

U.S. Department of the Interior

Departmental Offices

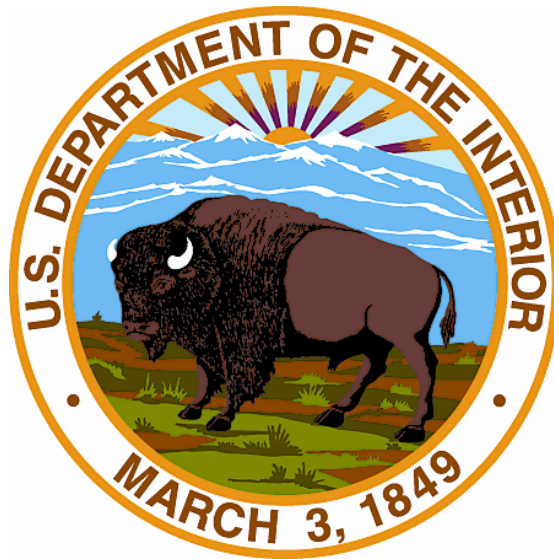


**Annual Financial Report
Fiscal Year 2007
January 2008**

This page left intentionally blank.

Departmental Offices

U.S. Department of the Interior



Fiscal Year 2007 Annual Financial Report

January 2008

Glossary of Acronyms

Aircraft Management Division	AMD	Department of the Interior	DOI
American Indian Records Repository	AIRR	Departmental Enterprise Architecture Repository	DEAR
Appraisal Services Directorate	ASD	Departmental Offices	DO
Assistant Secretary—Policy, Management and Budget	AS-PMB	Deputy Assistant Secretary-Law Enforcement, Safety and Emergency Management	DAS-LESEM
<hr/>			
BLM Indian Lands Surveyors	BILS		
Bureau of Land Management	BLM	Enterprise Architect	EA
Bureau of Reclamation	BOR	Enterprise Services Network	ESN
<hr/>			
Central Hazardous Material Fund	CHF	Enterprise Transition Strategy	ETS
Central Utah Project	CUP	Environmental Protection Agency	EPA
Central Utah Project Completion Act	CUPCA	<hr/>	
Central Utah Water Conservancy District	CUWCD	Federal Accounting Standards Advisory Board	FASAB
Certification & Accreditation	C&A	Federal Employees Contribution Act	FECA
Chief Financial Officer	CFO	Federal Employees Group Life Insurance	FEGLI
Chief Information Officer	CIO	Federal Employees Retirement System	FERS
Civil Service Retirement System	CSRS	Federal Financial Management Improvement Act	FFMIA
Colorado River Storage Project	CRSP	Federal Financing Bank	FFB
Commercial Off-the-Shelf	COTS	Federal Information Security Management Act	FISMA
Commonwealth of the Northern Mariana Islands	CNMI	Federal Land Policy & Management Act	FLPMA
Comprehensive Environmental Response, Compensation and Liability Act	CERCLA	Federal Library and Information Center Committee	FLICC
Comprehensive Trust Management Plan	CTM	Federal Managers' Financial Integrity Act	FMFIA
Contracting Officers Technical Representative	COTR	Federated States of Micronesia	FSM
Critical Data Elements	CDE	Fiduciary Trust Model	FTM
<hr/>			
Data At Rest	DAR	Fiduciary Trust Officer	FTO
Data Quality & Integrity Project	DQ & I	Financial Administration Memorandum	FAM
Departmental Manual	DM	Financial and Business Management System	FBMS
Department of Defense	DOD	Financial Management Lines of Business	FMLOB
Department of Homeland Security	DHS	Fish and Wildlife Service	FWS
Department of Labor	DOL	<hr/>	
		General Services Administration	GSA
		Generally Accepted Accounting Principles	GAAP

Glossary of Acronyms

Government Accountability Office	GAO	National Environmental Policy Act	NEPA
Government Management Reform Act	GMRA	National Indian Gaming Commission	NIGC
Government of American Samoa	ASG	National Institute of Standards and Technology	NIST
Government Performance Results Act	GPRA	National Park Service	NPS
		Native American Grave Protection and Repatriation Act	NAGPRA
Homeland Security Presidential Directives	HSPD	Natural Resource Damage Assessment and Restoration	NRDAR
Identity Theft Task Force	ITTF	Office of Federal Procurement Policy	OFPP
Immediate Office of the Secretary	SIO	Office of Inspector General	OIG
Indian Affairs	IA	Office of Insular Affairs	OIA
Indian Arts and Crafts Board	IACB	Office of Law Enforcement, Security, and Emergency Management	OLESEM
Indian Education	IE	Office of Management and Budget	OMB
Indian Gaming Regulatory Act of 1988	IGRA	Office of Personnel Management	OPM
Indian Land Consolidation Office	ILCO	Office of Surface Mining, Reclamation and Enforcement	OSM
Indian Trust Appraisal Request System	ITARS	Office of the Secretary	OS
Individual Indian Money	IIM	Office of the Solicitor	SOL
Information Technology	IT	Office of the Special Trustee for American Indians	OST
Information Technology Management Council	ITMC	Office of Trust Fund Management	OTFM
Interior Franchise Fund	IFF	Office of Trust Records	OTR
Internal Control Review	ICR		
Investment Review Board	IRB	Payment in Lieu of Taxes	PILT
IT Investment Management	ITIM	Performance and Accountability Report	PAR
		Presidents' Management Agenda	PMA
Land Mobile Radio	LMR	Records Management Capability Maturity Model	RM CMM
Lines of Business	LOB	Republic of the Marshall Islands	RMI
Memorandum of Understanding	MOU	Required Stewardship Supplementary Information	RSSI
Minerals Management Service	MMS	Risk Management Plus	RM Plus
Museums of the Plains Indians	MPI		
National Business Center	NBC	Senior Executive Service	SES

Glossary of Acronyms

Serious Incident Review Group	SIRG
Shared Services Provider	SSP
Sioux Indian Museum	SIM
Southern Plains Indians Museum	SPIM
Statement of Budgetary Resources	SBR
Statement of Federal Financial Accounting Standard	SFFAS

Trust Asset and Accounting Management	TAAMS
Trust Beneficiary Call Center	TBCC
Trust Fund Accounting System	TFAS

United States Geological Survey	USGS
Utah Reclamation Mitigation and Conservation	URMCC

Western Area Power Administration	WAPA
Workforce Improvement Team	WIT
Working Capital Fund	WCF

Table of Contents

Message from the Chief Financial Officer	1
Management’s Discussion and Analysis	3
Overview of Departmental Offices	5
Core Business Areas	6
Report on Performance Goals and Results	18
Forward Looking: Our Challenges	23
Compliance with Legal and Regulatory Requirements.	29
Discussion of the Financial Results and Financial Condition of the Departmental Offices. . .	32
Principal Financial Statements	41
Notes to the Principal Financial Statements	49
Required Supplementary Information	95
Required Supplementary Stewardship Information	107
Other Accompanying Information	115
Independent Auditors’ Report	123
Office of Inspector General Transmittal	124
Independent Auditors’ Report	126
Management’s Response to Independent Auditors’ Report	142

This page left intentionally blank.

Message from the Chief Financial Officer



I am pleased to present the Department of the Interior's Departmental Offices' Annual Financial Report for Fiscal Year 2007. The purpose of this report is to highlight the operational activities and financial condition of the Office of the Secretary as well as the Offices of Inspector General, the Office of the Solicitor, and the Special Trustee for American Indians, among others.

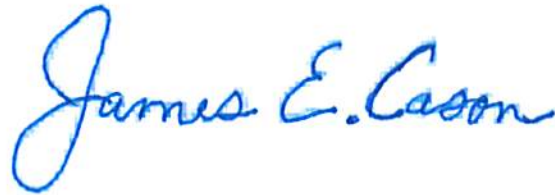
The Departmental Offices provide the executive leadership, policy coordination, and independent program evaluation needed to manage the diverse, complex, and nationally significant programs that are Interior's responsibilities. These offices guide and coordinate all of Interior's administrative activities, such as finance, information technology, procurement and acquisition, human resources, planning, and budgeting as well as enhancing Interior's performance by implementing the President's Management Agenda and exemplifying management

excellence. The Departmental Offices also provide legal services through the Solicitor's Office, the audits and investigations of program operations by the Inspector General, environmental damage coordination, and other related programs. Other programs in the Departmental Offices include: the Office of Insular Affairs, which provides assistance to insular areas; the Office of the Special Trustee for American Indians, which oversees trust reform and the Secretary's responsibilities for trust funds held in trust accounts for tribes and individual Indians¹; the Natural Resource Damage Assessment and Restoration Program, which coordinates the Department's natural resources damage assessment and restoration efforts; the Office of Wildland Fire Coordination, which provides for coordination, integration, and oversight of fire management programs within the Department of the Interior and with other Federal agencies; the National Indian Gaming Commission, which regulates certain Indian gaming activities; the Utah Reclamation Mitigation and Conservation Commission, which oversees facilities to mitigate the environmental effects of the Central Utah Project and the Central Utah Project Completion Act program, which oversees the project itself.

A financial statement audit measures the strength of our financial systems and internal controls. It ensures that our offices have reliable information to make decisions. Managing the Departmental Offices is challenging because it requires the consolidation of eight disparate financial systems and eight budget entities into a single financial statement. While these management efforts resulted in a clean audit opinion for FY 2007, our auditors identified one new material weakness. During FY 2007, one previously identified material weakness was downgraded and one reportable condition was resolved. This report also presents the status of Departmental Offices' compliance with certain legal and regulatory requirements, including the Federal Financial Management Improvement Act. As a result of the material weaknesses identified, the Departmental Offices concluded that the financial management systems did not substantially comply with the Federal accounting standards requirements of the FFMIA. While we have greatly improved our processes, we need to continue to correct the remaining and any newly identified financial management issues.

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

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

A handwritten signature in blue ink that reads "James E. Cason". The signature is written in a cursive, flowing style.

James E. Cason
Chief Financial Officer



**U.S. Department of the Interior
Departmental Offices
Management's Discussion and Analysis**

This page left intentionally blank.

Overview of Departmental Offices

Department of the Interior

The U.S. Department of the Interior protects and manages the Nation’s natural resources and cultural heritage; provides scientific and other information about those resources; and honors its trust responsibilities or special commitments to American Indians, Alaska Natives and affiliated island communities. Interior is organized into two major components: the Departmental Offices and the operating Bureaus. The 8 Bureaus, with programs and operations carried out in each of the 50 States and several U.S. territories conduct this broad and often competing mission. These Bureaus include:

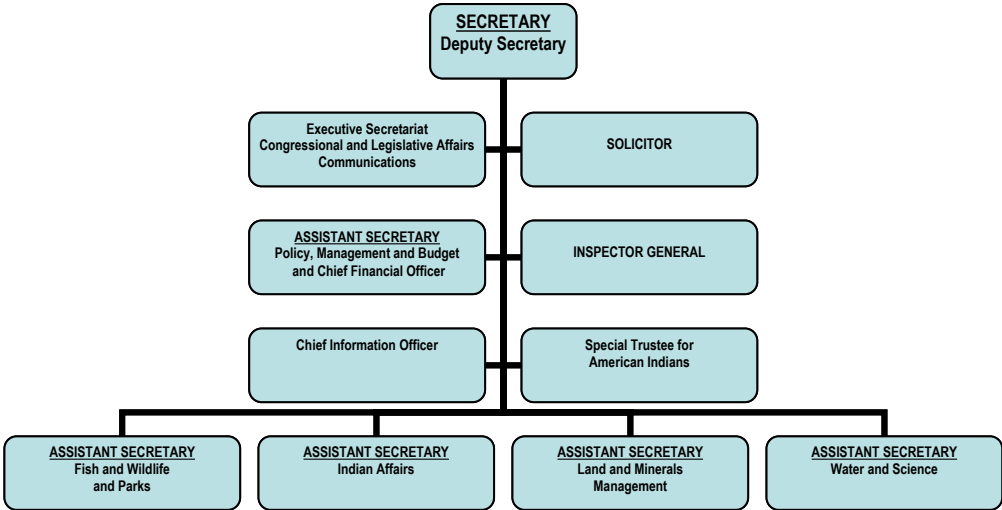
- National Park Service
- U.S. Fish and Wildlife Service
- Bureau of Land Management
- Indian Affairs and Education
- U.S. Geological Survey
- Bureau of Reclamation
- Office of Surface Mining, Reclamation & Enforcement
- Minerals Management Service

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

The Role of Departmental Offices within the Department of the Interior

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

General Organization – Departmental Offices



Core Business Areas

Departmental Offices have four core areas of business. The DO support the four core mission areas outlined in the Interior Strategic Plan, in some cases directly but especially by ensuring the pursuit of Management Excellence, consider to be one of the significant pillars of mission achievement.

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

Management Excellence

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

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

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

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

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

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

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

Assistant Secretary - Policy, Management and Budget. The Assistant Secretary – Policy, Management and Budget provides overall policy guidance and direction for Interior in a broad range of areas that affect nearly every aspect of Interior operations, including budget, finance, human resources, workforce diversity, law enforcement, security, performance and inter-Bureau issues coordination, including wildland fire policy. Responsibilities include developing and implementing administrative and operational policy, standards, objectives, and procedures for use within Interior and coordinating with relatively autonomous Bureau operational units. The Assistant Secretary also serves as the designated agency Chief Financial Officer, Chief Human Capital Officer, and Chief Acquisitions Officer.

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

Under the leadership of the AS-PMB, Interior has continued to make progress on the President's Management Agenda during FY 2007. The Department maintained a "Green" score on status from the Office of Management and Budget in the areas of Competitive Sourcing and Strategic Management of Human Capital. These scores signify continued improvement as the standards for "Green" have increased each year. Competitive reviews to date will save Interior's Bureaus in excess of \$12 million annually, which is money that is retained within the Bureaus to improve mission delivery. In the human capital areas, we are improving succession planning and developing the leadership cadre of tomorrow so that they will be ready to assume the duties of the significant number of SES, GS-15, and GS-14 leaders who will be eligible for retirement over the next 5 years. We are implementing and improving a performance appraisal system that makes meaningful distinctions in employee performance, so that high-performing employees get the recognition they deserve and those with performance challenges can get the guidance they need to improve.

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

The AS-PMB is responsible for the management and oversight of the Department's Working Capital Fund and the Interior Franchise fund. These revolving funds generate revenue used to fund centralized business services hosted by Departmental offices, including the Chief Information Officer and others, and by the National Business Center.

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

Core Business Areas

The NBC is funded on a service-for-fee basis through reimbursable agreements with other Federal agencies. In FY 2007, the NBC continued its efforts to streamline administrative services as well as financial system services.

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

The NBC's Aircraft Management Directorate manages Interior-owned aircraft, contracts for commercial aircraft, and provides aviation safety and training. Centralized management of Departmental aircraft promotes their safe and cost-effective use. Interior Bureaus use aircraft in support of natural resource management, including wildfire suppression, wildlife surveys, migratory bird studies, and animal gathering and capturing. Aircraft are also used to conduct scientific research, including environmental protection surveys, seismic monitoring activities, and transportation to remote areas where travel over land is not feasible. Additionally, aircraft are used in law enforcement and emergency search and rescue operations.

The NBC is also participating with the Department on the Financial and Business Management System to replace the aging corporate business systems, the Federal Financial System, with SAP's commercial core financial product. The NBC hosts the SAP application for all DOI Bureaus, as well as supports all interfacing property, procurement, and e-travel systems. During FY 2007, the NBC deployed all necessary IT-related infrastructure for planned releases, provided help desk support to track and manage system issues/problems, supported the grants module which was implemented in FY 2005, and created a Change Control Board to facilitate and prioritize changes to all deployed FBMS applications. Additionally, the NBC became the key focal point for updates to the vendor file for Bureaus using the new software as well as monitoring system performance and maintaining job schedules.

In FY 2007, the NBC accomplished the following in support of Department programs and NBC Lines of Business:

- Providing ongoing support for the Departmental Offices financial statement audit.
- Accomplished goals set forth in the strategic 5-year business plan for each of the NBC's eight Lines of Business - Human Resources/Payroll, Financial Management, Information Technology, Aviation Management, Appraisal Services, Training, Acquisitions, and Administrative Services. Each business plan establishes a roadmap for the LOB to achieve quality performance management, customer outreach, and a wide range of services that meet customer needs.
- The NBC continued efforts from its 2006 implementation of the ISO 9001 quality management program. Each LOB continued efforts to document and standardize business processes; flowchart processes; and ensure documentation exists to support internal control requirements in support of OMB Circular A-123 requirements.
- The NBC has shown incredible progress regarding improvements to financial performance within the Department. An effort to reduce negative account balances and resolve and close out aged reimbursable agreements has resulted in an estimated reduction of \$130.2 million in un-reconciled agreements at the beginning of the fiscal year 2008. The team's effort ensured all agreements were properly accounted for, reconciled, and coordinated with other Bureaus to ensure acceptance of reimbursable agreements.
- Approximately 75,000 employees and contractors continue to use DOI Learn, the Department's e-learning management system for required training, including the Department's 2007 Federal Information Systems Security Awareness Training.
- Supported a wide range of Government-wide management and employee career programs, including the Senior Executive Service Career Development Program and Acquisition Management and Financial Management Career Intern Programs.

- Expanded and further enhanced an internal audit control program in support of OMB Circular A-123. Continued work with a contractor to complete documentation for business processes outside the Budget and Finance Directorate. Also, continued to refine risk assessment procedures for critical processes, and performed over 100 tests and/or management control reviews to ensure compliance for each customer supported by the NBC.
- Performed review and submitted requirements to reorganize the Financial Accounting organization. This reorganization, once approved, will provide for greater standardization of processes, cross-utilization of staff, and improved cost efficiencies.
- Continued to support OMB's effort to reinvigorate and redefine the Federal-wide financial management LOB. NBC assisted GSA and the other Federal FMLOB providers in the development of agency migration strategy approaches, standard performance measures, and other activities designed to provide Federal agencies with guidance on migrating to one of the designated Federal and/or private sector shared service providers.
- Performed a thorough analysis of acquisition services within the NBC to determine an optimum operating environment for integration of acquisition offices under a common management structure and service-for-fee business policy. This analysis will provide guidance for improving efficiency and effectiveness of operations.

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

Specific milestones in FY 2007 include:

- All Bureaus are connected to the Enterprise Services Network and strong, perimeter security has been achieved. Management of all Bureau networks has been consolidated and transferred to the ESN Network Operations and Security Center. The Center provides full-time (24x7) monitoring and maintenance support for the network. The major network backbone nodes and circuits have been migrated to a vendor-provided service increasing overall network performance and security. The USGS has begun transition to the Verizon's IP backbone service, a very high speed backbone network service.
- The ESN Capital Asset Plans and business case analysis met or exceeded all applicable DOI capital planning investment control and OMB standards. Exhibit 300 reporting to OMB met the required deadlines and ESN earned value performance meets the required DOI and OMB earned value management standards.
- The remote access solution has been developed but the implementation is behind schedule. OSM and MMS are complete. FWS and NPS are actively placing orders but are several months away from completion. BLM is testing. Most other Bureaus have submitted waiver requests to OCIO.
- The Web filtering initial deployment is complete. Additional work is being completed to enhance capability.
- Enterprise Services Network is certified and accredited and scheduled for recertification in FY 2008.
- ESN has an ongoing program to reduce improper payments for telecommunications that has significantly reduced payment errors.

Core Business Areas

- Land Mobile Radio program improvements. A Memorandum of Understanding has been established with the State of Montana detailing the Department's participation and frequency allocation contributions to the State to build a State-wide Interoperable Trunk System for Emergency Response, Border Protection and Federal asset protection. The MOU will establish State and Federal participation and usage of the State's system.
- An Interagency Agreement has been signed with the National Institute of Standards and Technology for DOI to provide for P-25 Radio Systems Testing and Certification for NIST and its subagencies.
- Established standard IT security configurations for desktop and laptop computers running the Windows XP Operating System, in compliance with requirements defined in OMB Memorandum M-07-11. The project will improve security for end-users computers and provide a more manageable environment as a result of having a standard configuration. The project is scheduled for completion in February 2008.
- Selected by GSA to work with DOD representatives to assist in the development of a Federal Government-wide and DOD-wide Data At Rest contract vehicle for the standardization of encryption methodologies to support the secure transport of sensitive data on laptops, thumb drives, and removable media. Successful creation of the vehicle has provided a standardized means for interoperable encryption schemes for use throughout the Government.
- Established an Interior-wide working group to develop recommendations to reduce information security risks that are posed by internal users of DOI information systems as well as a defense-in-depth strategy to address Information Technology Security needs throughout the Interior. Initial recommendations from this team will be provided to the Information Technology Management Council. A final approval is anticipated from the Secretary in FY 2008.
- Developed and implemented new IT security policies, Certification and Accreditation standards and Internal Control Review standards to maintain compliance with rapidly evolving standards and guidelines issued by the National Institute of Standards and Technology and the Office of Management and Budget.
- Issued an Enterprise Architecture Governance Plan describing the decisionmaking processes used during the development of segment architectures and the DOI enterprise architecture. The plan was approved by the Deputy Secretary of the Interior.
- Obtained the Deputy Secretary of the Interior's approval of the annually updated DOI Enterprise Transition Strategy. The ETS defines the sequencing for all modernization efforts across DOI, consolidating and coordinating the changes proposed in modernization blueprints.
- Issued policy on data resource management and associated procedures for standardizing data. The policy defined roles and responsibilities for data standardization and stewardship. The procedures document a consistent methodology for defining data standards to meet the broadest organizational needs.
- Completed two additional modernization blueprints—one for Human Resources Management and another for the cross-cutting mission function of Land Management Planning and National Environmental Policy Act. Both modernization blueprints were approved by the DOI Investment Review Board in accordance with the DOI EA Governance Plan.
- Implemented data quality performance measures and performance objectives for the Departmental Enterprise Architecture Repository. Incorporated the measures and objectives in quarterly evaluations of Bureau enterprise architecture programs.
- Achieved a rating of "Green" for the DOI Enterprise Architecture Program from OMB for the third straight year. Though OMB did not specify a #1 agency Enterprise Architecture program this year, OMB did acknowledge the DOI EA program was in the top five EA programs across the Federal Government.
- Issued a revised Methodology for Business Transformation guidance document clarifying the approach DOI uses for conducting segment architecture analyses and developing modernization blueprints.

- Interior has exceeded its 2007 Government Performance and Results Act goal to achieve 70 percent of the key practices for IT Investment Management maturity stage 3. General Accountability Office defines stage 3 as the point whereby “the agency moves from project-centric processes to portfolio-based processes and evaluates potential investments by how well they support the agency’s missions, strategies, and goals.”
- The Departmental Investment Review Board has significantly matured in its portfolio decisionmaking processes to evaluate investments, minimize risks, and maximize the return on investments with the effective use of its Management Objectives and Business Priorities. The IRB carefully evaluated the FY 2009 Bureau and Departmental IT budget proposals, and prioritized proposed initiatives while preventing duplicate investments and leveraging shared solutions. Interior has further improved upon its project/investment reporting by requiring projects to develop more detailed performance baselines and increasing the frequency of performance reporting. In summary, Interior has accomplished 73 percent of the key practices in achieving stage 3 ITIM maturity. Therefore, DOI remains on track in achieving its goal of attaining stage 3 by the end of FY 2008.
- Interior advanced to “Yellow” in status on OMB’s PMA E-Government Scorecard in the first quarter of 2007 and has successfully “maintained” its status, as well as its “Green” rating in progress. The Department continues to effectively implement and reach the Green standard on its OMB E-Gov Implementation Plan, Enterprise Architecture, and Investment Management milestones. Contributing factors that have led to the Interior’s E-Gov improvement include the implementation of the 2006 Bureau PMA (internal) Scorecard that aligns Bureau and Departmental requirements, as well as the OCIO’s Q1 and Q3 interim observations that provide Bureaus with an E-Gov performance assessment and suggested corrective actions well in advance of the official rating period.
- Planned and completed the Records Management Capability Maturity Model Level 4 and Level 5.

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

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

Serving Communities

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

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

Core Business Areas

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

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

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

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

OIA has worked to improve the environment for economic development in the insular areas. This effort is proving to be successful, with business opportunities in the insular areas beginning to take ground with the help of OIA's facilitation efforts. The following are just two examples of the results of OIA's efforts:

- A company is exploring financial options to bring a fiber optic cable to American Samoa. The cable will provide several benefits to the islands, such as allowing for a call center to open on the island and providing high speed internet.
- A financial investment firm is relocating a large portion of its operations to the U.S. Virgin Islands. This will provide new jobs and tax revenue for the local government.



Sixty-two classrooms were completed in the Republic of the Marshall Islands this fiscal year.

Also, through OIA's infrastructure development programs the foundation for further economic growth is being set. Additionally, a Public Health and Dialysis Center was finished in fiscal year 2007 on the island of Saipan in the Northern Mariana Islands.



Dr. Jose T Villagomez Public Health and Dialysis Center

These activities, along with others, will assist the islands in their economic development efforts.

Office of the Special Trustee. The United States Congress has designated the Secretary as the trustee delegate with the responsibility for administering approximately 56 million acres of land and \$3.3 billion that is owned by American Indians, Alaska Natives, and federally recognized Indian tribes. Trust management of these assets includes conserving, maintaining, investing, disbursing, and reporting to individual Indians and federally recognized tribes on financial asset transactions generated from sales, leasing, and other commercial activities on these lands. The Office of the Special Trustee for American Indians, which reports to the Secretary, oversees and coordinates Indian trust reform efforts Department-wide to ensure the establishment of policies, procedures, systems, and practices that allow the Secretary to effectively discharge his trust responsibilities.

The OST has operating responsibility for financial trust management, including investment and disbursement of assets held in approximately 1,800 trust accounts and about 371,000 open accounts for individual Indians. The balances of funds that have accumulated in the Indian trust accounts are derived from various sources, including: payments for land cessions by treaty; proceeds from sales of land under confiscatory acts of Congress; proceeds from sales and leases of tribal lands and other natural resources such as mineral extraction, timber and grazing; judgment awards made by the Indian Claims Commission and the U.S. Court of Federal Claims; monies appropriated to fund legislative settlements; and interest on trust fund investments. The Office of Appraisal Services provides impartial opinions of value for a variety of specific real property interests on land owned in trust or restricted status.

Financial assets held in trust for Native Americans are owned by the trust beneficiaries and, therefore, are not Federal assets. Authorizing legislation and case law specify how Indian trust assets should be managed and which financial instruments constitute appropriate fund investments. Investments are limited, in most cases, to direct investments in U.S. Government securities (Treasury and other agency issues) and insured deposits or deposits collateralized by U.S. Government securities. Disbursements from judgment

Core Business Areas

awards must be made in accordance with tribal award distribution plans. Additional trust functions for the Department are carried out by the Bureau of Land Management, the Minerals Management Service, Indian Affairs, and within the Offices of the AS-PMB: the Office of Hearing and Appeals, the Office of the Solicitor, and the Office of Historical Trust Accounting.

The Comprehensive Trust Management Plan and the Fiduciary Trust Model comprise the strategic plan that defines and describes the vision, goals, and objectives of trust reform and operating the trust program. Achieving the goals that are at the heart of the strategic plan will enhance beneficiary services, ownership information, land and natural resources assets, trust fund assets, Indian self-governance and self-determination, and administrative services. The CTM goals and objectives align to the intermediate outcomes and strategies outlined in the Department's Strategic Plan. There is an end outcome relationship between the DOI Strategic Plan and the CTM. All goals and strategies fall under the Serving Communities-Fulfill Indian Fiduciary Trust Responsibilities end outcome goal. The end outcome and intermediate outcome goals have associated performance measures to gauge progress in achieving results.

The strategic plan also considers the trends that influence trust management, the role of relevant stakeholders, and the interaction of Interior agencies. Through examination of the "big picture" of trust management, Interior creates a coordinated and integrated system in which all pieces function as a coherent whole.

FY 2007 Accomplishments. Transitioning from the approximately 56 nonintegrated trust-related information systems to an integrated trust data environment is the cornerstone of the FTM. By the close of FY 2007, the OST and the IA achieved a major milestone in trust management reform through conversion to a new leasing system which integrated with the land title system and interfaces with the Trust Funds Accounting System. With the exception of Compact/Contract Tribe encumbrance data, this conversion provides a single repository of ownership for DOI-processed Indian trust land conveyance and encumbrance data. As of September 30, 2007, all locations were successfully converted to the new leasing system. As IA locations converted to the new leasing system, Indian trust beneficiaries began receiving quarterly statements that include more detailed information on trust assets and trust income. Other selected accomplishments include:

- Distributed \$21.8 million to individual Indian trust account holders who were previously on the "Whereabouts Unknown" list through collaborative efforts between OST, IA, and tribal governments.
- Safeguarded millions of Indian trust records at the American Indian Records Repository, in Lenexa, Kansas. So far, more than 162,321 boxes containing almost 406 million pages of Indian records have been electronically indexed and stored at the state-of-the-art storage facility.
- Provided records management training for 697 IA and OST records contacts and 295 tribal employees.
- Worked with 43 tribes that performed or sought to perform OST programs and functions on behalf of their members, and worked to ensure that 75 percent of those tribes had program standards for the OST functions in place.
- Certified 73 Interior employees as Certified Indian Fiduciary Trust Analysts and/or Specialists.
- Aligned the Risk Management program with OMB Circulars A-123 and A-130 for all OST locations and completed a comprehensive risk management plan that identifies the schedule of internal control reviews for all OST programs over the next 3 fiscal years.
- Conducted 45 trust examinations and 42 records management assessments.
- Prepared and submitted three quarterly Status Reports to the Court (Report Nos. 28, 29, and 30). The Reports contain information on the broad trust reform efforts under way at Interior.
- Completed a Workforce and Diversity Plan that contributes to the achievement of program objectives by providing a basis for justifying budget allocation and workload staffing levels.

- Partnered with the Gallup Organization to conduct a Q-12 Employee Opinion Survey to gather information to create a more constructive and productive workplace.
- Created a Workforce Improvement Team comprising approximately 40 program office representatives to address areas of weaknesses identified in the 2006 Federal Human Capital Survey.
- Certified that, with the exception of Office of Historical Trust Accounting and Indian Land Consolidation Program information, data validation and verification standards have been implemented on performance data that are collected and submitted.

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

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

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

The significant accomplishment in FY 2007 was that during FY 2007, PILT distributed all payments to eligible counties on June 15, 2007. Payments made before July 1 help local governments to better plan for PILT in the preparation of their annual budgets.

The PILT Web site has been newly updated and is accessible at <<http://www.doi.gov/pilt/>>.

