Departmental Offices
U.S. Department of the Interior

Performance and Accountability Report

Fiscal Year 2004

Glossary of Acronyms

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

Table of Contents

A Message from the Chief Financial Officer

I am pleased to present the Department of the Interior's Departmental Offices' Annual Financial Report for Fiscal Year 2004. The purpose of this report is to highlight the operational activities and financial condition of the Office of the Secretary as well as the Offices of the Solicitor, Inspector General, and Special Trustee, among others.

Departmental Offices provide the executive leadership, policy, 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. 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 category include: the Office of Insular Affairs, which provides assistance to insular areas; the Office of the Special Trustee for American Indians, which oversees trust reform and the Secretary's responsibilities for Trust Funds held in trust accounts for tribes and individual Indians[1]; the Natural Resource Damage Assessment and Restoration Program, which coordinates the Department's natural resources damage assessment and restoration efforts; the Office of Wetland Fire Coordination; and the National Indian Gaming Commission, which regulates certain Indian gaming activities.

A financial statement audit measures the strength of our financial systems and internal controls. It ensures that our offices have reliable information to make decisions. Managing the Departmental Offices is extremely challenging, because it is a consolidation of seven disparate financial systems and eight budget entities into a single financial statement. The communication, coordination, and cooperation of all the offices resulted in a clean audit opinion for FY 2004. However, the auditors identified three material weaknesses, one of which was carried over from FY 2003.

The resolution of audit weaknesses is critical to maintain the integrity and accountability in Departmental Office programs and operations. During FY 2004, two reportable conditions identified in FY 2003 were corrected. The other six reportable conditions stated in FY 2003 are in progress. We anticipate having five of these issues fully resolved by the end of FY 2005. The remaining reportable condition has a long-term improvement plan in place. Success on resolving this issue is highly dependant on promoting improved financial accountability in the insular areas that we serve. While we have greatly improved our processes, we need to continue to correct the remaining and 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 (i.e., maintenance, repair, and replacement of the Cochiti Pueblo drainage system) or where the corpus of the fund is non-expendable (i.e., the *Southern Arizona Water Right Settlement Act* allows only interest on the corpus of the fund to be expended) are a part of Departmental Offices accounts and are thus considered as a part of this Report.

This report also presents the status of Departmental Offices' compliance with certain legal and regulatory requirements, including the Federal Financial Management Improvement Act (FFMIA). As a result of the material weakness that has been carried forward to the FY 2004 financial statement audit and the need to improve the Electronic Data Processing security and general control environment, the Departmental Offices concluded that the financial management systems did not substantially comply with the financial management systems and federal accounting standards requirements of the FFMIA. However, we made great strides in these areas which we expect will be recognized during the FY 2005 audit.

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.

P. Lynn Scarlett
Chief Financial Officer

November 15, 2004

U.S. Department of the Interior
Departmental Offices

Management’s Discussion and Analysis

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 America Indians, Alaska Natives and affiliated Island Communities. Interior is organized into two major components: the Departmental Offices and the operating bureaus. The eight bureaus, with programs and operations carried out in each of the 50 states and several U.S. territories, conduct this broad and often conflicting mission. These bureaus include:

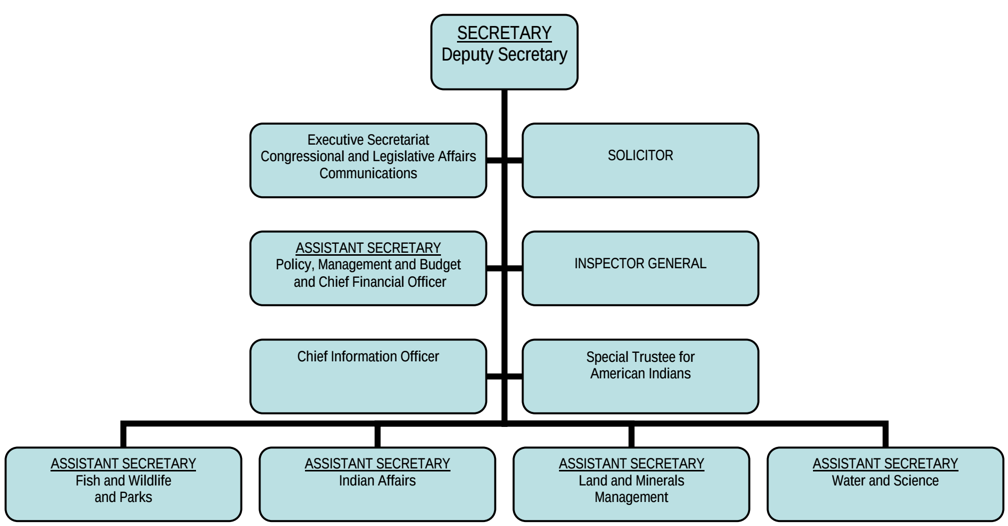
- National Park Service
- Fish and Wildlife Service
- Bureau of Land Management
- Bureau of Indian Affairs
- U.S. Geological Survey
- Bureau of Reclamation
- Office of Surface Mining
- Minerals Management Service

While Departmental Offices function operationally in a manner similar to other Interior bureaus, the role of these offices 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 of the Inspector General. The following chart represents the general organizational structure of Departmental Offices:

General Organization – Departmental Offices



Core Business Areas

Departmental Offices have four core business or mission areas:

- Reimbursable Activities and Other Departmental Management
- Serving Communities
- Resource Protection
- Resource Use

Reimbursable Activities and Other Departmental Management

The Departmental Management team includes the Secretary's Immediate Office, the Programmatic Assistant Secretaries, the Assistant Secretary – Policy, Management and Budget, the Office of the Chief Information Officer, the Office of the Inspector General, and the Office of the Solicitor. Through these offices, Interior achieves significant benefits in improved management, problem avoidance, evaluation of alternative approaches to problem solving; oversight; monitoring; and inter-bureau coordination.

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, or at times conflicting, missions to ensure that programs are carried out efficiently and that critical concerns are addressed in a timely manner. The Department has four Programmatic Assistant Secretaries:

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

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

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

The Assistant Secretary for Water and Science sets departmental policy for and provides oversight to the programs of the Bureau of Reclamation and the 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, and biological science and other natural resource policy development and coordination; ensuring that program goals are identified for assigned functions, support Departmental objectives, and that quantifiable results are measured against them; and ensuring appropriate consultation with all affected parties on assigned substantive program matters.

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

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

Recreation One-Stop. The Deputy Assistant Secretary for Performance, Accountability, and Human Resources chairs the interagency Recreation Executive Council and leads the Recreation One-Stop initiative, one of the E-Government initiatives in the President's Management Agenda. There were 464 million visitors to our parks, refuges, hatcheries, and public lands in 2004.

The two major goals of the initiative are to provide:

- a customer-friendly recreation portal with information for planning visits to Federal recreation sites and making campground/tour reservations
- consistent information about Federal recreation areas via different channels (databases, websites, and publications), by standardizing data and interfacing recreation-related computer systems.

The interagency recreation portal will consolidate Recreation.gov, ReserveUSA.com and reservations.nps.gov to offer a single point of access to information about Federal recreational opportunities and reservations. The new recreation portal at Recreation.gov will provide a comprehensive source of information about thousands of Federal recreation opportunities, especially for campground and tour reservations at National Park Service, Bureau of Land Management, Bureau of Reclamation, Corps of Engineers, and Forest Service facilities. Information about recreation opportunities on public lands will be displayed based on the interests of the customer, not centered on the agency providing the recreation opportunity.

In 2004, the AS-PMB had several significant accomplishments.

- Awarded a 10-year National Reservation Recreation Service contract to consolidate fragmented campground reservation systems with the Recreation.gov website into one comprehensive, customer-centered portal.
- Implemented the initial version of the Recreation Information Data Base to provide a standardized computerized file with consistent information to travel and tourism partners in state/local governments and the private sector about recreation sites managed by 10 Federal organizations.
- Adopted the Recreation Modernization Blueprint to establish consistent data standards and reduce duplicative data entry by interfacing nearly 30 separate computer systems in the Department.

National Business Center. The National Business Center (NBC), located within the Office of the AS-PMB offices, serves as a Departmental business center of excellence for a wide scope of activities. In this role, on a fee-for-service basis, it provides a full range of administrative services, systems, and operations, as well as policy oversight in aviation management, mail services, and appraisal services management on a national level to the Office of the Secretary, Department bureaus and offices, and a wide range of other large and small federal agencies. The NBC achieves significant cost savings for its customers by creating and sustaining economies of scale, eliminating service redundancies, streamlining the implementation of technology refreshment (including replacing aging desktops with Microsoft XP capable machines, consolidating networking approach to replace the current bureau-centric topology, replacing the aging Federal Financial System with an SAP core financial product), and adjusting to government-wide and Department-wide programmatic or regulatory changes. NBC is funded primarily through the Departmental Working Capital Fund (WCF), which was created in 1950 to support Department-level internal administrative activities that could be performed more efficiently on a consolidated basis. NBC employs approximately 1,300 Federal employees and 500 contract employees in more than 50 locations across the Nation.

Specifically, the NBC provides federal payroll and personnel processing 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; space management, quarters systems management; mail management; and specialized employee services such as security clearances, medical services, drug testing, worker's compensation case management, and the operation of an accessibility technology center. The Departmental Museum, Departmental Library, and the Department of the Interior University are also managed by the NBC.

The NBC Director works cooperatively with the Working Capital Fund Consortium, the Aviation Board of Directors, and a host of user groups to ensure products and services are customer driven, and that NBC operate on a full cost-recovery business basis.

In 2004, NBC:

- Supported an unqualified opinion for the Departmental Offices 2003 financial statements;

- Transitioned over 16,100 employees from several Department of the Interior (DOI) organizations (Office of the Secretary, Solicitor's Office, U.S. Geological Survey, Office of Surface Mining) to the Quicktime Time & Attendance System, which was chosen by DOI to help support its Activity Based Costing initiative;

- Hosted the Office of Personnel Management's (OPM) Electronic Official Personnel Folder (e-OPF) initiative, part of the Electronic Human Resources Integration (EHRI) Program, which is one of six OPM e-Gov initiatives;

- As one of four e-Payroll providers of the Executive Branch, migrated the National Science Foundation, two modes of the Department of Transportation (Surface Transportation Board and St. Lawrence Seaway Development Corporation), the Nuclear Regulatory Commission, and NASA in 2004 to the NBC Federal Personnel and Pay System. The remainder of DOT will be migrated in FY 2005;

- Met several major milestones and is on track for incorporating, by January 2005, the Emergency Fire Fighter/Vendor Pay system capabilities into the Federal Personnel and Pay System and making payments to vendors with the agency's finance system. Those milestones include the development of baseline of requirements, development and testing of numerous system action requests, and development of user training. Client orientation and parallel testing begins in November 2004 and December 2004, respectively;

- Completed phase 1 of the Main Interior Building (MIB) Modernization Project, which included significant mechanical, electrical, plumbing and life safety upgrades, including improvements in egress stairwells, fire alarm and sprinkler systems, heating and cooling system, and new voice and data cabling. During Phase 1, the NBC IT data center that supports the Office of the Secretary was successfully migrated from the MIB to the Enterprise Services Center in Herndon.

- Established the Appraisal Services Directorate (ASD) in the NBC to ensure appraiser independence, accountability, high standards, appropriate training, and oversight of the Departmental appraisal functions, involving the consolidation of 79 appraisers in 30 locations from four different bureaus (Bureau of Land Management, National Park Service, Bureau of Reclamation, and Fish & Wildlife Service).

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

Office of the Chief Information Officer. With the leadership of the Chief Information Officer (CIO), the Secretary establishes a sound Information Technology (IT) infrastructure within Interior and ensures all bureaus are prepared to address current and future information technology challenges. The CIO has primary responsibility, under the Clinger-Cohen Act of 1996, for supervision and coordination within Interior of the design, acquisition, maintenance, use, and disposal of information technology by Interior bureaus and Departmental Offices. The CIO also monitors the performance of Interior's information technology programs and activities, and ensures that Interior's information management is consistent with the principles of the Government Paperwork Reduction Act, the Government Paperwork Elimination Act, the Government Information Security Results 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.

