.

Collecting and Offsetting Disallowed Costs

As shown in *Figure 27*, Interior closed 5 of 28 (18 percent) audits carried over from 2000 during 2001. A total of $1.38 million in disallowed costs were recovered, or about 13 percent of total disallowed costs carried over from the prior year.

Figure 27

Summary of Actions Taken on Single Audits with Disallowed Costs					
				Number of Reports	Disallowed Costs
(A) Reports on Hand at Beginning of Period				28	$10,309,617
(B) New Reports				16	$148,394
Total reports in tracking				44	$10,458,011
(C) Final action taken during period				5	$1,382,540
	Collected	5	$1,382,540		
	Written Off				
	Offset				
	Reinstated				
	Referred to Treasury For Collection Action				
(D) Reports in Progress at end of period				39	$9,075,471
	Mgmt dec < 1 yr old	5	$99,259		
	Mgmt dec > 1 yr old	25	$6,659,567		
	Mgmt decision under formal appeal	9	$2,426,645		

Internal Audits

Internal audits are audits conducted by the OIG of Interior's programs, organizations, and financial and administrative operations. During 2001, 76 audits were being tracked (63 audits carried over from 2000 and 13 new audits issued during 2001), and 18 of those audits were closed (24 percent). A total of 101 recommendations from OIG internal audit reports were implemented in 2001. For the 58 audits pending at the end of 2001, there were 359 original report recommendations, of which 147 were closed (41 percent).

Figure 28

Summary of Actions Taken on Audits with Funds to be Put to Better Use (FBU)				
			Number Of Reports	**FBU Dollars**
(A) Reports on hand at beginning of report period			3	$11,120,000
(B) New reports received during the report period			4	$1,517,696
Total reports in tracking			7	$12,637,696
(C) Reports closed during the report period			3	$3,078,700
(D) Reports in progress at the end of the report period			4	$9,558,996
Mgmt dec < 1 year old	2	$1,118,996		
Mgmt dec > 1 year old	2	$8,440,000		
Mgmt dec under formal appeal	0			

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. Interior progressed in implementing recommendations and closing FBU audits during 2001, with three of seven (43 percent) audits being closed (see *Figure 28*). These three audits included recommendations with $3.1 million in FBU dollars. The four pending audits include recommendations with $9.6 million of FBU dollars.

General Accounting Office Audits

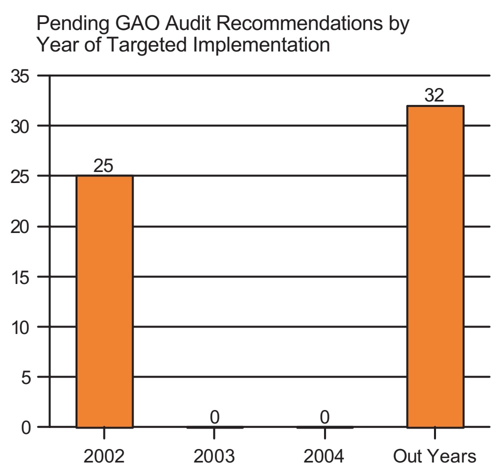
GAO audits are a major component of Interior's audit follow-up program workload and cover a variety of programs, operations, and activities. A total of 23 GAO final audit reports were carried over from 2000. During 2001, GAO issued a total of 14 new final audit reports to the Department. Interior was successful in closing 12 of these audits during 2001. A total of 25 final audit reports and 57 recommendations were pending at the end of the fiscal year (*Figure 29*).

Figure 29

Summary of Actions Taken on Reports Issued by the GAO			
			Number Of Reports
Final Reports in tracking at the beginning of the reporting period			23
Final Reports issued during the reporting period			14
Final Reports closed during the reporting period			12
Total Final Reports in tracking at the end of the reporting period			25
Final Report recommendations closed the reporting period			4
Final Report recommendations in tracking at the end of the reporting period			57
Code	Status of Final Reports in Tracking	No. of Final Reports	
D1	Management decisions < 1 year old	2	
D2	Management decisions > 1 year old	17	
D3	Mgmt dec under formal appeal	6	

Based on current implementation plans, the Department expects to implement 25 of the 57 (44 percent) pending recommendations during 2002 (*Figure 30)*. Most of the other pending recommendations involve long-term and/or multi-phased corrective actions or have yet to be assigned a targeted implementation data. The Department tracks and monitors progress on these corrective actions and develops interim milestones where practical. Several of these pending recommendations will be reevaluated during 2002 to determine if they are cost prohibitive.

Figure 30



Biennial Review of User 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 general taxpayer subsidy of specialized services or things of value (such as rights or privileges) provided directly to identifiable non-federal beneficiaries.

Interior did not conduct a biennial review of its fee programs in 2001. The next biennial review is scheduled for 2002.

Other Key Legal and Financial Regulatory Requirements

Interior is required to comply with other legal and regulatory financial requirements, including the Prompt Payment Act, the Debt Collection Improvement Act, and the Independent Offices Appropriation Act (User Fees).

The auditor's opinion on the 2001 Department consolidated financial statements identified three instances of non-compliance with financial regulatory requirements. Those issues and Interior's remediation plans are as follows:

Debt Collection Improvement Act. Interior is required to refer eligible receivables that are delinquent to the U.S. Department of the Treasury for collection or offset. Eligible receivables include those that are not subject to litigation, related to foreclosure proceedings, or from organizations in bankruptcy. The auditor noted that three bureaus did not consistently refer receivables that were over 180-days delinquent to the Treasury: Bureau of Indian Affairs; Bureau of Reclamation; and, U.S. Geological Survey. Interior will continue to closely monitor bureau performance in this area and improve the current process of transferring eligible debt to Treasury in a timely manner.

Prompt Payment Act. Interior is required to pay bills on time and pay interest penalties when payments are late. The auditor noted that two bureaus did not consistently pay interest penalties when payments were late: Minerals Management Service and U.S. Geological Survey. Interior will continue to closely monitor bureau performance in this area and work with the bureaus experiencing difficulty in complying with the Prompt Payment Act.

Section 113 of Public Law 104-208, Advances for Interior Franchise Fund. Interior developed appropriation language supporting the Interior Franchise Fund under the Government Management Reform Act (GMRA) and in establishing the franchise fund pilot program in accordance with OMB guidelines. Interior does not believe that the recommended appropriation language was intended to require advances for all services, but was intended to allow the pilot program to receive advances so that the organizations could operate in a more business like manner. However, Interior does recognize that the existing appropriation language could be interpreted in that manner and will work with OMB and Congress to amend the appropriation to support the intent of the GMRA objectives.