Resource Protection

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

During settlement negotiations or after a settlement is reached, a restoration plan is developed. These plans specify the necessary actions to restore the injured resources. Actions can be carried out on the lands where the contamination occurred or, if appropriate, at an alternate site which, when restored, provides a suitable replacement for the injured or lost resources and services those resources provide. Trustees (States, Indian tribes, other Federal agencies, or foreign governments) can undertake these projects directly or responsible parties can undertake these actions under the supervision of the trustees. The trustees monitor the restoration projects to

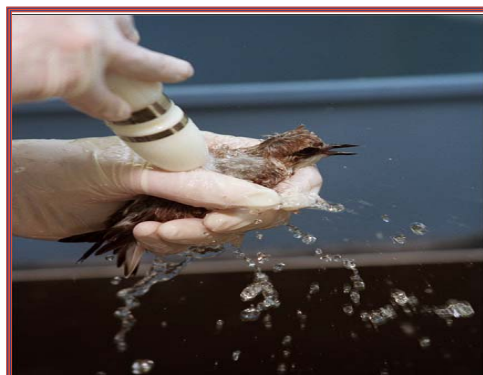
Core Business Areas

ensure that they continue to be properly focused and conducted and to determine whether the efforts are successful over the long run in restoring the injured resources.

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



Wreckage of M/V New Carissa on Oregon coastline



Snowy plover being cleaned of oil

Trustees at the M/V New Carissa Oil Spill recently acquired nearly 3,900 acres of old growth forested land to be managed by the Siletz Confederated Tribe as nesting habitat for shorebirds, including marbled murrelets, a threatened species impacted by the spill. The February 1999 spill oiled beaches along the Oregon Dunes National Recreation Area near Coos Bay, OR. Working through the Bureau of Land Management and the U.S. Fish and Wildlife Service, the DOI Restoration Program is working to implement over \$27 million in numerous habitat restoration and recreation projects with a variety of partners, including co-trustees U.S. Forest Service, the State of Oregon, the Siletz Tribe, and the Confederated Tribes of the Coos, Lower Umpqua and Siuslaw. Nontrustee partners to date include The Conservation Fund, with others anticipated as the trustees begin implementing future restoration projects.

Utah Reclamation Mitigation and Conservation Commission. The Central Utah Project Completion Act authorized funding for fish, wildlife, and recreation mitigation and conservation activities, and established the Utah Reclamation Mitigation and Conservation Commission (Mitigation Commission) to oversee the implementation of those activities.

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

In FY 2007, the Central Hazardous Materials Fund received \$9.8 million in direct appropriations. Additionally, the Central Hazardous Materials Fund received over \$1.5 million in revenue from cost-sharing cost-recovery, or in-kind work from potentially responsible parties.

Take Pride in America® Program. Take Pride in America® is a national partnership program aimed at increasing volunteer service on America's public lands. It is the goal of Take Pride in America® to empower volunteers from every corner of America to maintain and enhance our natural, cultural, and historical sites.

Take Pride in America® encourages citizen stewardship through an innovative public awareness campaign and an interactive Web site that showcases volunteer opportunities at natural and cultural sites.

FY 2007 Goals and Accomplishments:

- Public awareness is a key element to the goal of Take Pride in America® for increasing volunteerism on our public lands. An integral way to match more volunteers with volunteer projects is through the Take Pride in America® Web site, <www.takepride.gov>. Our goal is to increase our average monthly Web site traffic from 200,000 hits to 300,000 by calendar year's end.
- Take Pride in America® is also focused on increasing youth involvement. It is a key element of our program to introduce a new generation to volunteerism and create future stewards of our public lands. We are dedicated to increasing Take Pride school registration from the current 89 to 300 by the end of 2007 calendar year.



Students from West Geauga Middle School, a Take Pride School, worked together to renovate the gardens outside of their school building. In the process, the group was able to secure enough resources to preserve an area of wetland on their campus. Congratulations to West Geauga Middle School in Chesterland, Ohio, for a job well done!

- This year's addition of the Take Pride in America® Hours of Service Awards Program has aided in our volunteer recognition efforts. At the end of FY 2007, 667 awards of varying levels distributed to volunteers across the country to acknowledge the very important work our volunteers provide.
- Strategic partnerships have aided Take Pride in America® in its mission to increase volunteerism on public lands. Corporations such as Toyota Motor Sales, USA, Inc., and Travelocity support Take Pride in America® in heightening public awareness. For example, Toyota is sponsoring three Take Pride VolunTOUR road trips across the country beginning in Fall 2007 to energize and engage local communities.

Resource Use

Central Utah Project Completion Act. The primary purpose of the Central Utah Project Completion Act is to provide for the orderly completion of the Central Utah Project by authorizing certain water conservation and wildlife mitigation projects, and by providing funding for construction of certain features for delivery of irrigation, municipal and industrial, and in-stream flow water to specified areas within the Central Utah Project service area.

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

Report on Performance Goals and Results

Serving Communities								
Long-Term Goal	Annual Goal	2003 Actual	2004 Actual	2005 Actual	2006 Actual	2007 Plan	Final FY 2007	2007 Performance Report and Discussion
Increase Economic Self-Sufficiency of Insular Areas	Decrease the ratio of Federal Revenue to total revenues in insular areas.	N/A	.26	.25	.28	.28	.30	<p>Goal Not Met. The insular areas continue to face economic challenges. OIA facilitates discussions and programs to alleviate stress from the economic challenges, but in the end OIA has little control over the inputs of the proxy measure. Because the insular areas are experiencing economic hardships, revenues outside of Federal assistance have not kept up with Federal grants to the insular areas which has created the missed target.</p> <p>OIA will continue to work with the insular areas and other Federal agencies to help improve the financial condition of the islands by closely monitoring financial reporting performance and encouraging the islands to provide the environment necessary for economic growth.</p> <p>Data for this measure is gathered from the single audit reports submitted by the insular areas.</p>
	Increase the ratio of private sector jobs to total employment.	N/A	.76	.72	N/A	.71	.72	Goal Met. Efforts by OIA and the insular areas have slightly increased private sector employment in the islands.
	Decrease the total average months late for all insular general fund financial statements.	10	8	19	2	5	2	One insular area is behind on submitting their audit report. All other Insular areas completed the single audit report on time or by an agreed extension date in FY 2007. The amounts reported as the previous fiscal year actuals were used to establish a baseline. OIA has been working with the insular areas to bring them into compliance with the Single Audit Act and as a result, audited financial statements are now being submitted by the insular areas.

Serving Communities								
Long-Term Goal	Annual Goal	2003 Actual	2004 Actual	2005 Actual	2006 Actual	2007 Plan	Final FY 2007	2007 Performance Report and Discussion
Ensure Timeliness of Mineral Revenue Payments to American Indians	Record revenue in the Trust Financial Accounting System within 24 hours of receipt.	N/A	98.66%	100%	99.8%	98.5%	100%	Goal Met.
Timely and accurate annual PILT payment distributions	Make distribution payments to eligible counties before July 1 in order to help local governments to better plan for PILT in the preparation of their annual budgets.	N/A	June 24	June 24	June 16	June 15	June 15	Goal Met.

Office of Insular Affairs: The OIA, in conjunction with the insular areas, strives to meet the Department's Serving Communities Strategic End Outcome Goal #5; Increase Economic Self-Sufficiency of Insular Areas in the DOI Strategic Plan FY 2007–2012. Consistent with the intermediate outcome measure, Increase Economic Development, program performance will be measured by the ratios of Federal revenue to total revenues in insular areas and of private sector jobs to total employment. Program performance will also be measured by the total average number of months that the insular area governments are late in submitting their general fund financial statements. As a result of the OIA's single audit compliance efforts, more accurate and consistent data is now available from the insular area's annual financial statements.

Office of Special Trustee for American Indians: The OST strives to meet the Department's Serving Communities Strategic End Outcome Goal #3: Fulfill Indian Fiduciary Trust Responsibilities as stipulated in the DOI Strategic Plan FY 2007-2012. Consistent with the intermediate outcome measure, Improve Management of Land and Natural Resource Assets, program performance will be measured by the timeliness of mineral revenue payments to American Indians. The OST continues to make improvements to the financial accounting system to ensure the goal of making mineral revenue payments to American Indians in a timely manner is met. In 2007, the OST achieved 100 percent of revenue recorded in the Trust Financial Accounting System within 24 hours of receipt, successfully meeting its goal of 98.5 percent.

Payment in Lieu of Taxes: The Department is committed to maintaining timely and accurate annual PILT payment distributions to eligible local governments. In line with this goal, the Department developed the 2007 PILT payments schedule and with the assistance of the National Business Center was able to ensure timely distribution on June 15, 2007. This timely distribution allowed the Department to meet again its goal of making payment before the end-of-year for most of the jurisdictions. Continuing to follow up on annual financial audit recommendations, the Department validated the appropriateness of the formulas, the inflationary adjustments, the acreage adjustments, and the Federal payment offsets in developing the 2007 payment distribution.

Report on Performance Goals and Results

Resource Protection								
Long-Term Goal	Annual Goal	2003 Actual	2004 Actual	2005 Actual	2006 Actual	2007 Plan	Final FY 2007	2007 Performance Report and Discussion
Create Habitat Conditions for Biological Communities to Flourish	Increase the cumulative amount of damage settlement funds within the DOI Restoration Fund to \$285 million.	\$227.9	\$259.0	\$294.8	\$368.6	\$398.6	\$435.6	Goal Exceeded.
Timely Completion of the Central Utah Project	The CUPCA Office will work with the Commission to implement measures to conserve, mitigate, and enhance fish, wildlife, and recreation resources affected by reclamation project in Utah. In 2007, the CUPCA office will measure the percent completion of Commission work authorized by Congress.	63%	66%	67%	67%	66%	66%	Goal Met. In FY 2008, Commission will continue major land acquisitions for its Great Salt Lake and Utah Lake Wetlands Projects, construct a new fish hatchery for the Ute Indian Tribe, stabilize Clements Lake in the Uinta Basin, and fund several major recovery actions for the endangered June Sucker.
Restore and Maintain Proper Function to Watersheds and Landscapes.	The measure is "percent of identified 'Probable' Superfund sites addressed by the Central Hazardous Materials Fund".	N/A	N/A	N/A	N/A	10.2%	12.8%	Goal Exceeded. Annual goal is tracked using the DOI Environmental Database launched in 3rd quarter FY 2006.

Natural Resource Damage Assessment and Restoration: Restoration activities conducted under the auspices of the Restoration Program support the Department's Resource Protection Strategic End Outcome Goal #2; Sustain Biological Communities on DOI-Managed and Influenced Lands and Water in a Manner Consistent with Obligations Regarding the Allocation and Use of Water, in the DOI FY 2007-2012 Strategic Plan. Damage assessment activities are a vital and integral step in the process of restoring natural resources that have been injured by releases of oil or hazardous substances. The resolution of damage claims which, when settled, provides the funds or in-kind actions necessary for natural resource restoration. These activities indirectly support the Department's Strategic End Outcome Goal #2 by restoring habitats that have been injured by releases of oil or hazardous substances. The program outcome measures of acres and miles of habitat restored, but, cannot directly measure progress in this activity. Instead, the Restoration Program must rely on intermediate measures to track program performance, such as numbers of assessment cases that have been settled and amount of funds recovered in those settlements and deposited into the DOI Restoration Fund.

At the end of FY 2007, the amount of funds deposited into the DOI Restoration Fund as a result of settlements and earned interest was \$67 million, which exceeded the anticipated goal of \$30 million. The goal was exceeded primarily because a number of cases settled sooner than anticipated. These accomplishments allowed the restoration program to increase the cumulative amount of the damage settlement funds within the DOI Restoration Fund from \$368.8 million to a new cumulative total of \$435.6 million.

Utah Reclamation Mitigation and Conservation Commission: The Utah Reclamation Mitigation and Conservation Commission (Mitigation Commission), a Presidentially-appointed Federal commission, is responsible for completing fish, wildlife, and recreation projects in the State of Utah as part of the Central Utah Project. Through FY 2007, the Mitigation Commission completed percent of the work authorized by Congress (percent completed is less than last year's estimate because appropriations are not keeping up with indexing of available funds). During FY 2007, the Mitigation Commission acquired substantial acreage for its Great Salt Lake Wetland Preserve, completed reconstruction of a State of Utah fish hatchery, converted three Uinta Basin wilderness reservoirs (Farmer's, White Miller, and Water Lily) into fishing lakes, and completed the Provo River Restoration Project.

Central Hazardous Materials Fund: The Department addressed 12.8 percent of its environmental liability via response actions under the auspices of the CHF, exceeding the 2007 goal. The CHF conducted response actions activities at 28 out of a total of 219 probable Superfund sites identified by the Bureaus as requiring an expenditure of resources needed to address environmental or disposal liability. Cleanup was completed at seven probable Superfund sites, and these sites were removed from the environmental liability list. One of the 7 sites was completed under the CHF.

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

Central Utah Project Completion Act: The Central Utah Water Conservancy District was given authority under CUPCA to plan and construct the remaining features of the Central Utah Project. By the end of FY 2007, the CUWCD had completed 43 percent of the work authorized by Congress. The Water Management Improvement Program continued to prove successful with a cumulative water savings of over 97,000 acre-feet annually. CUWCD continued construction on Uinta Basin Replacement Project. Construction activities began on the Utah Lake Drainage Basin Water Delivery System with the preparation of design and specifications for the Mapleton Springville Pipeline and the Spanish Fork Canyon Pipeline. A construction contract was also awarded for the Mapleton Springville Pipeline.

Report on Performance Goals and Results

Reimbursable Activity and Other								
Long-Term Goal	Annual Goal	2003 Actual	2004 Actual	2005 Actual	2006 Actual	2007 Plan	Final FY 2007	2007 Performance Report and Discussion
Ensure NBC employees have the Job-Relevant Knowledge and Skills necessary to accomplish their organizational goals	Percentage of NBC workforce who indicate that their workforce has the job-relevant knowledge and skills necessary to accomplish their organizational goals.	N/A	N/A	67%	67%	72%	66%	Goal was not met. NBC is working with supervisors to determine gaps in job skills based on employee concerns. Individual Development Plans are being created for all supervisors to improve competencies.
Ensure acquisition services are provided in a cost competitive and efficient manner.	Maintain a cost of contract dollars awarded that is less than the government-wide benchmark.	\$0.01	\$0.02	\$0.02	\$0.03	\$0.02	\$0.03	Goal was not met. Met the OMB operating principles for self-sustaining operation, however, did not meet the \$.02 target.

Data Completeness and Reliability

Performance data included in Departmental Offices FY 2007 Annual Financial Report are considered complete and reliable and contain no material inadequacies. The performance data for FY 2007 are presented as actual data for the entire fiscal year, as estimated year-end results, or as preliminary or incomplete data. The Department defines a "Goal Met" if the actual data are within 5 percent of the target. In cases where our target took the form of establishing a baseline, we report the goal met if the baseline was established in the reporting year. In FY 2007, there are instances where no data could be reported. Explanations for the lack of final data are provided in every instance.

Looking Forward: Our Challenges

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

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

These issues are important to Interior's mission, involve large expenditures, require significant management improvements, or involve significant fiduciary relationships. Interior has summarized its actions in addressing these challenges in its 2007 Performance and Accountability Report. The Departmental Offices play a vital role in addressing these management challenges as the offices have worked with Bureaus to develop policies and implementation plans, appropriate oversight vehicles, and methods of tracking progress in implementing our policies and plans. In each area Interior has taken a number of actions to address these issues better positioning DOI to meet the identified management challenges. We will seek to make further progress in FY 2008.

1. Financial Management

The centerpiece of Interior's plan to improve and modernize its financial and business management functions and to create a world-class management organization is the implementation of the Financial and Business Management System. After awarding a new system integrator contract in February 2006, FBMS met its goal for deploying the core financials portion of the system to the Minerals Management Service and the Office of Surface Mining, Reclamation & Enforcement in the first quarter of FY 2007. Interior is the first agency in the Federal Government to deploy SAP core financials in eight months. It was a challenging undertaking. As would be expected when replacing legacy systems that have been in operation for close to 20 years, issues arose in production. The FBMS team conducted extensive lessons learned sessions in early 2007, and began to address areas for improvement immediately. The FBMS Program Management Office established tiger teams to work with OSM, MMS and the National Business Center to prioritize and methodically resolve production problems and address reporting needs. Future FBMS deployments will benefit from the maturation of the system and project management processes.

- OSM and MMS used FBMS as their accounting system for the entire year, and closed FY 2007 on schedule.
- FY 2008 was opened with a one-day delay and is in operation.
- Historical data from OSM and MMS legacy accounting systems was loaded into the FBMS business warehouse, enabling those systems to be retired.
- During FY 2007, the acquisition module was blueprinted, configured and tested, and an upgrade of the core financial software to the latest Financial Systems Integration Office-approved version was planned, configured and tested. This new capability was deployed in November 2007.
- Planning for deployment of FBMS to the Bureau of Land Management, the first large Federal Financial System Bureau, was also completed.

The FY 2007 continuing resolutions disrupted FBMS deployment, due to the low level of funds available and the timing of fund availability. Funding from the Interior Franchise Fund was not available at the level planned, which required a reduction in scope.

The GovWorks implementation was delayed due to changing business processes related to changing customer requirements. These changes did not enable the FBMS project to lock in system requirements in time to meet the November 2007 deployment.

Looking Forward: Our Challenges

The vision and goals of the FBMS project remain the same. The initial business case for FBMS anticipated that deployment of the full functionality would take eight years, from 2004 to 2011. The DOI began implementing FBMS in FY 2004; the original system integrator proposed that the system implementation could be completed by the end of FY 2008. After the new system integration contract was awarded, the Department's Investment Review Board approved a revised baseline for FBMS, with full deployment taking until 2011. The management team will continue to make necessary adjustments in the project to adapt to changing conditions.

2. Information Technology

Interior was able to make significant progress in improving and strengthening its overall security posture during FY 2007. The following milestones were achieved:

- Interior is in the final phase of completing its IT Security Policy Handbook to align Departmental policies with the NIST Special Publication 800-53 families of controls, and implement the OMB's requirements for the protection of sensitive agency information, including personally identifiable information.
- Interior completed and promulgated the Department's Privacy Loss Mitigation Strategy in accordance with OMB Memoranda on *Recommendations for Identity Theft Related Data Breach Notification*, and *Safeguarding Against and Responding to the Breach of Personally Identifiable Information* (M-07-16).
- Interior completed the Identity Theft Task Force charter, established the Department's ITTF, and promulgated OCIO Directive 2007-005, *Departmental Strategy to Safeguard Personally Identifiable Information and Reduce the Collection and Uses of Social Security Numbers*.
- The Department established a cross-DOI Internal Security Improvement Team working group to develop an IT Security Defense in-Depth Strategic Plan that included approximately 40 recommendations to address risks associated with insider threats to Interior's information and information systems. Initial recommendations from this team were provided and Interior expects to make final decisions regarding an implementation strategy in FY 2008. A number of key recommendations included in that plan are being integrated into Interior's IT Roadmap initiative to appropriately prioritize and align these initiatives with other related and planned initiatives.
- The Department established policy directing monitoring on a monthly basis of all Interior systems. Testing of select controls is also conducted in coordination with the annual completion of Internal Control Reviews. Testing is configured to ensure that all controls are tested during a 3-year period.
- As part of Interior's self-assessments it performed as part of its annual ICRs, Interior measured the progress of implementing required security controls consistent with NIST Federal Information Processing Standards Pub. 200 and SP 800-53, and assessed in accordance with NIST Special Publication 800-53A, for information systems using five levels of effectiveness. Based on the results of these reviews Interior has achieved an overall level 4.51 maturity when measured against the assessment criteria.

For FY 2008, DOI has identified the following priorities to be addressed in the IT security program:

- Continued improvement in Certification and Accreditation documentation and execution processes, the Plan of Action and Milestones process, security configurations using Security Technical Implementation Guides, and IT systems inventory processes.
- C&A revisions to address OMB requirements for protection of personally identifiable information.

3. Health, Safety, and Emergency Management

The Secretary's law enforcement reforms encompass 25 subject areas, with a total of 61 individual directives. The OIG's April 2006 progress report showed 35 of those directives as "fully implemented," 23 with "moderate progress," and only 3 with "inadequate progress." Since then, there has been substantial progress in these last three areas:

- The Office of Law Enforcement, Security, and Emergency Management completed a comprehensive revision of all law enforcement policies in December 2004. The Office of Law Enforcement Security and Emergency Management has prioritized the numerous chapters of the Law Enforcement Handbook and has issued policy guidance as the legal review

for each chapter is completed. The OLESEM and Office of the Solicitor are utilizing a “chapter-specific” review process to expedite the review of both existing and new policy chapters. As a result, policy chapters are now being submitted on a timely schedule.

- The OLESEM is moving forward with the Incident Management, Analysis, and Reporting System. Initial development has been completed and further implementation is progressing.
- The OLESEM Training Branch established a permanent office at the Federal Law Enforcement Training Center in Glynco, Georgia. This enabled us to work with the various Bureau law enforcement programs to upgrade and standardize training.
- The Department created a Security Advisory Council, consisting of security directors from all Bureaus and offices, to develop and review security policy, to enhance policy oversight and compliance efforts. The OLESEM completed initial staffing of its Policy Compliance and Evaluations Branch, which subsequently completed a preliminary assessment of the Bureaus’ existing law enforcement, security, and emergency management policy compliance and evaluations capabilities; and conducted onsite security policy compliance evaluations at a majority of the Department’s National critical infrastructure and key resource sites.
- The OLESEM developed comprehensive policies to address serious incident reporting and internal affairs. It created a Serious Incident Review Group, consisting of the Director, the OLESEM, and the law enforcement chiefs for all DOI Bureaus. The SIRG reviewed several incidents and issued detailed reports, approved by the Deputy Assistant Secretary, to address training and other needs. As noted in the OIG progress report, the OLESEM has also implemented an automated Case Tracking System for internal affairs matters. The interim policy guidance for both Boards of Review/SIRG and Internal Affairs have been revised and submitted to the Office of Planning and Performance Management for surnaming.
- The OLESEM continues to oversee the IA’s efforts to improve Indian country detention.

The Department is continuing to aggressively implement these directives and all others that have not been fully implemented. With respect to accountability for nonlaw enforcement managers who supervise law enforcement positions, these managers are subject to investigation by internal affairs investigators to the same extent as law enforcement officers themselves. In addition, the Bureaus have fully embraced the need for all such managers to undergo a background investigation and receive comprehensive “Law Enforcement for Managers” training. Each Bureau that allows supervision of law enforcement officers by nonlaw enforcement managers (BLM, BOR, NPS, and FWS-NWRS) has trained the majority of its managers, with a schedule to complete training for all managers. This process is overseen by the OLESEM.

Additionally, a Law Enforcement Board of Advisors, which consists of the Bureau law enforcement program directors and the Director, OLESEM, meet on a monthly basis with the DAS-LESEM to discuss Interior and Bureau law enforcement policy, training, staffing, equipment, operations, and other issues. Beyond the specific directives addressed in the Secretary’s law enforcement reforms, the Department provides strong oversight on a wide range of law enforcement, security, and emergency management programs. Examples include:

- Active participation in numerous Homeland Security Council-led Policy Coordinating Committees, including Avian and Pandemic Influenza, Biodefense, Border and Transportation Security, Maritime Security, Continuity, Critical Infrastructure Protection, Domestic Readiness, Information Sharing, and Plans and Training.
- Development of a National Infrastructure Protection Plan for the National Monuments and Icons Sector, including creation of a security assessment methodology noted by DHS, OMB and GAO.
- Development of a Departmental Avian and Pandemic Influenza Plan.
- Revision of the Departmental Manual to provide a comprehensive policy framework for the Emergency Management program.
- The OLESEM is working closely with Border Patrol to improve access to encrypted radio communications by our law enforcement officers in the Southwest.
- In 2007, OLESEM revised the Department’s 1999 Continuity of Operations Plan and completed “tabs” to the plan for elements within the Office of the Secretary. With extensive participation of Departmental leadership, the OLESEM tested the COOP Plan as part of a Government-wide continuity exercise and formulated “lessons learned” for continual process improvement for coordination of emergency situations.
- The OLESEM coordinated with OCIO to develop an e-Gov and OCIO Strategic Planning elements for emergency management, including compliance with National Communications System Directive 3-10 and development of a system to provide a common operational picture for decision support to senior leadership.

Looking Forward: Our Challenges

- Provided policy guidance for National Incident Management System training requirements required under Homeland Security Presidential Directives 5 and 8. Provided policy guidance to clarify mission and operations of the DOI Incident Support Team and the Interior Regional Emergency Coordinating Councils, strengthening the ability of the Department to coordinate major incidents from a national perspective, and to enhance regional preparedness and operational coordination.

4. Responsibility to Indians and Insular Areas

The Comprehensive Trust Management Plan outlines the strategic direction for Indian trust reform and details DOI's approach for improving performance and accountability in Indian trust management. The CTM is the foundation of the Fiduciary Trust Model which was approved by the Secretary in August 2004. The FTM is designed to enhance beneficiary services for tribes and individuals, ownership information, land and natural resources assets, trust funds assets, Indian self-governance and self-determination, and administrative services. The following summarizes the status of projects and initiatives that will operationalize the FTM and provides the status of the Historical Accounting Project:

- Enhanced Beneficiary Asset Statements—Enhanced periodic asset statements are now being generated that provide more information to beneficiaries about the assets in trust. In addition to receipts and disbursements from tribal and individual Indian accounts, statements now identify the trust tracts owned by the beneficiary, percent and type of ownership in the tracts, where the tracts are located, and active encumbrances.
- Historical Accounting—On May 31, 2007, the Department released the Plan for Completing the Historical Accounting of about 365,000 Individual Indian Money accounts. The accounting is expected to take approximately 4 years, through 2011. Mailing historical statements of account to IIM account holders has begun for judgment and per capita accounts and will begin for land-based IIM accounts by December 31, 2007.
- Indian Trust Funds Lockbox—Implementation of the Indian Trust commercial lockbox centralizes the collection of trust remittances and improves cash management by minimizing the physical handling of these funds. The lockbox was implemented to address two audit deficiencies: segregation of duties, and untimely deposits to U.S. Treasury of trust payments received.
- Trust Asset Accounting and Management System Title and Leasing Modules—Transitioning from the approximately 56 nonintegrated Trust-related information systems to an integrated trust data environment is the cornerstone of the Fiduciary Trust Model. In FY 2007, DOI converted from the Indian Affairs multiple legacy ownership, leasing and income distribution systems to a single repository of trust data.
- Trust Funds Receivable—The OST OCIO developed Trust Funds Receivable to capture payment information and generate invoices that the OST mails out to lessees and permittees. The technology displays images of invoices generated and payment received, and provides metrics that report on automatic distribution of trust collections to beneficiary accounts.
- Automated Income Distribution—With the conversion to Trust Asset and Accounting Management System complete, automatic invoicing and income distribution is possible. The Trust Fund Accounting System uses encumbrance and ownership data initially uploaded from TAAMS to TFAS to automatically generate an invoice. When payment is received at the lockbox, the payment is deposited with the U.S. Treasury and an image of the payment can be viewed by staff. If an invoice coupon is submitted with payment, the payment is automatically matched with an invoice. Once the payment is matched, TFAS will automatically distribute the money received to the appropriate tribal or IIM accounts.
- Data Quality & Integrity Project—The DQ&I project focuses primarily on improving the accuracy and completeness of Indian trust data contained in TAAMS. During conversion, the IA was provided resources to assist with document encoding into the TAAMS Title and Leasing modules. More than 114,800 documents have been encoded. The project has also completed the validation of Critical Data Elements to source documents. Examples of CDEs are beneficiary, account number, and land ownership interests. CDE variances have been researched with recommended action provided to IA. A third initiative includes implementation of a post quality assurance process to help ensure current and future transactions encoded in TAAMS are accurate.
- Risk Management—Plus—RM—Plus is an automated tool that enables the OST management to conduct control assessments within OST. The results of the assessments provide the basis for the Annual Assurance Statement on Internal Control over Indian Trust Fund Financial Reporting.
- Fiduciary Trust Officers—The OST has a staff of 52 FTOs in Indian Country who serve as the primary points of contact for trust beneficiaries. The IA staff focuses on resource management and the OST staff focuses on financial management to

- provide better services to beneficiaries. The FTOs frequently hold outreach meetings.
- Trust Beneficiary Call Center—The TBCC was established to provide beneficiaries with a toll-free dedicated source for answers to questions regarding their trust assets.
 - Indian Fiduciary Trust Records Storage—The storage of records at the AIRR in Lenexa, Kansas, began in FY 2005 to ensure the preservation and integrity of these records. The National Archives and Records Administration manages the Lenexa facility and the OST Office of Trust Records provides support services for shipment of records to the AIRR, as well as records research and retrieval. OTR is currently developing policies and procedures on record storage and access.
 - Indian Trust Appraisal Request System—ITARS is an appraisal request tracking application. It is designed to follow an appraisal request from initiation to completion and allow users to track a request through the process. The application automates the reporting requirement for the Office of Appraisal Services.
 - Office of Minerals Evaluation—This office was opened in November 2006 to address the lack of staffing and availability of mineral appraisers in Indian country. This office conducts mineral assessments and mineral appraisals for Indian trust parcels that may undergo heirship and/or title transfer consideration.
 - Indian Land Consolidation Office—The ILCO, managed by the IA, serves primarily to purchase small fractional trust land interests at fair market value and to consolidate ownership by conveying these interests to the appropriate tribe. Consolidated ownership means recordkeeping is reduced, the number of small dollar transactions decreases, and the number of interests subject to probate decreases; allowing better utilization of limited trust management resources.
 - Single Adjudication Office—The Office of Hearings and Appeals consolidated the IA attorney decisionmakers and administrative law judges in March 2005 and established an Indian Probate Hearings Division to address the backlog of Indian probates. The consolidation included probate adjudication functions.
 - Training Task Analysis Report—Consultants worked with the OST's Trust Accountability Reengineering and Office of Trust Training staffs to break each process described in the FTM into its detailed tasks. Tasks were aligned with job functions and the levels of knowledge and capability currently existing for each task was mapped to the audience(s) which performs them. The report includes a gap analysis that identifies tasks targeted for training and recommendations on training.
 - BLM Indian Lands Surveyors—In FY 2006, the BLM recruited and placed a cadastral surveyor in each of the 12 IA regions. The primary responsibility of the BILS is consultation and guidance for the IA and tribal real estate programs regarding boundaries, surveys, land ownership and other legal and technical survey issues. They also ensure that survey work complies with cadastral survey laws and regulations. Additionally, the BILS provide oversight and monitoring for cadastral surveys performed within their area of jurisdiction by the certified Federal surveyors.
 - Certified Federal Surveyors Program—A Federal surveyor certification program was initiated. State licensed surveyors can become Federally certified to perform cadastral surveys in Indian country in conformance with BLM standards. The program will expand the cadre of qualified surveyors to address the cadastral survey backlog within Indian country, ensure that surveys comply with regulations and policies and offer tribal and private land surveyors more opportunities to survey in Indian country. Of the initial 124 enrollees, 69 individuals received their certification in May 2007. The remaining enrollees are scheduled to graduate in the quarter of 2008.

5. Resource Protection and Restoration

The DOI and the Forest Service have taken significant, comprehensive actions to address large fire suppression costs—actions that continue to aggressively improve program management and accountability.