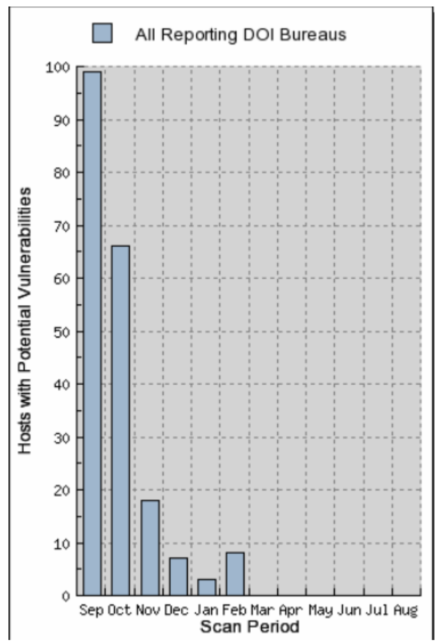


Figure 1 - Count of Perimeter Servers with SANS Top 20 Listed Vulnerability

Specific milestones in FY04 include:

- Enhancing Certification and Accreditation (C&A) by finalizing guides, training 258 security staff, and establishing a Department-wide Blanket Purchase Agreement (BPA) with 10 qualified vendors established for C&A implementation, and $12M in funding distributed to bureaus to provide for C&A activities, which resulted in 90% of systems completing certification and accreditation by September 2004.

- Integration of IT with Strategic and Operational Planning through better coordination of budget submissions and enrichment of the Enterprise Architecture (EA) as a means of capital asset control. DOI received the E-Government Institute's Federal Civilian Leadership in Government Transformation Award for the DOI Enterprise Architecture.

- Establishment of a Technical Reference Model and approving Security Technical Implementation Guides (STIGS) on critical IT security components, such as operating systems, router configuration, data-base hardening, etc.

- Completion of incident response policy definition within Departmental Manual (DM) 375.19 and continued outsourcing of agency incident response handling to the Department of Homeland Security (DHS) US Computer Emergency Readiness Team (US CERT). One hundred fifty-four DOI technical staff are now trained in incident response procedures.

- Training of 93% (76,888) of DOI employees and contractors in IT security awareness by July 2004. Certification training programs for IT security professionals resulted in 56 DOI security staff attaining the ISC^2 Certified Information System Security Professional (CISSP), including the agency CIO.

- Commissioning of independent technical testing via monthly scanning of perimeter networks utilizing the SANS Top 20 vulnerability list as the standard. In September 2003, almost 100 hosts had vulnerabilities that appeared on the SANS Top 20 list. By March 2004, Interior achieved no related vulnerabilities and has maintained that status.

- Creation of a methodology for evaluating systems for relevance to critical infrastructure presidential directives and identified five as relevant.

As demonstrated, the nearly $100M dollars identified for DOI IT Security Program initiatives in FY03-FY05 is achieving lasting results. In the FY04 FISMA Annual Report, the Inspector General (IG) observed that Interior has "…significantly improved its information security program…" and that it "… generally meets the requirements of FISMA …."

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

Office of the Inspector General. The Office of the Inspector General (OIG) provides leadership and assistance in the promotion of economy, efficiency, and effectiveness, and in the detection and prevention of fraud, waste, abuse, and mismanagement in the operations and activities of Interior. The OIG is the focal point for independent and objective reviews of the integrity of Interior's programs and operations. The OIG is responsible for objectively and independently assessing major issues 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 Interior's programs. The OIG accomplishes its mission by providing policy direction for and conducting, supervising, and coordinating audits and investigations of Departmental programs and operations.

Reimbursable Activity and Other Departmental Management

Long-Term Goal	Annual Goal	2000 Actual	2001 Actual	2002 Actual	2003 Actual	2004 Plan	Final FY 2004	2004 Performance Report and Discussion
Increase in Customer Satisfaction by 2% each year	Percentage of customers satisfied with NBC's products and services equals or exceeds the benchmark.	N/A	N/A	N/A	N/A	N/A	N/A	This is a new goal for FY 2004. We are in the process of establishing a baseline. Reporting will begin in FY 2005.
Ensure NBC Employees have the Job-Relevant Knowledge and Skills necessary to accomplish their organizational goals	Percentage of NBC workforce who indicate that their workforce has the job-relevant knowledge and skills necessary to accomplish their organizational goals.	N/A	N/A	N/A	N/A	N/A	N/A	This is a new goal for FY 2004. We are in the process of establishing a baseline. Reporting will begin in FY 2005.
Full Cost Recovery	Percentage of qualified products and services where revenues are +/- 5% of costs annually and where the NBC fully recovers costs at the fund level over the long term.	N/A	N/A	N/A	N/A	N/A	N/A	This is a new goal for FY 2004. We are in the process of establishing a baseline. Reporting will begin in FY 2005.

Serving Communities

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

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

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

In 1976, residents of the Northern Mariana Islands voted to enter into the "Covenant to Establish a Commonwealth of the Northern Mariana Islands 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, in conjunction with the insular areas, strives to meet the Department's Serving Communities Strategic End Outcome Goal #5: Increase Economic Self-Sufficiency of Insular Areas as stipulated in the DOI Strategic Plan FY 2003-2008. Consistent with the intermediate outcome measure, Increase Economic Development, program performance will be measured by the ratios of Federal Revenue to total revenues in insular areas and of private sector jobs to total employment. In FY 2004, OIA in conjunction with the insular areas, helped increase economic self-sufficiency of insular areas by taking actions to realize a ratio of Federal revenue to total revenues in insular areas of 0.26, against a target of 0.25. A ratio of 0.76 was also realized in private sector jobs to total employment, against a target of 0.70, to help increase economic development in the insular areas.

Office of the Special Trustee. The Office of the Special Trustee for American Indians (OST), which reports to the Secretary, oversees and coordinates Indian trust reform efforts Department-wide to ensure the establishment of policies, procedures, systems, and practices that allow the Department to effectively discharge its trust responsibilities. OST has operating responsibility for financial trust management, including investment and disbursement of assets held in 1,400 trust accounts for roughly 260 Indian Tribes and about 265,000 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 US Claims Court; monies appropriated to fund legislative settlements; and interest on trust fund investments. An appraisal program, managed by the ASD of the NBC, can provide a benchmark in determining the valuation standard by which the beneficiaries are compensated for the use of their assets.

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

OST strives to meet the Department's Serving Communities Strategic End Outcome Goal #3: Fulfill Indian Fiduciary Trust Responsibilities as stipulated in the DOI Strategic Plan FY 2003-2008. Consistent with the intermediate outcome measure, Improve Management of Land and Natural Resource Assets, program performance will be measured by the timeliness of Mineral Revenue Payments to American Indians. OST continues to make improvements to the financial accounting system to ensure the goal of making Mineral Revenue Payments to American Indians in a timely manner is met. In 2004, OST achieved 98.6% of revenue recorded in the Trust Financial Accounting System within 24 hours of receipt, exceeding its goal of 95%.

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

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

Serving Communities								
Long-Term Goal	Annual Goal	2000 Actual	2001 Actual	2002 Actual	2003 Actual	2004 Plan	Final FY 2004	2004 Performance Report and Discussion
Increase Economic Self-Sufficiency of Insular Areas	Decrease the ratio of Federal Revenue to total revenues in insular areas	N/A	N/A	N/A	N/A	.25	.26	Goal Met. This is a new goal for FY 2004.
	Increase the ratio of private sector jobs to total employment	N/A	N/A	N/A	N/A	.70	.76	Goal Met. This is a new goal for FY 2004.

Serving Communities								
Long-Term Goal	Annual Goal	2000 Actual	2001 Actual	2002 Actual	2003 Actual	2004 Plan	Final FY 2004	2004 Performance Report and Discussion
Ensure Timeliness of Mineral Revenue Payments to American Indians	Record revenue in the Trust Financial Accounting System within 24 hours of receipt	N/A	N/A	N/A	N/A	95%	97.35%	Goal Exceeded. This is a new goal in FY 2004. In 2004 OST exceeded the target goal by successfully implementing a new procedure to perform the work more efficiently and communicating the importance of achieving this goal to employees involved

Resource Protection

The largest contribution toward Resource Protection in Departmental Offices comes from appropriations and recoveries to the Natural Resource Damage Assessment and Restoration Program (NRDAR). These funds enable Interior to identify, evaluate, and conduct damage assessments of natural resource injuries resulting from oil and hazardous substance releases. The NRDAR Program assesses the damages and injuries to natural resources entrusted to Interior and negotiates legal settlements or takes other legal actions against the responsible parties for the spill or release. Funds from these settlements 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. 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 assure that they continue to be properly operated 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 work for all parties involved. In June 2004, the DOI Natural Resource Damage Assessment and Restoration Program, together with the U.S. Fish and Wildlife Service, and the DOI Central Hazardous Materials Fund (CHF) collaborated on an innovative cleanup and restoration transaction, which provided positive results for all three involved entities. The CHF Program acquired a 65-acre parcel from the Town of Harding, New Jersey to resolve the town's liability for an estimated $500,000 in remedial (cleanup) costs at the Harding Landfill Site, located on the Great Swamp National Wildlife Refuge, NJ. The property lay within the Refuge's acquisition boundaries. The CHF transferred title for the parcel to the refuge, managed by the Fish and Wildlife Service. The DOI Restoration Program then transferred $500,000 from a related settlement at the refuge from the DOI Restoration Fund to the DOI Central Hazmat Fund (CHF).

This action completes a win-win deal involving the town, the refuge, the CHF Program and the Restoration Program. The refuge acquired a coveted, pristine property within 25 miles of New York City (valued at over $2 million) that will be protected, the CHF Program achieves cost recovery, recovering $500,000 for subsequent use at other deserving remedial sites, and the Restoration Program was able to move $500,000 out from the Restoration Fund for on-the-ground restoration requirements for trust natural resources at the site.

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

At the end of FY 2004, the amount of funds deposited into the DOI Restoration Fund as a result of settlement resolutions was $31 million. The estimated amount expected was $35 million. Although DOI and potential responsible parties have agreed, in principle, to a settlement that would allow us to achieve our goal, we are awaiting final approval from the Court.

Resource Protection

Long-Term Goal	Annual Goal	2000 Actual	2001 Actual	2002 Actual	2003 Actual	2004 Plan	Final FY 2004	2004 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 $275 million.	$96.5	$188.5	$202.8	$227.9	$275.0	$259.0	Goal Not Met. The DOI Restoration Program's estimate for FY 2004 deposits into the DOI Restoration Fund were developed using the best possible available information at the time. However, legal cases often proceed at their own pace, and are often influenced by many factors outside of DOI's control. The FY 2004 estimate included settlement deposits for a number of cases that did not reach settlement in FY 2004 as expected, but should do so in FY 2005.

Resource Use

The timely completion of the Central Utah Project by the Central Utah Water Conservancy District (CUWCD) is provided for in the Central Utah Project Completion Act (CUPCA). The Act also authorizes funding for fish, wildlife, and recreation mitigation and conservation activities, establishes the Utah Reclamation Mitigation and Conservation Commission (URMCC) to oversee the implementation of those activities, and authorizes funding for the Ute Indian Rights Settlement. A program office located in Provo, Utah, provides liaison with the CUWCD, the URMCC, and the Ute Indian Tribe, and otherwise assists in carrying out the responsibilities of the Secretary. This Project is managed through the Assistant Secretary for Water and Science. The primary purpose of the Central Utah Project Completion Act is to provide for the orderly completion of the Central Utah Project by authorizing certain water conservation and wildlife mitigation projects, and by providing funding for construction of certain features for delivery of irrigation, municipal and industrial, and in-stream flow water to specified areas within the Central Utah Project service area.

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

By the end of FY 2004, the CUWCD had completed 34 percent of the work authorized by Congress. They completed the now fully operational Diamond Fork System and initiated three new local development projects in Sanpete and Garfield Counties and implemented three new water conservation projects, for a cumulative water savings of 73,000 acre-feet. CUWCD continued construction on the Uinta Basin Replacement Project. Planning and environmental compliance work continued on the Utah Lake Drainage Basin Water Delivery System.

During FY 2004, the URMCC completed 60 percent of the work authorized by Congress. They completed restoration of three miles of the middle reach of the Provo River under its multi-year Provo River Restoration Project. Nine of twelve miles of the river are not restored. The URMCC completed reconstruction of one state fish hatchery and is continuing feasibility studies for the rehabilitation of one additional state fish hatchery, plus one tribal hatchery. About 200 acres were acquired for wetlands preserves at Utah Lake, Great Salt Lake, and the Jordan River.