Measuring large fire suppression cost savings based on costs that do not actually occur is challenging. However, the Department is committed to mitigating rising suppression costs where possible and has established objectives that will help achieve this goal. The objectives include (1) fully implementing appropriate management response, a risk-based approach that matches suppression effort with the potential threat to human values, (2) working with the Forest Service to develop and deploy the Wildland Fire Decision Support System, and (3) increasing oversight and accountability through a new, more rigorous large fire cost containment review process.

Together with the Forest Service, these objectives are being implemented under the umbrella of goals, strategies, and implementation tasks identified in two key documents: *A Collaborative Approach for Reducing Wildland Fire Risks to Communities and the Environment, 10-Year Strategy Implementation Plan* (December 2006 Update) and *Protecting People and Natural Resources, A Cohesive Fuels Treatment Strategy* (February 2006). Together these documents provide a systematic framework of goals, outcomes,

Looking Forward: Our Challenges

performance measures, implementation tasks and priorities for collaborative, intergovernmental management of fire suppression, fuels reduction, restoration of fire-adapted ecosystems, fire prevention and community assistance objectives.

The DOI implemented the Stratified Cost Index performance measure beginning in FY 2007. This measure is included in the 10-Year Implementation Plan, which serves as the program's overall strategic plan with our partners. This measure will provide managers a useful tool to better manage large fire suppression costs. This model was developed with the intent to continue refining and improving the metric as more data is collected in coming years.

6. Procurement, Contracts, and Grants

Since the initial FY 2005 OIG audits of procurements performed by the National Business Center's acquisition offices for the Department of Defense, the NBC developed and implemented numerous new policies, and enhanced procedures and guidance to ensure contracts are awarded and administered in compliance with applicable laws, regulations and policies. Numerous training sessions were conducted to reinforce new policies and procedures. Accomplishments are as follows:

- Adjusted operating procedures in FY 2006 to ensure compliance with Government Management Reform Act of 1994 and with new DOD rules and regulations.
- Established a Performance Assessment Team to perform acquisition management reviews at all NBC acquisition sites.
- Some of the findings issued in FY 2007 DOD/DOI OIG audits did not involve violations of fiscal law, but were departures from new DOD policies issued in October 2006 that were more stringent than GovWorks' authority under the Government Management Reform Act.
- Executed a joint DOD and DOI Memorandum Of Agreement in March 2007 that addressed respective roles and responsibilities.
- Established and filled an SES leadership position for the NBC Acquisition Program on March 19, 2007.
- Enhanced DOI legal reviews for both solicitation and award.
- Issued a policy on March 1, 2007, prohibiting the practice of advance billing for DOD components. As with year-end deobligation, DOD's policy preferences also are narrower than the law allows regarding GovWorks' receipt of advanced funds. The Interior Franchise Fund legislation specifically allows that the IFF "may be paid in advance from funds available to the Department and other Federal agencies..." Department of the Interior Appropriations Act of 1997, Pub. L. 104-208, title I, § 113, 110 Stat. 3009-316 (1996), as amended. Nevertheless, we have already implemented corrective action to better comply with DOD's policy. After working with the DOD Comptroller's Office, GovWorks implemented a manual process in June 2007 that stopped the practice of advance billing for all DOD components. This process was approved by the DOD Comptroller's office, and we are of converting the manual process into an electronic process. We expect that this electronic process will be fully operational during the first quarter of FY08.
- The Sierra Vista contracting office successfully achieved a green rating for the FY07 DOD/DOI-OIG audit.

The NBC will also be implementing an ISO 9001A quality management program with certification scheduled for the end of FY 2008.

The DOI OIG performed an attestation in July 2007 which showed that only 6 out of a sample of 240 DOD awards (less than 3 percent) executed since February 1, 2007, were noncompliant with DOD's October 2006 policy. Appropriate remedial action was taken to ensure that this error does not occur in the future. Finally, as a result of the attestation, an additional level of review has been incorporated into the standard review process when prior year funding is included to further ensure that awards utilizing prior year funds are done appropriately.

Representatives from the Office of Acquisition and Property Management and the National Business Center participated in an OFPP-sponsored workgroup to define a Government-wide approach to conducting interagency acquisitions. At this time, the end product is still in draft but should be issued within a few months.

Compliance with Legal and Regulatory Requirements

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

Federal Financial Management Improvement Act

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

Federal agencies are required to address compliance with the requirements of the FFMIA in the representative letter to the financial statement auditor. The auditor is required to report on the agency's compliance with FFMIA requirements in the Internal Control and Compliance Report section of the Independent Auditor's Report. If the agency is not in compliance with the requirements of the FFMIA, the agency head is required to establish a remediation plan to achieve substantial compliance.

As a result of the material weaknesses identified during the 2007 financial statement audit, the Departmental Offices concluded that their financial accounting did not substantially comply with Federal accounting standards requirements of the FFMIA. Remediation plans for the material weakness have been established and are expected to conclude in FY 2008.

Resolution of Findings in Departmental Offices FY 2006

Summaries of the status of findings and corrective actions taken in FY 2007 to resolve certain findings noted for DO in FY 2006 are shown in Figure 1-1 and Figure 1-2.

**FIGURE 1-1
Status of Material Weakness Corrective Actions
as of September 30, 2007**

Material Weakness Description	Corrective Action	Corrective Action Status
Controls over Tribal and Other Special Trust Funds	Implement policies, procedures, controls and systems to effectively manage Tribal and Other Special Trust Funds.	Downgraded

Compliance with Legal and Regulatory Requirements

FIGURE 1-2
Status of Noncompliance with Laws and Regulations
as of September 30, 2007

Noncompliance Description	Corrective Action	Corrective Action Status
Federal Financial Management Improvement Act	Develop and implement appropriate controls to ensure full compliance with Federal financial management systems and accounting standards	Delayed
Single Audit Act Amendments	Improve grantee monitoring processes to ensure compliance with the reporting requirements of the Single Audit Act Amendments	Delayed

The DO will continue its efforts to resolve open issues, as well as any new issues identified in the FY 2007 Independent Auditors' Report for the DO, in FY 2008.

Federal Managers' Financial Integrity Act

The DO 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.
- Reliable, complete, and timely data are maintained and used for decisionmaking at all levels.

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

Audited Financial Statement Results

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

The preparation and audit of financial statements are an integral part of the Departmental Offices' centralized process to ensure the integrity of financial information maintained by Departmental Offices. The results of the FY 2007 audited financial statement process are summarized in Figure 1-3.

FIGURE 1-3

Summary of Financial Statement Audits		
	FY 2006	FY 2007
Unqualified Opinion on Financial Statements	Yes	Yes
Material Weakness in Report on Internal Controls	Yes	Yes
Full Compliance with Laws and Regulations (Non-FFMIA)	No (1, 2)	No (1)
Full Component Compliance with Laws and Regulations (FFMIA)		
• Systems	Yes	Yes
• Accounting	No	No
• SGL	Yes	Yes

(1) Single Audit Act

(2) Potential noncompliance with the Anti-Deficiency Act, Procurement Regulations, and Leasing Laws

Improper Payment Information Act

Description of Risk Assessment Process

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

Office of Management and Budget Circular A-123, Appendix C, “Requirements for Effective Measurement and Remediation of Improper Payments”, states that annual risk assessments are required for all agency programs where the level of risk is unknown until the risk level is determined and the baseline estimates are established (if applicable). It also states that for agency programs deemed not risk susceptible, risk assessments are required every 3 years unless the programs experience a significant change, in which case they must undergo a risk assessment during the next annual cycle.

Interior has been conducting annual risk assessments of programs exceeding \$100 million in annual outlays. These risk assessments have shown that the Department is at low risk for improper payments. Therefore, the Department issued a Financial Administration memorandum in April 2007 converting the annual risk assessment requirement to a 3-year risk assessment. No risk assessments were conducted in FY 2007 at Departmental Offices. The next risk assessment will be for FY 2009 and will be conducted every 3 years hence.

Recovery Audits

PRG Shultz has been working with Departmental Offices in performing recovery auditing services since FY 2004. Departmental Offices recovered \$152,695 and \$449,633 in FY 2007 and FY 2006, respectively.

Compliance with Key Legal and Financial Regulatory Requirements

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

Based on the results of the FY 2007 independent financial statement audit, the DO was determined to be noncompliant with 2 legal and regulatory financial requirements. As noted earlier in this section, Figure 1-3 presents a summary of the areas of noncompliance reported in the FY 2007 and FY 2006 financial statement audit opinions.

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

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

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

Limitations of Financial Statements

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

Overview of Financial Position

Assets

The Consolidated Balance Sheet shows FY 2007 assets totaling \$2,795 million, a decrease of \$483 million over the prior year's assets total of \$3,278 million. Fund Balance with Treasury, Investments, and General Property, Plant and Equipment comprise approximately 96 percent of the total assets. Figure 1-4 and Figure 1-5 summarize the Departmental Offices assets as of September 30, 2007.

FIGURE 1-4

Change in Departmental Offices Assets (in millions)			
	FY 2007	FY 2006	Net Change
Fund Balance with Treasury	\$ 1,515	\$ 2,041	\$ (526)
Investments, Net	701	677	24
Accounts, Loans & Interest Receivable, Net	111	166	(55)
General Property, Plant and Equipment & Inventory, Net	456	388	68
Other	12	6	6
Total Assets	\$ 2,795	\$ 3,278	\$ (483)

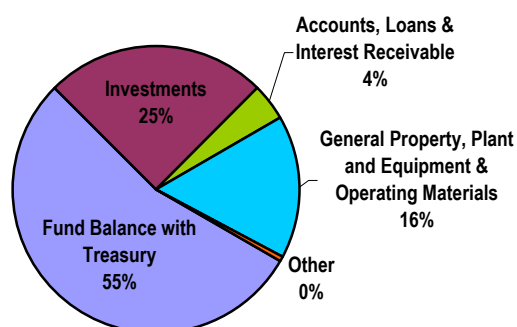
Discussion of the Financial Results and Financial Condition of the Departmental Offices

Fund Balance with Treasury represents 55 percent of the DO current year assets. The decrease in the Fund Balance with Treasury of \$526 million is primarily due to a decrease in business with certain Department of Defense customers and a concerted effort to return unused advances at the Franchise Fund.

The investments are composed of U.S. Treasury Securities and public securities consisting mainly of various mortgage instruments, bonds and notes issued by Government-sponsored entities. The increase of \$24 million was mainly due to an increase in investment activity from the Utah Reclamation Mitigation and Conservation Commission and the Natural Resource Damage Assessment and Restoration Program.

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

**FIGURE 1-5
Types of FY 2007 Assets**



Liabilities and Net Position

Total Liabilities of \$1,317 million shown on the Departmental Offices Consolidated Balance Sheet represent a decrease of \$665 million over liabilities of \$1,982 million from the prior year. Figure 1-6 summarizes Department Offices liabilities as of September 30, 2007.

FIGURE 1-6

Changes in Departmental Offices Liabilities (in millions)			
	FY 2007	FY 2006	Net Change
Accounts Payable	\$ 272	\$ 420	\$ (148)
Debt	12	18	(6)
FECA Actuarial Liability	15	16	(1)
Environmental and Disposal Liabilities	-	1	(1)
Other Liabilities	1,018	1,527	(509)
Total Liabilities	\$ 1,317	\$ 1,982	\$ (665)

Other Liabilities account for 77 percent of DO total liabilities. Other liabilities consist of deferred revenue, accrued payroll and benefits, contingent liabilities, judgment fund liability and other liabilities. The major reason for the decrease in Other Liabilities is due to a decrease in advances for certain Department of Defense customers at Fort Huachuca and the Franchise Fund.

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

The Departmental Offices Net Position at the end of FY 2007 on the Consolidated Balance Sheet and the Consolidated Statement of Changes in Net Position was approximately \$1,478 million, an increase of about \$182 million from the prior year. The Net Position of the Departmental Offices consists of two components: Unexpended Appropriations of \$424 million and Cumulative Results of Operations of \$1,054 million. Figure 1-7 summarizes the DO Net Position as of September 30, 2007.

FIGURE 1-7

Changes in Departmental Offices Net Position			
(in millions)			
	FY 2007	FY 2006	Net Change
Unexpended Appropriations	\$ 424	\$ 418	\$ 6
Cumulative Results of Operations	1,054	877	177
Total Net Position	\$ 1,478	\$ 1,295	\$ 183

The increase in Net Position of \$182 million was mainly due to increase in collection activities in the Working Capital Fund, change in accounting principle to move child allocation proprietary balances to the parent accounts' financial statements, increased progress on the Central Utah Project, and increased progress on the Financial and Business Management System.

Results of Operations

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

As shown on the Consolidated Statement of Net Cost, the total of FY 2007 cost of Departmental Offices operations was \$1,126 million, an increase of \$22 million from the FY 2006 total cost of \$1,104 million (Figure 1-8).

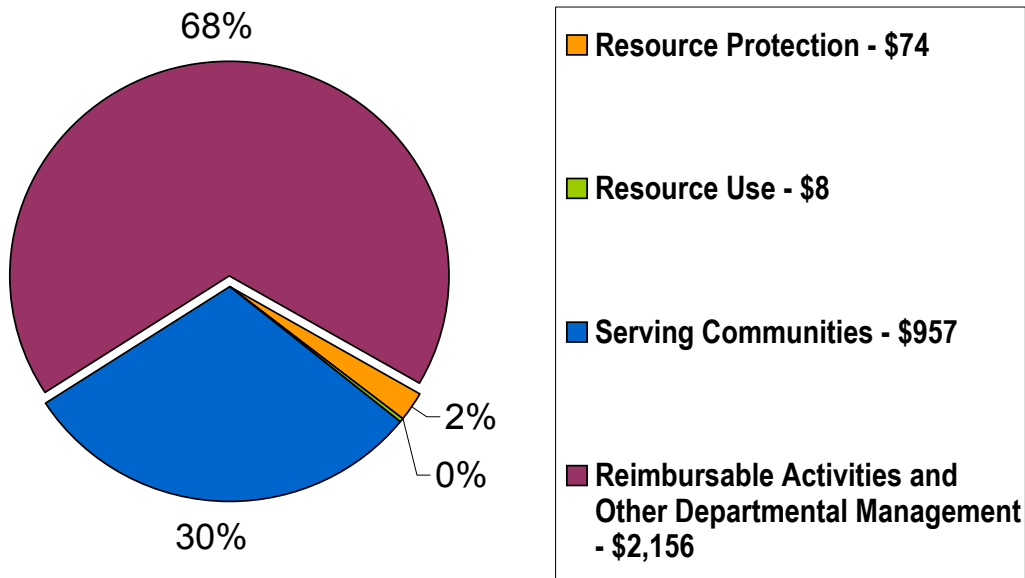
FIGURE 1-8

Change in Departmental Offices Net Cost of Operations			
(in millions)			
	FY 2007	FY 2006	Net Change
Resource Protection	\$ 66	\$ 43	\$ 23
Resource Use	8	9	(1)
Serving Communities	919	829	90
Reimbursable Activities and Other Departmental Management	133	223	(90)
Totals	\$ 1,126	\$ 1,104	\$ 22

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

Approximately 68 percent of DO total gross costs are directed toward “Reimbursable Activities and Other” while 30 percent are provided to “Serving Communities,” Resources devoted to “Resource Protection” and “Resource Use” account for approximately 2 percent of total gross costs (Figure 1-9).

FIGURE 1-9
FY 2007 Gross Cost by Goal
(in millions)



Cost

As reflected in the Consolidated Statement of Net Cost, the 2007 gross cost of DO before earned revenue was approximately \$3,195 million; a decrease of \$563 million from amounts reported in FY 2006. This decrease was primarily due to a decrease in business with certain Department of Defense customers.

Revenue

The DO had earned revenue of \$2,069 million in FY 2007, a decrease of \$585 million from FY 2006. The decrease is chiefly due to a decrease in business with certain Department of Defense customers.

Budgetary Resources

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

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

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

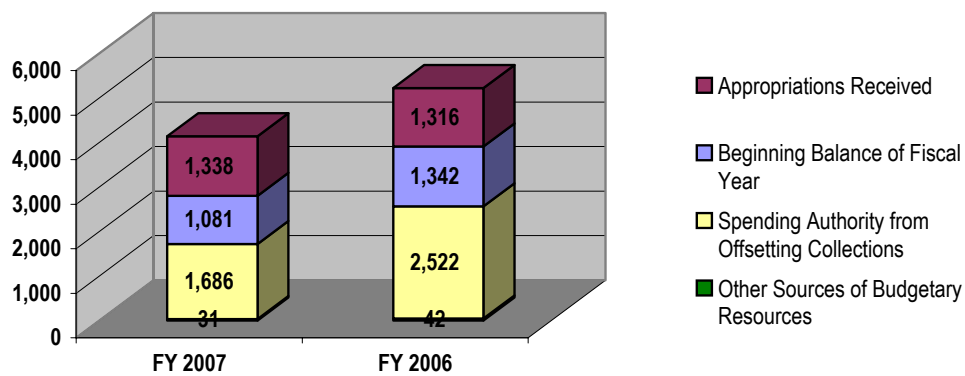
The Departmental Offices reporting entity also receives allocations from the Environmental Protection Agency, General Services Administration and Bureau of Land Management to fund a variety of environmental compliance activities. In addition, there are a number of legally authorized transfers between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

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

The Combined Statement of Budgetary Resources provides information on the budgetary resources that were made available to Departmental Offices for the year and the status of those resources at the end of the fiscal year. These resources consist of the balance at the beginning of the year, appropriations received during the year, and spending authority from offsetting collections as well as other sources of budgetary resources (Figure 1-10 and Figure 1-11). These amounts exclude the non-budgetary credit program.

FIGURE 1-10
Budgetary Resources *
(in millions)

*Excludes Non-Budgetary Credit Program Financing Accounts

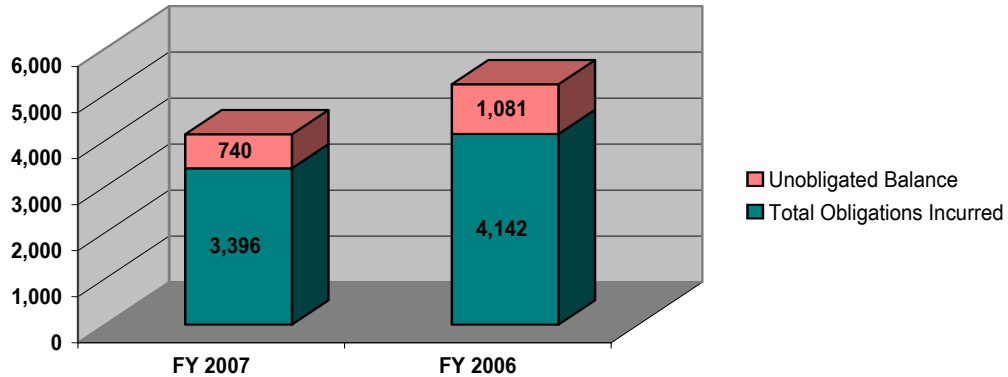


Appropriations increased in the Statement of Budgetary Resources in FY 2007 by \$22 million. This change is primarily due to an increase in collections by the Office of Trust Fund Management and is partially offset by a decrease to Departmental Management.

Obligations of \$3,396 million and \$4,142 million were incurred as of September 30, 2007, and 2006 on total budgetary resources of \$4,136 million and \$5,223 million, respectively (Figure 1-11).

FIGURE 1-11
Status of Budgetary Resources *
 (in millions)

* Excludes Non-Budgetary Credit Program Financing Accounts



Stewardship Assets and Investments

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

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

Stewardship Land

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

The Commission acquires lands for fish and wildlife habitat for both aquatic and terrestrial species, and land or easements to provide public access to fish and wildlife resources which, once acquired, are also managed to provide habitat values to the extent practicable.

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

Figure 1-12

Utah Reclamation and Conservation Commission (number of units)	
Beginning FY 2007	1
Additions	-
Withdrawals	-
Ending FY 2007	1

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

Heritage Assets

Interior is the steward for a large, varied, and scientifically important body of heritage assets, both noncollectible and collectible in nature. Noncollectible heritage assets include historic sites, historic and prehistoric structures, cultural landscapes, among other resources. Collectible heritage assets include library and museum collections. The DO have stewardship responsibilities for primarily collectible heritage assets.

Collectible Heritage Assets

The DO are stewards of a large, unique, and diversified collection of library holdings and museum collections. These assets are held in both Federal and non-Federal facilities.

Library Collections

The Department of the Interior Library contains holdings that cover the broad range of matters related to the Department's mission to protect and provide access to the Nation's heritage. Specific collections include a comprehensive law collection, an extensive periodical collection, and a rare book collection consisting of 19th century monographs on Native Americans, American history, and zoology. In addition, the Library's collection of online databases and access to other electronic information sources enable Departmental personnel and other researchers to access needed information from their computers. Additional information can be found in the FY 2007 Department of the Interior Performance and Accountability Report.

Figure 1-13

Library Collectible Heritage Assets (number of units)	
Beginning FY 2007	1
Additions	-
Withdrawals	-
Ending FY 2007	1

Museum Collections

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

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

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

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

FIGURE 1-14

Museum Collections Collectible Heritage Assets (number of units)				
Museum Collections	FY 2006	Additions	Withdrawals	FY 2007
Departmental Museum	1	-	-	1
Indian Arts and Crafts Board	3	-	-	3
Office of the Special Trustee for American Indians	1	-	-	1
Total	5	-	-	5

In FY 2007, the Departmental Museum instituted the first annual Rachel Carlson Lecture as a joint venture between the program areas of the Cultural Resources Division. The program was developed and implemented in cooperation with the Fish and Wildlife Service, the University of Maryland-Baltimore, and the Carnegie Institute of Washington, DC.

Stewardship Investments

Stewardship investments, as defined for Federal financial reporting, represent expenses charged to current operations that are expected to benefit the Nation over time. The Departmental Offices Stewardship Investments include research and development programs and investment in the purchase or construction of assets for which State, local, or tribal governments and insular areas retain title. Stewardship investments are summarized on Figure 1-15. The decrease in investments from FY 2006 to FY 2007 is due primarily to a decrease in investment activity.

FIGURE 1-15

Stewardship Investments (in thousands)			
	FY 2007	FY 2006	Change
Non-Federal Physical Property			
American Samoa	\$ 7,642	\$ 7,331	\$ 311
Commonwealth of the Northern Mariana Islands	11,124	21,568	(10,444)
Guam	2,954	1,826	1,128
U.S. Virgin Islands	883	3,550	(2,667)
Utah Reclamation Mitigation & Conservation Commission	2,183	4,488	(2,305)
Total Non-Federal Physical Property	\$ 24,786	\$ 38,763	\$ (13,977)
Research and Development			
Central Utah Project Completion Act	\$ 3,253	\$ 5,804	\$ (2,551)
Utah Reclamation Mitigation & Conservation Commission	468	379	89
Total Research	\$ 3,721	\$ 6,183	\$ (2,462)
Total Stewardship Investments	\$ 28,507	\$ 44,946	\$ (16,439)

This page left intentionally blank.



**U.S. Department of the Interior
Departmental Offices**

Principal Financial Statements

This page left intentionally blank.

Principal Financial Statements

The principal financial statements included in the Departmental Offices' FY 2007 Annual Report are:

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

The responsibility for the integrity of the financial information included in these statements rests with management of Departmental Offices. The audit of the DO's principal financial statements was performed by an independent certified public accounting firm, selected by the Department of the Interior's Office of Inspector General. The auditor's report issued by the independent certified public accounting firm begins on page 123.

Principal Financial Statements

Consolidated Balance Sheet As of September 30, 2007 and 2006 (dollars in thousands)

		FY 2007	FY 2006
ASSETS			
Intragovernmental Assets:			
Fund Balance with Treasury	(Note 3)	\$ 1,514,581	\$ 2,041,312
Investments, Net	(Note 4)	537,879	490,372
Accounts and Interest Receivable	(Note 5)	82,646	121,759
Other			
Advances and Prepayments		2,570	2,331
Total Intragovernmental Assets		\$ 2,137,676	\$ 2,655,774
Investments, Net	(Note 4)	163,324	187,048
Accounts and Interest Receivable, Net	(Note 5)	27,671	40,747
Loans and Interest Receivable, Net	(Note 6)	843	3,375
Operating Materials and Supplies	(Note 7)	1,006	852
General Property, Plant and Equipment, Net	(Note 8)	455,524	387,528
Other			
Advances and Prepayments		9,221	2,180
TOTAL ASSETS	(Note 2)	\$ 2,795,265	\$ 3,277,504
Stewardship Assets	(Note 9)		
LIABILITIES			
Intragovernmental Liabilities:			
Accounts Payable		\$ 17,376	\$ 8,410
Debt	(Note 11)	12,215	17,512
Other			
Accrued Payroll Benefits		5,722	5,309
Advances and Deferred Revenue (includes Deposit Funds)	(Note 12)	721,122	1,218,018
Resources Payable to Treasury	(Note 26)	226,151	235,221
Other Liabilities Not Specified Above		-	3
Total Intragovernmental Liabilities		\$ 982,586	\$ 1,484,473
Accounts Payable		\$ 254,357	\$ 411,319
FECA Actuarial Liability		15,466	16,300
Environmental and Disposal Liabilities	(Note 13)	-	1,300
Other			
Accrued Payroll Benefits		13,322	13,338
Annual Leave Liability		26,247	24,782
Advances and Deferred Revenue	(Note 12)	5,234	7,246
Capital Lease Liability	(Note 15)	796	1,354
Deposit Fund Liability	(Note 12)	5,260	5,959
Other Liabilities Not Specified Above		14,197	15,967
TOTAL LIABILITIES	(Note 10)	\$ 1,317,465	\$ 1,982,038
Commitments and Contingencies	(Notes 13 and 15)		
Net Position			
Unexpended Appropriations			
Earmarked Funds	(Note 24)	\$ 897	\$ 3,728
All Other Funds		422,658	414,401
Cumulative Results of Operations			
Earmarked Funds	(Note 24)	480,076	453,744
All Other Funds		574,169	423,593
Total Net Position		1,477,800	1,295,466
TOTAL LIABILITIES AND NET POSITION		\$ 2,795,265	\$ 3,277,504

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

Consolidated Statement of Net Cost
For the Years Ended September 30, 2007 and 2006
(dollars in thousands)

	FY 2007	FY 2006
Resource Protection		
Costs	\$ 74,480	\$ 52,031
Less: Earned Revenue	8,797	8,831
Net Cost	65,683	43,200
Resource Use		
Costs	7,832	9,354
Less: Earned Revenue	-	21
Net Cost	7,832	9,333
Serving Communities		
Costs	956,611	859,791
Less: Earned Revenue	37,407	31,076
Net Cost	919,204	828,715
Reimbursable Activity and Other		
Costs	2,156,239	2,837,348
Less: Earned Revenue	2,022,918	2,614,048
Net Cost	133,321	223,300
Total		
Costs	3,195,162	3,758,524
Less: Earned Revenue	2,069,122	2,653,976
Net Cost of Operations (Notes 16 and 24)	\$ 1,126,040	\$ 1,104,548

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

Principal Financial Statements

Consolidated Statement of Changes in Net Position For the Years Ended September 30, 2007 (dollars in thousands)

	Earmarked (Note 24)	FY 2007 All Other	Consolidated
UNEXPENDED APPROPRIATIONS			
Beginning Balance	\$ 3,728	\$ 414,401	\$ 418,129
Changes in Accounting Principles (Note 27)	13	36,760	36,773
Beginning Balance, as adjusted	3,741	451,161	454,902
Budgetary Financing Sources			
Appropriations Received, General Funds	-	1,121,647	1,121,647
Appropriations Transferred In/(Out)	945	(1,731)	(786)
Appropriations-Used	(3,776)	(1,140,213)	(1,143,989)
Other Adjustments	(13)	(8,206)	(8,219)
Net Change	(2,844)	(28,503)	(31,347)
Ending Balance - Unexpended Appropriations	\$ 897	\$ 422,658	423,555
CUMULATIVE RESULTS OF OPERATIONS			
Beginning Balance	\$ 453,744	\$ 423,593	\$ 877,337
Adjustments			
Changes in Accounting Principles (Note 27)	20,819	12,288	33,107
Beginning Balance, as adjusted	474,563	435,881	910,444
Budgetary Financing Sources			
Appropriations-Used	3,776	1,140,213	1,143,989
Non-Exchange Revenue	68,488	17,691	86,179
Transfers In/(Out) without Reimbursement	(5,427)	16,572	11,145
Donations and Forfeitures of Cash and Cash Equivalents	103	-	103
Other Budgetary Financing Sources	(1,873)	-	(1,873)
Other Adjustments	(718)	(51)	(769)
Other Financing Sources			
Donations and Forfeitures of Property	-	5,045	5,045
Transfers In/(Out) without Reimbursement	(316)	99	(217)
Imputed Financing from Costs Absorbed by Others	986	25,253	26,239
Total Financing Sources	65,019	1,204,822	1,269,841
Net Cost of Operations	(59,506)	(1,066,534)	(1,126,040)
Net Change	5,513	138,288	143,801
Ending Balance - Cumulative Results of Operations	\$ 480,076	\$ 574,169	\$ 1,054,245
TOTAL NET POSITION	\$ 480,973	\$ 996,827	\$ 1,477,800

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

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

	Earmarked (Note 24)	FY 2006 All Other	Consolidated
UNEXPENDED APPROPRIATIONS			
Beginning Balance	\$ 18,604	\$ 384,592	\$ 403,196
Changes in Accounting Principles	-	-	-
Beginning Balance, as adjusted	18,604	384,592	403,196
Budgetary Financing Sources			
Appropriations Received, General Funds	-	1,144,518	1,144,518
Appropriations Transferred In/(Out)	936	(41,652)	(40,716)
Appropriations-Used	(15,772)	(1,061,499)	(1,077,271)
Other Adjustments	(40)	(11,558)	(11,598)
Net Change	(14,876)	29,809	14,933
Ending Balance - Unexpended Appropriations	\$ 3,728	\$ 414,401	\$ 418,129
CUMULATIVE RESULTS OF OPERATIONS			
Beginning Balance	\$ 423,233	\$ 401,040	\$ 824,273
Adjustments			
Changes in Accounting Principles	-	-	-
Beginning Balance, as adjusted	423,233	401,040	824,273
Budgetary Financing Sources			
Appropriations-Used	15,772	1,061,499	1,077,271
Non-Exchange Revenue	60,477	14,594	75,071
Transfers In/(Out) without Reimbursement	(7,947)	(16,704)	(24,651)
Donations and Forfeitures of Cash and Cash Equivalents	193	-	193
Other Budgetary Financing Sources	420	(2,343)	(1,923)
Other Adjustments	-	-	-
Other Financing Sources			
Donations and Forfeitures of Property	-	4,124	4,124
Transfers In/(Out) without Reimbursement	-	1,848	1,848
Imputed Financing from Costs Absorbed by Others	615	25,064	25,679
Total Financing Sources	69,530	1,088,082	1,157,612
Net Cost of Operations	(39,019)	(1,065,529)	(1,104,548)
Net Change	30,511	22,553	53,064
Ending Balance - Cumulative Results of Operations	\$ 453,744	\$ 423,593	\$ 877,337
TOTAL NET POSITION	\$ 457,472	\$ 837,994	\$ 1,295,466

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

Principal Financial Statements

Combined Statement of Budgetary Resources For the Years Ended September 30, 2007 and 2006 (dollars in thousands)

	Total Budgetary Accounts		Non-Budgetary Credit Program Financing Accounts	
	FY 2007	FY 2006	FY 2007	FY 2006
Budgetary Resources:				
Unobligated balance, beginning of Fiscal Year:	\$ 1,081,094	\$ 1,342,301	\$ 378	\$ 193
Recoveries of prior year unpaid obligations	54,024	70,687	-	-
Budget Authority				
Appropriation	1,337,623	1,316,024	-	-
Spending authority from offsetting collections				
Earned				
Collected	2,409,173	2,920,998	3,153	952
Change in receivables from Federal sources	(49,110)	10,890	-	-
Change in unfilled customer orders				
Advance received	(512,414)	(300,491)	-	-
Without advance from Federal sources	(161,354)	(109,205)	-	-
Total Budget Authority	3,023,918	3,838,216	3,153	952
Nonexpenditure transfers, net, anticipated and actual	(20,249)	(11,441)	-	-
Permanently not available	(2,633)	(16,856)	(2,765)	-
Total Budgetary Resources	\$ 4,136,154	\$ 5,222,907	\$ 766	\$ 1,145
Status of Budgetary Resources:				
Obligations incurred:				
Direct	\$ 1,292,602	\$ 1,279,324	\$ 766	\$ 767
Reimbursable	2,103,469	2,862,489	-	-
Total Obligations incurred (Note 17)	3,396,071	4,141,813	766	767
Unobligated balance available:				
Apportioned (Note 21)	737,015	1,072,731	-	378
Unobligated balance not available (Note 21)	3,068	8,363	-	-
Total Status of Budgetary Resources	\$ 4,136,154	\$ 5,222,907	\$ 766	\$ 1,145
Change in Obligated Balance:				
Obligated balance, net				
Unpaid obligations, brought forward, beginning of Fiscal Year	\$ 1,818,974	\$ 1,916,497	\$ -	\$ -
Less: Uncollected customer payments from Federal sources, brought forward, beginning of Fiscal Year	(486,705)	(585,020)	-	-
Total unpaid obligated balances, net, beginning of Fiscal Year	1,332,269	1,331,477	-	-
Obligations incurred, net	3,396,071	4,141,813	766	767
Less: Gross outlays	(3,750,436)	(4,168,649)	(766)	(767)
Less: Recoveries of prior year unpaid obligations, actual	(54,024)	(70,687)	-	-
Change in uncollected customer payments from Federal sources	210,464	98,315	-	-
Total, unpaid obligated balance, net, end of period	\$ 1,134,344	\$ 1,332,269	\$ -	\$ -
Obligated Balance, net, end of period - by component:				
Unpaid obligations	\$ 1,410,583	\$ 1,818,974	\$ -	\$ -
Less: Uncollected customer payments from Federal sources	(276,239)	(486,705)	-	-
Total, unpaid obligated balance, net, end of period	\$ 1,134,344	\$ 1,332,269	\$ -	\$ -
Net Outlays:				
Gross outlays	\$ 3,750,436	\$ 4,168,649	\$ 766	\$ 767
Less: Offsetting collections	(1,896,760)	(2,620,506)	(3,153)	(952)
Less: Distributed Offsetting receipts	(206,434)	(170,518)	-	-
Net Outlays(Receipts)	\$ 1,647,242	\$ 1,377,625	\$ (2,387)	\$ (185)

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

A close-up photograph of a fountain pen with a black barrel and a gold-colored nib, resting on a yellowed, lined notebook page. The page is filled with handwritten numbers and text in dark ink. The numbers are arranged in columns, suggesting a ledger or account book. Some numbers are underlined, and there are small annotations like 'P.W.' and 'P.W.' next to some entries. The lighting is warm, creating a golden glow over the scene.

**U.S. Department of the Interior
Departmental Offices
Notes to the Principal Financial Statements**

This page left intentionally blank.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**A. Reporting Entity**

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

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

The following are the DO programs as presented in the Statement of Net Cost for September 30, 2007, and September 30, 2006, footnote 16, and other accompanying information:

- Resource Protection—Everglades Watershed Protection, Everglades Restoration, Oil Spill Emergency, Federal Lands Subsistence Management, King Cove, Title V and Title VI Priority Land Acquisitions, Wildland Fire Management, Central Hazardous Materials Fund, Hazardous Substance Superfund, Central Utah Project, Natural Resource Damage and Restoration Fund and Take Pride in America®.
- Resource Use—Central Utah Project Completion Act and Fire Protection
- Serving Communities—Administration of Territories, Pacific Islands Territories Trust Fund, Compact of Free Association, Micronesian War Claims, Finance Assistance Payments to the United States Territories, Assistance to American Samoa Direct Loan Financing Account, Virgin Island Loan, Office of the Special Trustee for American Indians, Indian Land Consolidation Pilot, Tribal Special Fund, Tribal Trust Fund, and National Indian Gaming Commission.
- Reimbursable Activity and Other—OIG, SOL, Working Capital Fund, Aviation Management Directorate, Interior Franchise Fund, Miscellaneous Receipts, Penalties and Fines, Suspense funds, and Departmental Management.

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

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

The DO maintains accounts in the following fund types:

1. General Funds—These funds consist of expenditure accounts used to record financial transactions arising from Congressional appropriations as well as receipt accounts. The principal general fund expenditure accounts maintained are:
 - a. Departmental Management (14X0102)
 - b. OIG (14X0104)
 - c. Administration of Territories (14X0412)
 - d. NRDAR (14X1618)
 - e. CUPCA (14X0787)

Notes to the Principal Financial Statements

- f. OST (14X0120, 14X2103)
 - g. SOL (14X0107)
 - h. Everglades Watershed Protection (146/00140)
 - i. Payments in Lieu of Taxes (PILT) (14X1114)
 - j. Compact of Free Association (14X0415)
 - k. Central Hazardous Material (14X1121)
2. Trust Funds—These funds were established to carry out specific programs under trust agreements and statutes. The OST Tribal Trust Fund (14X8030), Take Pride in America®, Gifts and Bequest (14X8369) are the principal trust funds.
 3. Receipt Funds—These funds arise from the sovereign and regulatory powers unique to the Federal Government. Receipts primarily include miscellaneous fines and penalties, administrative fees, and interest.
 4. Special Funds—These are funds established by law where collections from a specified source are earmarked to finance a particular program, and the law neither authorizes the fund to conduct a cycle of business-type operations nor designates it as a trust fund. The receipts earmarked to a fund are recorded in one or more special fund receipt accounts. The fund's appropriations and associated transactions are recorded in a special fund expenditure account. These funds includes both expenditure and receipt accounts. The principal special funds are:
 - a. Title VI (140/35039) Priority Land Acquisition
 - b. NRDAR (14X5198)
 - c. National Indian Gaming Commission (14X5141)
 - d. Everglades Restoration (14X5233)
 - e. OST Tribal Special Fund (14X5265)
 - f. CUPCA-Commission (14X5174)
 - e. Departmental Management Land and Water Conservation (14X5571)
 5. Revolving Funds—These are funds authorized by specific provisions of law to finance a continuing cycle of business-type operations. The receipts are credited directly to the revolving fund as offsetting collections and are available for expenditure without further action by Congress. The principal revolving funds are the Working Capital Fund and the IFF.

The IFF was established in May 1996 as a result of the Government Management Reform Act of 1994. It operates as a revolving fund providing common administrative support services on a competitive service-for-fee basis for Government agencies. A revolving fund is a budgetary structure set by statute that authorizes Executive Branch agencies to collect user fees or revenue to finance operational activities.

B. Basis of Presentation and Accounting

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

These financial statements should be read with the realization that they are for a component of the United States Government, a sovereign entity. One implication of this is that liabilities cannot be liquidated without legislation that provides resources and legal authority to do so. The DO financial statements reflect both accrual and budgetary accounting transactions. Under the accrual method

of accounting, revenues are recognized when earned, and expenses are recognized when incurred, without regard of receipt or payment of cash. The budgetary accounting principles, on the other hand, are designed to recognize the obligations of funds according to legal requirements, which in many cases is prior to occurrence of an accrual-based transaction. The recognition of budgetary accounting transactions is essential for compliance with legal constraints and controls over the use of Federal funds.

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

Transactions and balances among the DO and programs have been eliminated from the Consolidated Balance Sheets, Consolidated Statements of Net Cost, and the Consolidated Statements of Changes in Net Position. As provided for in OMB financial statement reporting guidelines, the Statement of Budgetary Resources is presented on a combined basis, therefore intra-DO transactions and balances have not been eliminated from this statement.

C. Entity and Nonentity Assets

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

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

D. Fund Balance with Treasury

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

E. Investments, Net

Office of the Special Trustee for American Indians

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

Utah Reclamation Mitigation and Conservation Commission

The Secretary invests funds for the Utah Reclamation Mitigation and Conservation Commission (Commission), in accordance with

Notes to the Principal Financial Statements

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

Natural Resource Damage Assessment and Restoration Fund

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

Investment Interest

Investment interest is accrued when earned.

F. Accounts and Interest Receivable, Net

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

Interest on Account Accounts Receivable

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

G. Loans and Interest Receivable, Net

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

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

The loan to the ASG is financed by a combination of two sources. The source is for the long-term cost of the loan and the source for the nonsubsidized portion of the loan was borrowing authority from the Bureau of the Public Debt. Congress annually provides a 1 year appropriation, available for obligation in the fiscal year for which it is provided, to meet the estimated long-term costs of the loan. Long-term costs are defined as the net present value of the estimated cash outflows associated with the loans less estimated cash inflows.

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

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

Loan Interest

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

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

H. Advances and Prepayments

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

I. Operating Materials and Supplies

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

J. General Property, Plant, and Equipment, Net

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

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

Internal Use Software. Internal use software includes purchased commercial off-the-shelf software, contractor-developed software, and software that was internally developed by agency employees. For COTS software, the capitalized costs include the amount paid to the vendor for the software; for contractor-developed software, it includes the amount paid to a contractor to design, program, install,

Notes to the Principal Financial Statements

and implement the software. Capitalized costs for internally developed software include the full cost (direct and indirect) incurred during the software development stage.

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

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

- Land and land improvements acquired for general operating purposes with an initial acquisition cost of over \$100,000 and estimated service life greater than two years are capitalized at acquisition cost.
- Buildings and leasehold improvements with an initial acquisition cost of over \$100,000 and estimated service life greater than 2 years are capitalized at acquisition cost and depreciated using the straight-line amortization method over a useful life from 20 to 50 years and an estimated 10 percent salvage value.
- Construction in progress with an initial acquisition cost of over \$100,000 and estimated service life greater than 2 years is capitalized at acquisition cost. Construction in progress is used for the accumulation of the cost of construction or major renovation of fixed assets during the construction period. The assets are transferred out of Construction in Progress when the project is completed.
- Structures and facilities consist of the Wasatch County Efficiency Project, Diamond Fork Project, and Syar Tunnel Project. These are part of the Colorado River Storage Project and are accounted for under CUPCA. All cost of these projects is capitalized at acquisition cost and is depreciated using the straight-line method over a period of 100 years. There is no salvage value.
- Internal use software with an initial acquisition cost of over \$100,000 is capitalized at acquisition cost and is amortized using the straight-line method over a period of 2 to 10 years. There is no salvage value.
- Equipment and vehicles with an initial acquisition cost of \$15,000 or more and an estimated service life of greater than 2 years is capitalized. This equipment is capitalized at acquisition cost and is depreciated using the straight-line method over a period of 3 to 7 years. There is no salvage value. ADP hardware with an initial acquisition cost of \$15,000 or more and an estimated service life of 2 years or greater is capitalized. The ADP hardware is capitalized at acquisition cost and is depreciated using the straight-line method over a period of 3 to 7 years. There is no salvage value.
- Aircraft with an acquisition cost of \$15,000 or more and estimated service life greater than 2 years are recorded, depending upon the method of acquisition, in the following manner:
 1. Aircraft transferred from other Government agencies are capitalized at the net book value, as determined on the transfer document, or the estimated fair market value listed in Aircraft Price Digest, in that order of preference.
 2. Aircraft acquired by the Bureaus through forfeiture proceedings and subsequently transferred to the fleet are capitalized at the estimated fair market value listed in the Aircraft Price Digest at the time of receipt.
 3. Aircraft purchased by other DOI bureaus on behalf of AMD are capitalized at acquisition cost.
- AMD depreciates aircraft using the straight-line method assuming a 20-year useful life. The residual value of aircraft is generally set at 50 percent of the capitalized value, based on historical resale trends for well-maintained aircraft.

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

K. Liabilities

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

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

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

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

Noncurrent Liabilities—Probable future outflow or other sacrifice of resources as a result of past transactions or events whose liquidation is reasonably expected to occur beyond 1 year.

L. Debt

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

In 1977, a loan was extended to the OS from the FFB, Treasury, for the purpose of operating a direct loan program. The loan is recorded under Treasury Account Symbol 14X0418. Interest is based on the amortization schedule for the loan with the FFB. Principal and interest payments are due in January and July of each year. Interest is accrued at year-end based upon the period of July through September. The loan has a final payment due date of July 2008. Should the loan be defaulted, payment will be made from the Virgin Islands Rum Fund Tax proceeds currently collected in Treasury Account Symbol 14X0418.

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

Notes to the Principal Financial Statements

M. Personnel Compensation and Benefits

Salary and Wages

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

Annual and Sick Leave Program

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

Retirement Programs

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

For FERS employees, the DO contribute an amount equal to 1 percent of the employee's basic pay to the tax deferred thrift savings plan and matches employee contributions up to an additional 4 percent of pay. FERS employees can contribute up to 15 percent of their gross earnings to the plan. CSRS employees are limited to a contribution of 5 percent of their gross earnings and receive no matching contribution from the DO.

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

Federal Employees Group Life Insurance Program

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

Federal Employees Compensation Act

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

The FECA liability consists of two components. The first component is based on actual claims paid by the DOL but not yet reimbursed by the DO. The DO reimburses the DOL for the amount of the actual claims as funds are appropriated for this purpose. There is generally a 2- to 3-year time period between payment by the DOL and reimbursement by the DO.

The second component is the estimated liability for future benefit payments as a result of past events. This liability includes death, disability, medical, and miscellaneous costs. This component is determined by Labor annually as of September 30, using a method that considers historical benefit payment patterns, wage inflation factors, medical inflation factors, and other variables. The projected annual benefit payments are discounted to present value using OMB's economic assumptions for 10-year Treasury notes and bonds. To provide for the effects of inflation on the liability, wage inflation factors (e.g., cost of living adjustments) and medical inflation factors (e.g., consumer price index medical adjustments) are applied to the calculation of projected future benefit payments. These factors are also used to adjust historical benefit payments to current-year constant dollars. A discounting formula is also used to recognize the timing of benefit payments based on 13 payments per year instead of 1 lump-sum payment per year.

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

N. Advances from Others

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

O. Deferred Revenue

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

P. Contingent Liability and Environmental and Disposal Liabilities***Contingent Liability***

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

Environmental and Disposal Liabilities

Environmental and Disposal Liabilities consist of Aviation Management Division liabilities for the estimated cost of hazardous waste cleanup in the working capital fund. See Note 13 for additional information.

Notes to the Principal Financial Statements

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

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

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

Q. Revenues and Financing Sources

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

Appropriations—Less than 50 percent of the DO’s operating funds are appropriated by the Congress to the DOI from the general receipts of the Treasury. These funds are made available to the DO for a specified time period, (usually 1 fiscal year or multiple fiscal years) or indefinitely, depending upon the authorizing language. For example, funds for general operations are generally made available for 1 fiscal year; funds for long-term projects such as major construction will be available to the DO for the expected life of the project; and funds used to establish revolving fund operations are generally available indefinitely (i.e., no year funds). The DO record appropriations on the Combined Statement of Budgetary Resources when received and records appropriations used on the Consolidated Statement of Changes in Net Position when expenses are incurred or PPE received. The Combined Statement of Budgetary Resources presents information about the resources appropriated to the DO.

Exchange and Nonexchange Revenue—The DO classify revenues as either exchange or nonexchange revenue. Exchange revenues are those revenues derived from transactions in which both parties to the transactions sacrifice value and receive value in return.

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

In certain cases, the prices charged by the DO are set by law or regulation, which for program and other reasons may not represent full cost. Prices set for products and services offered through working capital funds are intended to recover the full costs (cost plus administrative fees) incurred by these activities. The DO bases the prices for products/services offered through the IFF on the cost of products/services plus a fee of up to 4 percent of the cost of products/services. The IFF is authorized to charge a fee of up to 4 percent in accordance with the GMRA. Prices set for products and services offered through reimbursable agreements under the Economy Act are intended to recover the full costs incurred by these activities.

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

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

R. Other Financing Sources

Transfers—Transfers of assets from other Government entities.

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

S. Resources Payable to Treasury

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

OMB issued guidance instructing agencies to record receivables and liabilities rather than transfers in/out for certain transactions. Although the OMB guidance was specific to the transactions between WAPA and the Reclamation Fund, the legal and factual context occurring between the DO and the Treasury General Fund is akin to that of transactions between WAPA and the Reclamation Fund. Therefore, the DO have applied the OMB guidance to those situations where the appropriations from the General Fund are required to be recovered through the sale of water and power. The DO recognize a decrease in the Resources Payable to Treasury when reimbursements are received from customers and such funds are transferred to Treasury's General Fund. This liability is increased when funds are received and meet the requirement for repayment.

T. Net Position

Net position consists of unexpended appropriations and cumulative results of operations. Unexpended appropriations represent amounts of budget authority to include unobligated or obligated balances not rescinded or withdrawn. The DO accounts for revenues and other financing sources for earmarked funds separately from other funds. Earmarked funds are financed by specifically identified revenues, often supplemented by other financing sources, which remain available over time. These specifically identified revenues and other financing sources are required by statute to be used for designated activities, benefits, or purposes and must be accounted for separately from the Government's general revenues. The three required criteria for an earmarked fund are (1) A statute committing the Federal Government to use specifically identified revenues and other financing sources only for designated activities, benefits or purposes; (2) explicit authority for the earmarked funds to retain revenues and other financing sources not used in the current period for the future benefit of the designated activities, benefits, or purposes; and (3) a requirement to account for and report on the receipt, use, and retention of the revenues and other financing sources that distinguishes the earmarked fund from the Government's general revenues. For more information, see Note 24, Earmarked Funds.

U. Use of Estimates

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

Notes to the Principal Financial Statements

V. Income Taxes

As agencies of the U.S. Government, the DO are exempt from all income taxes imposed by any governing body, whether it be a Federal, State, Commonwealth of the United States, local, or foreign government.

W. Parent/Child Reporting

The DO is a party to allocation transfers with other Federal agencies as both a transferring (parent) entity and/or a receiving (child) entity. Allocation transfers are legal delegations by one entity of its authority to obligate budget authority and outlay funds to another entity. A separate fund account (allocation account) is created in the U.S. Treasury as a subset of the parent fund account for tracking and reporting purposes. All allocation transfers of balances are credited to this account, and subsequent obligations and outlays incurred by the child entity are charged to this allocation account as they execute the delegated activity on behalf of the parent entity. All financial activity related to these allocation transfers (e.g., budget authority, obligations, and outlays) is reported in the financial statements of the parent entity, from which the underlying legislative authority, appropriations and budget apportionments are derived. The DO allocates funds, as the parent, to Indian Affairs, the Bureau of Land Management, the Bureau of Reclamation, the Fish and Wildlife Service, the National Park Service, and the United States Geological Survey. The DO receives allocation transfers, as the child, from the BLM, the General Services Administration, and the Environmental Protection Agency.

NOTE 2. ASSET ANALYSIS

DO's assets as of September 30, 2007, and September 30, 2006, are summarized into the following categories:

(dollars in thousands)	Entity Unrestricted	Non Entity Restricted	FY 2007
Intragovernmental Assets:			
Fund Balance with Treasury	\$ 1,516,641	\$ (2,060)	\$ 1,514,581
Investments, Net	537,879	-	537,879
Accounts and Interest Receivable	82,646	-	82,646
Other			
Advances and Prepayments	2,570	-	2,570
Total Intragovernmental Assets	\$ 2,139,736	\$ (2,060)	\$ 2,137,676
Investments, Net	\$ 163,324	\$ -	\$ 163,324
Accounts and Interest Receivable, Net	20,763	6,908	27,671
Loans and Interest Receivable, Net	843	-	843
Operating Materials and Supplies	1,006	-	1,006
General Property, Plant and Equipment, Net	455,524	-	455,524
Other			
Advances and Prepayments	9,221	-	9,221
TOTAL ASSETS	\$ 2,790,417	\$ 4,848	\$ 2,795,265

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

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

All other DO funds are entity. Included in entity assets are OST Tribal Special and Tribal Trust Funds (Federal portion), which have limitations on their use. See Notes 14 and 25.

Notes to the Principal Financial Statements

NOTE 3. FUND BALANCE WITH TREASURY

The amounts presented for Fund Balance with Treasury as unobligated (available and unavailable) and obligated not yet disbursed differ from the amounts presented on the Statement of Budgetary Resources because (1) budgetary resources include amounts which are not part of the Fund Balance with Treasury; and (2) not all the Fund Balance with Treasury amounts are reflected in budgetary resources. The major example of (1) for the DO is investments. The major examples of (2) for the DO are deposit and other funds

Fund Balance with Treasury by Fund Type

(dollars in thousands)	FY 2007	FY 2006
General Funds	\$ 384,153	\$ 390,943
Special Funds	27,967	38,793
Revolving Funds	1,043,553	1,611,263
Trust Funds	215	574
Other Fund Types	58,693	(261)
Total Fund Balance with Treasury by Fund Type	\$ 1,514,581	\$ 2,041,312

Status of Fund Balance with Treasury

(dollars in thousands)	FY 2007	FY 2006
Unobligated		
Available	\$ 381,549	\$ 726,093
Unavailable	7,786	7,494
Obligated Not Yet Disbursed	1,127,209	1,308,364
Subtotal	1,516,544	2,041,951
Fund Balance with Treasury Not Covered by Budgetary Resources		
Clearing and Deposit Accounts	(1,963)	(639)
Subtotal	(1,963)	(639)
Total Status of Fund Balance with Treasury	\$ 1,514,581	\$ 2,041,312

which do not record budgetary resources.

NOTE 4. INVESTMENTS, NET

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

Notes to the Principal Financial Statements

FY 2007

(dollars in thousands)	Investment Type	Cost	Net Amortized (Premium)/Discount	Investments, Net	Market Value Disclosure
U.S. Treasury Securities					
Utah Reclamation Mitigation and Conservation Account	Non-Marketable, market-based	\$ 170,116	\$ 16	\$ 170,132	\$ 170,517
National Resources Damage Assessment and Restoration Fund	Non-Marketable, market-based	236,113	505	236,618	236,710
Tribal Trust and Special Funds	Non-Marketable, market-based	77,050	-	77,050	77,050
	Marketable	53,428	(798)	52,630	52,841
Total U.S. Treasury Securities		536,707	(277)	536,430	537,118
Accrued Interest		1,449	-	1,449	-
Total Non-Public Investments		\$ 538,156	\$ (277)	\$ 537,879	\$ 537,118
Public Securities					
Tribal Trust and Special Funds	Marketable	\$ 161,400	\$ 19	\$ 161,419	\$ 162,082
Total Public Securities		161,400	19	161,419	162,082
Accrued Interest		1,905	-	1,905	-
Total Public Investments		163,305	19	163,324	162,082
Total Investments		\$ 701,461	\$ (258)	\$ 701,203	\$ 699,200

FY 2006

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

Notes to the Principal Financial Statements

NOTE 5. ACCOUNTS AND INTEREST RECEIVABLE, NET

ACCOUNTS AND INTEREST RECEIVABLE FROM FEDERAL AGENCIES

(dollars in thousands)	FY 2007	FY 2006
Accounts and Interest Receivable from Federal Agencies		
Billed	\$ 160	\$ 5,756
Unbilled	82,486	116,003
Total Accounts and Interest Receivable - Federal	\$ 82,646	\$ 121,759

ACCOUNTS AND INTEREST RECEIVABLE FROM THE PUBLIC

(dollars in thousands)	FY 2007	FY 2006
Accounts and Interest Receivable from the Public		
Current	\$ 7,191	\$ 7,068
1 - 180 Days Past Due	995	816
181 - 365 Days Past Due	10	31
1 to 2 Years Past Due	92	54
Over 2 Years Past Due	31	1
Total Billed Accounts and Interest Receivable - Public	8,319	7,970
Unbilled Accounts and Interest Receivable	19,502	32,904
Total Accounts and Interest Receivable - Public	27,821	40,874
Allowance for Doubtful Accounts - Public	(150)	(127)
Total Accounts and Interest Receivable - Public Net of Allowance	\$ 27,671	\$ 40,747

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

NOTE 6. LOANS AND INTEREST RECEIVABLE, NET*(dollars in thousands)*

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

1. In 1977, a loan was extended to the Virgin Islands from the FFB, Treasury, through the OS. This loan is considered a pre-Credit Reform loan. The loan receivable from the Virgin Islands has an offsetting liability to the FFB. It has a final payment due date of July 2008. In 2000, this loan was transferred from Treasury Account Symbol 14X0412, Administration of the Territories, to 14X0418, Fiscal Assistance Payments to U.S. Territories as requested by the OIA. Principal and interest payments are due in January and July of each year. Interest is based on the amortization schedule for the loan with the FFB. The interest is accrued each year-end based upon the period of July through September.
2. In 2001, a loan was extended to the ASG from the OIA, DO, and DOI. This loan is considered a post-Credit Reform loan. The total has been approved for \$18,600 and bears interest at a rate equal to the Treasury cost of borrowing for obligations of similar duration. (The actual amount of the loan that was disbursed to ASG as of September 30 is disclosed in the table below.) The proceeds of the loan will be used by the ASG for debt reduction and fiscal reform. As payments become due, they shall be secured and accomplished with funds from the Escrow Account. The Escrow Account was established under the terms and conditions of the Tobacco Master Settlement Agreement and a judgment granted by the High Court of American Samoa on January 5, 1999 (Civil Action 119-98, American Samoa Government v. Philip Morris Tobacco Co., et. al.). The parties entered into the Agreement on November 23, 1998. In FY 2005, the DO reserved the loan based on a reassessment of the loan's collectability.

In FY 2007 and FY 2006, there were no other changes in economic conditions, other risk factors, legislation, credit policies, and subsidy estimation methodologies and assumptions that had a significant and measurable effect on subsidy rates, subsidy expense, and subsidy reestimates.

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

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

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

Notes to the Principal Financial Statements

A. Direct Loan and Loan Guarantee Program Names

	FY 2007	FY 2006
Virgin Island (Pre-Credit Reform)	\$ 843	\$ 3,375
American Samoa Government (Credit Reform)	-	-
Total Loans and Interest Receivable, Net	<u>\$ 843</u>	<u>\$ 3,375</u>

Direct Loans (dollars in thousands)

B. Direct Loans Obligated Prior to FY 1992:

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

	Loans Receivable, Gross	Interest Receivable	Allowance For Loan Losses	Foreclosed	Value of Assets Related to Direct Loans
Direct Loan Programs					
Virgin Island (Pre-Credit Reform)	\$ 794	\$ 49	\$ -	\$ -	\$ 843
FY 2007 Total	<u>\$ 794</u>	<u>\$ 49</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 843</u>
Virgin Island (Pre-Credit Reform)	\$ 3,239	\$ 136	\$ -	\$ -	\$ 3,375
FY 2006 Total	<u>\$ 3,239</u>	<u>\$ 136</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,375</u>

C. Direct Loans Obligated After FY 1991:

	Loans Receivable, Gross	Interest Receivable	Foreclosed Property	Allowance for Subsidy Cost (Present Value)	Value of Assets Related to Direct Loans
Direct Loan Programs					
American Samoa Government (Credit Reform)	\$ 17,317	\$ 945	\$ -	\$ (18,262)	\$ -
FY 2007 Total	<u>\$ 17,317</u>	<u>\$ 945</u>	<u>\$ -</u>	<u>\$ (18,262)</u>	<u>\$ -</u>
American Samoa Government (Credit Reform)	\$ 17,324	\$ 796	\$ -	\$ (18,120)	\$ -
FY 2006 Total	<u>\$ 17,324</u>	<u>\$ 796</u>	<u>\$ -</u>	<u>\$ (18,120)</u>	<u>\$ -</u>

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

Modifications and Reestimates :

	Total Modifications	Interest Rate Reestimates	Technical Reestimates	Total Reestimates
Direct Loan Programs				
American Samoa Government (Credit Reform)	\$ 2,177	\$ -	\$ -	\$ 2,177
FY 2007 Total	<u>\$ 2,177</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,177</u>
American Samoa Government (Credit Reform)	\$ -	\$ -	\$ -	\$ -
FY 2006 Total	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Total Direct Loan Subsidy Expense:

Direct Loan Programs	FY 2007	FY 2006
American Samoa Government (Credit Reform)	\$ 2,177	\$ -
Total	<u>\$ 2,177</u>	<u>\$ -</u>

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

	FY 2007	FY 2006
Beginning balance of the subsidy cost allowance	\$ 18,120	\$ 17,950
Adjustments:		
(a) Loan modification	2,177	-
(b) Subsidy allowance amortization	(2,035)	170
Ending balance of the subsidy cost allowance	<u>\$ 18,262</u>	<u>\$ 18,120</u>

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

NOTE 7. OPERATING MATERIALS AND SUPPLIES

Operating Materials and Supplies as of September 30, 2007 and 2006, consists of the following:
In accordance with OMB Circular A-136, Operating Materials and Supplies is classified as a category of Inventory and Related Property.

(dollars in thousands)	FY 2007		FY 2006	
Operating Materials and Supplies				
Airplane Parts and Fuel Held for Use	\$	1,006	\$	852
Total Operating Materials and Supplies	\$	1,006	\$	852

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

The costs for Construction in Progress as of September 30, 2007 and September 30, 2006 are from the Central Utah Project Completion Act Office account.

(dollars in thousands)	Acquisition Cost		Accumulated Depreciation		Net Book Value FY 2007	
Land and Land Improvements	\$	22,777	\$	-	\$	22,777
Buildings		210		32		178
Structures and Facilities		177,574		7,600		169,974
Leasehold Improvements		1,832		457		1,375
Construction in Progress						
Construction in Progress - General		118,524		-		118,524
Equipment, Vehicles, and Aircraft		65,039		32,162		32,877
Assets Under Capital Lease		2,287		638		1,649
Internal Use Software:						
In Use		47,945		15,665		32,280
In Development		75,890		-		75,890
Total Property, Plant, and Equipment	\$	512,078	\$	56,554	\$	455,524

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

Notes to the Principal Financial Statements

NOTE 9. STEWARDSHIP ASSETS

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

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

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

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

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

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

The costs associated with acquiring and improving stewardship lands were \$8 million and \$14 million during FY 2007 and FY 2006, respectively.