Resource Use

Long-Term Goal	Annual Goal	2000 Actual	2001 Actual	2002 Actual	2003 Actual	2004 Plan	Final FY 2004	2004 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 2004, measure the percent of completion of CUWCD work authorized by Congress.	34%	38%	43%	31%	34%	34%	Goal Met. In 2004, CUWCD completed the Diamond Fork System which is now under full operation.
	The CUPCA Office will work with the URMCC to implement measures to conserve, mitigate, and enhance fish, wildlife, and recreation resources affected by reclamation project in Utah. In 2004, measure the percent completion of URMCC work authorized by Congress.	54%	60%	65%	68%	60%	60%	Goal Met. In 2004, URMCC completed restoration of three miles of the middle reach of the Provo River under its multi-year Provo River Restoration Project.

Compliance with Legal and Regulatory Requirements

This section of the report provides information on the Departmental Offices' compliance with the Federal Financial Management Improvement Act of 1996. This section also includes information on the Departmental Offices' efforts to improve its operations through the actions it is taking to address the Improper Payments Information Act.

Federal Financial Management Improvement Act (FFMIA)

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

Federal agencies are required to address compliance with the requirements of the FFMIA in the representative letter to the financial statement auditor. The auditor is required to report on the agency's compliance with FFMIA requirements in the financial statement audit opinion. 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 weakness identified during the 2004 financial statement audit and the need to improve the Electronic Data Processing (EDP) security and general control environment, the Departmental Offices concluded that their financial management systems did not substantially comply with the financial management systems and federal accounting standards requirements of the FFMIA. Remediation plans for (1) the identified material weakness and (2) the improvement of the EDP security and general control environment, have been established and are expected to conclude in FY 2006 and FY 2005, respectively.

Resolution of Findings in Departmental Offices FY 2003 Audit Report

The following table summarizes the status of actions taken in FY 2004 to resolve findings reported in the Independent Auditors' Report for DO in FY 2003:

Classification	Description	Corrective Action Status
Material Weakness	Controls over trust funds	Open
	Controls over suspense accounts	Resolved
Reportable Condition	Application and general Controls over Financial Management System	Open
	Financial reporting:	
	• Segregation of Duties	Resolved
	• Intra-Departmental Eliminations	Resolved
	• Accounts Receivable and Advances From Others	Resolved
	• Accruals	Open
	Revenue transactions	Resolved
	Budgetary resources:	
	• Undelivered Orders	Resolved
	• Recoveries of Prior Year Obligations	Open
	Costing methodology	Open
	Grants	Open
Compliance with Laws and Regulations	Single Audit Act Amendments of 1996	Open
	Federal Financial Management Improvement Act of 1996 (FFMIA)	Open

DO will continue its efforts to resolve open issues, as well as any new issues identified in the FY 2004 Independent Auditors' Report for DO, in FY 2005.

Improper Payment Information Act

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.

At the request of the Department, certain major components of Departmental Offices performed Improper Payment risk assessments of their programs and activities. Based on the results of the overall assessments, the Departmental Offices were given a "low" risk rating for all payment activity when compared to the criteria defined by the Office of Management and Budget (OMB). No programs or activities required reporting to the President and the Congress or required a progress report on actions to reduce improper payments. Although the risk rating was "low" by OMB's standards, we did recover approximately $31,000 of prior year improper payments in FY 2004 through the use of recovery audit services.

Single Audit Act

Departmental Offices provides funding for grants, cooperative agreements, Indian self-determination contracts, and self-governance compacts to State and local governments, Indian tribes, colleges and universities, and other nonprofit organizations. Under the provisions of the Single Audit Act, the grantees' financial operations, management control structure, and level of compliance with applicable laws and regulations must be audited each year. All Single Audit reports are now forwarded to and screened by the Federal Single Audit Clearinghouse (Clearinghouse). Those Single Audit reports, with findings and recommendations requiring OIG processing (review and audit follow-up actions), are then forwarded to the OIG for distribution to Departmental Offices for tracking.

Prompt Payment Act

The Prompt Payment Act requires Executive departments and agencies, like Interior's Departmental Offices, to pay commercial obligations within certain time periods and to pay interest penalties when payments are late.

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

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

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

Limitations of Financial Statements

Responsibility for the integrity and objectivity of the financial information presented in the financial statements lies with Departmental Office managers. The financial statements and supplemental financial schedules included in this report reflect the financial position and results of operation of the Departmental Offices pursuant to the Chief Financial Officers Act of 1990 and the Government Management Reform Act of 1994. While these statements have been prepared from the books and records of Departmental Offices in accordance with guidance provided by the Office of Management and Budget and the Federal Accounting Standards Advisory Board, the statements differ from financial reports used to monitor and control budgetary resources that are prepared from the same books and records. The financial statements should be read with the realization that the Departmental Offices accounts represent components of the Department of the Interior, an agency of the executive branch of the United States government, a sovereign entity. Accordingly, unfunded liabilities reported in the statements cannot be liquidated without the enactment of an appropriation, and ongoing operations are subject to enactment of appropriations.

Overview of Financial Position

Assets

The Consolidated Balance Sheet shows FY 2004 assets totaling $2,031 million, an increase of $265 million over the prior year's assets total of $1,766 million. Fund Balance with Treasury, Investments, and General Property, Plant and Equipment comprise approximately 95% of the total assets. Increases in these areas are the primary reason for the increase in assets. Table 1 and Figure 1 summarize the Departmental Offices assets as of September 30, 2004.

TABLE 1

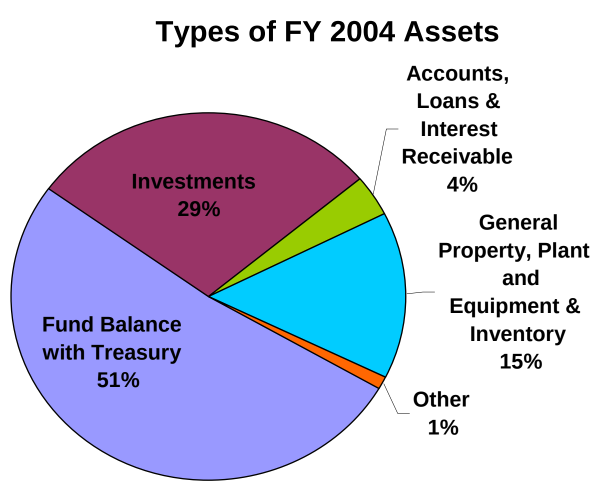
Change in Departmental Offices Assets (in millions)			
	FY 2004	FY 2003	Net Change
Fund Balance with Treasury	$1,046	$900	$146
Investments	583	553	30
Accounts, Loans & Interest Receivable	79	57	22
General Property, Plant and Equipment & Inventory	299	242	57
Other	$23	$14	$9

Fund Balance with Treasury represents 51% of DO current year assets. The increase in the Fund Balance with Treasury of $146 million is primarily due to the large increase in advances for customer agreements at Fort Huachuca of $279 million and in timing of payments relating to the Compact of Free Association program causing an increase of $55 million. The Compact expired in 2003 for the Federated States of Micronesia and the Marshall Islands. A renegotiated assistance package was implemented in FY 2004. The new infrastructure assistance package contains additional requirements that these insular areas have to meet prior to DO approving the release of funds. In the past, all of the funds were paid annually without stipulation. These increases were offset by a $188 million reduction. This is mainly due to a decrease in deposits held for payroll service customers. Payroll was disbursed prior to the end of the year in FY 2004 and not fully disbursed at the end of FY 2003.

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 $30 million was mainly due to an increase in investment activity from the Natural Resource Damage Assessment Restoration Program of $14 million from settlements received in advance of project approval, Tribal Trust and Tribal Special Funds of $11 million and Utah Reclamation Mitigation and Conservation Commission of $5 from Western Area Power Association contributions.

General Property, Plant and Equipment are primarily composed of land, structures and facilities, construction in progress, internal use software, equipment, vehicles, and aircraft. The increase is a result of continued construction on the Central Utah Project and the start of development for the Financial Business Management System. The Diamond Fork portion of the Central Utah Project was completed and transferred from Construction in Progress to Structures and Facilities.

FIGURE 1



Liabilities and Net Position

Total Liabilities of $685 million shown on the Departmental Offices Consolidated Balance Sheet, represent an increase of $121 million over liabilities of $564 million from the prior year. Table 2 summarizes Department Offices liabilities as of September 30, 2004.

TABLE 2

Changes in Departmental Offices Liabilities (in millions)			
	FY 2004	FY 2003	Net Change
Accounts Payable	$ 119	$ 84	$ 35
Accrued Payroll and Benefits	36	47	(11)
Debt	22	25	(3)
Advances, Deferred Revenue and Deposit Fund Liability	488	383	105
Federal Employees Compensation Act Liability	18	21	(3)
Environmental and Contingent Liabilities	2	2	$0
Other Liabilities	$ 0	$1	($1)

Advances and Deferred Revenue account for 71% of DO total liabilities. The primary reason for the increase in advances and deferred revenue is due to a $270 million increase for the procurement function at Fort Huachuca, during FY 2004. This is offset by a $165 million decrease in deposit fund liabilities and other programs.

The Departmental Offices Net Position at the end of FY 2004 on the Consolidated Balance Sheet and the Consolidated Statement of Changes in Net Position was approximately $1,346 million, an increase of about $144 million from the prior year. The Net Position of the Departmental Offices consists of two components: (1) Unexpended Appropriations of $402 million and (2) Cumulative Results of Operations of $944 million.

The increase of $144 million was primarily due to the implementation of a new assistance package to support the Compact of Free Association. The new assistance will emphasize greater accountability by the Freely Associated States.

Results of Operations

Departmental Offices revised the reporting segments in the FY 2004 Statement of Net Cost to align our reporting format to Interior's new Strategic Plan Mission Goals/End Outcome Goals. Departmental Offices reports expenses and revenues in three of the four mission goals: Resource Protection, Resource Use, and Serving Communities. Departmental Offices does not report on Recreation (Table 3).

As shown on the Consolidated Statement of Net Cost, the total of FY 2004 cost of Departmental Offices operations was $922 million, an increase of $192 million from the FY 2003 total cost of $730 million (Table 4).

TABLE 3

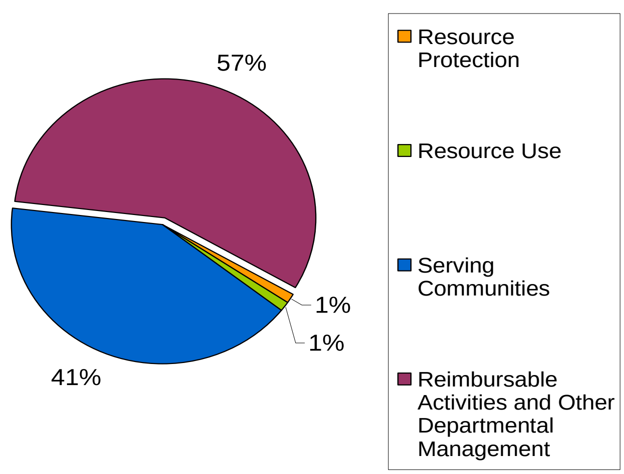
Statement of Net Cost Crosswalk	
FY 2004	**FY 2003**
Resource Protection	Environmental Activity
Resource Use	Central Utah Project
Serving Communities	Services to Native Americans
	Services to Insular Areas
Reimbursable Activities and Other Departmental Management	Working Capital Fund
	Departmental Management

TABLE 4

Change in Departmental Offices Net Cost of Operations (in millions)			
	FY 2004	FY 2003	Net Change
Resource Protection	$ 20	$ 11	$ 9
Resource Use	15	26	(11)
Serving Communities	710	505	205
Reimbursable Activities and Other Departmental Management	177	188	(11)
Totals	$ 922	$ 730	$ 192

Approximately 57% of DO total costs are directed toward "Reimbursable Activities and Other Departmental Management" while 41% are provided to "Serving Communities". Resources devoted to "Resource Protection" and "Resource Use" account for approximately 2% of total costs (Figure 2).

FIGURE 2
FY 2004 Cost by Goal



Cost

As reflected in the Consolidated Statement of Net Cost, the 2004 gross cost of DO before earned revenue was approximately $1.77 billion; an increase of $505 million from amounts reported in FY 2003. This increase was primarily due to a large increase in customer agreements at Fort Huachuca of $290 million, the transfer of the direct appropriation for the payments in lieu of taxes (PILT) program from the Bureau of Land Management to Departmental Offices of $224 million, and other various increases. This is offset by a decrease of $45 million due to program changes for Compact of Free Association and other decreases.

Revenue

DO had earned revenue of $848 million in FY 2004; an increase of $313 million from FY 2003. This was attributable primarily to a $288 million increase in customer agreement revenue at Fort Huachuca, a $22 million increase for the NBC to expand payroll services to other agencies as one of four government-wide payroll providers selected by Office of Personnel Management and other increases.