NOTE 10. LIABILITIES ANALYSIS

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

(dollars in thousands)	Covered by Budgetary Resources		Not Covered by Budgetary Resources		FY 2007
	Current	Non-Current	Current	Non-Current	
Intragovernmental Liabilities:					
Accounts Payable	\$ 17,376	\$ -	\$ -	\$ -	17,376
Debt	-	11,372	49	794	12,215
Other					
Accrued Employee Benefits	4,001	-	688	1,033	5,722
Advances and Deferred Revenue (includes Deposit Funds)	721,439	-	(317)	-	721,122
Resources Payable to Treasury	-	-	-	226,151	226,151
Total Intragovernmental Liabilities	\$ 742,816	\$ 11,372	\$ 420	\$ 227,978	\$ 982,586
Public Liabilities:					
Accounts Payable	\$ 254,357	\$ -	\$ -	\$ -	254,357
Federal Employee and Veterans' Benefits					
FECA Actuarial Liability	-	-	6,186	9,280	15,466
Other					
Accrued Payroll and Benefits	13,322	-	-	-	13,322
Annual Leave Liability	-	-	6,653	19,594	26,247
Advances and Deferred Revenue	5,234	-	-	-	5,234
Capital Lease Liability	523	273	-	-	796
Deposit Fund Liability	5,260	-	-	-	5,260
Other Liabilities Not Specified Above	14,197	-	-	-	14,197
Total Public Liabilities	292,893	273	12,839	28,874	334,879
Total Liabilities	\$ 1,035,709	\$ 11,645	\$ 13,259	\$ 256,852	\$ 1,317,465

Notes to the Principal Financial Statements

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

For September 30, 2007, and September 30, 2006, the DO anticipate that the liabilities listed above as not covered by budgetary resources will be funded from future budgetary resources when required. The Virgin Island debt is not covered by budgetary resources and will be funded by loans receivable due from the Virgin Island Government (See Note 11 for further details). The DO receive budgetary resources for the Federal Employee Compensation Act liability, the Environmental and Disposal Liabilities, and Contingent Liabilities when they are needed for disbursements. Budgetary resources are generally provided for annual leave when it is taken. Resources payable to Treasury represent appropriations from the General Fund recovered through the sale of water and power (see Note 26 for further discussion).

NOTE 11. DEBT

(dollars in thousands)	FY 2006		Borrowing /		FY 2006		Borrowing /		FY 2007	
	Beginning Balance	(Repayments), Net	Ending Balance	(Repayments), Net	Ending Balance	(Repayments), Net	Ending Balance			
Federal Financing Bank: Virgin Island Loan	\$ 5,658	\$ (2,283)	\$ 3,375	\$ (2,532)	\$ 843					
Treasury: American Samoa Loan	14,137	-	14,137	(2,765)	11,372					
Total Debt Due to Treasury	\$ 19,795	\$ (2,283)	\$ 17,512	\$ (5,297)	\$ 12,215					

Of the \$843 payable for the Virgin Islands Loan for September 30, 2007, \$49 is a current liability and \$794 is noncurrent (payable beyond one year). The entire \$11,372 payable for the American Samoa Loan for September 30, 2007 is noncurrent. The amount of the current liability for the American Samoa Loan is contingent upon recoveries from the Tobacco Master Settlement agreement signed November 23, 1998.

Of the \$3,375 payable for the Virgin Island Loan in FY 2006, \$136 was current and \$3,239 was noncurrent. The entire \$14,137 payable for the American Samoa Loan in 2006 was noncurrent.

The related interest costs for the Virgin Island Loan on September 30, 2007, are \$260 and on September 30, 2006, were \$481. The related interest costs for the American Samoa Loan on September 30, 2007, are \$2,765 and on September 30, 2006, were \$766. Interest is accrued annually based on the prevailing market yield on Treasury Securities of comparable maturities. The weighted average interest rate used to calculate interest owed to Treasury is 5.53 percent.

NOTE 12. ADVANCES AND DEFERRED REVENUE

(dollars in thousands)

Advances and deferred revenue of \$726,356 and \$1,225,264 as of September 30, 2007, and September 30, 2006, respectively, include amounts received from customers for services provided and deposit funds. The deposit fund liability of \$5,260 as of September 30, 2007, and \$5,959 as of September 30, 2006, includes funds held for or due from clients and employees. These funds represent amounts received from other Federal entities for payroll processing and disbursement to the employees of Federal agencies (payroll), State and local governments (payroll taxes), and OPM (employee benefits). The undisbursed funds held for clients are \$2,060 as of September 30, 2007, and \$1,324 as of September 30, 2006.

Notes to the Principal Financial Statements

NOTE 13. CONTINGENT LIABILITIES AND ENVIRONMENTAL AND DISPOSAL LIABILITIES

The accrued and estimated range of loss for contingent liabilities and environmental and disposal liabilities as of September 30, 2007, and September 30, 2006, are summarized in the categories below:

(dollars in thousands)	FY 2007	Accrued Liabilities	Estimated Range of Loss	
			Lower End of Range	Upper End of Range
Contingent Liabilities				
Reasonably Possible			\$ 2,020	\$ 310,030
Total Contingent Liabilities and Environmental and Disposal Liabilities			\$ 2,020	\$ 310,030

(dollars in thousands)	FY 2006	Accrued Liabilities	Estimated Range of Loss	
			Lower End of Range	Upper End of Range
Contingent Liabilities				
Probable		\$ -	\$ -	\$ 437
Reasonably Possible			20,040	25,070
Environmental and Disposal Liabilities				
Probable		1,300	1,300	1,300
Total Contingent Liabilities and Environmental and Disposal Liabilities		\$ 1,300	\$ 21,340	\$ 26,807

- A. AMD's liability for Environmental and Disposal Liabilities of \$1,300 for September 30, 2006, consists of the estimated cost of hazardous waste cleanup at an aircraft maintenance facility in Alaska. The estimated cost is based on an estimate of the amount of soil contaminated and the cost to remove it. AMD's liability for Environmental and Disposal Liabilities was transferred to FWS in FY 2007.
- B. The potential contingent liabilities represent 21 OST cases, all concerning management of Trust Fund monies. In addition, there are nine OS cases, all for either discrimination, challenge to default termination, unasserted claim, or for the nonrenewal of a contract. The above amounts are based on information from the SOL. The information in this table does not include the claims discussed in C and D.
- C. The Secretary of the Interior is entrusted with the management of the monies and lands held in trust by the Federal Government for Indian Tribes and individuals. There have been long-standing, complicated problems with Indian trust fund accounting, and management. Currently, there is significant litigation pending related to trust management for both Indian tribes and individuals. Tribal trust cases involve claims for trust fund and asset mismanagement, accounting, and other declaratory relief. A class action lawsuit brought on behalf of beneficiaries of the Individual Indian Money trust accounts alleges breach of trust obligations in the management of IIM account funds.
- D. The DO have a number of other claims and lawsuits pending against these. In the opinion of management and the SOL, the resolution of these claims and lawsuits will not materially affect the DO's financial position or operations. Therefore, no provision for these claims and lawsuits has been made in the accompanying financial statements.

NOTE 14. INDIAN TRUST FUNDS

The Department, through the OST, maintains approximately 1,800 accounts for Tribal and Other Trust Funds (including the Alaska Native Escrow Fund) with combined monetary assets of approximately \$2,881 million as of September 30, 2007, and \$2,921 million as of September 30, 2006.

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

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

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

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

The OST also maintains about 371,000 and 323,000 open Individual Indian Monies accounts as of September 30, 2007, and September 30, 2006, respectively with a fund balance of approximately \$424 million as of September 30, 2007, and \$418 million as of September 30, 2006.

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

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

Financial Statements and Basis of Accounting. The Tribal and Other Trust Fund statements of assets and trust fund balances and statements of changes in trust fund balances were prepared using a cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. The cash basis of accounting differs from GAAP in that receivables and payables are not accrued and investment premiums and discounts are not amortized or accreted. Receipts are recorded when received, disbursements are recorded when paid, and investments are stated at historical cost.

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

Notes to the Principal Financial Statements

Individual Indian Monies Trust Funds
Statement of Assets and Trust Fund Balances - Modified Cash Basis
As of September 30, 2007 and September 30, 2006
(dollars in thousands)

	FY 2007	FY 2006
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 48,325	\$ 61,938
Investments	372,592	353,886
Accrued interest receivable	2,780	2,450
TOTAL ASSETS	\$ 423,697	\$ 418,274
TRUST FUND BALANCES, held for Individual Indians	\$ 423,697	\$ 418,274

Individual Indian Monies Trust Funds
Statement of Changes in Trust Fund Balances - Modified Cash Basis
For the Years Ended September 30, 2007 and September 30, 2006
(dollars in thousands)

	FY 2007	FY 2006
Receipts	\$ 303,677	\$ 355,094
Interest and dividends earned	20,806	20,582
Gain (Loss) on disposition of investments, Net	459	(2,729)
Disbursements	(319,519)	(374,542)
Increase (decrease) in trust fund balances, net	5,423	(1,595)
Trust Fund Balances - Beginning of Year	418,274	419,869
Trust Fund Balances - End of Year	\$ 423,697	\$ 418,274

Audit Results. With OIG oversight, independent auditors audited the Tribal and Other Trust Funds and the IIM Trust Funds financial statements as of and for the year ended September 30, 2007, and September 30, 2006. The independent auditors indicated that the financial statements were prepared on the cash or modified cash basis of accounting, which is a comprehensive basis of accounting other than GAAP. In addition, the independent auditors' reports were qualified as a result of the following:

- It was not practicable for independent auditors to extend audit procedures sufficiently to satisfy themselves as to the fairness of the trust fund balances and changes in trust fund balances reflected in the financial statements due to issues with certain DOI trust-related systems and processes, which provide required trust financial information to the OST.
- Regarding the Tribal and Other Trust Funds, certain parties for whom the OST holds monetary assets in trust do not agree with the balances recorded by the OST, and certain of these parties have filed lawsuits against the United States Government.
- Regarding the IIM Trust Funds, certain parties for whom the OST holds monetary assets in trust have filed a class action lawsuit for an accounting of the individuals' trust funds which may or may not lead to claims against the United States Government.

Tribal and Other Trust Funds
Statement of Assets and Trust Fund Balances - Cash Basis
As of September 30, 2007 and September 30, 2006
(dollars in thousands)

	FY 2007	FY 2006
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 602,502	\$ 503,399
Investments	2,278,157	2,417,827
TOTAL ASSETS	\$ 2,880,659	\$ 2,921,226
TRUST FUND BALANCES		
Held for Indian tribes	\$ 2,590,799	\$ 2,637,066
Held by Department of the Interior and considered to be U.S. Government funds	289,860	284,160
TOTAL TRUST FUND BALANCES	\$ 2,880,659	\$ 2,921,226

Tribal and Other Trust Funds
Statement of Changes in Trust Fund Balances - Cash Basis
For the Years Ended September 30, 2007 and September 30, 2006
(dollars in thousands)

	FY 2007	FY 2006
Receipts	\$ 339,159	\$ 338,896
Interest Received	139,315	121,566
Gain (Loss) on disposition of investments, Net	604	24
Disbursements	(519,645)	(421,078)
Increase in trust fund balances, net	(40,567)	39,408
Trust Fund Balances - Beginning of Year	2,921,226	2,881,818
Trust Fund Balances - End of Year	\$ 2,880,659	\$ 2,921,226

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

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

Notes to the Principal Financial Statements

NOTE 15. LEASES

(dollars in thousands)

Real Property: Most of the DO facilities are rented from the GSA, which charges rent that is intended to approximate commercial rental rates. For federally owned property, The DO generally do not execute an agreement with the GSA, nor is there a formal expiration date. The DO, however, are normally required to give 120 to 180 days notice to vacate and the amount of these leases remains constant from year to year. The federally owned GSA leases are included in the estimated future lease for 2008 through 2012 below.

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

The DO have determined the future minimum lease payments based on the lease terms. If the lease agreement did not include a term or future minimum lease payments, the DO included future minimum lease payments using the actual 2007 lease expense and an annual escalation factor of 2.4 percent for fiscal year 2008 and 2.5 percent for FY 2009 through 2012.

Capital Leases:

Summary of Assets Under Capital Leases
(dollars in thousands)

	FY 2007	FY 2006
Personal Property	\$ 2,287	\$ 2,248
Accumulated Amortization	\$ (638)	\$ (450)

Future Capital Lease Payments
(dollars in thousands)

Fiscal Year	Personal Property	Total
2008	\$ 584	\$ 584
2009	294	294
Total Future Capital Lease Payments	879	879
Less: Imputed Interest	83	83
FY 2007 Net Capital Lease Liability	\$ 796	\$ 796
FY 2006 Net Capital Lease Liability	\$ 1,354	\$ 1,354

Operating Leases:

Future Operating Lease Payments
(dollars in thousands)

Fiscal Year	Real Property		Total
	Federal	Public	
2008	\$ 17,659	\$ 24,420	\$ 42,079
2009	17,991	24,180	42,171
2010	17,784	23,162	40,946
2011	16,378	19,237	35,615
2012	804	15,385	16,189
Thereafter	338	33,794	34,132
Total Future Operating Lease Payments	\$ 70,954	\$ 140,178	\$ 211,132

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

NOTE 16. COST AND EARNED REVENUE BY RESPONSIBILITY SEGMENT

The tables on the following pages present the DO's earned revenue for sales of goods and services to Federal agencies and the public, gross costs associated with sales of goods and services to Federal agencies and the public, and net cost of operations by program and by responsibility segment for the period ended September 30, 2007, and year ended September 30, 2006.

Responsibility Segment Presentation. OMB Circular No. A-136, "Financial Reporting Requirements," requires the presentation of the Statement of Net Cost to align directly with the goals and outcomes identified in the Strategic Plan. Accordingly, Interior presented the earned revenue and gross costs by Mission Goals from Interior's Strategic Plan.

In accordance with the Federal Accounting Standards Board's Interpretation Number 6, *Accounting for Imputed Intradepartmental Costs: An Interpretation of SFFAS Number 4*, DO recorded \$319 thousand for September 30, 2007, and \$1,095 thousand for September 30, 2006, in intradepartmental costs and imputed financing sources originating from services received from BLM and USGS for FY 2007, and BLM, IA, MMS, NPS, and USGS for FY 2006.

Intragovernmental Costs/Revenue. Under the OMB Circular A-136 guidance, the DO presents costs associated with Federal agencies as well as costs associated with the public.

Notes to the Principal Financial Statements

Costs and Earned Revenue by Responsibility Segment For the Period Ended September 30, 2007 (dollars in thousands)

	Office of the Secretary	Office of Inspector General	Office of the Solicitor	Office of Insular Affairs
Resource Protection				
Intragovernmental Costs	\$ -	\$ -	\$ -	-
Public Costs	67	-	-	-
Total Costs	67	-	-	-
Intragovernmental Earned Revenue	-	-	-	-
Public Earned Revenue	-	-	-	-
Total Earned Revenue	-	-	-	-
Net Costs	67	-	-	-
Resource Use				
Intragovernmental Costs	-	-	-	-
Public Costs	-	-	-	-
Total Costs	-	-	-	-
Net Costs	-	-	-	-
Serving Communities				
Intragovernmental Costs	141	-	-	17,089
Public Costs	232,314	-	-	425,058
Total Costs	232,455	-	-	442,147
Intragovernmental Earned Revenue	10	-	-	15,482
Public Earned Revenue	30	-	-	3,370
Total Earned Revenue	40	-	-	18,852
Net Costs	232,415	-	-	423,295
Reimbursable Activity and Other				
Intragovernmental Costs	309,954	13,119	22,517	-
Public Costs	2,039,292	31,308	43,367	-
Total Costs	2,349,246	44,427	65,884	-
Intragovernmental Earned Revenue	2,310,287	3,450	8,706	-
Public Earned Revenue	3,700	93	-	-
Total Earned Revenue	2,313,987	3,543	8,706	-
Net Costs	35,259	40,884	57,178	-
Total				
Intragovernmental Costs	310,095	13,119	22,517	17,089
Public Costs	2,271,673	31,308	43,367	425,058
Total Costs	2,581,768	44,427	65,884	442,147
Intragovernmental Earned Revenue	2,310,297	3,450	8,706	15,482
Public Earned Revenue	3,730	93	-	3,370
Total Earned Revenue	2,314,027	3,543	8,706	18,852
Net Cost of Operations	\$ 267,741	\$ 40,884	\$ 57,178	\$ 423,295

Costs and Earned Revenue by Responsibility Segment
For the Period Ended September 30, 2007
(dollars in thousands)

National Indian Gaming Commission	Office of the Special Trustee for American Indians	Central Utah Project and Utah Reclamation Mitigation and Conservation Commission	Natural Resources Damage Assessment and Restoration	Elimination of Intra-DO Activity	FY 2007
\$ -	\$ -	\$ 9,554	\$ 7,952	\$ -	17,506
-	-	6,354	50,553	-	56,974
-	-	15,908	58,505	-	74,480
-	-	7,764	-	-	7,764
-	-	-	1,033	-	1,033
-	-	7,764	1,033	-	8,797
-	-	8,144	57,472	-	65,683
-	-	1,936	-	-	1,936
-	-	5,896	-	-	5,896
-	-	7,832	-	-	7,832
-	-	7,832	-	-	7,832
5,877	121,021	-	-	(1,552)	142,576
11,431	145,232	-	-	-	814,035
17,308	266,253	-	-	(1,552)	956,611
74	2,636	-	-	(1,552)	16,650
15,376	1,981	-	-	-	20,757
15,450	4,617	-	-	(1,552)	37,407
1,858	261,636	-	-	-	919,204
-	-	-	-	(303,318)	42,272
-	-	-	-	-	2,113,967
-	-	-	-	(303,318)	2,156,239
-	-	-	-	(303,318)	2,019,125
-	-	-	-	-	3,793
-	-	-	-	(303,318)	2,022,918
-	-	-	-	-	133,321
5,877	121,021	11,490	7,952	(304,870)	204,290
11,431	145,232	12,250	50,553	-	2,990,872
17,308	266,253	23,740	58,505	(304,870)	3,195,162
74	2,636	7,764	-	(304,870)	2,043,539
15,376	1,981	-	1,033	-	25,583
15,450	4,617	7,764	1,033	(304,870)	2,069,122
\$ 1,858	\$ 261,636	\$ 15,976	\$ 57,472	\$ -	1,126,040

Notes to the Principal Financial Statements

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

	Office of the Secretary	Office of Inspector General	Office of the Solicitor	Office of Insular Affairs
Resource Protection				
Intragovernmental Costs	\$ -	\$ -	\$ -	\$ -
Public Costs	10	-	-	-
Total Costs	10	-	-	-
Intragovernmental Earned Revenue	-	-	-	-
Public Earned Revenue	-	-	-	-
Total Earned Revenue	-	-	-	-
Net Costs	10	-	-	-
Resource Use				
Intragovernmental Costs	-	-	-	-
Public Costs	-	-	-	-
Total Costs	-	-	-	-
Intragovernmental Earned Revenue	-	-	-	-
Public Earned Revenue	-	-	-	-
Total Earned Revenue	-	-	-	-
Net Costs	-	-	-	-
Serving Communities				
Intragovernmental Costs	113	-	-	23,235
Public Costs	232,211	-	-	371,677
Total Costs	232,324	-	-	394,912
Intragovernmental Earned Revenue	-	-	-	14,527
Public Earned Revenue	36	-	-	1,541
Total Earned Revenue	36	-	-	16,068
Net Costs	232,288	-	-	378,844
Reimbursable Activity and Other				
Intragovernmental Costs	303,727	16,904	21,398	-
Public Costs	2,692,266	31,914	42,257	-
Total Costs	2,995,993	48,818	63,655	-
Intragovernmental Earned Revenue	2,857,937	3,869	8,423	-
Public Earned Revenue	14,737	200	1	-
Total Earned Revenue	2,872,674	4,069	8,424	-
Net Costs	123,319	44,749	55,231	-
Total				
Intragovernmental Costs	303,840	16,904	21,398	23,235
Public Costs	2,924,487	31,914	42,257	371,677
Total Costs	3,228,327	48,818	63,655	394,912
Intragovernmental Earned Revenue	2,857,937	3,869	8,423	14,527
Public Earned Revenue	14,773	200	1	1,541
Total Earned Revenue	2,872,710	4,069	8,424	16,068
Net Cost of Operations	\$ 355,617	\$ 44,749	\$ 55,231	\$ 378,844

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

National Indian Gaming Commission	Office of the Special Trustee for American Indians	Central Utah Project and Utah Reclamation Mitigation and Conservation Commission	Natural Resources Damage Assessment and Restoration	Elimination of Intra-DO Activity	FY 2006
\$ -	\$ -	\$ 14,937	\$ 7,763	\$ -	22,700
-	-	8,133	21,188	-	29,331
-	-	23,070	28,951	-	52,031
-	-	6,496	456	-	6,952
-	-	-	1,879	-	1,879
-	-	6,496	2,335	-	8,831
-	-	16,574	26,616	-	43,200
-	-	1,527	-	-	1,527
-	-	7,827	-	-	7,827
-	-	9,354	-	-	9,354
-	-	-	-	-	-
-	-	21	-	-	21
-	-	21	-	-	21
-	-	9,333	-	-	9,333
4,724	112,860	-	-	(1,035)	139,897
9,588	106,418	-	-	-	719,894
14,312	219,278	-	-	(1,035)	859,791
89	3,458	-	-	(1,035)	17,039
12,440	20	-	-	-	14,037
12,529	3,478	-	-	(1,035)	31,076
1,783	215,800	-	-	-	828,715
-	-	-	-	(271,119)	70,910
-	-	-	-	-	2,766,437
-	-	-	-	(271,119)	2,837,348
-	-	-	-	(271,119)	2,599,110
-	-	-	-	-	14,938
-	-	-	-	(271,119)	2,614,048
-	-	-	-	-	223,300
4,724	112,860	16,464	7,763	(272,154)	235,034
9,588	106,418	15,960	21,188	-	3,523,489
14,312	219,278	32,424	28,951	(272,154)	3,758,523
89	3,458	6,496	456	(272,154)	2,623,101
12,440	20	21	1,879	-	30,875
12,529	3,478	6,517	2,335	(272,154)	2,653,976
\$ 1,783	\$ 215,800	\$ 25,907	\$ 26,616	\$ -	\$ 1,104,548

Notes to the Principal Financial Statements

NOTE 17. APPORTIONMENT CATEGORIES OF OBLIGATIONS INCURRED

(dollars in thousands)

FY 2007	Category B
Obligations Incurred:	
Direct	\$ 1,293,368
Reimbursable	2,103,469
Total Obligations Incurred	\$ 3,396,837

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

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

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

There was no available borrowing/contract authority as of September 30, 2007, and September 30, 2006.

NOTE 19. TERMS OF BORROWING AUTHORITY USED

(dollars in thousands)

In 2001, a loan was extended to the OS from the Bureau of the Public Debt, U.S. Department of the Treasury for the purpose of operating a direct loan. The outstanding loan balances were \$11,372 as of September 30, 2007, and \$14,137 as of September 30, 2006. Funds are appropriated to OS in the amount necessary to pay the cost associated with the program. The loan is recorded under Treasury Account Symbol 14X4163 and the appropriated subsidy is recorded under Treasury Account Symbol 14X0412. Interest is accrued annually based on the prevailing market yield on Treasury securities of comparable maturity. The loan has a final payment due date of September 30, 2027. Should the loan be defaulted, the appropriated subsidy in 14X0412 will be used for the loan repayment.

NOTE 20. PERMANENT INDEFINITE APPROPRIATIONS

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

- 14X5130 Indian Arts and Crafts Board:
These funds are to promote the development of Indian arts and crafts and to create a board to assist therein, and for other purposes.
- 14X5141 National Indian Gaming Commission, Gaming Activity Fees:
The primary mission of the NIGC is to regulate gaming activities on Indian lands.
- 14X5174 Utah Reclamation and Mitigation Conservation Account:
The Commission has exclusive responsibility for completing the fish, wildlife, and recreation projects in the State of Utah required as part of the Central Utah Project.

- 14X5198 Natural Resource Damage Assessment and Restoration Fund:
The NRDAR is responsible for the promulgation of regulations for the assessment of damages for injury to, destruction of, or loss of natural resources resulting from a discharge of oil or release of a hazardous substance.
- 14X5233 Everglades Restoration Account:
Funds utilized for the acquisition of real property within the Everglades ecosystem and the funding of resource protection and resource maintenance activities in the Everglades ecosystem.
- 14X5265 Tribal Special Fund:
Funds in the Tribal Special Fund are those not designated in the law as a trust and generally are funds held and invested to carry out obligations of the Secretary of the Interior.
- 14X5571 Departmental Management Land and Water Conservation:
The purpose of the Land and Water Conservation is to assist in preserving, developing, and assuring accessibility to all citizens of the United States of American of present and future generations and visitors who are lawfully present within the boundaries of the United States of America such quality and quantity of outdoor recreation resources as may be available and are necessary and desirable for individual active participation in such recreation and to strengthen the health and vitality of the citizens of the United States. These funds are used for management salaries and expenses.
- 14X8030 Tribal Trust Fund:
Tribal trust funds are deposited into consolidated accounts in the U.S. Treasury pursuant to general or specific acts of Congress and Federal management of tribal real properties, the titles to which are held in trust for the tribes by the United States. These funds are available to the respective tribal groups for various purposes, under various acts of Congress, and may be subject to the provisions of tribal constitutions, bylaws, charters, and resolutions of the various tribes, bands, or groups.
- 14X8369 Take Pride in America®, Gifts and Bequests:
These funds are for establishing and maintaining a public awareness campaign in cooperation with public and private organizations and individuals.

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

Unobligated balances whose period of availability has expired are not available for new obligation and may only be used for recording, adjusting, and liquidating obligations properly chargeable to the fiscal year account. For a fixed appropriation account, the balance can be carried forward for 5 fiscal years after the period of availability ends. At the end of the fifth fiscal year, the account is closed and any remaining balance is canceled. For a no-year account, the unobligated balance is carried forward indefinitely until (1) specifically rescinded by law or (2) the head of the agency concerned or the President determines that the purposes for which the appropriation was made have been carried out and disbursements have not been made against the appropriation for 2 consecutive years. The following summarizes DO's unobligated balance and undelivered orders at the end of the accounting period.

(dollars in thousands)	Total Budgetary Accounts		Non-Budgetary Credit Program Financing Accounts	
	FY 2007	FY 2006	FY 2007	FY 2006
Unobligated balance available	\$ 737,015	\$ 1,072,731	\$ -	\$ 378
Unobligated balance not available	3,068	8,363	-	-
Undelivered orders	\$ 1,186,407	\$ 1,438,752	\$ -	\$ -

Notes to the Principal Financial Statements

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

The Statement of Budgetary Resources has been prepared to coincide with the amounts shown in the President's Budget (Budget of the United States Government). The President's Budget with the actual FY 2006 amounts was released on February 5, 2007, and the President's Budget with the FY 2007 amounts is estimated to be released in February 2008. This information can be found on the OMB Web site <www.whitehouse.gov/omb>. As such, the actual amounts for FY 2007 in the President's Budget have not been published at the time these financial statements were prepared.

Budgetary resources and the status of those resources presented in the Combined SBR for the period ended September 30, 2006, differ from the amounts presented as 2006 Actuals in the President's FY 2008 Budget.

(dollars in millions)	FY 2006 Amount per President's Budget*	FY 2006 Amount per Total SBR	Difference	Explanation
Budgetary Resources:				
Unobligated Balance:				
Beginning of Fiscal Year	1,349	1,342	7	A
Recoveries of Prior Year Unpaid Obligations	67	71	(4)	D
Budget Authority:				
Appropriations Received	1,374	1,316	58	A
Spending Authority From Offsetting Collections	2,549	2,523	26	B
Nonexpenditure Transfers, net	(2)	(11)	9	F
Temporarily Not Available Pursuant to Public Law	(4)	-	(4)	B
Permanently Not Available	(14)	(17)	3	D
Total Budgetary Resources	5,299	5,224	75	A, B, D, F
Status of Budgetary Resources:				
Obligations Incurred:				
Unobligated Balance - Available/Not Available	1,070	1,081	(11)	A, B, C
Total Status of Budgetary Resources	5,299	5,224	75	A, B, C
Change in Obligated Balance:				
Obligated Balance, Net, Beginning of Fiscal Year	1,331	1,331	(0)	
Obligations Incurred	4,227	4,143	84	A, C
Less: Gross Outlays	(4,231)	(4,169)	(62)	A, D
Less: Recoveries of Prior Year Unpaid Obligations	(67)	(71)	4	D
Change in Uncollectible Customer Payments from Federal Sources	98	98	(0)	
Obligated Balance, Net, End of Fiscal Year	(1,355)	(1,332)	(23)	A, C, D
Net Outlays:				
Gross Outlays	4,231	4,169	62	A, D
Less: Offsetting Collections	(2,591)	(2,621)	30	B
Less: Distributed Offsetting Receipts	-	(170)	156	E
Net Outlays/Receipts	-	1,378	(1,182)	E

* Source: Fiscal Year 2006 Actual amounts as published in the Appendix to the Budget of the United States Government, Fiscal Year 2007

- A. Tribal Trust Funds:
Differences exist between the Departmental Office Statement of Budgetary Resources and actual amounts in the President's Budget as a result of the treatment of pass-through appropriations and payments to Tribal Trust fund accounts are included in the President's Budget but not on the SBR. The differences impact Appropriations Received, Unobligated Balances at the Beginning of the Fiscal Year, Obligations Incurred, Unobligated Balance and Unobligated Balance Not Available, and Disbursement lines on the SBR. [Budget Accounts 5265 and 8030]
- B. Expired Accounts:
Differences relate to expired accounts being included in the Combined SBR but not in the President's Budget.
- C. Working Capital Fund:
An adjustment was made for FACTS II to increase Undelivered orders-Obligation, Unpaid and therefore included in the President's Budget but not the SBR.
- D. Differences primarily relate to rounding.
- E. Distributed offsetting receipts and net outlays/receipts are included in the SBR but not included in the President's Budget.
- F. Changes to child account received after SBR submitted for 2006 are not in the SBR but are in the President's Budget.

NOTE 23. RECONCILIATION OF NET COST OF OPERATIONS TO BUDGET

Effective for fiscal year 2007 the Statement of Financing is presented as a footnote disclosure and is no longer a basic statement in accordance with OMB Circular No. A -136. The Statement of Financing is now reported in the notes and referred to as "Reconciliation of Net Cost of Operations to Budget". In accordance with OMB Circular No. A -136, DO did not report a FY 2007 Statement of Financing, and instead has included the FY 2006 Statement of Financing in the note disclosure to provide comparative disclosures. The Reconciliation of Net Cost of Operations to Budget for FY 2007 and FY 2006 is as follows.

Notes to the Principal Financial Statements

(dollars in thousands)

	<u>FY 2007</u>	<u>FY 2006</u>
Resources Used to Finance Activities:		
Budgetary Resources Obligated:		
Obligations Incurred	\$ 3,396,837	\$ 4,142,580
Less: Spending Authority From Offsetting Collection/Adjustments	<u>(1,743,472)</u>	<u>(2,593,831)</u>
Obligations Net of Offsetting Collections and Adjustments	1,653,365	1,548,749
Less: Offsetting Receipts	<u>(206,434)</u>	<u>(170,518)</u>
Net Obligations	<u>1,446,931</u>	<u>1,378,231</u>
Other Resources:		
Donations and Forfeitures of Property	5,045	4,124
Transfers In/Out Without Reimbursement	(217)	1,848
Imputed Financing From Costs Absorbed by Others	<u>26,239</u>	<u>25,679</u>
Net Other Resources Used to Finance Activities	<u>31,067</u>	<u>31,651</u>
Total Resources Used to Finance Activities	<u>1,477,998</u>	<u>1,409,882</u>
Resources Used to Finance Items Not Part of the Net Cost of Operations:		
Change in Budgetary Resources Obligated for Goods, Services, and Benefits Ordered but Not Yet Provided	250,948	105,103
Change in Unfilled Customer Orders	(673,768)	(409,696)
Resources That Fund Expenses Recognized in Prior Periods	(352)	525
Budgetary Offsetting Collections and Receipts That Do Not Affect Net Cost of Operations:		
Offsetting Receipts Not Part of the Net Cost of Operations	203,897	168,614
Resources That Finance the Acquisition of Assets	(145,130)	(107,186)
Other Resources or Adjustments to Net Obligated Resources That Do Not Affect Net Cost of Operations	(10,361)	(9,524)
Parent Allocation	<u>1,402</u>	<u>(68,969)</u>
Total Resources Used to Finance Items Not Part of the Net Cost of Operations	<u>(373,364)</u>	<u>(321,133)</u>
Total Resources Used to Finance the Net Cost of Operations	<u>1,104,634</u>	<u>1,088,749</u>
Components of Net Cost of Operations That Will Not Require or Generate Resources in the Current Period:		
Components Requiring or Generating Resources in Future Periods:		
Change in Annual Leave Liability	1,466	2,311
Change in Environmental and Disposal Liability	(1,300)	-
Other	<u>10,256</u>	<u>(130)</u>
Total Components of Net Cost of Operations That Will Require or Generate Resources in Future Periods	<u>10,422</u>	<u>2,181</u>
Components Not Requiring or Generating Resources:		
Depreciation and Amortization	10,661	5,361
Revaluation of Assets or Liabilities	57	51
Components of Net Cost of Operations Related to Transfer Accounts Where Budget Amounts or Proprietary Amounts are Reported by Other Federal Entities	-	8,068
Other	<u>266</u>	<u>138</u>
Total Components of Net Cost of Operations That Will Not Require or Generate Resources in the Current Period	<u>10,984</u>	<u>13,618</u>
Total Components of Net Cost of Operations That Will Not Require or Generate Resources	<u>21,406</u>	<u>15,799</u>
Net Cost of Operations	<u>\$ 1,126,040</u>	<u>\$ 1,104,548</u>

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

NOTE 24. EARMARKED FUNDS

The DO has the following earmarked funds.

Appropriation 14X5198 National Resource Damage Assessment and Restoration Fund

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

Appropriation 14X5174 Utah Reclamation Mitigation and Conservation Account

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

- Federal & State Contributions Section 402(b) (1) provides for a voluntary contribution from the State of Utah of \$3,000,000 annually in fiscal years 1994 through 2001. Section 402(b) (2) provides for a Federal contribution from Section 201 of the Act of \$5,000,000 annually in fiscal years 1994 through 2001. All Federal and State contributions are inflows to the Government and are treated as principal and can not be expended by the Commission.
- Project Beneficiaries Contributions Section 402(b) (3) (A) provides for a contribution from the Central Utah Water Conservancy District of \$750,000 annually in fiscal years 1994 through 2001. Section 402(b) (3) (B) provides for a contribution from Western Area Power Administration of \$5,000,000 annually. Contributions from CUWCD and WAPA are inflows to the Government and are indexed annually according to the Consumer Price Index for urban consumer, published by the Department of Labor. In addition, these contributions are considered discretionary funds and, at the Commission's discretion, can be used for annual project costs and administrative expenses. However, once deposited as principal, no part of such funds may be withdrawn or expended for any purpose; therefore, none of the funds currently within the fund are available for expenditure by the Commission.
- According to Section 402(c) of the Act, all interest earned (i.e., intragovernmental inflows) on the amounts in the fund is considered principal until the projects and features specified in Section 315 of the Act are substantially completed. At this time, the Commission cannot expend any of the interest earned. Section 402(4) provides that any amount authorized for fish, wildlife, or recreation expenditures which is appropriated but not obligated or expended by the Commission can be deposited into the fund. Unexpended appropriations can be expended or treated as principal based on the Commission's election. There have been no changes in legislation during or subsequent to the reporting period and before the issuance of the financial statements that significantly changes the purpose of the fund or that redirects a material portion of the accumulated balance.

Notes to the Principal Financial Statements

(dollars in thousands)	Natural Resource Damage Assessment and Restoration Fund	Utah Reclamation Mitigation and Conservation Commission Account	Other Earmarked Funds	FY 2007
Balance Sheet as of September 30, 2007				
Assets				
Fund Balance with Treasury	\$ 26,412	\$ 13,442	\$ 13,479	\$ 53,333
Investments, Net	236,617	171,034	-	407,651
Accounts Receivable, Net	19,413	-	-	19,413
General Property, Plant, and Equipment, Net	347	4,077	-	4,424
Other Assets	-	-	144	144
Total Assets	\$ 282,789	\$ 188,553	\$ 13,623	\$ 484,965
Liabilities				
Accounts Payable	\$ 732	\$ 929	\$ 323	\$ 1,984
Other Liabilities	461	190	1,357	2,008
Total Liabilities	1,193	1,119	1,680	3,992
Net Position				
Unexpended Appropriations	(7)	904	-	897
Cumulative Results of Operations	281,603	186,530	11,943	480,076
Total Net Position	281,596	187,434	11,943	480,973
Total Liabilities and net Position	\$ 282,789	\$ 188,553	\$ 13,623	\$ 484,965
Statement of Net Cost For the Period Ended September 30, 2007				
Cost/Revenue				
Gross Costs	\$ 41,227	\$ 15,909	\$ 23,006	\$ 80,142
Earned Revenue	-	(7,764)	(12,873)	(20,637)
Net Cost of Operations	\$ 41,227	\$ 8,145	\$ 10,133	\$ 59,505
Statement of Changes in Net Position For the Period Ended September 30, 2007				
Net Position				
Net Position, Beginning Balance	\$ 253,321	\$ 187,931	\$ 16,220	\$ 457,472
Changes in Accounting Principles	20,473	-	359	20,832
Beginning Balance, as adjusted	273,794	187,931	16,579	478,304
Appropriations Received/Transferred	-	945	-	945
Non-Exchange Revenue	68,487	-	103	68,590
Transfers In/(Out) without Reimbursement	(19,774)	6,633	7,398	(5,743)
Imputed Financing from Costs Absorbed by Others	329	70	587	986
Other	(13)	-	(2,591)	(2,604)
Net Cost of Operations	(41,227)	(8,145)	(10,133)	(59,505)
Change in Net Position	7,802	(497)	(4,636)	2,669
Net Position, Ending Balance	\$ 281,596	\$ 187,434	\$ 11,943	\$ 480,973

The DO have disclosed the following funds collectively as "other earmarked funds."

Appropriation 148/15039 Priority Land Acquisitions

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

Notes to the Principal Financial Statements

(dollars in thousands)	Natural Resource Damage Assessment and Restoration Fund	Utah Reclamation Mitigation and Conservation Commission Account	Other Earmarked Funds	FY 2006
Balance Sheet as of September 30, 2006				
Assets				
Fund Balance with Treasury	\$ 434	\$ 22,002	\$ 16,966	\$ 39,402
Investments, Net	226,494	163,271	-	389,765
Accounts Receivable, Net	26,404	-	-	26,404
General Property, Plant, and Equipment, Net	-	4,101	-	4,101
Other Assets	-	-	1,414	1,414
Total Assets	\$ 253,332	\$ 189,374	\$ 18,380	\$ 461,086
Liabilities				
Accounts Payable	8	1,154	910	2,072
Other Liabilities	3	289	1,250	1,542
Total Liabilities	11	1,443	2,160	3,614
Net Position				
Unexpended Appropriations	(8)	3,736	-	3,728
Cumulative Results of Operations	253,329	184,195	16,220	453,744
Total Net Position	253,321	187,931	16,220	457,472
Total Liabilities and net Position	\$ 253,332	\$ 189,374	\$ 18,380	\$ 461,086

**Statement of Net Cost For the Period Ended
September 30, 2006**

Cost/Revenue				
Gross Costs	7,417	23,070	25,520	56,007
Earned Revenue	-	6,496	10,492	16,988
Net Cost of Operations	\$ 7,417	\$ 16,574	\$ 15,028	\$ 39,019

**Statement of Changes in Net Position For the
Period Ended September 30, 2006**

Net Position				
Net Position, Beginning Balance	220,216	196,859	24,762	441,837
Appropriations Received/Transferred	-	936	(40)	896
Non-Exchange Revenue	60,477	-	193	60,670
Transfers In/(Out) without Reimbursement	(19,955)	6,633	5,375	(7,947)
Imputed Financing from Costs Absorbed by Others	-	77	538	615
Other	-	-	420	420
Net Cost of Operations	(7,417)	(16,574)	(15,028)	(39,019)
Change in Net Position	33,105	(8,928)	(8,542)	15,635
Net Position, Ending Balance	\$ 253,321	\$ 187,931	\$ 16,220	\$ 457,472

Appropriation 140/035039 Priority Land Acquisitions and Land Exchanges

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

Notes to the Principal Financial Statements

Appropriation 14X5571 Land and Water Conservation Fund

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

Appropriation 14X5130 Indian Arts and Craft

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

Appropriation 1420X8145 Hazardous Substance Response Trust Fund

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

Appropriation 14X5141 National Indian Gaming Commission

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

Appropriation 14X5233 Everglades Restoration

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

Appropriation 14X8369 Take Pride in America® Gifts and Bequests

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

NOTE 25. DEDICATED COLLECTIONS, OFFICE OF SPECIAL TRUSTEE FOR AMERICAN INDIANS

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

Dedicated Collections as of September 30, 2007 and 2006, consist of the following:

(dollars in thousands)	FY 2007	FY 2006
ASSETS		
Fund Balance with Treasury	\$ (34)	\$ (34)
Investments, Net	293,551	287,655
TOTAL ASSETS	\$ 293,517	\$ 287,621
Liabilities		
	\$ -	\$ -
Total Net Position	293,517	287,621
TOTAL LIABILITIES AND NET POSITION	\$ 293,517	\$ 287,621
CHANGE IN NET POSITION		
Net Position, Beginning of Fiscal Year	\$ 287,621	\$ 280,000
Change in Net Position:		
Non-exchange Revenue		
Investment Interest and Other	13,360	11,198
Other Non-Exchange Revenue	2,967	2,967
Transfers In/Out without Reimbursement	7,500	8,111
Exchange Revenue - Services Provided and Other	(2)	10
Program Expenses	(17,929)	(14,665)
Net Position, End of Fiscal Year	\$ 293,517	\$ 287,621

Notes to the Principal Financial Statements

NOTE 26. RESOURCES PAYABLE TO TREASURY

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

This liability is increased when funds are received and meet the requirement for repayment. It is decreased when reimbursements are received from customers and such funds are transferred to Treasury's General Fund. Interest is accumulated on this liability pursuant to authorizing project legislation or administrative policy. Interest rates used during FY 2007 ranged from 3.2 percent to 8.5 percent. Repayment is generally over a period not to exceed 50 years from the time revenue producing assets are placed in service.

The summary of changes in resources payable to Treasury for FY 2007 and FY 2006 is as follows:

(dollars in thousands)	FY 2007		FY 2006	
Beginning Balance	\$	235,221	\$	214,741
Issuance/Estimated Repayment		(9,070)		20,480
Ending Balance	\$	226,151	\$	235,221

NOTE 27. CHANGES IN ACCOUNTING PRINCIPLE

Effective as of October 1, 2006, the DO adopted the parent/child provisions of OMB Circular No. A-136. Under such provisions, Federal agencies (child) that received allocated budget authority through another parent agency are required to provide Federal agencies (parent), all of their financial activity. In prior guidance, child agencies that received allocated budget authority were allowed to report proprietary activity in their financial statements, if material to them. The DO did not apply the parent/child provisions of OMB Circular No. A-136 to the FY 2006 Financial Statements, therefore the FY 2006 Financial Statements are not comparable to the FY 2007 Financial Statements.

The cumulative effect of this change in accounting principle resulted in an increase of \$74 million to assets and \$4 million to liabilities on the Balance Sheet, and resulted in a corresponding increase of \$70 million to the beginning balances of the F 2007 Statement of Changes in Net Position.



**U.S. Department of the Interior
Departmental Offices**

Required Supplementary Information
(Unaudited,
See Accompanying Independent Auditors' Report)
For the Year Ended September 30, 2007

Required Supplementary Information

Combining Statement of Budgetary Resources For the Year Ended September 30, 2007 (dollars in thousands)

	Departmental Management	Working Capital Fund	Franchise Fund	Administration of Territories
Budgetary Resources:				
Unobligated balance, beginning of Fiscal Year:	\$ 18,473	\$ 127,609	\$ 503,964	\$ 18,628
Recoveries of prior year unpaid obligations	1,905	6,574	-	6,596
Budget Authority				
Appropriation	108,907	270	-	205,105
Spending authority from offsetting collections				
Earned				
Collected	44,823	1,235,009	1,086,984	3,694
Change in receivables from Federal sources	(4,279)	(56,535)	15,395	(444)
Change in unfilled customer orders				
Advance received	(20)	(69,234)	(445,534)	-
Without advance from Federal sources	(924)	(128,769)	(30,511)	(2,022)
Total Budget Authority	148,507	980,741	626,334	206,333
Nonexpenditure transfers, net, anticipated and actual	(436)	8	-	-
Permanently not available	(13)	-	-	(2,499)
Total Budgetary Resources	\$ 168,436	\$ 1,114,932	\$ 1,130,298	\$ 229,058
Status of Budgetary Resources:				
Obligations incurred:				
Direct	\$ 110,102	\$ 334	\$ -	\$ 209,909
Reimbursable	38,670	1,015,366	1,011,091	1,101
Total Obligations incurred	148,772	1,015,700	1,011,091	211,010
Unobligated balance available:				
Apportioned	20,061	99,232	119,207	17,146
Unobligated balance not available	(397)	-	-	902
Total Status of Budgetary Resources	\$ 168,436	\$ 1,114,932	\$ 1,130,298	\$ 229,058
Change in Obligated Balance:				
Obligated balance, net				
Unpaid obligations, brought forward, beginning of Fiscal Year	\$ 15,562	\$ 598,592	\$ 812,820	\$ 127,846
Less: Uncollected customer payments from Federal sources, brought forward, beginning of Fiscal Year	(19,222)	(345,686)	(86,035)	(5,749)
Total unpaid obligated balances, net, beginning of Fiscal Year	(3,660)	252,906	726,785	122,097
Obligations incurred, net	148,772	1,015,700	1,011,091	211,010
Less: Gross outlays	(142,328)	(1,174,247)	(1,200,968)	(202,662)
Less: Recoveries of prior year unpaid obligations, actual	(1,905)	(6,574)	-	(6,596)
Change in uncollected customer payments from Federal sources	5,203	185,304	15,116	2,466
Total unpaid obligated balance, net, end of period	\$ 6,082	\$ 273,089	\$ 552,024	\$ 126,315
Obligated balance, net, end of period - by component:				
Unpaid obligations	\$ 20,100	\$ 433,471	\$ 622,943	\$ 129,598
Less: Uncollected customer payments from Federal sources,	(14,018)	(160,382)	(70,919)	(3,283)
Total unpaid obligated balance, net, end of period	\$ 6,082	\$ 273,089	\$ 552,024	\$ 126,315
Net Outlays:				
Gross outlays	\$ 142,328	\$ 1,174,247	\$ 1,200,968	\$ 202,662
Less: Offsetting collections	(44,803)	(1,165,776)	(641,451)	(3,694)
Less: Distributed Offsetting receipts	-	-	-	-
Net Outlays(Receipts)	\$ 97,525	\$ 8,471	\$ 559,517	\$ 198,968

Combining Statement of Budgetary Resources
For the Year Ended September 30, 2007
(dollars in thousands)

Compact of Free Association	Office of the Special Trustee	Damage Assessment and Restoration	Tribal Special and Trust Fund	Payments in Lieu of Taxes	Other Budgetary Accounts	Total Budgetary Accounts
\$ 19,432	\$ 20,597	\$ 245,141	\$ 99,137	\$ 830	\$ 27,283	\$ 1,081,094
19,146	15,547	801	-	12	3,443	54,024
207,961	223,257	81,803	114,712	232,528	163,080	1,337,623
15,676	5,858	-	-	-	17,129	2,409,173
(780)	(1,239)	-	-	-	(1,228)	(49,110)
-	-	-	-	-	2,374	(512,414)
3,107	1,191	-	-	-	(3,426)	(161,354)
225,964	229,067	81,803	114,712	232,528	177,929	3,023,918
-	(350)	(19,471)	-	-	-	(20,249)
-	-	-	-	(121)	-	(2,633)
\$ 264,542	\$ 264,861	\$ 308,274	\$ 213,849	\$ 233,249	\$ 208,655	\$ 4,136,154
\$ 200,748	\$ 236,310	\$ 50,831	\$ 84,807	\$ 232,358	\$ 167,203	\$ 1,292,602
18,001	3,582	-	-	-	15,658	2,103,469
218,749	239,892	50,831	84,807	232,358	182,861	3,396,071
45,793	24,969	257,443	129,042	117	24,005	737,015
-	-	-	-	774	1,789	3,068
\$ 264,542	\$ 264,861	\$ 308,274	\$ 213,849	\$ 233,249	\$ 208,655	\$ 4,136,154
\$ 144,507	\$ 62,087	\$ 8,212	\$ -	\$ 28	\$ 49,320	\$ 1,818,974
(20,044)	(2,920)	-	-	-	(7,049)	(486,705)
124,463	59,167	8,212	-	28	42,271	1,332,269
218,749	239,892	50,831	84,807	232,358	182,861	3,396,071
(231,359)	(243,816)	(46,429)	(84,807)	(232,354)	(191,466)	(3,750,436)
(19,146)	(15,547)	(801)	-	(12)	(3,443)	(54,024)
(2,327)	48	-	-	-	4,654	210,464
\$ 90,380	\$ 39,744	\$ 11,813	\$ -	\$ 20	\$ 34,877	\$ 1,134,344
\$ 112,750	\$ 42,616	\$ 11,813	\$ -	\$ 20	\$ 37,272	\$ 1,410,583
(22,370)	(2,872)	-	-	-	(2,395)	(276,239)
\$ 90,380	\$ 39,744	\$ 11,813	\$ -	\$ 20	\$ 34,877	\$ 1,134,344
\$ 231,359	\$ 243,816	\$ 46,429	\$ 84,807	\$ 232,354	\$ 191,466	\$ 3,750,436
(15,675)	(5,858)	-	-	-	(19,503)	(1,896,760)
-	-	(75,759)	(114,712)	-	(15,963)	(206,434)
\$ 215,684	\$ 237,958	\$ (29,330)	\$ (29,905)	\$ 232,354	\$ 156,000	\$ 1,647,242

Required Supplementary Information

Combining Statement of Budgetary Resources For the Year Ended September 30, 2006 (dollars in thousands)

	Departmental Management	Working Capital Fund	Franchise Fund	Administration of Territories
Budgetary Resources:				
Unobligated balance, beginning of Fiscal Year:	\$ 4,446	\$ 187,814	\$ 788,609	\$ 19,201
Recoveries of prior year unpaid obligations	496	6,574	-	4,932
Budget Authority				
Appropriation	124,196	-	-	208,252
Spending authority from offsetting collections				
Earned				
Collected	36,297	1,458,881	1,379,994	3,575
Change in receivables from Federal sources	2,037	16,957	(1,130)	740
Change in unfilled customer orders				
Advance received	(2)	(214,473)	(86,525)	-
Without advance from Federal sources	915	(43,764)	(71,778)	821
Total Budget Authority	163,443	1,217,601	1,220,561	213,388
Nonexpenditure transfers, net, anticipated and actual	(92)	-	-	-
Permanently not available	(1,760)	-	-	(3,133)
Total Budgetary Resources	\$ 166,533	\$ 1,411,989	\$ 2,009,170	\$ 234,388
Status of Budgetary Resources:				
Obligations incurred:				
Direct	\$ 114,990	\$ 1,063	\$ -	\$ 213,051
Reimbursable	33,068	1,283,317	1,505,207	2,708
Total Obligations incurred	148,058	1,284,380	1,505,207	215,759
Unobligated balance available:				
Apportioned	14,317	127,609	503,963	18,117
Unobligated balance not available	4,158	-	-	512
Total Status of Budgetary Resources	\$ 166,533	\$ 1,411,989	\$ 2,009,170	\$ 234,388
Change in Obligated Balance:				
Obligated balance, net				
Unpaid obligations, brought forward, beginning of Fiscal Year	\$ 13,175	\$ 780,667	\$ 703,246	\$ 135,408
Less: Uncollected customer payments from Federal sources, brought forward, beginning of Fiscal Year	(16,270)	(372,493)	(158,943)	(4,188)
Total unpaid obligated balances, net, beginning of Fiscal Year	(3,095)	408,174	544,303	131,220
Obligations incurred, net	148,058	1,284,380	1,505,207	215,759
Less: Gross outlays	(145,175)	(1,459,881)	(1,395,633)	(218,389)
Less: Recoveries of prior year unpaid obligations, actual	(496)	(6,574)	-	(4,932)
Change in uncollected customer payments from Federal sources	(2,952)	26,807	72,908	(1,561)
Total unpaid obligated balance, net, end of period	\$ (3,660)	\$ 252,906	\$ 726,785	\$ 122,097
Obligated balance, net, end of period - by component:				
Unpaid obligations	\$ 15,562	\$ 598,592	\$ 812,820	\$ 127,846
Less: Uncollected customer payments from Federal sources,	(19,222)	(345,686)	(86,035)	(5,749)
Total unpaid obligated balance, net, end of period	\$ (3,660)	\$ 252,906	\$ 726,785	\$ 122,097
Net Outlays:				
Net Outlays				
Gross outlays	\$ 145,175	\$ 1,459,881	\$ 1,395,633	\$ 218,389
Less: Offsetting collections	(36,294)	(1,244,408)	(1,293,469)	(3,575)
Less: Distributed Offsetting receipts	-	-	-	-
Net Outlays(Receipts)	\$ 108,881	\$ 215,473	\$ 102,164	\$ 214,814

**Combining Statement of Budgetary Resources
For the Year Ended September 30, 2006
(dollars in thousands)**

Compact of Free Association	Office of the Special Trustee	Damage Assessment and Restoration	Tribal Special and Trust Fund	Payments in Lieu of Taxes	Other Budgetary Accounts	Total Budgetary Accounts
\$ 15,168	\$ 16,261	\$ 194,896	\$ 80,404	\$ 565	\$ 34,937	\$ 1,342,301
39,399	11,721	1,175	-	205	6,185	70,687
205,124	226,107	81,808	71,017	236,000	163,520	1,316,024
16,141	5,250	-	-	-	20,860	2,920,998
(3,201)	(576)	-	-	-	(3,937)	10,890
-	-	-	-	-	509	(300,491)
5,061	(2,207)	-	-	-	1,747	(109,205)
223,125	228,574	81,808	71,017	236,000	182,699	3,838,216
-	3,000	(4,973)	-	-	(9,376)	(11,441)
(49)	(3,327)	(61)	-	(3,602)	(4,924)	(16,856)
\$ 277,643	\$ 256,229	\$ 272,845	\$ 151,421	\$ 233,168	\$ 209,521	\$ 5,222,907
\$ 240,209	\$ 232,250	\$ 27,704	\$ 52,283	\$ 232,337	\$ 165,437	\$ 1,279,324
18,001	3,385	-	-	-	16,803	2,862,489
258,210	235,635	27,704	52,283	232,337	182,240	4,141,813
19,433	20,594	245,141	99,138	161	24,258	1,072,731
-	-	-	-	670	3,023	8,363
\$ 277,643	\$ 256,229	\$ 272,845	\$ 151,421	\$ 233,168	\$ 209,521	\$ 5,222,907
\$ 112,582	\$ 78,314	\$ 11,877	\$ -	\$ 242	\$ 80,986	\$ 1,916,497
(18,183)	(5,703)	-	-	-	(9,240)	(585,020)
94,399	72,611	11,877	-	242	71,746	1,331,477
258,210	235,635	27,704	52,283	232,337	182,240	4,141,813
(186,887)	(240,141)	(30,194)	(52,283)	(232,346)	(207,720)	(4,168,649)
(39,399)	(11,721)	(1,175)	-	(205)	(6,185)	(70,687)
(1,860)	2,783	-	-	-	2,190	98,315
\$ 124,463	\$ 59,167	\$ 8,212	\$ -	\$ 28	\$ 42,271	\$ 1,332,269
\$ 144,507	\$ 62,087	\$ 8,212	\$ -	\$ 28	\$ 49,320	\$ 1,818,974
(20,044)	(2,920)	-	-	-	(7,049)	(486,705)
\$ 124,463	\$ 59,167	\$ 8,212	\$ -	\$ 28	\$ 42,271	\$ 1,332,269
\$ 186,887	\$ 240,141	\$ 30,194	\$ 52,283	\$ 232,346	\$ 207,720	\$ 4,168,649
(16,141)	(5,250)	-	-	-	(21,369)	(2,620,506)
-	-	(75,731)	(71,017)	-	(23,770)	(170,518)
\$ 170,746	\$ 234,891	\$ (45,537)	\$ (18,734)	\$ 232,346	\$ 162,581	\$ 1,377,625

Required Supplementary Information

STEWARDSHIP ASSETS AND INVESTMENTS

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

STEWARDSHIP LANDS

Land is defined as the solid part of the surface of the earth and excludes natural resources (that is, depletable resources and renewable resources) related to the land. Based on this definition, Stewardship Land is considered to be in acceptable condition unless an environmental contamination and/or liability is identified and/or the land cannot be used for its intended purpose(s).

Utah Reclamation Mitigation & Conservation Commission

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

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

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

FEDERAL ACRES NUMBER OF UNITS					Condition	
Primary Land Management Categories	FY 2006	Additions	Withdrawals	FY 2007	Acceptable	Needs Intervention
Commission Land - Utah	1	-	-	1	100%	

The condition of Stewardship lands are defined as follows:

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

HERITAGE ASSETS

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

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

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

Museum Collections

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

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

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

Museum Property

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

Accomplishments

- Instituted the first annual Rachel Carson Lecture as a joint venture between the program areas of the Cultural Resources Division. The program was developed and implemented in cooperation with the Fish and Wildlife Service, the University of Maryland-Baltimore, and the Carnegie Institute of Washington, DC.
- Participated in the planning and implementing of Earth Day activities. This program involved multiple DOI Bureaus and offices, as well as the General Services Administration.
- Hosted DOI's Annual Environmental Achievement Awards Ceremony and developed an exhibition on the 2006 winning projects.

Required Supplementary Information

- Hosted the Secretary of the Interior's Native American Grave Repatriation Act Advisory Board for a special showing of the Reinventing Tradition exhibition.
- Cosponsored the American Indian Influence in Fashion program with the Indian Craft Shop and DC Style Magazine. This program highlighted the contributions of Native Americans to haute couture and commercial fashion.

The following chart provides the activity and condition of the collection for FY 2007.

(Museum) Collectible Heritage Assets							
<i>(in units)</i>							
Museum Collections	FY 2006	Additions	Withdrawals	FY 2007	Condition		
					Good	Fair	Poor
Departmental Museum	1	0	0	1		100%	
Indian Arts and Crafts Board	3	0	0	3	100%		
Office of the Special Trustee for American Indians	1	0	0	1	100%		
Total	5	0	0	5			

The conditions of the museum collections are defined as follows:

- Good—Minor damage and no active deterioration.
- Fair—Some damage and/or active deterioration.
- Poor—Significant damage and/or active deterioration.

Indian Arts and Crafts Board

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

Each of the IACB three museum collections is adequately safeguarded. Conservation and fire protection surveys have been completed at each location. Two of the three IACB museums completed conditions of assets surveys during FY 2004. Due to budget constraints caused by operation under a series of continuing resolutions, the MPI is without a curator to perform a conditions survey. In accordance with 411 DM 3.4A, the IACB may acquire work for the museum collections through donations, purchase, transfer, or field collection. As the IACB does not have deaccession authority, withdrawals from the collection are only made to comply with statutory requirements of the Native American Graves Protection and Repatriation Act or other legislation.

Accomplishments

- The SPIM and SIM loaned several examples of Indian apparel to the Department of the Interior Museum, Washington, DC, for its exhibition *Reinventing Tradition: American Indian Design in Contemporary Clothing*, which opened in April 2007. SPIM also loaned several examples of Apache craftwork to the Fort Sill Apache Tribal Museum, Apache, Oklahoma.

- MPI loaned items from a well-known Montana painter to the C.M Russell Museum, Great Falls, Montana; a variety of Northern Plains cultural items to the U.S. Department of Agriculture's Lewis and Clark National Historic Interpretive Center, Great Falls, Montana; and continued its loans of paintings to the Hockaday Museum, Kalispell, Montana, and cultural items to the Buffalo Bill Historic Center, Cody, Wyoming.
- SIM loaned several Sioux Indian cultural items to the Journey, Rapid City, South Dakota, for use in its special exhibition gallery, and continued its loans of Sioux Indian cultural items to the Rushmore Civic Center and to the City of Rapid City, South Dakota.

Office of the Special Trustee for American Indians

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

Accomplishments

Goals—Maintain accountability and updated inventory listing of art and museum property.

- Verify the presence and condition of museum property located at all custodial locations.
- Actively pursue preventative conservation and protection of OST art and artifacts.
- Complete 100 percent of physical inventory.
- Reconcile all artifacts against requisitions and purchase.
- Establish illustrated OST art and artifacts museum items directory.

FY 2007 goals have been completed.