Budgetary Resources

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

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

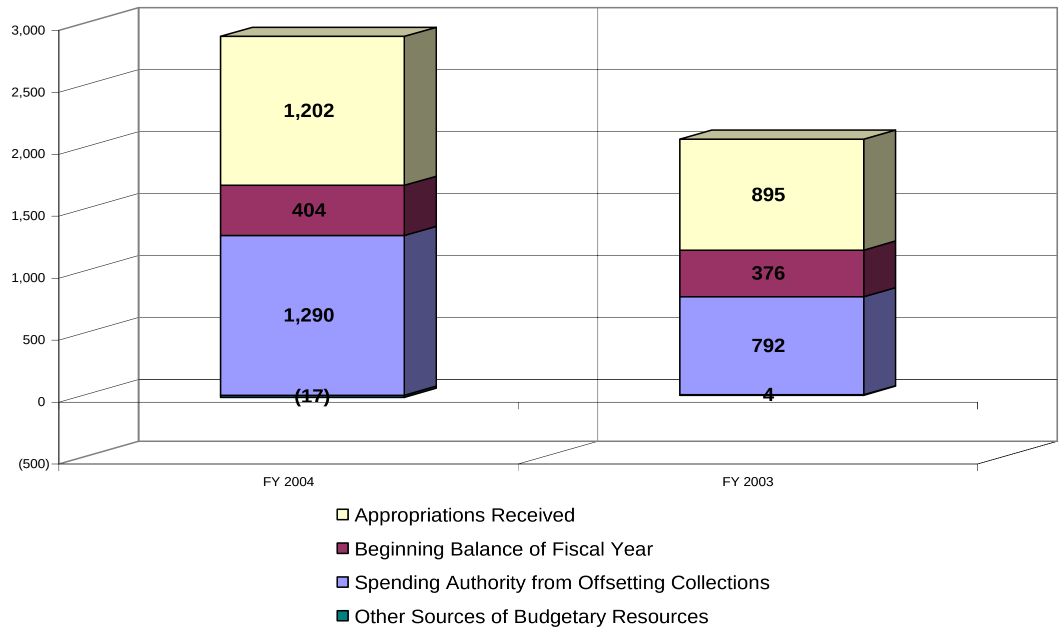
The Departmental Offices reporting entity also receives an allocation from the Environmental Protection Agency to fund a variety of environmental compliance activities. In addition, there are a number of legally authorized transfers between the various accounts within the Departmental Offices reporting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

Appropriations may be either definite or indefinite. If a law provides budget authority in a specific amount, it is considered definite budget authority even if the language reads, "not to exceed" a specified amount. If a law does not specify an amount of budget authority, but instead specifies a variable factor that determines the amount, the budget authority is indefinite. Departmental Offices include accounts that are derived from receipts including the Everglades Restoration Fund and the National Indian Gaming Commission collections. If a law appropriates a specific amount to be derived from receipts, it limits the amount of budget authority actually provided to the lower of the actual receipts or the amount specified. In the case of the National Indian Gaming Commission, the receipts appropriated may not exceed $8 million.

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

FIGURE 3
Budgetary Resources *
(in millions)

*Excludes Non-Budgetary Credit Program Financing Accounts

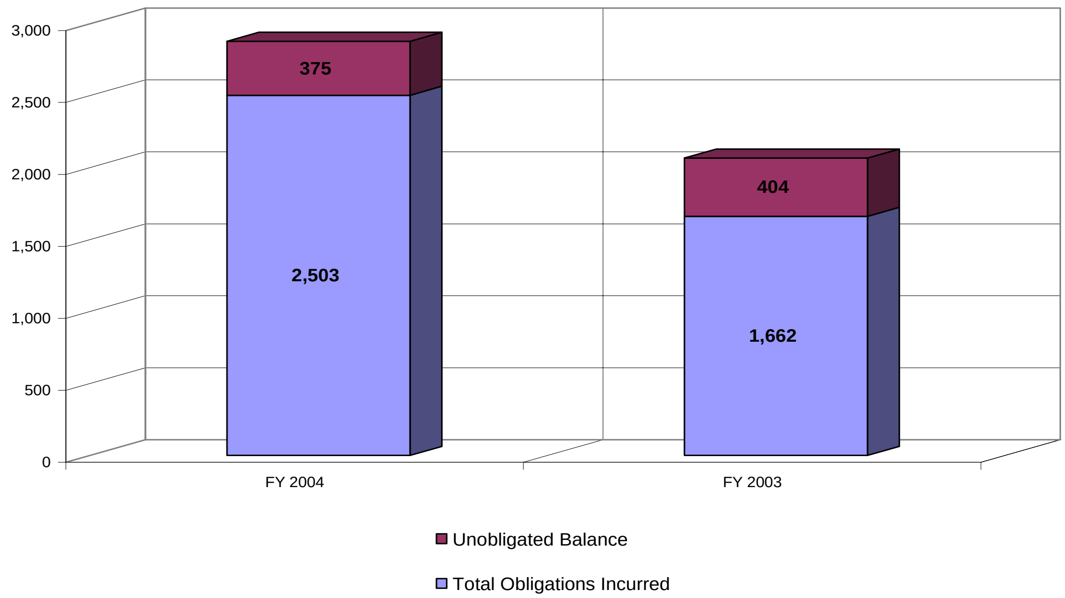


Appropriations increased in the Statement of Budgetary Resources in FY 2004 by $308 million. This was mainly due to an increase of $228 million in appropriations from the transfer of the direct appropriation for the payments in lieu of taxes (PILT) program from the Bureau of Land Management to Departmental Offices, an increase of $48 million to accelerate the historical accounting and land consolidation efforts, the hiring of Trust Officers and records imaging and indexing in the Office of the Special Trustee, and an increase of $34 million from the implementation of a new assistance package with the Compact of Free Association. This was offset by various other changes netting $2 million.

Obligations of $2,503 million and $1,662 million were incurred as of September 30, 2004 and 2003 on total budgetary resources of $2,881 million and $2,066 million, respectively (Figure 4).

FIGURE 4
Status of Budgetary Resources *
(in millions)

* Excludes Non-Budgetary Credit Program Financing Accounts



Stewardship Assets

The Departmental Offices have stewardship responsibility for a varied body of resources, including stewardship lands, heritage assets, investments in non-federal physical property, and investments in research and development. The stewardship assets managed by the Departmental Offices tend to be constant from year to year, experiencing slight net increases due to new acquisitions (Table 5). Additional Stewardship information is discussed in detail in the Required Supplementary Stewardship Information section of the report.

Stewardship Land

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

TABLE 5

Utah Reclamation and Conservation Commission (number of acres)	
Beginning Acres	12,380.06
Additions	670.92
Withdrawals	(320.00)
Ending Acres	12,730.98

Stewardship Investments

Stewardship investments, as defined for Federal financial reporting, represent expenses charged to current operations that nevertheless are expected to benefit the Nation over time. The Departmental Offices Stewardship Investments include research and development programs and investment in the purchase or construction of assets for which state, local or tribal governments and insular areas retain title. Stewardship investments are summarized on Table 6. The reduction in Non-Federal Physical

Property investments between FY 2003 and FY 2004 is primarily due to the cyclical nature of the Insular area projects. The reduction in Research and Development investments from FY 2003 to FY 2004 is due primarily to reduced funding available from stewardship assets.

TABLE 6

Stewardship Investments (in thousands)			
	FY 2004	FY 2003	Change
Non-Federal Physical Property			
American Samoa	$ 7,099	$ 8,331	$ (1,232)
Guam	3,906	4,806	(900)
Commonwealth of the Northern Mariana	10,343	15,903	(5,560)
U.S. Virgin Islands	3,198	1,880	1,318
Utah Reclamation Mitigation & Conservation Commission	244	778	(534)
Total Non-Federal Physical Property	$ 24,790	$ 31,698	$ (6,908)
Research and Development			
Central Utah Project Completion Act	$ 5,803	$ 7,404	$ (1,601)
Utah Reclamation Mitigation & Conservation Commission	398	462	(64)
Total Research and Development	$ 6,201	$ 7,866	$ (1,665)
Total Stewardship Investments	$ 30,991	$ 39,564	$ (8,573)

Future Challenges

Effective management is vital to our success, which is why it serves as a pillar of our Strategic Plan, supporting the four mission areas of Resource Use, Resource Protection, Recreation, and Serving Communities. Only with a steady stream of innovative new processes and programs throughout the Department can we create the continual improvements in effectiveness and efficiency that the public legitimately demands. The Secretary's key business principles—customer value, accountability, modernization, and integration—now serve as our end outcome goals for Management Excellence. Progress measured toward realizing these outcomes, combined with our progress in accomplishing the President's Management Agenda, will continue to guide the individual and collective management decisions and direction needed to meet the challenges of tomorrow.

Departmental Offices' FY 2005 budget includes a total of $18.5 million to fund the implementation of the Financial and Business Management System (FBMS). FBMS is our major enterprise management initiative that will revamp administrative processes throughout the Department while modernizing and integrating financial management, acquisition, property management, grants administration, and other subsidiary systems. The Financial systems and tools in place today do not meet the needs of employees who report on key information, make decisions based on that information, and apply the limited resources that they have to serve each Bureau's mission. In many areas, redundant administrative tasks take away time that could be better spent on programs. Additionally, current systems do not adequately support sound reporting or the efficient tracking and flow of funds. Lack of confidence in financial data has led to material findings in external audits.

FBMS includes all Bureaus under the Secretary of the Interior's jurisdiction. The first Bureaus to implement the Financial Assistance functionality will be Minerals Management Service (MMS), Office of Surface Mining (OSM) and Fish and Wildlife Services (FWS). The full DOI implementation will occur over a four-year period, which began in January 2004 and will end in 2008, with Bureaus deployments scheduled at various stages during that timeframe. A full deployment schedule is available on the FBMS website at www.doi.gov/fbms.

The FBMS project team, led by Departmental Offices, consists of Interior employees and consultants. The team has approximately 40 Bureau members who are participating as Bureau leads, Functional leads, and Change Management leads. These leads will be working together throughout design, system testing, training and implementation phases to promote a smooth transition. Almost 600 Bureau employees have participated thus far in the Business Blueprinting workshops that are focused on defining standard processes for business activities across Interior.

FBMS has the active support of the Department's executive leadership including the Secretary and Deputy Secretary, as well as senior leadership in each of the Bureaus. The Management Initiatives Team (MIT), which consists of Deputy Bureau Directors and the Executive Steering Committee, comprised of representatives from each Bureau, are guiding the project team. The Executive Steering Committee meets regularly to resolve cross-bureau issues escalated by the project team.

Throughout the project, we will draw on the experience, knowledge and skills of employees across Interior to serve as subject matter experts in Business Blueprinting workshops and the subsequent system configuration. Business Blueprinting workshops were held to establish Interior-wide standards for our business functions in February through June of 2004. Other employees will have opportunities to build their awareness of the solution by providing input during interviews, focus groups, communication events, and planning sessions. With limited resources available, the need for key DOI expertise will put a strain on the organization in the short-term. However, the resource investment will pay off because FBMS, over the long-term, will enable Interior to devote more resources to serve mission-focused programs in the Bureaus.