Library Collection

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

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

Accomplishments

Required Supplementary Information

- Implemented Retrospective Conversion Project—Ongoing project will allow newly created electronic records for all DOI Library materials housed in the collection (including those from prior to 1975) to be able to be retrieved via the Library's online catalog, accessible through the DOI Library Web site <<http://library.doi.gov>>.
- Online Database Access— Added access to online databases accessible through the DOI Library website for the entire Minerals Management Service and entire Office of Surface Mining, Reclamation & Enforcement.
- Digitization of Library Materials—Worked with the William S. Hein Company on a project to digitize the Library's collection of the *Decisions of the Department of the Interior*, the *Annual Reports of the Commissioner of Indian Affairs*, and *Cohen's Guide to Federal Indian Law* and make them available to DOI personnel via the HeinOnline database. Currently, the Interior Decisions are available on HeinOnline, with the other titles soon to follow.
- Streamlining Book and Subscription Order Process—The Library worked with NBC's Fiscal Services Office in Denver to create a method to expedite the fund obligation process. By scanning and e-mailing obligation requests to the OS Payments office in Denver, fund obligations are now being approved within a few days of the initial request, instead of 2 to 3 weeks.
- DOI University Display Case in Cafeteria—Helped create and install DOI University display case in the cafeteria, creating slides for presentation and working with DOI facilities staff to make sure all specifications for the case were met.
- Coordination of DOI Library Services—Visited the FWS Library in Shepherdstown, WV; the USGS Library in Reston, VA; and the BLM and Bureau of Reclamation Libraries in Denver, CO, to discuss a possible retreat/summit of library directors in the fall and discuss collaborative efforts on the use of and access to online databases, reference resources, and a look at collection development policies.
- Attendance and Presence at American Library Association and Special Library Association Conferences Networking with vendors and other libraries seeking ways to improve library services and learn from other libraries with regards to projects such as digitization of materials and attending programs on improving library services.
- Membership and Participation in FLICC Functions—As a member of the permanent Federal Library and Information Center Committee council and a member of FLICC's Training and Education Working Group have attended, promoted, and participated in programs on the future of Federal libraries and librarianship, enhancing the standing of the DOI Library within the organization. Coordinator of Library Services George Franchois participated as a speaker in a pre-ALA conference, FLICC-sponsored program "Careers in Federal Libraries," broadcast over the Internet to library schools throughout the country, offering advice on obtaining a position in a Federal library.

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

(Library) Collectible Heritage Assets							
<i>(in units)</i>							
Library Collections	FY 2006	Additions	Withdrawals	FY 2007	Condition		
					Good	Fair	Poor
Departmental Library	1	0	0	1		100%	

The conditions of the library collections are defined as follows:

- Good: Minor damage and no active deterioration.
- Fair: Some damage and/or active deterioration.
- Poor: Significant damage and/or active deterioration.

Please note that the table above refers only to the condition of the Library collection. There are currently very few environmental controls over the facility, which subjects the Library to possibly unstable temperature and humidity levels that could damage the collection. The Library also has to endure water seepage through the exterior walls and building foundation on Deck 1 (the lowest level) of the facility, putting part of the collection in jeopardy.

New standards used to judge the environmental condition of Departmental libraries were put into place in the second quarter of FY 2007. These standards, adopted from the National Information Standards Organization's *Environmental Guidelines for the Storage of Paper Records* (NISO TR01-1995, ISSN: 1081-8006), have long been held as the environmental standards libraries should adhere to in order to insure the future viability of their collections. Standards with regards to temperature levels, humidity levels, exposure to ultraviolet light, exposure to gaseous contaminants, and air particulate levels are to be measured in order to assess the environmental condition of libraries.

Overall library environmental ratings of Good, Fair, Poor, and/or Unknown should be based on the following:

- Good: Achieves all of the above standards for temperature/humidity, exposure to light, gaseous contaminants, and particulates at the good or fair levels.
- Fair: Achieves two or more of the four standards at the good or fair levels.
- Poor: Achieves less than two of the four standards at the good or fair levels.
- Unknown: Environmental assessment not conducted (may be reported for no more than two years). This category is to be used until a study has been completed and results received in writing.

	Temperature and Humidity	Light	Gaseous Contaminants	Particulates
Departmental Library	Fair	Good	Unknown	Unknown

The results of the Department of the Interior's environmental assessment for the 4th quarter of FY 2007 indicate the overall library environmental rating of fair.

Deferred Maintenance

The DO do not have any deferred maintenance as of the end of FY 2007. The URMCC does report acreage in the "Needs Intervention" category. However, the project to improve the land has not been deferred, but in fact, is in progress. Since the collections will continue to be maintained in their current existing status, there is no deferred maintenance plan at this time.

This page left intentionally blank.

A close-up photograph of a hand holding a small, house-shaped structure. The structure is built from Euro banknotes, with a blue 5 Euro note forming the roof and orange 10 Euro notes forming the walls. The background is a soft, out-of-focus light. The text is overlaid on the right side of the image.

**U.S. Department of the Interior
Departmental Offices**

**Required Supplementary
Stewardship Information**
(See Accompanying Independent Auditors' Report)
As of September 30, 2007

This page left intentionally blank.

INVESTMENTS IN NON-FEDERAL PHYSICAL PROPERTY

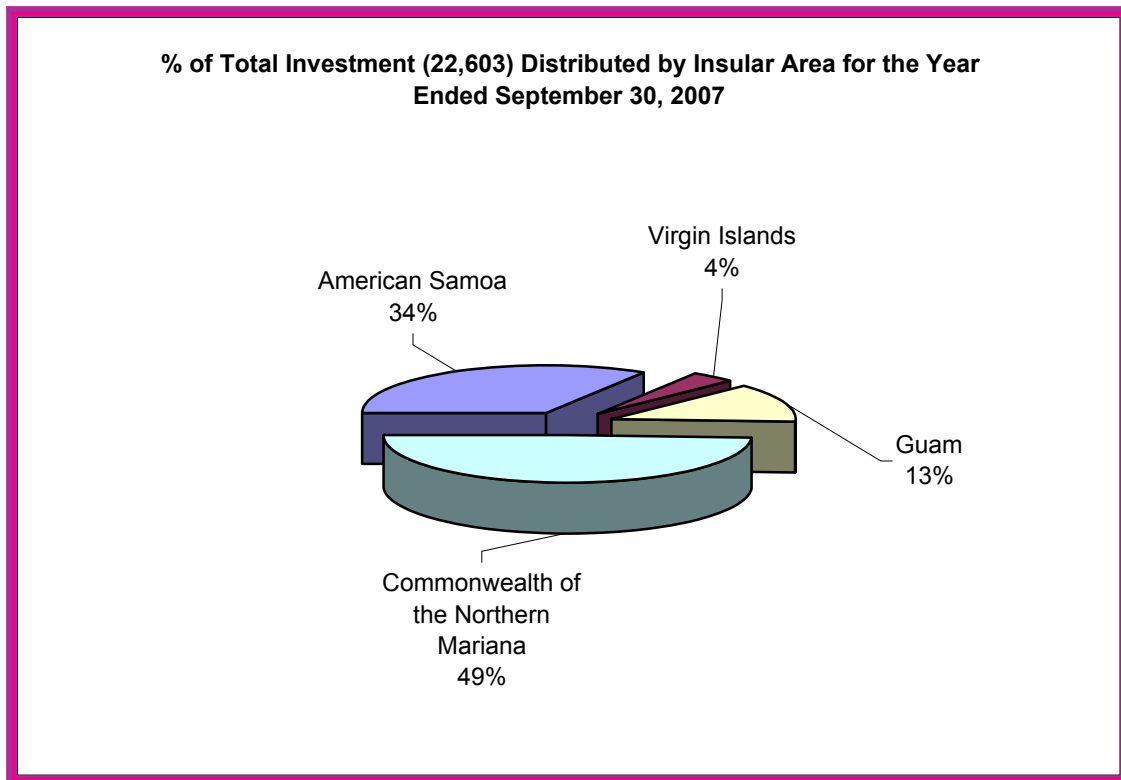
Office of Insular Affairs

The Office of Insular Affairs is a small office which carries out the Secretary's responsibilities for U.S.-affiliated insular areas. These include the territories of Guam, American Samoa, the U.S. Virgin Islands, and the Commonwealth of the Northern Mariana Islands, as well as the three freely associated states: the Federated States of Micronesia, the Republic of the Marshall Islands, and the Republic of Palau. OIA will achieve its mission by improving the financial management practices of insular governments, increasing economic development, and increasing Federal responsiveness to the unique needs of island communities. OIA hopes to increase the resources available to the insular area governments while promoting economic self-sufficiency. The total OIA budget requested for fiscal year 2008 is \$403.8 million, of which all but \$50.1 million is mandatory funding.

The OIA provides capital improvement grants to the insular areas. The capital investment in non-Federal physical property in the territories was approximately \$22.6 million in FY 2007. Capital Investment funds provided to the freely associated states: the Federated States of Micronesia, the Republic of the Marshall Islands, and the Republic of Palau are not included in this report.¹

Figure 5-1 depicts total investment distributed by insular area. Figure 5-2 shows capital investment dollars by major activity for each of the insular areas for FY 2007. Figure 5-3 compares investment dollars for fiscal years 2003 through 2007.

FIGURE 5-1
(dollars in thousands)



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

FIGURE 5-2
(dollars in thousands)

CAPITAL INVESTMENT BY MAJOR ACTIVITY WITHIN INSULAR AREA				
Categories	American Samoa	Commonwealth of the Northern Mariana Islands	Guam	Virgin Islands
Roads and Bridges	\$ 278	\$ 1,346	\$ 49	\$ -
Schools and Public Buildings	6,071	3,735	1,014	619
Other	1,293	6,043	1,891	264
Total	\$ 7,642	\$ 11,124	\$ 2,954	\$ 883

Classification of the Categories

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

FIGURE 5-3
(dollars in thousands)

American Samoa						
Categories	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	Total
Dams and Other Water Structures	\$ 3,194	\$ 4,574	\$ -	\$ -	\$ -	\$ 7,768
Roads and Bridges	46	377	64	331	278	1,096
Schools and Public Buildings	5,091	2,148	4,643	3,943	6,071	21,896
Other	-	-	2,385	3,057	1,293	6,735
Total American Samoa	\$ 8,331	\$ 7,099	\$ 7,092	\$ 7,331	\$ 7,642	\$ 37,495

Commonwealth of the Northern Mariana Islands						
Categories	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	Total
Dams and Other Water Structures	\$ 7,492	\$ 2,914	\$ -	\$ -	\$ -	\$ 10,406
Roads and Bridges	346	1,076	447	769	1,346	3,984
Schools and Public Buildings	6,941	5,619	5,111	8,469	3,735	29,875
Other	1,124	735	9,535	12,330	6,043	29,767
Total Commonwealth of the Northern Mariana Islands	\$ 15,903	\$ 10,344	\$ 15,093	\$ 21,568	\$ 11,124	\$ 74,032

Guam						
Categories	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	Total
Dams and Other Water Structures	\$ 2,705	\$ 699	\$ -	\$ -	\$ -	\$ 3,404
Roads and Bridges	-	-	-	115	49	164
Schools and Public Buildings	2,101	3,207	2,096	1,205	1,014	9,623
Other	-	-	1,988	506	1,891	4,385
Total Guam	\$ 4,806	\$ 3,906	\$ 4,084	\$ 1,826	\$ 2,954	\$ 17,576

U.S. Virgin Islands						
Categories	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	Total
Dams and Other Water Structures	\$ 511	\$ 2,659	\$ -	\$ -	\$ -	\$ 3,170
Schools and Public Buildings	1,369	539	889	102	619	3,518
Other	-	-	1,231	3,448	264	4,943
Total U.S. Virgin Islands	\$ 1,880	\$ 3,198	\$ 2,120	\$ 3,550	\$ 883	\$ 11,631

Insular Area Capital Investments						
Categories	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	Total
Dams and Other Water Structures	\$ 13,902	\$ 10,846	\$ -	\$ -	\$ -	\$ 24,748
Roads and Bridges	392	1,453	511	1,215	1,673	5,244
Schools and Public Buildings	15,502	11,513	12,739	13,719	11,439	64,912
Other	1,124	735	15,139	19,341	9,491	45,830
Total Insular Area Capital Investments	\$ 30,920	\$ 24,547	\$ 28,389	\$ 34,275	\$ 22,603	\$ 140,734

Utah Reclamation Mitigation & Conservation Commission

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

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

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

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

FIGURE 5-4

Non-Federal Physical Property						
Description	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	Total
Dams and Other Water Structures						
Duchesne Strawberry Diversion Structures - Sec. 203(a)(5)	\$ 380	\$ 70	\$ 712	\$ 367	\$ 10	\$ 1,539
Land						
Wetlands Around Great Salt Lake - Sec. 306(a)	240	62	-	-	118	420
Schools and Public Buildings						
Fish Hatchery Production - Sec. 313(c)	158	112	504	4,121	2,055	6,950
Total Non-Federal Physical Property	\$ 778	\$ 244	\$ 1,216	\$ 4,488	\$ 2,183	\$ 8,909

(dollars in thousands)

INVESTMENTS IN RESEARCH AND DEVELOPMENT

Central Utah Project Completion Act

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

In addition, Sec 204 of Public Law 102-575 requires the Central Utah Water Conservancy District to share the costs of the measures in sections 202 and 203 with non-Federal funds, with the exception of the Provo River Studies (Sec 202(a)(6)).

The following R&D activities are authorized by CUPCA:

Conjunctive Use of Surface and Ground Water—Sec 202 (a) (1)

Purpose: Feasibility Study and development by the Utah Division of Water Resources in coordination with the Jordan Valley Water Conservancy District to allow groundwater recharge, management, and the conjunctive use of surface water resources with ground water resources in Salt Lake, Utah, Davis, Wasatch, and Weber Counties in the State of Utah.

Cost Share Percentage required: 35 percent.

Utah Lake Salinity Control—Sec 202 (a) (4)

Purpose: Feasibility study by the District to reduce the salinity of Utah Lake.

Cost Share Percentage required: 50 percent.

Provo River Studies—Sec 202 (a) (5)

Purpose: The District conducted a hydrologic study of the Provo River Basin and a feasibility study of direct delivery of Colorado River Basin water from the Strawberry Reservoir or elsewhere in the Strawberry Collection System to the Provo River Basin.

Cost Share Percentage required: NONE

Local Development in Lieu of Irrigation and Drainage—Sec 206 (b)

Purpose: The Secretary provides as a grant to an eligible county an amount that shall constitute 65 percent of the cost of implementation of any of the following purposes: potable water distribution and treatment, wastewater collection and treatment, agriculture water management.

Cost Share Percentage required: 35 percent.

Section 206 of CUPCA, known as the Local Development Option, provided the option for eligible counties within the area of the Central

Utah Water Conservancy District to withdraw from the CUP, but not from the CUWCD, and to request a rebate of their ad valorem tax contributions paid by each county to the CUWCD, with interest, less any value of any benefits received by the county and any administrative expenses incurred by CUWCD. The counties would cost share in any projects approved at a rate of 35 percent. The counties of Garfield, Sanpete, and Piute requested to withdraw from the CUP and to participate in the Local Development Option.

The counties submitted grant applications, which were approved by CUWCD and the Department of the Interior. At present, the counties received \$7,451,068 in Federal funds and have cost shared amounts of \$4,010,959.

The program funded 28 projects, which have been enthusiastically received by the counties, and have been highly successful. Some of the projects that have been funded are: study and identification of countywide water resource needs; replacement of open canals and ditches with pipelines; development of secondary water systems; development of springs and wells; replacement of aged diversion structures; and improvement to existing culinary water systems.

As an example, the M&M Irrigation project received \$650,000 of Federal funds to pipe 7.5 miles of a meandering canal. The M&M Irrigation Company provides water to farms and the town of Manti. The piping of the canal allowed for improved operations, safety, and conserves 1,200 acre-feet of water annually that was previously lost to seepage. This is a significant amount of water in an area that has been dealing with drought conditions over the past several years.

Another example is the Antimony Town Culinary Water System Improvements Project. Under this project \$195,000 of Federal funds were provided to construct a new water storage tank, rehabilitate the existing tank, redevelop a spring, and upgrade the water transmission system. The town had been suffering for several years with an insufficient water supply and low water pressure. With the new improvements, Antimony Town now enjoys an adequate water supply.

Water Management Improvement Sec 207 (e) (1)

Purpose: To conduct a study of wholesale and retail pricing to encourage water conservation and a study of the coordinated operations of independent municipal and industrial and irrigation and water systems.
 Cost Share Percentage required: 50 percent.

Conservation Measures Sec 207 (4) (2)

Purpose: implementation of the conservation measures in accordance with the Water Management Improvement Plan identified in Sec 207 (b).
 Cost Share Percentage required: 35 percent.

Mitigation & Conservation Measures Sec 314 (c)

Purpose: To provide mitigation and conservation measures outside the State of Utah by restoring damaged natural ecosystems on public lands and waterways affected by the Federal Reclamation program.
 Cost Share Percentage required: NONE

FIGURE 5-5
 (dollars in thousands)

Central Utah Project Completion Act (CUPCA)						
Category	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	Total
Total Applied Research	\$ 7,404	\$ 5,803	\$ 1,928	\$ 5,804	\$ 3,253	\$ 24,192

Utah Reclamation Mitigation & Conservation Commission

In order to provide for the completion of the Central Utah Project, Public Law 102-575, the Central Utah Project Completion Act, was enacted on October 30, 1992. In particular, Sec 301 (a)(1) of Public Law 102-575 establishes the Utah Reclamation Mitigation and

Required Supplementary Stewardship Information

Conservation Commission. The Commission’s mission is to replace or offset the loss in Utah of fish and wildlife resources and related recreational opportunities caused by the acquisition, construction, and operation of Bureau of Reclamation project assets (dams, power plants, roads, pipelines, aqueducts, operation and maintenance buildings, visitor centers, etc.). The Commission’s program is separate and distinct from acquisition and construction of Reclamation Property, Plant, and Equipment. Even if the fish and wildlife mitigation is achieved in the immediate vicinity of the project asset, land acquired and investments made in order to mitigate for the loss of fish and wildlife resources caused by Reclamation project construction is not an essential or integral part of the dam, pipeline, and so forth, and is not “acquired for or in connection with the construction” of the project asset.

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

In FY 2007, the Commission’s research has focused primarily on the Sage Grouse and the June Sucker.

FIGURE 5-6
(dollars in thousands)

Utah Reclamation Mitigation and Conservation Commission						
Category	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	Total
Applied Research	\$ 70	\$ 94	\$ 157	\$ 193	\$ 238	\$ 752
Development	392	304	213	186	230	1,325
Total	\$ 462	\$ 398	\$ 370	\$ 379	\$ 468	\$ 2,077

Other Accompanying Information

Consolidating Balance Sheet As of September 30, 2007 (dollars in thousands)

	Working Capital Fund	Franchise Fund	Departmental Management
ASSETS			
Intragovernmental Assets:			
Fund Balance with Treasury	\$ 372,322	\$ 671,231	\$ 33,019
Investments, Net	-	-	-
Accounts and Interest Receivable	63,036	18,226	1,502
Other			
Advances and Prepayments	13,395	-	8,144
Total Intragovernmental Assets	\$ 448,753	\$ 689,457	\$ 42,665
Investments, Net	-	-	-
Accounts and Interest Receivable, Net	1,170	130	6,949
Loans and Interest Receivable, Net	-	-	-
Operating Materials and Supplies	1,006	-	-
General Property, Plant and Equipment, Net	128,514	-	37
Other			
Advances and Prepayments	4	-	10
TOTAL ASSETS	\$ 579,447	\$ 689,587	\$ 49,661
Stewardship Assets			
LIABILITIES			
Intragovernmental Liabilities:			
Accounts Payable	\$ 13,235	\$ 310	\$ 1,025
Debt	-	-	-
Other			
Accrued Payroll Benefits	1,794	166	2,498
Advances and Deferred Revenue (includes Deposit Fund)	218,202	546,891	(377)
Resources Payable to Treasury	-	-	-
Total Intragovernmental Liabilities	\$ 233,231	\$ 547,367	\$ 3,146
Accounts Payable	98,105	136,315	2,669
FECA Actuarial Liability	5,413	505	6,191
Accrued Payroll Benefits	4,413	935	5,100
Annual Leave Liability	7,740	-	14,643
Advances and Deferred Revenue	39	-	-
Capital Lease Liability	787	-	-
Deposit Fund Liability	-	-	5,325
Other Liabilities Not Specified Above	81	-	(2)
TOTAL LIABILITIES	\$ 349,809	\$ 685,122	\$ 37,072
Commitments and Contingencies			
Net Position			
Unexpended Appropriations - Earmarked	\$ -	\$ -	\$ -
Unexpended Appropriations - All Other	381	-	36,758
Total Unexpended Appropriations	381	-	36,758
Cumulative Results of Operations - Earmarked	-	-	249
Cumulative Results of Operations - All Other	229,257	4,465	(24,418)
Total Cumulative Results of Operations	229,257	4,465	(24,169)
Total Net Position	229,638	4,465	12,589
TOTAL LIABILITIES AND NET POSITION	\$ 579,447	\$ 689,587	\$ 49,661

Consolidating Balance Sheet
As of September 30, 2007
(dollars in thousands)

Environmental Activity	Services to Native Americans	Services to Insular Areas	Central Utah Project Completion Act	DO Eliminations	Total
\$ 64,908	\$ 76,955	\$ 280,693	\$ 15,453	\$ -	\$ 1,514,581
236,617	130,228	-	171,034	-	537,879
-	34	411	-	(563)	82,646
291	24,299	100	-	(43,659)	2,570
\$ 301,816	\$ 231,516	\$ 281,204	\$ 186,487	\$ (44,222)	\$ 2,137,676
-	163,324	-	-	-	163,324
19,413	9	-	-	-	27,671
-	-	843	-	-	843
-	-	-	-	-	1,006
348	15,118	-	311,507	-	455,524
-	10	-	9,197	-	9,221
\$ 321,577	\$ 409,977	\$ 282,047	\$ 507,191	\$ (44,222)	\$ 2,795,265
\$ 487	\$ 1,564	\$ 638	\$ 680	\$ (563)	\$ 17,376
-	-	12,215	-	-	12,215
93	1,102	49	20	-	5,722
-	65	-	-	(43,659)	721,122
-	-	-	226,151	-	226,151
\$ 580	\$ 2,731	\$ 12,902	\$ 226,851	\$ (44,222)	\$ 982,586
707	4,194	11,724	643	-	254,357
31	3,098	161	67	-	15,466
357	2,342	143	32	-	13,322
393	3,373	-	98	-	26,247
-	5,191	-	4	-	5,234
-	9	-	-	-	796
-	(65)	-	-	-	5,260
-	2	-	14,116	-	14,197
\$ 2,068	\$ 20,875	\$ 24,930	\$ 241,811	\$ (44,222)	\$ 1,317,465
\$ (7)	\$ -	\$ -	\$ 904	\$ -	\$ 897
24,801	81,239	268,668	10,811	-	422,658
24,794	81,239	268,668	11,715	-	423,555
290,557	2,741	-	186,529	-	480,076
4,158	305,122	(11,551)	67,136	-	574,169
294,715	307,863	(11,551)	253,665	-	1,054,245
319,509	389,102	257,117	265,380	-	1,477,800
\$ 321,577	\$ 409,977	\$ 282,047	\$ 507,191	\$ (44,222)	\$ 2,795,265

Other Accompanying Information

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

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

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

Environmental Activity	Services to Native Americans	Services to Insular Areas	Central Utah Project Completion Act	DO Eliminations	Total
\$ 19,434	\$ 79,934	\$ 285,167	\$ 24,474	\$ -	\$ 2,041,312
226,494	100,607	-	163,271	-	490,372
-	1,275	1,635	-	(4,158)	121,759
1,439	26,944	16	13	(57,236)	2,331
\$ 247,367	\$ 208,760	\$ 286,818	\$ 187,758	\$ (61,394)	\$ 2,655,774
-	187,048	-	-	-	187,048
26,406	15	-	-	-	40,747
-	-	3,375	-	-	3,375
-	-	-	-	-	852
17	4,493	-	288,163	-	387,528
-	19	-	2,143	-	2,180
\$ 273,790	\$ 400,335	\$ 290,193	\$ 478,064	\$ (61,394)	\$ 3,277,504
\$ 1,309	\$ 2,992	\$ 421	\$ 664	\$ (4,158)	\$ 8,410
-	-	17,512	-	-	17,512
28	1,000	48	21	-	5,309
-	63	-	-	(57,236)	1,218,018
-	-	-	235,221	-	235,221
-	-	-	3	-	3
\$ 1,337	\$ 4,055	\$ 17,981	\$ 235,909	\$ (61,394)	\$ 1,484,473
-	3,844	4,754	949	-	411,319
20	3,276	199	82	-	16,300
-	-	-	-	-	1,300
146	2,913	130	35	-	13,338
-	3,320	-	108	-	24,782
-	2,513	-	4	-	7,246
-	-	-	-	-	1,354
-	158	-	-	-	5,959
-	-	-	15,857	-	15,967
\$ 1,503	\$ 20,079	\$ 23,064	\$ 252,944	\$ (61,394)	\$ 1,982,038
\$ (8)	\$ -	\$ -	\$ 3,736	\$ -	\$ 3,728
4,992	87,411	281,105	4,123	-	414,401
4,984	87,411	281,105	7,859	-	418,129
264,944	4,392	-	184,195	-	453,744
2,359	288,453	(13,976)	33,066	-	423,593
267,303	292,845	(13,976)	217,261	-	877,337
272,287	380,256	267,129	225,120	-	1,295,466
\$ 273,790	\$ 400,335	\$ 290,193	\$ 478,064	\$ (61,394)	\$ 3,277,504

Working Capital Fund and Interior Franchise Fund

(dollars in thousands)

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

The Working Capital Fund provides a number of services to other DOI components and to other Federal agencies. Services include, but are not limited to, management of budget, procurement, personnel management, and finance and accounting services, building management, and aircraft services. The services are provided on a reimbursable basis. The Department of Defense is the major customer for the WCF, providing over 39 percent of WCF revenues. The Financial and Business Management System for DOI is accounted for in the WCF. For FY 2007, the WCF had FBMS-related transfers in/out of \$37,445 and unexpended appropriations of \$381. For 2006, the WCF had FBMS-related transfers in/out of \$26,700 and unexpended appropriations of \$713.

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

The IFF is a component of the DO and represents 25 percent of assets and 52 percent of liabilities on the FY 2007 consolidated balance sheet: 54 percent of the DO's total revenues on the FY 2007 consolidated statement of net cost and 28 percent of the DO's total budgetary resources on the FY 2007 combined statement of budgetary resources.

Working Capital Fund and Franchise Fund information by product line for the years ended September 30, 2007, and September 30, 2006, respectively, are shown below.

FY2007

Product Line	Full Cost of Goods and Services Provided	Related Exchange Revenues	Excess of Full Cost Over Exchange Revenue
Aircraft Services	\$ 167,810	\$ 172,395	\$ 4,585
Building Management/Rental	42,095	40,644	(1,451)
Charge Card Rebate	2,335	6,068	3,733
Federal Services	889,465	951,404	61,939
Financial and Business Management System	4,307	-	(4,307)
Interior Franchise Fund	1,099,922	1,102,380	2,458
Unallocated Eliminations*	(209,505)	(209,505)	-
Total	\$ 1,996,429	\$ 2,063,386	\$ 66,957

FY2006

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

* Unallocated eliminations are within the Departmental Offices appropriations to or within the Working Capital Fund.

This page left intentionally blank.



**U.S. Department of the Interior
Departmental Offices**

Independent Auditors' Report



United States Department of the Interior

OFFICE OF INSPECTOR GENERAL
Washington, DC 20240

JAN 28 2008

Memorandum

To: Assistant Secretary for Policy, Management and Budget

From: Kimberly Elmore *Kimberly Elmore*
Acting Assistant Inspector General for Audits

Subject: Independent Auditors' Report on the Departmental Offices Financial Statements for Fiscal Years 2007 and 2006 (Report No. X-IN-OSS-0014-2007)

INTRODUCTION

This memorandum transmits the KPMG LLP (KPMG) auditors' report of the Departmental Offices (DO) financial statements for fiscal years (FYs) 2007 and 2006. The Chief Financial Officers Act of 1990 (Public Law 101-576), as amended, requires the Inspector General or an independent auditor, as determined by the Inspector General, to audit the Department of the Interior (DOI) financial statements.

Under a contract issued by DOI and monitored by the Office of Inspector General (OIG), KPMG, an independent public accounting firm, performed an audit of the DO FY2007 and FY2006 financial statements. The contract required that the audit be performed in accordance with the "Government Auditing Standards" issued by the Comptroller General of the United States and Office of Management and Budget Bulletin No. 07-04, "Audit Requirements for Federal Financial Statements."

RESULTS OF INDEPENDENT AUDIT

In its audit report dated December 27, 2007 (Attachment 1), KPMG issued an unqualified opinion on the DO financial statements. However, KPMG identified eight significant deficiencies in internal controls over financial reporting, one of which was considered to be a material weakness. In addition, KPMG identified two instances in which DO did not comply with laws and regulations. KPMG made 29 recommendations that, if implemented, should resolve the findings.

STATUS OF RECOMMENDATIONS

In its January 3, 2008 response (Attachment 2) to the draft report, DO agreed with 9 of the 10 findings and 28 of the 29 recommendations. Based on DO's response, we will refer the unresolved recommendation to the Assistant Secretary for Policy, Management and Budget for

resolution and 27 unimplemented new recommendations for tracking of implementation (see Attachment 3, "Status of Audit Report Recommendations"). There is one repeat recommendation that is still unimplemented. Instead of referring it for tracking of implementation, we will ask the Assistant Secretary to continue tracking it under the prior report.

EVALUATION OF KPMG AUDIT PERFORMANCE

To ensure the quality of the audit work performed, the OIG:

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

KPMG is responsible for the attached auditors' report dated December 27, 2007, and the conclusions expressed in it. We do not express an opinion on DO financial statements nor on KPMG's conclusions regarding 1) effectiveness of internal controls, 2) compliance with laws and regulations, or 3) substantial compliance of DO financial management systems with the Federal Financial Management Improvement Act of 1996.

REPORT DISTRIBUTION

The legislation, as amended, creating the OIG requires semiannual reporting to the Congress on all audit reports issued, actions taken to implement audit recommendations, and recommendations that have not been implemented. Therefore, we will include the information in the attachment in our next semiannual report. The distribution of the report is not restricted, and copies are available for public inspection.

We appreciate the cooperation and assistance of DO personnel during the audit. If you have any questions regarding the report, please contact Jeff Carlson at 202-208-5724.

Attachments (3)

cc: Director, Office of Financial Management
Associate Director, Office of Financial Management
Audit Liaison Officer, Office of Financial Management



KPMG LLP
2001 M Street, NW
Washington, DC 20036

Independent Auditors' Report

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

We have audited the accompanying consolidated balance sheets of the Departmental Offices, a component of the U.S. Department of the Interior (Interior), as of September 30, 2007 and 2006, and the related consolidated statements of net cost, changes in net position, and combined statements of budgetary resources (hereinafter referred to as "financial statements") for the years then ended. The objective of our audits was to express an opinion on the fair presentation of these financial statements. In connection with our fiscal year 2007 audit, we also considered Departmental Offices' internal controls over financial reporting and performance measures and tested Departmental Offices' compliance with certain provisions of applicable laws, regulations, contracts, and grant agreements that could have a direct and material effect on these financial statements.

SUMMARY

As stated in our opinion on the financial statements, we concluded that Departmental Offices' financial statements as of and for the years ended September 30, 2007 and 2006, are presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles.

As discussed in our opinion, Departmental Offices changed its method of accounting for and reporting of the reconciliation net cost of operations to budget and allocation transfers to adopt changes in accounting standards and Office of Management and Budget (OMB) requirements.

Our consideration of internal control over financial reporting resulted in the following conditions being identified as significant deficiencies:

Significant Deficiency Considered to be a Material Weakness

A. Controls over Undelivered Orders

Other Significant Deficiencies

- B. General and Application Controls over Financial Management Systems
- C. Segregation of Responsibilities over Journal Entries
- D. Controls over Accruals
- E. Controls over Charge Cards
- F. Controls over Indian Trust Funds
- G. Controls over Unfilled Customer Orders
- H. Monitoring Grants

We did not note any deficiencies involving the design of the internal control over the existence and completeness assertions related to key performance measures.



The results of our tests of compliance with certain provisions of laws, regulations, contracts, and grant agreements disclosed the following instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, issued by the Comptroller General of the United States, and OMB Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*.

I. *Single Audit Act Amendments of 1996*

J. *Federal Financial Management Improvement Act of 1996*

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

OPINION ON THE FINANCIAL STATEMENTS

We have audited the accompanying consolidated balance sheets of the Departmental Offices as of September 30, 2007 and 2006, and the related consolidated statements of net cost, changes in net position, and the combined statements of budgetary resources for the years then ended.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Departmental Offices as of September 30, 2007 and 2006, and its net costs, changes in net position, and budgetary resources for the years then ended, in conformity with U.S. generally accepted accounting principles.

As discussed in Note 23 to the financial statements, Departmental Offices changed its method of reporting the reconciliation net cost of operations to budget in fiscal year 2007. Also as discussed in Note 27 to the financial statements, Departmental Offices changed its method of accounting for and reporting allocation transfers in fiscal year 2007 to adopt the new OMB requirements.

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

Our audits were conducted for the purpose of forming an opinion on the financial statements taken as a whole. The September 30, 2007 and 2006 consolidating balance sheet information in the Other Accompanying Information Section is presented for purposes of additional analysis of the financial statements rather than to present the financial position of Departmental Offices' components individually. The September 30, 2007 and 2006 working capital fund information in the Other Accompanying Information section is presented for purposes of additional analysis and are not required as part of the financial statements. The September 30, 2007 and 2006 consolidating balance sheet information and working capital information have been subjected to the auditing procedures applied in the audits of the consolidated financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the consolidated financial statements taken as a whole.



INTERNAL CONTROL OVER FINANCIAL REPORTING

Our consideration of the internal control over financial reporting was for the limited purpose described in the Responsibilities section of this report and would not necessarily identify all deficiencies in the internal control over financial reporting that might be significant deficiencies or material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Departmental Offices' ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of Departmental Offices' financial statements that is more than inconsequential will not be prevented or detected by Departmental Offices' internal control over financial reporting. A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by Departmental Offices' internal control.

In our fiscal year 2007 audit, we consider the deficiencies, described below, to be significant deficiencies in internal control over financial reporting. However, of the significant deficiencies described below, we believe that significant deficiency A is a material weakness. Exhibit I presents the status of prior year reportable conditions.

A. Controls over Undelivered Orders

Undelivered orders should be promptly recorded, properly classified, and accounted for in order to prepare timely and reliable reports. Departmental Offices did not consistently de-obligate funds timely resulting in an overstatement of undelivered orders of approximately \$26 million. Departmental Offices had undelivered order balances on contracts that ended and therefore should have been de-obligated for 10 of the 24 balances tested. In addition, Departmental Offices did not consistently modify orders that had expired or review and certify undelivered orders timely. Finally, Departmental Offices did not record 9 recoveries timely and 1 recovery correctly out of the 45 recoveries tested.

As a result of our observations, Departmental Offices analyzed and adjusted undelivered orders by \$80 million. Subsequent to management's analysis and adjustment, we identified 6 additional exceptions out of 281 items tested that resulted in an estimated misstatement of approximately \$4 million.

Recommendations

We recommend that Departmental Offices perform the following:

1. Improve its policies to require program and finance offices to investigate and resolve obligations that have not had recent activity and to de-obligate funds timely.
2. Provide training to program and finance offices on analyzing and closing out aged undelivered orders timely.
3. Monitor and close out as appropriate, undelivered orders with minimal to no activity during the past three months, on at least a quarterly basis.
4. Review and certify all undelivered orders on at least a quarterly basis.



5. Modify expired orders timely.
6. Require a second individual to compare a sample of the budgetary recoveries recorded in the accounting system to source documentation to verify that the recoveries are valid and document approval of recoveries on the source documentation.

Management Response

Management has prepared an official response presented as a separate attachment to this report. In summary, management agreed with our findings and its comments were responsive to our recommendations. We did not audit Departmental Offices' response and, accordingly, we express no opinion on it.

B. General and Application Controls over Financial Management Systems

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

We identified the following conditions:

1. *Entity-wide Security Program and Planning*
Departmental Offices had not certified and accredited one facility and did not fully document its certification and accreditation documentation for certain applications.
2. *Access Controls*
Departmental Offices did not formalize segregation of duties policies or document application-specific roles or access privileges that should be segregated for certain applications. Departmental Offices also did not formally document policies and procedures regarding the monitoring and revocation of inactive user accounts or regarding periodic recertification of user access for certain applications. Additionally, Departmental Offices did not appropriately limit certain administrator accounts, did not effectively restrict passwords for one of its applications, and granted certain users more than one account for an application.

In addition, Departmental Offices did not consistently complete the appropriate level of investigation for employees and contractors; review or document reviews of user access to ensure conflicting access rights are not granted; obtain and maintain rules of behavior forms or user access forms demonstrating that user access was appropriate and authorized; perform periodic reviews to ensure that all users are authorized and the level of access rights are commensurate with each user's responsibilities or consistently maintain evidence that such reviews were performed; identify and review changes to user account and security profiles; and monitor or remove inactive user accounts for certain applications and systems.

Furthermore, Departmental Offices did not consistently remove access of separated employees in a timely manner or consistently complete the appropriate exit procedures or maintain exit clearance documentation.



3. *System Software Controls*
Departmental Offices did not identify and monitor for inappropriate changes to certain systems and applications. Departmental Offices also did not consistently monitor activities performed by one of its administrators. Finally, Departmental Offices did not consistently document the approval for system software changes.
4. *Software Development and Change Controls*
Departmental Offices did not use library management software to control changes to one of its applications. Additionally, Departmental Offices' system configurations did not adequately segregate duties as the configurations provided individuals, who are involved with programming, testing and migrating changes to production, access to the source code, test, and production libraries. Although Departmental Offices has established additional password controls to mitigate this risk, the system did not identify individual users to prevent conflicting access.
5. *Service Continuity*
Departmental Offices did not have a finalized, approved and tested contingency plan to be used in the event of service disruption for certain applications. In addition, Departmental Offices did not have a comprehensive plan to train all essential employees on emergency responsibilities outlined within the critical system and application contingency plans. Additionally, Departmental Offices needs to improve the process to track and report service interruptions for one of its applications. Furthermore, Departmental Offices did not fully establish environmental controls for one of its server rooms.

Departmental Offices personnel involved with media sanitization were not aware of policies and procedures. Additionally, Departmental Offices needs to improve its tape sanitization process. Finally, Departmental Offices did not maintain evidence that backup tapes were completed, did not use a tape library log to track backup tapes or store backup tapes off-site for one location, and did not test backup tapes for several applications.

Recommendations

We recommend that Departmental Offices continue to improve the security and general controls over its financial information systems to ensure adequate security and protection of the information systems as follows:

1. Certify and accredit its facilities and fully document its certifications and accreditations.
2. Develop and finalize access control policies, restrict access, improve password controls, review and approve user access, maintain access documentation, remove access of separated employees timely, and complete the appropriate exit procedures.
3. Identify and monitor for inappropriate changes to systems and applications, monitor activities performed by administrators, and document the approval for system software changes
4. Use library management software to control software changes and fully segregate duties for software development and changes.
5. Finalize, approve and test contingency plans and related training plans, track and report service interruptions, fully establish environmental controls, communicate and follow media sanitation policies, and control and test back up tapes.

**Management Response**

Management has prepared an official response presented as a separate attachment to this report. In summary, management agreed with our findings and its comments were responsive to our recommendations. We did not audit Departmental Offices' response and, accordingly, we express no opinion on it.

C. Segregation of Responsibilities over Journal Entries

Segregation of responsibilities is the practice of dividing the steps in a critical function among different individuals to prevent and detect errors and to prevent a single individual from subverting a critical process. Departmental Offices did not properly segregate responsibilities over journal entries because certain individuals have the authority to prepare, enter, and approve journal entries in certain financial systems.

Recommendation

We recommend that Departmental Offices segregate the responsibilities of preparing, entering, and approving journal entries. If this is not possible, we recommend that Departmental Offices require an individual who does not have access to enter or approve journal entries to compare the journal entries recorded in the financial systems to the approved journal entries to ensure that all journal entries have been approved and were properly entered into the financial system, and document evidence of completion of the comparison.

Management Response

Management has prepared an official response presented as a separate attachment to this report. In summary, management agreed with our findings and its comments were responsive to our recommendation. We did not audit Departmental Offices' response and, accordingly, we express no opinion on it.

D. Controls over Accruals

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

Departmental Offices revised the Interior Franchise Fund accounts payable accrual methodology for fiscal year 2007 to improve the accuracy of the methodology and prepared an analysis using the revised methodology to demonstrate that the revised methodology was sufficiently accurate. However, Departmental Offices' analysis did not demonstrate that the revised methodology for fiscal year 2007 was sufficiently accurate because the revised accrual methodology indicated that estimated accounts payable would be overstated by approximately \$62 million.



Additionally, Departmental Offices did not document its review of the subsequent activity file used in validating the accounts payable accrual related to the National Business Center. Furthermore, the subsequent activity file used to calculate the National Business Center accounts payable accrual incorrectly included \$4 million of subsequent payments because Departmental Offices recorded incorrect periods of performance in the accounting system. Finally, Departmental Offices did not validate accrual methodologies for certain components.

As a result of our observations, Departmental Offices analyzed and adjusted its accrual methodology and subsequent activity reports.

Recommendations

We recommend that Departmental Offices perform the following:

1. Revise its accrual methodology when significant differences are identified.
2. Validate the accrual methodologies are accurate.
3. Document approval of the accrual methodologies.
4. Review the subsequent activity report to ensure the report is complete and document completion of review by approving the subsequent activity report.
5. Compare a sample of the periods of performance recorded in the accounting system to source documentation to verify that the periods of performance are proper and document the sample items tested.

Management Response

Management has prepared an official response presented as a separate attachment to this report. In summary, management agreed with our findings and its comments were responsive to our recommendations. We did not audit Departmental Offices' response and, accordingly, we express no opinion on it.

E. Controls over Charge Cards

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

However, Departmental Offices did not consistently follow these internal control procedures as we identified 13 exceptions in the 45 charge card statements that we tested. For example, cardholders and supervisors did not always sign and date the charge card statements, did not consistently sign and date the charge card statements in a timely manner, and did not consistently maintain charge card receipts to support the charges.

Recommendations

We recommend that Departmental Offices perform the following:

1. Continue to provide training to personnel on charge card procedures.
2. Require approving officials to be more diligent in monitoring and enforcing compliance with Interior's charge card policies.



Management Response

Management has prepared an official response presented as a separate attachment to this report. In summary, management agreed with our findings and its comments were responsive to our recommendations. We did not audit Departmental Offices' response and, accordingly, we express no opinion on it.

F. Controls over Indian Trust Funds

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

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

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

1. Trust Fund Balances

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

2. Individual Indian Monies Subsidiary Ledger

The control account for Individual Indian Monies (IIM) account holders represents the aggregate net balance of trust funds held on behalf of IIM account holders, house accounts, and suspense accounts as reflected in the detailed subsidiary ledger of IIM accounts (subsidiary ledger). The control account balance has historically not agreed to the sum of the balances from the subsidiary ledger, and it cannot be determined which balance, if either, is correct. The amount invested for IIM is based on the IIM control account balance. Consequently, the balance of funds invested for IIM account



holders may not be correct, which in turn would affect interest earnings. As of September 30, 2007, the aggregate sum of all balances included in the subsidiary ledger exceeded the control account by approximately \$6 million.

As of September 30, 2006, the subsidiary ledger contained negative account balances totaling approximately \$44 million (of which approximately \$164,000 was attributed to individual Indian accounts as of September 30, 2006). During fiscal year 2007, management adjusted the subsidiary ledger eliminating the negative account balances totaling approximately \$44 million (of which approximately \$113,000 was attributed to individual Indian accounts as of September 30, 2007); however, we were unable to conclude on the propriety of such adjustment.

3. *Special Deposit Accounts*

As of September 30, 2007 and 2006, there were approximately 13,000 and 22,000 special deposit accounts reflected in the subsidiary ledger with balances totaling approximately \$33 million and \$36 million, respectively. In accordance with Title 25 of the Code of Federal Regulations and as directed by IA, OST historically recorded receipts into special deposit accounts within the subsidiary ledger when the recipient trust fund account was unknown at the time of receipt. When IA identifies the trust fund account(s), OST transfers the amount from the special deposit account(s) to the designated trust fund account(s) in accordance with IA instructions. A significant number of special deposit accounts have remained inactive for the past several years and new special deposit accounts were established during fiscal year 2007 and 2006. As of September 30, 2007, a significant number of special deposit accounts represent historical balances and continue to require resolution.

4. *Undistributed Interest and Unusual Balances*

OST and/or IA had not been able to determine the proper recipients of undistributed interest related to Tribal Trust Funds of approximately \$2.0 million as of September 30, 2006. However, in prior years OST commissioned a report to assist in determining the recipients of these funds, and based on that report distributed the balance of these funds during fiscal year 2007. Additionally, OST and/or IA have not been able to determine the proper recipients of undistributed interest related to IIM of approximately \$3.8 million and \$3.6 million as of September 30, 2007 and 2006, respectively. Furthermore, there were Tribal Trust Funds accounts with negative cash balances totaling approximately \$721,000 as of September 30, 2007 and September 30, 2006, which continue to require resolution.

5. *Entering and Maintaining Trust Fund Information*

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

a. *Trust Fund Records*

IA did not consistently maintain ownership records for rights of way lease agreements on lands held in trust for the Indian Trust Funds because IA was unable to provide evidence of ownership for 38 of the 45 lease agreements tested. Additionally, IA did not consistently obtain appraisals from the Bureau of Land Management prior to entering into the lease agreements related to lands held in trust for the Indian Trust Funds. Finally, IA did not consistently follow its



policies contained in Part 53 of the Indian Affairs Manual because IA did not obtain and approve Forest Management Plans for 2 of 30 locations tested.

b. Distribution of Funds to OST

IA did not consistently sign the Trust Funds Receivable Worksheet prior to submitting funds to OST for 9 of the 115 items tested. In addition, IA did not consistently transfer funds to OST within 24 hours of the lease agreement approval for 15 of 115 items tested and within 24 hours of receipt for 3 of the 115 items tested in accordance with its policies. Finally, IA did not use the fastest means possible in forwarding funds to the lockbox in accordance with its policies for 5 of 115 items tested.

c. Accounts Receivable

IA had not fully developed and communicated standardized policies and procedures for establishing, tracking, and pursuing historical accounts receivable for the Indian Trust Funds. This resulted in inconsistent processes and increases the risk that amounts due to Indian Trust Funds are not identified and ultimately collected.

d. Probate Backlog

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

e. Supervised and Restricted Accounts

IA did not consistently perform reviews over active supervised accounts. Finally, although each of the regions that we visited had compiled a listing of active supervised accounts, the regions expended significant efforts generating the listing. IA has identified reports that list all active supervised accounts and needs to work with OST to ensure its timely distribution to the appropriate agency offices.

Recommendation

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

Management Response

Management has prepared an official response presented as a separate attachment to this report. In summary, management disagreed with the findings because management believes that its efforts to address internal control deficiencies in the Indian Trust Funds are substantially complete and that the auditors' report did not contain findings suggesting current operational control deficiencies. We did not audit Departmental Offices' response and, accordingly, we express no opinion on it.



Auditors' Response to Management's Response

As summarized above, we identified control deficiencies in the current year that adversely affect Departmental Offices' ability to initiate, authorize, record, process, and report Indian Trust Fund data reliably. Therefore, we continue to believe that the control deficiencies identified constitute a significant deficiency.

G. Controls over Unfilled Customer Orders

Unfilled customer orders should be promptly recorded, properly classified, and accounted for in order to prepare timely and reliable reports. Departmental Offices did not effectively review outstanding unfilled customer orders timely because 1 of the 33 unfilled customer orders tested should have been closed as the order had ended. In addition, Departmental Offices did not consistently modify orders that had expired. As a result of our observations, Departmental Offices analyzed unfilled customer orders and decreased unfilled customer orders by approximately \$13 million for orders that had ended.

Recommendations

We recommend that Departmental Offices perform the following:

1. Develop and issue policies requiring program and finance offices to review and investigate agreements that have not had activity during the fiscal year on a periodic basis.
2. Modify expired orders timely.
3. Monitor unfilled customer orders to provide targeted training to program and finance offices on analyzing and closing out agreements.

Management Response

Management has prepared an official response presented as a separate attachment to this report. In summary, management agreed with our findings and its comments were responsive to our recommendation. We did not audit Departmental Offices' response and, accordingly, we express no opinion on it.

H. Monitoring Grants

The Office of Insular Affairs (OIA), a component of Departmental Offices, is required to monitor its grantees in accordance with the *Single Audit Act Amendments of 1996*, and the related OMB Circular No. A-133, *Audits of States, Local Governments, and Non-Profit Organizations* (OMB Circular No. A-133). OIA needs to improve controls over grant monitoring. OIA did not obtain a Single Audit Report within nine months of the grantee's fiscal year-end for one of the seven grantees tested. In addition, OIA did not issue management decisions on audit findings within six months after receipt of the Single Audit Reports or ensure that the grantees completed appropriate and timely corrective action on such findings for all seven grantees tested. OIA also did not maintain documentation that OIA formally communicated the grant award name, grant number, catalog of federal domestic award number, and/or the list of applicable laws and regulations to the grantees for 31 of the 45 grant awards tested. Finally, OIA did not obtain the grantee's approval for 1 of 45 grant awards tested.



Recommendations

We recommend that Departmental Offices perform the following:

1. Coordinate with the cognizant agency to follow up on Single Audit Reports not received and consider the need to limit future grant awards until formal extensions are provided or the reports are received.
2. Issue management decisions on audit findings within six months after receipt of Single Audit reports and verify that grantees take appropriate and timely corrective action.
3. Issue letters to the grantees communicating the award name and number, the catalog of federal domestic number and title, award year, if the award is for research and development, and list of laws and regulations for grant awards that do not include any of this information.
4. Ensure that grants awards are authorized by the grantee.

Management Response

Management has prepared an official response presented as a separate attachment to this report. In summary, management agreed with our findings and its comments were responsive to our recommendation. We did not audit Departmental Offices' response and, accordingly, we express no opinion on it.

INTERNAL CONTROL OVER PERFORMANCE MEASURES

Our tests of internal control over performance measures, as described in the Responsibilities section of this report, disclosed no deficiencies involving the design of the internal control over the existence and completeness assertions related to key performance measures.

COMPLIANCE AND OTHER MATTERS

Our tests of compliance with certain provisions of laws, regulations, contracts, and grant agreements, as described in the Responsibilities section of this report, exclusive of those referred to in the *Federal Financial Management Improvement Act of 1996* (FFMIA), disclosed one instance of noncompliance or other matters that is required to be reported herein under *Government Auditing Standards* or OMB Bulletin No. 07-04, and is described below.

I. *Single Audit Act Amendments of 1996*

As discussed in the Internal Control over Financial Reporting section of this report, Departmental Offices did not perform adequate monitoring of grantees in accordance with the *Single Audit Act Amendments of 1996* and the related OMB Circular A-133. Departmental Offices needs to ensure that it communicates grant award information, obtains Single Audit Reports, and issues management decisions on audit findings in a timely manner.

Recommendation

We recommend that in fiscal year 2008, Departmental Offices work with OIA to communicate grant award information, obtain Single Audit Reports, and issue management decisions on audit findings in accordance with the requirements of the *Single Audit Act Amendments of 1996* and the related OMB Circular A-133.



Management Response

Management has prepared an official response presented as a separate attachment to this report. In summary, management agreed with our findings and its comments were responsive to our recommendation. We did not audit Departmental Offices' response and, accordingly, we express no opinion on it.

* * * * *

The results of our tests of compliance as described in the Responsibilities section of this report, exclusive of those referred to in FFMIA, disclosed no other instances of noncompliance or other matters that are required to be reported herein under *Government Auditing Standards* or OMB Bulletin No. 07-04.

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

J. Federal Financial Management Improvement Act of 1996

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

Recommendation

We recommend that in fiscal year 2008, Departmental Offices improve procedures and internal controls to ensure that the financial management systems comply with the Federal accounting standards.

Management Response

Management has prepared an official response presented as a separate attachment to this report. In summary, management agreed with our finding and its comments were responsive to our recommendation. We did not audit Departmental Offices' response and, accordingly, we express no opinion on it.

RESPONSIBILITIES

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



Management is responsible for the financial statements, including:

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

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

Auditors' Responsibilities. Our responsibility is to express an opinion on the fiscal year 2007 and 2006 financial statements of Departmental Offices based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Bulletin No. 07-04. Those standards and OMB Bulletin No. 07-04 require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Departmental Offices' internal control over financial reporting. Accordingly, we express no such opinion.

An audit also includes:

- Examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements;
- Assessing the accounting principles used and significant estimates made by management; and
- Evaluating the overall financial statement presentation.

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

In planning and performing our fiscal year 2007 audit, we considered Departmental Offices' internal control over financial reporting by obtaining an understanding of Departmental Offices' internal control, determining whether internal controls had been placed in operation, assessing control risk, and performing tests of controls as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements. We limited our internal control testing to those controls necessary to achieve the objectives described in *Government Auditing Standards* and OMB Bulletin No. 07-04. We did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*. The objective of our audit was not to express an opinion on the effectiveness of Departmental Offices' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Departmental Offices' internal control over financial reporting.



As required by OMB Bulletin No. 07-04 in our fiscal year 2007 audit, with respect to internal control related to performance measures determined by management to be key and reported in the Management's Discussion and Analysis section, we obtained an understanding of the design of internal controls relating to the existence and completeness assertions and determined whether these internal controls had been placed in operation. We limited our testing to those controls necessary to report deficiencies in the design of internal control over key performance measures in accordance with OMB Bulletin 07-04. However, our procedures were not designed to provide an opinion on internal control over reported performance measures and, accordingly, we do not provide an opinion thereon.

As part of obtaining reasonable assurance about whether Departmental Offices' fiscal year 2007 financial statements are free of material misstatement, we performed tests of Departmental Offices' compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of the financial statement amounts, and certain provisions of other laws and regulations specified in OMB Bulletin No. 07-04, including certain provisions referred to in FFMA. We limited our tests of compliance to the provisions described in the preceding sentence, and we did not test compliance with all laws, regulations, contracts, and grant agreements applicable to Departmental Offices. However, providing an opinion on compliance with laws, regulations, contracts, and grant agreements was not an objective of our audit and, accordingly, we do not express such an opinion.

Under OMB Bulletin No. 07-04 and FFMA, we are required to report whether financial management systems for executive departments and agencies subject to the *Chief Financial Officers Act of 1990* substantially comply with (1) Federal financial management systems requirements, (2) applicable Federal accounting standards, and (3) the United States Government Standard General Ledger at the transaction level. Although Departmental Offices is not required to report on FFMA, Departmental Offices has elected to report on FFMA. Therefore, we performed tests of compliance with FFMA Section 803(a) requirements.

We noted certain additional matters that we have reported to management of Departmental Offices in a separate letter.

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

KPMG LLP

December 27, 2007

Exhibit I

DEPARTMENTAL OFFICES

Status of Prior Year Findings

September 30, 2007

FY2006 Ref	Fiscal Year 2006 Condition	Status of Fiscal Year 2006 Findings
A	Trust funds	This condition has been partially corrected and is repeated in fiscal year 2007. See finding F.
D	General and Application Controls over Financial Management systems	This condition has not been corrected and is repeated in fiscal year 2007. See finding B.
E	Controls over Charge Cards	This condition has not been corrected and is repeated in fiscal year 2007. See finding E.
F	Controls over Spending Authority	This condition has been corrected.
G	Controls over Obligations	This condition has not been corrected and is repeated in fiscal year 2007. See finding A.
I	Controls over Accruals	This condition has not been corrected and is repeated in fiscal year 2007. See finding D.
J	Monitoring Grants	This condition has not been corrected and is repeated in fiscal year 2007. See finding H.
K	Potential Non-compliance with the Anti-Deficiency Act, Procurement Regulations, and Leasing Regulations	This condition has been corrected.
L	Single Audit Act Amendment of 1996	This condition has not been corrected and is repeated in fiscal year 2007. See finding I.
M	Federal Financial Management Improvement Act of 1996	This condition has not been corrected and is repeated in fiscal year 2007. See finding J.



THE ASSOCIATE DEPUTY SECRETARY OF THE INTERIOR
WASHINGTON, DC 20240

January 3, 2008

Memorandum

To: Earl E. Devaney
Inspector General

KPMG LLP
2001 M Street, NW.
Washington, DC 20036

From: James E. Cason *James E. Cason*
Assistant Deputy Secretary and Chief Financial Officer

Subject: Management's Response to Draft Independent Auditors' Report on the
Departmental Offices Financial Statements for Fiscal Years 2007 and 2006
(Assignment No. X-IN-OSS-0014-2007)

The Departmental Offices have reviewed the draft report prepared by KPMG LLP and provide their response to the findings and recommendations. We are pleased that the result of the audit is an unqualified opinion on the Department Offices Consolidated Financial Statements. We appreciate the value of the audit process and look forward to working with you to continue to improve financial management in the Departmental Offices.

INTERNAL CONTROL OVER FINANCIAL REPORTING

SIGNIFICANT DEFICIENCY CONSIDERED TO BE A MATERIAL WEAKNESSES

A. Controls over Undelivered Orders

Management concurs. The Departmental Offices agree that the policies and procedures surrounding undelivered orders can be improved. We have updated our procedures and implemented new monitoring methods to target training to offices with potential challenges in this process. For those offices using alternative procedures, we will ensure that undelivered orders are reviewed and certified on at least a quarterly basis. Where expired undelivered orders cannot be modified timely, the Departmental Offices will continue to refine the estimation methodology used for the financial statement process and we will sample budgetary recoveries to ensure that they are valid.

OTHER SIGNIFICANT DEFICIENCIES**B. General and Application Controls Over Financial Management Systems**

Management concurs. During FY 2007, the Departmental Offices continued to improve their policies and guidance, and will continue to enhance application and general controls over financial management systems during FY 2008. Although compliance with policies and guidance needs improvement, actual physical testing of our financial system demonstrated positive results. We are constantly striving to implement improvements and strengthen the related programmatic aspects of the IT security program (including awareness training), and will continue to review all aspects of the IT program for refinement as appropriate.

C. Segregation of Responsibility over Journal Entries

Management concurs. While the Departmental Offices believe there are adequate mitigating controls in place, we concur there are additional actions that that can and will be taken to segregate responsibility over journal entries.

D. Controls over Accruals

Management concurs. The Departmental Offices recognize the need to continuously evaluate and revise accrual methodologies. Our components make every effort to properly develop and analyze reasonableness of the accrual methodologies. Management will work with all components to ensure that evaluations are conducted and documented, the subsequent activity reports are complete and have been reviewed, and a sample of the periods of performance have been tested, where applicable.

E. Controls over Charge Cards

Management concurs. The Departmental Offices continue to believe it has a generally well-managed charge card program, although compliance issues were identified in several offices. In FY 2008, we will continue to provide training on charge card procedures and will remind approving officials to be more diligent.

F. Controls over Indian Trust Funds

Management does not concur. These findings were previously reported in FY 2006. In our previous response, we noted that a variety of actions already have been taken to significantly improve internal control activities and systems for Indian Trust Funds and extensive amounts of documentation have been provided for consideration. Additional activities are under way to continue the substantial improvement in controls over the Indian trust funds noted in the audit report for both the Office of the Special Trustee and Indian Affairs. Based on the results of our

extensive internal controls testing, these controls are in place and operating effectively; therefore, there is no adverse material impact on the current financial internal control environment.

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

G. Controls over Unfilled Customer Orders

Management concurs. The Departmental Offices will develop policies and procedures for review and modification of expired unfilled customer orders. Management believes an appropriate process has been developed to monitor these amounts in order to provide targeted training to program offices.

H. Monitoring Grants

Management concurs. The Departmental Offices will work to ensure all necessary Single Audit Reports are obtained, management decisions on audit findings are issued in a timely manner, letters are issued to grantees communicating required information, and grant awards are authorized by the grantee.

COMPLIANCE AND OTHER MATTERS

I. Single Audit Act Amendments of 1996

Management concurs. As noted in the response to finding H, the Departmental Offices will work toward improving Single Audit Act compliance in FY 2008.

J. Federal Financial Management Improvement Act of 1996

Management concurs. As noted in the response to finding A, the Departmental Offices plan a number of actions to improve controls over undelivered orders.

In closing, aggressive correction action plans will be established for each of these findings. The Departmental Offices are committed to improving these and all other elements of financial management.

ATTACHMENT 3

STATUS OF AUDIT REPORT RECOMMENDATIONS

<u>Recommendation</u>	<u>Status</u>	<u>Action Required</u>
F.	Unresolved.	Recommendation will be referred to the Assistant Secretary, Policy, Management and Budget for resolution.
A.1., A.2., A.3., A.4., A.5., A.6., B.1., B.2., B.3., B.4., B.5., C., D.1., D.2., D.3., D.4., D.5., E.1., E.2., G.1., G.2., G.3., H.1., H.2., H.3., H.4., and I.	Resolved; not implemented.	Recommendations will be referred to the Assistant Secretary, Policy, Management and Budget for tracking of implementation.
J.	Repeated, resolved; not implemented.	No action required. Continue tracking this repeat recommendation that was previously referred as recommendation M. in Report No. X-IN-OSS-0016-2006.