U.S. Department of the Interior
Departmental Offices

Notes to Principal Financial Statements
As of and For the Years Ending
September 30, 2004 and 2003

Department of the Interior
Departmental Offices
Consolidated Balance Sheet
As of September 30, 2004 and 2003
(dollars in thousands)

		2004	2003
ASSETS			
Intragovernmental Assets:			
Fund Balance with Treasury	(Note 3)	$ 1,046,014	$ 899,714
Investments, Net	(Note 4)	392,303	371,802
Accounts and Interest Receivable, Net	(Note 5)	47,832	22,005
Other			
Advances and Prepayments		22,719	9,788
Total Intragovernmental Assets		**1,508,868**	**1,303,309**
Investments, Net	(Note 4)	190,767	181,540
Accounts and Interest Receivable, Net	(Note 5)	8,231	10,419
Loans and Interest Receivable, Net	(Note 6)	23,098	24,675
Inventory and Related Property	(Note 7)	567	523
General Property, Plant & Equipment, Net	(Note 8)	298,728	241,008
Other			
Advances and Prepayments		655	4,035
TOTAL ASSETS	(Note 2)	**$ 2,030,914**	**$ 1,765,509**
LIABILITIES			
Intragovernmental Liabilities:			
Accounts Payable		$ 5,607	$ 10,342
Debt	(Note 12)	21,962	25,307
Other			
Accrued Payroll and Benefits		4,516	20,945
Advances and Deferred Revenue		476,185	216,819
Deposit Fund Liability	(Note 13)	(489)	992
Other Liabilities		-	1,157
Total Intragovernmental Liabilities		**507,781**	**275,562**
Public Liabilities:			
Accounts Payable		113,545	73,850
Federal Employees Compensation Act Liability	(Note 11)	17,809	20,750
Environmental Cleanup Costs	(Note 14)	1,300	1,000
Other			
Accrued Payroll and Benefits		31,207	25,996
Advances and Deferred Revenue		4,729	4,688
Deposit Fund Liability	(Note 13)	7,665	160,998
Contingent Liabilities	(Note 14)	712	693
Total Public Liabilities		**176,967**	**287,975**
TOTAL LIABILITIES	(Note 10)	**684,748**	**563,537**
Commitments and Contingencies	(Note 14 and Note 16)		
NET POSITION			
Unexpended Appropriations		402,565	338,947
Cumulative Results of Operations		943,601	863,025
Total Net Position		**1,346,166**	**1,201,972**
TOTAL LIABILITIES AND NET POSITION		**$ 2,030,914**	**$ 1,765,509**

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

Department of the Interior
Departmental Offices
Consolidated Statement of Net Cost of Operations
For the Year Ended September 30, 2004
(dollars in thousands)

			2004
Resource Protection:			
Protect the Nation's Natural, Cultural and Heritage Resources			
Cost - Services provided to the Public		$	20,190
Revenue Earned from the Public			-
Net Cost of Services to the Public			20,190
Net Program Costs			**20,190**
Resource Use:			
Manage Natural Resources to Promote Responsible Use and Sustain a Dynamic Economy			
Cost - Services provided to the Public			15,446
Revenue Earned from the Public			78
Net Cost of Services to the Public			15,368
Cost - Services provided to Federal Agencies			2,309
Revenue Earned from Federal Agencies			2,294
Net Cost (Revenue) of Services provided to Federal Agencies			15
Net Program Costs			**15,383**
Serving Communities:			
Safeguard Lives, Property and Assets, Advance Scientific Knowledge, and Improve the Quality of Life for Communities We Serve			
Cost - Services provided to the Public			725,215
Revenue Earned from the Public			15,622
Net Cost of Services to the Public			709,593
Cost - Services provided to Federal Agencies			6,937
Revenue Earned from Federal Agencies			6,796
Net Cost (Revenue) of Services provided to Federal Agencies			141
Net Program Costs			**709,734**
Reimbursable Activity and Other Departmental Management:			
Manage the Department to the Highly Skilled, Accountable, Functionally Integrated, Citizen-Centered, and Result Oriented			
Cost - Services provided to the Public			181,555
Revenue Earned from the Public			14,490
Net Cost of Services to the Public			167,065
Cost - Services provided to Federal Agencies			819,102
Revenue Earned from Federal Agencies			808,804
Net Cost (Revenue) of Services provided to Federal Agencies			10,298
Net Program Costs			**177,363**
Totals			
Cost - Services provided to the Public			942,406
Revenue Earned from the Public			30,190
Net Cost of Services to the Public			912,216
Cost - Services provided to Federal Agencies			828,348
Revenue Earned from Federal Agencies			817,894
Net Cost (Revenue) of Services provided to Federal Agencies			10,454
Net Cost of Operations	(Note 17)	**$**	**922,670**

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

Department of the Interior
Departmental Offices
Consolidated Statement of Net Cost of Operations
For the Year Ended September 30, 2003
(dollars in thousands)

		TOTAL 2003
Working Capital Fund		
Cost - Services provided to the Public		$ 18,514
Revenue Earned from the Public		9,678
Net Cost of Services to the Public		8,836
Cost - Services provided to Federal Agencies		482,691
Revenue Earned from Federal Agencies		476,986
Net Cost (Revenue) of Services provided to Federal Agencies		5,705
Net Program Costs		14,541
Departmental Management		
Cost - Services provided to the Public		173,097
Revenue Earned from the Public		364
Net Cost of Services to the Public		172,733
Cost - Services provided to Federal Agencies		28,088
Revenue Earned from Federal Agencies		26,936
Net Cost (Revenue) of Services provided to Federal Agencies		1,152
Net Program Costs		173,885
Environmental Activity		
Cost - Services provided to the Public		11,385
Revenue Earned from the Public		-
Net Cost of Services to the Public		11,385
Net Program Costs		11,385
Services to Native Americans		
Cost - Services provided to the Public		145,289
Revenue Earned from the Public		9,808
Net Cost of Services to the Public		135,481
Cost - Services provided to Federal Agencies		5,085
Revenue Earned from Federal Agencies		4,975
Net Cost (Revenue) of Services provided to Federal Agencies		110
Net Program Costs		135,591
Service to Insular Areas		
Cost - Services provided to the Public		370,679
Revenue Earned from the Public		1,937
Net Cost of Services to the Public		368,742
Cost - Services provided to Federal Agencies		295
Revenue Earned from Federal Agencies		295
Net Cost (Revenue) of Services provided to Federal Agencies		-
Net Program Costs		368,742
Central Utah Project		
Cost - Services provided to the Public		26,058
Revenue Earned from the Public		-
Net Cost of Services to the Public		26,058
Cost - Services provided to Federal Agencies		4,085
Revenue Earned from Federal Agencies		4,070
Net Cost (Revenue) of Services provided to Federal Agencies		15
Net Program Costs		26,073
Total		
Cost - Services provided to the Public		745,022
Revenue Earned from the Public		21,787
Net Cost of Services to the Public		723,235
Cost - Services provided to Federal Agencies		520,244
Revenue Earned from Federal Agencies		513,262
Net Cost (Revenue) of Services provided to Federal Agencies		6,982
Net Cost of Operations	(Note 17)	$ 730,217

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

Department of the Interior
Departmental Offices
Consolidated Statement of Changes in Net Position
For the Years Ended September 30, 2004 and 2003

(dollars in thousands)

		2004	2003
UNEXPENDED APPROPRIATIONS			
Beginning Balance		$ 338,947	$ 376,361
Transfer-In of PILT Operations from BLM	(Note 28)	642	-
Beginning Balances, as adjusted		339,589	376,361
Budgetary Financing Sources			
Appropriations Received, General Funds	(Note 18)	1,059,790	684,972
Appropriations Transferred In/Out		(58,118)	(9,657)
Appropriations-Used		(928,352)	(709,315)
Other Adjustments		(10,344)	(3,414)
Total Budgetary Financing Sources		62,976	(37,414)
Ending Balance - Unexpended Appropriations		$ 402,565	$ 338,947
CUMULATIVE RESULTS OF OPERATIONS			
Beginning Balances		$ 863,025	$ 785,416
Discontinued Operations, Franchise Fund	(Note 29)	-	(1,410)
Beginning Balances, as adjusted		863,025	784,006
Budgetary Financing Sources			
Appropriations-Used		928,352	709,315
Transfers In/Out without Reimbursement		(13,008)	13,745
Non-Exchange Revenue:			
Donations and Forfeitures of Cash and Cash Equivalents		3,156	4,128
Other Non-Exchange Revenue		47,393	46,687
Other Budgetary Financing Sources and Adjustments		(1,791)	(13,505)
Other Financing Sources			
Imputed Financing from Cost Absorbed by Others		26,203	17,725
Transfers In/Out without Reimbursement		(595)	(4,024)
Donations and Forfeitures of Property		13,536	35,165
Total Financing Sources		1,003,246	809,236
Net Cost of Operations		(922,670)	(730,217)
Ending Balance - Cumulative Results of Operations		$ 943,601	$ 863,025

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

Department of the Interior
Departmental Offices
Combined Statement of Budgetary Resources
For the Years Ended September 30, 2004 and 2003

(in thousands)

		2004		2003	
		Total Budgetary Accounts	Non-Budgetary Credit Program Financing Accounts	Total Budgetary Accounts	Non-Budgetary Credit Program Financing Accounts
Budgetary Resources:					
Budget Authority:	(Note 18)				
Appropriations Received		$ 1,202,362	$ -	$ 894,574	$ -
Net Transfers, Current Year Authority (+/-)		(1,694)	-	(2,562)	-
Unobligated Balance:					
Beginning of Fiscal Year		404,003	1,518	754,440	(2,175)
Beginning of Fiscal Year, Discontinued Operations, IFF	(Note 29)	-	-	(378,442)	-
Beginning of Fiscal Year, Transferred In, PILT Operations	(Note 28)	357	-	-	-
Net Transfers, Unobligated Balance, Actual (+/-)		(9,957)	-	(349)	-
Spending Authority From Offsetting Collections:					
Earned					
Collected		962,968	1,036	666,962	1,751
Receivable From Federal Sources		29,044	-	(24,522)	(475)
Change in Unfilled Customer Orders					
Advance Received		271,755	-	125,340	-
Without Advance From Federal Sources		24,341	-	23,746	-
Recoveries of Prior Year Obligations		27,248	-	12,342	-
Permanently Not Available		(32,143)	(1,336)	(5,128)	3,200
Total Budgetary Resources		**2,878,284**	**1,218**	**2,066,401**	**2,301**
Status of Budgetary Resources:					
Obligations Incurred:					
Direct		1,209,320	1,218	871,350	783
Reimbursable		1,293,992	-	791,050	-
Total Obligations Incurred	(Note 19)	2,503,312	1,218	1,662,400	783
Unobligated Balance:	(Note 23)				
Apportioned		371,846	-	392,001	-
Unobligated Balance not Available		3,126	-	12,000	1,518
Total Status of Budgetary Resources		**2,878,284**	**1,218**	**2,066,401**	**2,301**
Relationship of Obligations to Outlays:					
Obligations Incurred		2,503,312	1,218	1,662,400	783
Obligated Balance, Net, Beginning of Fiscal Year		616,055	-	491,251	2,575
Obligated Balance, Discontinued Operations, IFF	(Note 29)	-	-	(48,799)	-
Obligated Balance, Transferred In PILT Operations	(Note 28)	298	-	-	-
Obligated Balance, Net, End of Fiscal Year:					
Accounts Receivable		55,188	-	26,143	-
Unfilled Customer Orders From Federal Sources		58,916	-	34,574	-
Undelivered Orders		(927,664)	-	(583,217)	-
Accounts Payable		(139,667)	-	(93,555)	-
Less: Spending Authority Adjustments		(80,634)	-	(11,566)	475
Outlays:					
Disbursements		2,085,804	1,218	1,477,231	3,833
Collections		(1,234,721)	(1,036)	(792,302)	(1,751)
Subtotal		851,083	182	684,929	2,082
Less: Offsetting Receipts		(175,530)	-	(166,969)	-
Net Outlays		**$ 675,553**	**$ 182**	**$ 517,960**	**$ 2,082**

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

Department of the Interior
Departmental Offices
Consolidated Statement of Financing
For the Years Ended September 30, 2004 and 2003
(dollars in thousands)

		2004	2003
Resources Used to Finance Activities:			
Budgetary Resources Obligated:			
Obligations Incurred		$ 2,504,530	1,663,183
Less: Spending Authority From Offsetting Collection/Adjustments		(1,316,391)	(805,144)
Obligations Net of Offsetting Collections and Adjustments		1,188,139	858,039
Less: Offsetting Receipts		(175,530)	(166,969)
Net Obligations		1,012,609	691,070
Other Resources:			
Donations and Forfeitures of Property		13,536	35,165
Transfers In/Out Without Reimbursement		(595)	(4,024)
Imputed Financing From Costs Absorbed by Others		26,203	17,725
Net Other Resources Used to Finance Activities		39,144	48,866
Total Resources Used to Finance Activities		**1,051,753**	**739,936**
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		(70,137)	42,018
Resources That Fund Expenses Recognized in Prior Periods		116	(113)
Budgetary Offsetting Collections and Receipts That Do Not Affect Net Cost of Operations:			
Offsetting Receipts Not Part of the Net Cost of Operations		174,074	167,686
Resources That Finance the Acquisition of Assets		(185,391)	(192,700)
Other Resources or Adjustments to Net Obligated Resources That Do Not Affect Net Cost of Operations		9,210	(13,505)
Total Resources Used to Finance Items Not Part of the Net Cost of Operations		(72,128)	3,386
Total Resources Used to Finance the Net Cost of Operations		**979,625**	**743,322**
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:			
Increase (Decrease) in Annual Leave Liability		2,057	191
Increase (Decrease) in Environmental and Disposal Liability		300	-
Upward/Downward Re-estimates in Credit Subsidy Expense		(335)	(475)
Other		(4,721)	877
Total Components of Net Cost of Operations That Will Require or Generate Resources in Future Periods		(2,699)	593
Components Not Requiring or Generating Resources:			
Depreciation and Amortization		6,281	5,016
Components of Net Cost of Operations Related to Transfer Accounts Where Budget Amounts or Proprietary Amounts are Reported by Other Federal Entities	(Note 26)	(60,640)	(18,453)
Other		103	(261)
Total Components of Net Cost of Operations That Will Not Require or Generate Resources in the Current Period		(54,256)	(13,698)
Total Components of Net Cost of Operations That Will Not Require or Generate Resources		**(56,955)**	**(13,105)**
Net Cost of Operations		**$ 922,670**	**$ 730,217**

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

U.S. Department of the Interior
Departmental Offices

Notes to Principal Financial Statements
As of and For the Years Ending
September 30, 2004 and 2003

NOTE 1
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Department of the Interior (DOI) is responsible for the management, preservation and operation of the Nation's public lands and natural resources including the following:

- (a) Carrying out related scientific research and investigations;
- (b) Developing and using resources in an environmentally sound manner;
- (c) Providing an equitable return on these resources to the American taxpayer; and,
- (d) Carrying out trust responsibilities of the U.S. Government with respect to American Indians and Alaska natives, as well as commitments to island communities.

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

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

Departmental Offices (DO) consist of eight responsibility segments that support the role of the Secretary and the Secretary's immediate office, in ensuring that the DOI fulfills its responsibilities. These segments are:

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

<u>Programs</u>

The following are the DO programs as presented in the Statement of Net Cost for 2004, footnote 17, 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, and NRDAR.

- Resource Use - Central Utah Project (Utah Reclamation Mitigation and Conservation Commission and 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 Departmental Management - OIG, SOL, Working Capital Fund, AMD, Miscellaneous Receipts, Penalties and Fines, Suspense funds, and Departmental Management

The following are the DO programs as presented in the Statement of Net Cost for 2003, footnote 17, and other accompanying information:

- Working Capital Fund (NBC and AMD)

- Departmental Offices (Departmental Management, OIG, SOL, Miscellaneous Receipts; Contribution Account for the President's Council on Sustainable Development; Penalties and Fines, and Suspense funds)

- Environmental Activity (Everglades Watershed Protection, Oil Spill Emergency, Everglades Restoration, NRDAR, Federal Lands Subsistence Management, King Cove, Title V and Title VI Priority Land Acquisitions, and Fire Protection Services)

- Services to Native Americans (Office of the Special Trustee for American Indians, Indian Land Consolidation Pilot, Tribal Special Fund, and Tribal Trust Fund)

- Service to Insular Areas (Assistance to Territories, Trust Territory of the Pacific Islands, Compact of Free Association, Micronesian Claims Fund, Payments to the United States Territories, and Assistance to American Samoa Direct Loan Financing Account)

- Central Utah Project (Utah Reclamation Mitigation and Conservation Commission and Central Utah Project Completion Act)

DO maintains accounts in the following fund types:

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

   a. Departmental Management
   b. OIG
   c. Administration of Territories
   d. NRDAR (14X1618)
   e. CUPCA (14X0787)
   f. OST (14X0120, 14X2103)
   g. SOL
   h. Everglades Watershed Protection
   i. Payments in Lieu of Taxes (PILT)

2. Trust Funds – These funds were established to carry out specific programs under trust agreements and statutes. The OST Tribal Trust Fund is the principal trust fund.

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

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

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

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 fund is the Working Capital Fund (WCF).

B. Basis of Presentation and Accounting

These financial statements have been prepared to report the financial position, net costs, changes in net position, budgetary resources, and reconciliation of net cost of operations to budgetary obligations of DO as required by the Chief Financial Officers Act (CFO) of 1990, as amended, and the Government Management Reform Act of 1994. These financial statements have been prepared from the financial records of DO in accordance with accounting principles generally accepted in the United States of America (GAAP), Office of Management and Budget (OMB) Bulletin No. 01-09, "*Form and Content of Agency Financial Statements*." GAAP for Federal entities are the standards prescribed by the Federal Accounting Standards Advisory Board (FASAB), which is the official standard setting body for the Federal government. These financial statements present proprietary and budgetary information while other financial reports also prepared by DO pursuant to OMB directives are used to monitor and control the DO use of budgetary resources. In accordance with OMB financial statement reporting guidelines, DO has presented comparative 2003 financial statements.

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

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

Transactions and balances among the DO and programs have been eliminated from the consolidated balance sheets, consolidated statements of net cost, and the consolidated statements of changes in net position. As provided for in OMB financial statement reporting guidelines, the statement of budgetary resources is presented on a combined basis, therefore intra-DO transactions and balances have not been eliminated from this statement. In accordance with OMB financial statement reporting guidelines, intra-DO transactions and balances have been eliminated from the Consolidated Statement of Financing except for transactions and balances related to obligations incurred, spending authority from offsetting collections, other adjustments, and off-setting receipts, which are presented on a combined basis.

C. Entity and Non-Entity Assets

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

D. Fund Balance with Treasury

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

E. Investments, Net

Office of the Special Trustee for American Indians

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

Utah Reclamation Mitigation and Conservation Commission

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

Natural Resource Damage Assessment and Restoration Fund

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

F. Accounts Receivable, Net

Accounts receivable consists of amounts owed to DO by other Federal agencies and the public. Accounts receivable from federal agencies for the provision of goods and services are estimated at year-end based on past trends. Federal accounts receivable generally arise from the provision of goods and services to other Federal agencies and, with the exception of occasional billing disputes, are considered to be fully collectible. Receivables from the public generally arise either from the provision of goods and services or from the levy of fines and penalties resulting from DOI regulatory responsibilities. The ongoing review of outstanding receivables supports recording an allowance for certain receivables from prior years 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.

G. Loans Receivable, Net

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

The loan to the Virgin Islands was non-subsidized. The source for this loan was a loan to the Office of the Secretary (OS) from the Federal Financing Bank (FFB), Treasury. The loan receivable from the Virgin Islands has an offsetting liability to the FFB. Any budget authority for the additional cost of the loan must be made available out of existing appropriations or from other budgetary resources. No allowance for estimated uncollectible amounts is required.

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

Loans are accounted for as receivables after the funds have been disbursed. For the loan obligated prior to October 1, 1991, no allowance for estimated uncollectible amounts has been recognized. For the loan obligated 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.

H. Interest Receivable, Net

<u>Loan Interest</u>
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 determined annually based on the prevailing market yield on Treasury securities of comparable maturity. 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.

<u>Investment Interest</u>
Investment interest receivable is accrued when earned.

<u>Other Interest</u>
Interest receivable on accounts receivable is recognized as it is earned.

I. Advances and Prepayments

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

J. Inventory and Related Property

The AMD inventories are primarily comprised of non-issued aircraft parts and fuel that will be consumed or sold 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 consumed or sold to various Federal and non-Federal entities and valued at historical cost, based on the moving-average method. The recorded values are adjusted for the results of physical inventories taken periodically. Expenses are recorded when the inventories are consumed or sold.

K. General Property, Plant, and Equipment, Net

Property, Plant, and Equipment consists of land, buildings, structures and facilities, 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. The following summarizes the capitalization and depreciation policy for each category:

- Land acquired for general operating purposes with an initial acquisition cost of over $100,000 is capitalized at acquisition cost.

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

- Construction in progress with an initial acquisition cost of over $100,000 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. These are part of the Colorado River Storage Project and are accounted for under CUPCA. All cost of these projects are capitalized at acquisition cost and are 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 5 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 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, either as stated on the transfer document, computed from the acquisition value stated on the document, or the estimated fair market value listed in Aircraft Price Digest, in that order of preference.
    2. Aircraft acquired by the bureaus through forfeiture proceedings and subsequently transferred to the fleet are capitalized at the estimated fair market value listed in the Aircraft Price Digest at the time of receipt.
    3. Aircraft purchased by other DOI bureaus on behalf of AMD are capitalized at acquisition cost.

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

- Donated property and equipment are capitalized at the estimated fair market value at time of acquisition and depreciated over a period of 3 to 20 years using the straight-line method. There is no salvage value.

L. Liabilities

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

<u>Liabilities Covered by Budgetary Resources</u> **-** 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.

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

<u>Current Liabilities</u> - 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.

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

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

In 2001, a loan was extended to the SIO from the Bureau of the Public Debt, Treasury for the purpose of operating a direct loan. Funds are appropriated to the SIO 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.

N. Personnel Compensation and Benefits

Salary and Wages

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

Annual and Sick Leave Program

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

Retirement Programs

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

For FERS employees, DO contributes an amount equal to one percent of the employee’s basic pay to the tax deferred thrift savings plan and matches employee contributions up to an additional four percent of pay. FERS employees can contribute up to 14 percent of their gross earnings to the plan.

CSRS employees are limited to a contribution of five percent of their gross earnings and receive no matching contribution from DO.

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

Federal Employees Group Life Insurance (FEGLI) Program

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

O. 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 special projects.

P. Deferred Revenue

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

Q. Federal Employees Contribution Act-Liability

Federal Employees Contribution Act

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

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

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

Labor 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.

R. Environmental Cleanup Costs Due to the Public

Environmental Cleanup Costs Due to the Public consist of AMD's liabilities for the estimated cost of hazardous waste cleanup in the working capital fund.

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

Exchange and Non-Exchange Revenue – DO classifies revenues as either exchange or non-exchange revenue. Exchange revenues are those revenues derived from transactions in which both parties to the transactions sacrifice value and receive value in return.

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

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

In certain cases, the prices charged by DO are set by law or regulation, which for program and other reasons may not represent full cost. Prices set for products and services offered through working capital funds are intended to recover the full costs (cost plus administrative fees) incurred by these activities.

Non-exchange revenues are presented as financing sources on the statement of changes in net position. Non-exchange revenues are inflows of resources that the Government demands by its sovereign power or receives by donation. The two largest categories of these non-exchange revenues, Donations and Forfeitures of property and other non-exchange revenue, are related to court ordered fines and penalties for violations of gaming regulations enforced by the NIGC and the negotiated settlements for environmental cleanup enforced by the NRDAR. Donations and transfers, both monetary and non-monetary, are also classified as non-exchange revenues. Non-exchange revenues as presented in the statement of changes in net position are recognized when constructively received.

T. Other Financing Sources

Transfers – Transfers of assets from other Government entities.

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

U. 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.

V. Use of Estimates

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

W. Income Taxes

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

NOTE 2

ASSET ANALYSIS
(dollars in thousands)

	ENTITY	NON ENTITY	9/30/2004
ASSETS			
Intragovernmental Assets:			
Fund Balance with Treasury	$ 1,041,564	$ 4,450	$ 1,046,014
Investments, Net	392,303	-	392,303
Accounts and Interest Receivable, Net	47,832	-	47,832
Other			
Advances and Prepayments	22,719	-	22,719
Total Intragovernmental Assets	1,504,418	4,450	1,508,868
Investments, Net	190,767	-	190,767
Accounts and Interest Receivable, Net	7,546	685	8,231
Loans and Interest Receivable, Net	23,098	-	23,098
Inventory and Related Property	567	-	567
General Property, Plant & Equipment, Net	298,728	-	298,728
Other			
Advances and Prepayments	655	-	655
Stewardship Assets			
TOTAL ASSETS	$ 2,025,779	$ 5,135	$ 2,030,914

	ENTITY	NON ENTITY	9/30/2003
ASSETS			
Intragovernmental Assets:			
Fund Balance with Treasury	$ 726,572	$ 173,142	$ 899,714
Investments, Net	371,802	-	371,802
Accounts and Interest Receivable, Net	22,005	-	22,005
Other			
Advances and Prepayments	9,788	-	9,788
Total Intragovernmental Assets	1,130,167	173,142	1,303,309
Investments, Net	181,540	-	181,540
Accounts and Interest Receivable, Net	8,703	1,716	10,419
Loans and Interest Receivable, Net	24,675	-	24,675
Inventory and Related Property	523	-	523
General Property, Plant & Equipment, Net	241,008	-	241,008
Other			
Advances and Prepayments	4,035	-	4,035
Stewardship Assets			
TOTAL ASSETS	$ 1,590,651	$ 174,858	$ 1,765,509

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

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

NOTE 3
FUND BALANCE WITH TREASURY
(dollars in thousands)

Fund Balances by Fund Type	**9/30/2004**	**9/30/2003**
General Funds	377,503	342,467
Special Funds	65,053	61,050
Revolving Funds	596,637	319,038
Trust Funds	331	263
Other Fund Types	6,491	176,896
Total Fund Balance with Treasury	**1,046,014**	**899,714**

Status of Fund Balance with Treasury	**9/30/2004**	**9/30/2003**
Unobligated		
Available	106,200	100,461
Unavailable	9,618	191,433
Obligated Not Yet Disbursed	930,197	607,820
Total Status of Fund Balance with Treasury	**1,046,014**	**899,714**

The amounts presented for Fund Balance with Treasury as unobligated (available and unavailable) and obligated not yet disbursed differ from the amounts presented on the Statement of Budgetary Resources because: (1) budgetary resources include amounts which are not part of the Fund Balance with Treasury; and (2) not all the Fund Balance with Treasury amounts are reflected in budgetary resources. The major examples of (1) for DO are investments and allocation accounts where DO is the parent. The major examples of (2) for DO are deposit and other funds which do not record budgetary resources and allocation accounts where DO is the child. The treatment of allocation accounts is discussed further in note 26.

NOTE 4
INVESTMENTS, NET
(dollars in thousands)

9/30/2004

	Investment Type	Cost	Amortized(Premium)/Discount	Investments, Net	Market Value Disclosure
U.S. Treasury Securities					
Utah Reclamation Mitigation and Conservation Account	Non-Marketable, market-based	$ 152,428	$ (8,660)	$ 143,768	$ 143,551
National Resources Damage Assessment and Restoration Fund	Non-Marketable, market-based	170,593	(1,414)	169,179	168,962
Tribal Trust and Special Funds	Marketable	49,860	(49)	49,811	49,792
Tribal Trust and Special Funds	Non-Marketable, market-based	27,755	-	27,755	27,753
Total U.S. Treasury Securities		400,636	(10,123)	390,513	390,058
Accrued Interest		1,790		1,790	-
Total Non-Public Investments		402,426	(10,123)	392,303	390,058
Public Securities					
Tribal Trust and Special Funds	Marketable	188,966	476	189,442	189,679
Total Public Securities		188,966	476	189,442	189,679
Accrued Interest		1,325		1,325	-
Total Public Investments		190,291	476	190,767	189,679
Total Investments		$ 592,717	$ (9,647)	$ 583,070	$ 579,737

9/30/2003

	Investment Type	Cost	Amortized(Premium)/Discount	Investments, Net	Market Value Disclosure
U.S. Treasury Securities					
Utah Reclamation Mitigation and Conservation Account	Non-Marketable, market-based	$ 139,875	$ (946)	$ 138,929	$ 139,694
National Resources Damage Assessment and Restoration Fund	Non-Marketable, market-based	156,026	(713)	155,313	155,552
Tribal Trust and Special Funds	Marketable	45,875	45	45,920	46,150
Tribal Trust and Special Funds	Non-Marketable, market-based	29,966	-	29,966	29,966
Total U.S. Treasury Securities		371,742	(1,614)	370,128	371,362
Accrued Interest		1,674		1,674	-
Total Non-Public Investments		373,416	(1,614)	371,802	371,362
Public Securities					
Tribal Trust and Special Funds	Marketable	179,733	323	180,056	184,490
Total Public Securities		179,733	323	180,056	184,490
Accrued Interest		1,484		1,484	-
Total Public Investments		181,217	323	181,540	184,490
Total Investments		$ 554,633	$ (1,291)	$ 553,342	$ 555,852

NOTE 5
ACCOUNTS AND INTEREST RECEIVABLE, NET
(dollars in thousands)

Accounts and Interest Receivable from Federal Agencies		9/30/2004		9/30/2003
Current	$	1,412	$	890
1 - 180 Days Past Due		140		-
181 - 365 Days Past Due		6		-
Total Accounts Receivable - Federal		1,558		890
Unbilled Accounts Receivable		46,274		21,115
Total Accounts Receivable - Federal		47,832		22,005
Allowance for Doubtful Accounts - Federal		-		-
Total Accounts and Interest Receivable - Federal, Net	$	47,832	$	22,005

Accounts and Interest Receivable from the Public		9/30/2004		9/30/2003
Current	$	866	$	7,741
1 - 180 Days Past Due		247		283
181 - 365 Days Past Due		25		43
Over 1 Year Past Due		46		50
Total Billed Accounts Receivable - Public		1,184		8,117
Unbilled Accounts Receivable		7,162		2,313
Total Accounts Receivable - Public		8,346		10,430
Allowance for Doubtful Accounts		(115)		(11)
Total Accounts and Interest Receivable - Public, Net	$	8,231	$	10,419

Change in Allowance for Bad Debts - Public				
Allowance for Doubtful Accounts, beginning	$	(11)	$	(4)
Additions		(109)		(11)
Deletions		5		4
Allowance for Bad Debts - Public	$	(115)	$	(11)

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 Public:

Description		**9/30/2004**		**9/30/2003**
Virgin Islands	$	7,825	$	9,834
ASG		17,836		17,739
Less: Allowance for Present Value of Subsidy Cost		(2,563)		(2,898)
Total	**$**	**23,098**	**$**	**24,675**

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 SIO. This loan is considered a pre-credit reform loan. The loan receivable from the Virgin Islands has an offsetting liability to the FFB. It has a final payment due date of January 2, 2007. In 2000, this loan was transferred from Treasury Account Symbol 14X0412, Administration of the Territories, to 14X0418, Fiscal Assistance Payments to U.S. Territories as requested by the

OIA. Principal and interest payments are due in January and July of each year. Interest is based on the amortization schedule for the loan with the FFB. The interest is accrued each year-end based upon the period of July through September.

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

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

A. Direct Loan Obligated prior to 1992 (Allowance for loss method) (dollars in thousands):

Virgin Islands Loan	Loan Receivable Gross	Interest Receivable	Less Allowance for Loan Losses	Value of Assets Related to Direct Loan
9/30/2004	$ 7,641	184	-	$ 7,825
9/30/2003	$ 9,605	229	-	$ 9,834

B. Direct Loan Obligated After 1991 (Allowance for Present Value Method) (dollars in thousands):

Government of American Samoa Loan	Loan Receivable Gross	Interest Receivable	Less Allowance for Present Value of Subsidy Cost	Value of Assets Related to Direct Loan
9/30/2004	$ 17,142	694	(2,563)	$ 15,273
9/30/2003	$ 17,324	415	(2,898)	$ 14,841

C. Total Amount of Direct Loans Disbursed (Post-1991) (dollars in thousands):

Direct Loan Programs	9/30/2004	9/30/2003
Government of American Samoa	$ -	$ 3,100

D. Subsidy Expense – Direct Loans (dollars in thousands):

Government of American Samoa	Interest Differential	Defaults	Total
9/30/2004	$ (1,297)	$ 962	$ (335)
9/30/2003	$ (6)	$ 481	$ 475

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

Government of American Samoa	**9/30/2004**	**9/30/2003**
Beginning balance of the subsidy cost allowance	$ 2,898	$ 2,423
A. Interest rate differential costs	-	(6)
B. Default costs (net of recoveries)	-	481
C. Interest Rate Re-Estimate	(1,297)	
D. Technical/Default Re-Estimate	962	
Total of the above subsidy expense components	(335)	475
Ending balance of the subsidy cost allowance	**$ 2,563**	**$ 2,898**

F. Administrative Expense – Direct Loans (dollars in thousands):

Loan Program	**9/30/2004**	**9/30/2003**
Government of American Samoa	$ 836	$ 783

NOTE 7
INVENTORY AND RELATED PROPERTY
(dollars in thousands)

	FY 2004	FY 2003
Inventory		
Airplane Parts Held for Use	$ 73	$ 477
Aviation Fuel Held for Use	494	46
Net Inventory and Related Property	$ 567	$ 523

NOTE 8
GENERAL PROPERTY, PLANT, & EQUIPMENT, NET
(dollars in thousands)

	Gross	Accumulated Depreciation	Net FY 2004
Land and Land Improvements	$ 19,567	$ -	$ 19,567
Buildings	142	22	120
Structures and Facilities	174,932	2,252	172,680
Leasehold Improvements	1,772	89	1,683
Construction in Progress - General	56,886	-	56,886
Equipment, Vehicles, and Aircraft	57,854	26,303	31,551
Assets Under Capital Lease	6	1	5
Internal Use Software:			
In Use	10,413	7,562	2,851
In Development	13,382	-	13,382
Total Property, Plant, and Equipment	$ 334,954	$ 36,229	$ 298,725

	Gross	Accumulated Depreciation	Net FY 2003
Land and Land Improvements	$ 18,819	$ -	$ 18,819
Buildings	143	19	123
Structures and Facilities	20,089	434	19,655
Leasehold Improvements	1,156	-	1,156
Construction in Progress - General	168,560	-	168,561
Equipment, Vehicles, and Aircraft	53,268	23,129	30,139
Internal Use Software:			
In Use	8,362	6,614	1,748
In Development	807	-	807
Total Property, Plant, and Equipment	$ 271,204	$ 30,196	$ 241,008

The costs for Construction in Progress as of September 30, 2004 and 2003 are from the Central Utah Project Completion Act Office account.

Note 9
STEWARDSHIP ASSETS
(dollars in thousands)

Statement of Federal Financial Accounting Standard (SFFAS) No. 6, *"Accounting for Property, Plant and Equipment,"* established various categories of stewardship property, plant, and equipment, including stewardship land and heritage assets. The majority of the land acquired was with the purpose of mitigating the loss of fish and wildlife resources caused by Reclamation project construction. Stewardship assets are treated as expenses that are intended to provide long-term benefits to the public. The costs associated with acquiring and improving stewardship land were $5,449 and $5,269 for the years ended September 30, 2004 and 2003, respectively. For additional discussion of stewardship assets, refer to the Required Supplementary Stewardship Information section of this report.

NOTE 10
LIABILITIES ANALYSIS
(dollars in thousands)

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

	Covered by Budgetary Resources		Not Covered by Budgetary Resources		9/30/2004
	Current	Non-Current	Current	Non-Current	Total
Intragovernmental Liabilities:					
Accounts Payable	$ 5,607	$ -	$ -	$ -	$ 5,607
Debt	1,065	13,072	1,501	6,324	21,962
Other					
Accrued Payroll and Benefits	1,698	-	679	2,139	4,516
Advances and Deferred Revenue	476,185	-	-	-	476,185
Deposit Fund Liability	-	-	(489)	-	(489)
Total Other	477,883	-	190	2,139	480,212
Total Intragovernmental Liabilities	484,555	13,072	1,691	8,463	507,781
Public Liabilities:					
Accounts Payable	113,545	-	-	-	113,545
Federal Employees Compensation Act Liability	-	-	-	17,809	17,809
Environmental Cleanup Costs	-	-	-	1,300	1,300
Other					
Accrued Payroll and Benefits	9,660	-	-	21,547	31,207
Advances and Deferred Revenue	4,729	-	-	-	4,729
Deposit Fund Liability	-	-	7,665	-	7,665
Contingent Liabilities	-	-	712	-	712
Total Other	14,389	-	8,377	21,547	44,313
Total Public Liabilities	127,934	-	8,377	40,656	176,967
Total Liabilities	$ 612,489	$ 13,072	$ 10,068	$ 49,119	$ 684,748

	Covered by Budgetary Resources		Not Covered by Budgetary Resources		9/30/2003
	Current	Non-Current	Current	Non-Current	Total
Intragovernmental Liabilities:					
Accounts Payable	$ 10,342	$ -	$ -	$ -	$ 10,342
Debt	2,193	13,280	3,059	6,775	25,307
Other					
Accrued Payroll and Benefits	17,528	-	973	2,444	20,945
Advances and Deferred Revenue	216,819	-	-	-	216,819
Deposit Fund Liability	-	-	992	-	992
Other Liabilities	-	-	222	935	1,157
Total Other	234,347	-	2,187	3,379	239,913
Total Intragovernmental Liabilities	246,882	13,280	5,246	10,154	275,562
Public Liabilities:					
Accounts Payable	73,850	-	-	-	73,850
Federal Employees Compensation Act Liability	-	-	-	20,750	20,750
Environmental Cleanup Costs	-	-	-	1,000	1,000
Other					
Accrued Payroll and Benefits	6,508	-	-	19,488	25,996
Advances and Deferred Revenue	4,688	-	-	-	4,688
Deposit Fund Liability	-	-	160,998	-	160,998
Contingent Liabilities	-	-	693	-	693
Total Other	11,196	-	161,691	19,488	192,375
Total Public Liabilities	85,046	-	161,691	41,238	287,975
Total Liabilities	$ 331,928	$ 13,280	$ 166,937	$ 51,392	$ 563,537

For September 30, 2004 and 2003, DO anticipates that the liabilities listed above as not covered by budgetary resources will be funded from future budgetary resources when required. The Virgin Island debt is not covered by budgetary resources and will be funded by loans receivable due from the Virgin Island Government (See Note 12 for further details). DO receives budgetary resources for the Federal Employee Compensation Act (FECA) liability, the Environmental Cleanup Costs, and Contingent liabilities when they are needed for disbursements. The unfunded Accrued Payroll and Benefits due to the public represents annual leave. Budgetary resources are generally provided for annual leave when it is taken. Deferred credits represent deposits received from customers, including monies paid to DO for payroll services (See Note 13 for further discussion).

NOTE 11
Federal Employee Compensation Act Liability Due to the Public
(dollars in thousands)

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

DOL calculates the estimated future benefit payments based on various assumptions. The interest rates used to discount the estimated future benefit payments to present values are 4.88 percent in year one and 5.24 percent in all subsequent years. The wage inflation factors and medical inflation factors used in the calculation are as follows:

	2004		2003	
Fiscal Year	Cost of Living Adjustment	Consumer Price Index Medical Adjustment	Cost of Living Adjustment	Consumer Price Index Medical Adjustment
2005	2.03%	4.14%	2.00%	3.54%
2006	2.73%	3.96%	1.83%	3.64%
2007	2.40%	3.98%	1.97%	3.80%
2008	2.40%	3.99%	2.17%	3.92%
2009 +	2.40%	4.02%	2.17%	3.92%

DO has recorded an estimated, unfunded liability for the expected future cost for death, disability, and medical claims under FECA of approximately $17,809 and $20,750 as of September 30, 2004 and 2003, respectively.

NOTE 12
DEBT
(dollars in thousands)

Description		2003 Beginning Balance		Net Borrowings (Payments)		2003 Ending Balance		Net Borrowings (Payments)		9/30/2004 Ending Balance
Federal Financing Bank:										
Virgin Islands Loan	$	11,697	$	(1,863)	$	9,834	$	(2,009)	$	7,825
Treasury:										
American Samoa Loan		12,273		3,200		15,473		(1,336)		14,137
Total	$	23,970	$	1,337	$	25,307	$	(3,345)	$	21,962

Of the $7,825 payable for the Virgin Islands Loan for September 30, 2004, $1,501 is a current liability and $6,324 is non-current (payable beyond one year). Of the $14,137 payable for the American Samoa Loan for September 30, 2004, $1,065 is a current liability and $13,072 is non-current. The amount of the current liability for the American Samoa Loan is contingent upon recoveries from the Tobacco Master Settlement agreement signed November 23, 1998.

Of the $9,834 payable for the Virgin Island Loan in 2003, $3,059 was current and $6,775 was non-current. Of the $15,473 payable for the American Samoa Loan in 2003, $2,193 was current and $13,280 was non-current.

The related interest costs for the Virgin Island Loan in September 30, 2004 is $866 and in 2003 was $1,036. The related interest costs for the American Samoa Loan in September 30, 2004 is $836 and in 2003 was $783. 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 5.37%.

NOTE 13
DEPOSIT FUND LIABILITY
(dollars in thousands)

The deposit fund liability of $7,176 as of September 30, 2004 and $161,990 as of September 30, 2003, primarily 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 un-disbursed funds held for clients are $5,135 as of September 30, 2004 and $174,858 as of September 30, 2003.

NOTE 14
CONTINGENT LIABILITIES AND ENVIRONMENTAL CLEANUP COSTS, PUBLIC
(dollars in thousands)

A. The accrued and additional potential Contingent Liabilities as of September 30, 2004 and 2003 are summarized in the categories below:

	Accrued Liabilities	
	FY 2004	FY 2003
Estimated Cleanup Cost	$ 1,300	$ 1,000
Contingent Liabilities	712	693
Total Environmental and Contingent Liabilities - Accrued	$ 2,012	$ 1,693

	Additional Potential Liabilities			
	FY 2004		FY 2003	
	Lower End of Range	Upper End of Range	Lower End of Range	Upper End of Range
Estimated Cleanup Cost	$ -	$ -	$ -	$ -
Contingent Liabilities	-	10,000	-	10,100
Total Environmental and Contingent Liabilities - Potential	$ -	$ 10,000	$ -	$ 10,100

AMD's liability for Environmental Cleanup Costs of $1,300 for September 30, 2004 and $1,000 for September 30, 2003, respectively, 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. It is estimated that cleanup will be started in 1-2 years.

The accrued liability for 2004 represents one OST case for improper disbursement from an IIM account. The potential liabilities for 2004 represents one OST case for failure to account for tribal trust assets. The accrued liability for 2003 represents two OST cases, one for contract termination and one for improper disbursement from an IIM account. The potential liabilities for 2003 represents four cases: two SIO cases, one for employment discrimination and one for contract termination and two OST cases, one for discrimination based on reprisal for prior EEO activity and one for contract termination.

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

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

Twenty-six Tribal trust cases currently are pending in various Federal district courts and the U.S. Court of Federal Claims. These cases, which were brought by 20 different Tribes, involve claims for trust fund and asset mismanagement, accounting, and other declaratory relief. A substantial number of the cases are stayed pending settlement negotiations. At least 3 cases are in advanced settlement negotiations, although to date no settlement agreements have been finalized.

In addition, a significant class action lawsuit has been brought on behalf of individual Indian beneficiaries of the Individual Indian Money (IIM) trust accounts. The lawsuit alleges that Interior and Treasury have breached their trust obligations with respect to the management of funds in the IIM accounts. The plaintiffs claim that they are seeking only an "accounting" of the IIM trust funds and no damages.

Notwithstanding the damages or other claims described above, no probable estimate or range of loss can be made at this time regarding any financial liability that may result from judgment or settlement of the Tribal trust cases or IIM trust fund litigation.

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

NOTE 15
INDIAN TRUST FUNDS

The Department, through OST, maintains approximately 1,400 accounts for Tribal and Other Trust Funds (including the Alaska Native Escrow Fund) with combined monetary assets of approximately $2,975 million as of September 30, 2004 and $2,880 million as of September 30, 2003.

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

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

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

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

The OST also maintains about 266,000 and 260,000 open Individual Indian Monies (IIM) accounts as of September 30, 2004 and September 30, 2003, respectively, with a fund balance of approximately $397 million as of September 30, 2004 and $413 million as of September 30, 2003.

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

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

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

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

Audit Results. With Office of Inspector General oversight, independent auditors audited the Tribal and Other Trust Funds and the IIM Trust Funds financial statements as of and for the years ended September 30, 2004 and 2003. 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 inadequacies in certain Department of the Interior trust-related systems and processes, which provide required trust financial information to OST.

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

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

For more information, see Note 14, Contingent Liabilities.

Tribal and Other Trust Funds
Statements of Assets and Trust Fund Balances – Cash Basis
As of September 30, 2004 and 2003
(dollars in thousands)

	9/30/2004	9/30/2003
ASSETS		
Current Assets		
Cash and Cash Equivalents	$ 490,380	$ 507,578
Due from other Federal agencies*	7,800	-
Investments	2,477,052	2,372,434
TOTAL ASSETS	2,975,232	2,880,012
TRUST FUND BALANCES		
Held for Indian Tribes	2,708,869	2,624,471
Held by the Department of the Interior and considered to be U.S. Government funds	266,363	255,541
TOTAL TRUST FUND BALANCES	$ 2,975,232	$ 2,880,012

* This represents an amount that the BIA erroneously transferred from the Trust Funds' account at the U.S. Treasury into the BIA's account at the U.S. Treasury. This amount was transferred on September 30, 2004 and was returned to the proper U.S. Treasury account in October of 2004. The erroneous transfer, which was identified through OST's reconciliation and internal control process, did not impact the interest earnings to the Trust Funds.

Tribal and Other Trust Funds
Statements of Changes in Trust Fund balances – Cash Basis
As of September 30, 2004 and 2003
(dollars in thousands)

	9/30/2004	9/30/2003
Receipts	$ 300,960	$ 256,168
Interest Received	106,348	118,010
Gain (Loss) on Disposition on Investments, Net	6,359	4,291
Disbursements to and on Behalf of Indian Tribes and Other Trust Funds and withdrawals of Trust Funds by Indian Tribes	(318,447)	(354,746)
Increase (decrease) in Trust Fund Balances, Net	95,220	23,723
Trust Fund Balances-Beginning of Year	2,880,012	2,856,289
Trust Fund Balances-End of Year	$ 2,975,232	$ 2,880,012

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

Individual Indian Monies Trust Funds
Statements of Assets and Trust Fund Balances – Modified Cash Basis
As of September 30, 2004 and 2003
(dollars in thousands)

		9/30/2004		9/30/2003
ASSETS				
Current Assets				
Cash and Cash Equivalents	$	21,373	$	26,488
Investments		371,723		382,325
Accrued Interest Receivable		3,601		4,255
TOTAL ASSETS	$	396,697	$	413,068
TOTAL TRUST FUND BALANCES, held for Individual Indians	$	396,697	$	413,068

Individual Indian Monies Trust Funds
Statements of Changes in Trust Fund Balances – Modified Cash Basis
As of September 30, 2004 and 2003
(dollars in thousands)

		9/30/2004		9/30/2003
Receipts	$	183,776	$	170,996
Interest earned on investment funds		20,216		22,817
Gain (Loss) on Disposition on Investments, Net		590		436
Disbursements to and on behalf of Account Holders		(220,953)		(192,526)
(Decrease)/Increase in Trust Fund Balances, Net		(16,371)		1,723
Trust Fund Balances-Beginning of Year	$	413,068	$	411,345
Trust Fund Balances-End of Year	$	396,697	$	413,068

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

NOTE 16
LEASES
(dollars in thousands)

OPERATING LEASES

Federal Real Property: Most of the DO facilities are rented from the GSA, which charges rent that is intended to approximate commercial rental rates. For Federally-owned property, DO generally does not execute an agreement with GSA nor is there a formal expiration date. DO, however, is normally required to give 120 to 180 days notice to vacate and the amount of these leases remains constant from year to year. The Federally-owned GSA leases are included in the estimated future lease payments for 2005 through 2009 below.

For non-Federally-owned property, an occupancy agreement is executed with GSA, and again the DO may normally cancel these agreements with 120 days notice. These leases were primarily for office space and office equipment. There is an option to renew many of its operating leases at terms similar to the initial terms. These leases are included in the future minimum lease payment schedule below based on the lease terms.

All GSA leases for 2005 have an escalation of 1.7 percent. An escalation of 1.5 percent per year is assumed for all periods after 2005.

Other Real Property: For non-Federal real property, the future minimum lease payments for 2005 is based either on 1.7 percent increase over the other real property expense for 2005 or the actual lease agreements. For subsequent years, 2006 and after, the amounts are inflated each year at 1.5 percent over the previous year or according to the actual lease agreement.

Personal Property: Equipment and furniture rentals are included in the personal property for fiscal years 2005 through 2009. The personal property amount for 2005 is based on a 1.7 percent increase over the actual personal property expense amount for 2005 or the actual lease agreements. For subsequent years, 2006 through 2009, the amounts are inflated each year at 1.5 percent over the previous year or according to the actual lease agreement.

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

Future Operating Lease Payments

	Real Property		Personal Property		
Fiscal Year	Federal	Non-Federal	Federal	Non-Federal	Total
2005	$ 47,151	$ 5,498	$ 80	$ 318	$ 53,047
2006	47,858	5,581	81	323	53,843
2007	48,576	5,665	82	328	54,651
2008	49,305	5,749	83	333	55,470
2009	50,045	5,836	84	338	56,303
Thereafter	-	15,172	-	-	15,172
Total Future Lease Payments	$ 242,935	$ 43,501	$ 410	$ 1,640	$ 288,486

NOTE 17
NET COST OF OPERATIONS
(dollars in thousands)

The Government Performance Results Act (GPRA) requires that Federal agencies formulate Strategic Plans, identify major strategic goals, and report performance and costs related to these goals. Under GPRA, Strategic Plans are to be revised and updated every three years. Accordingly, the Department updated the Department-wide Strategic Plan in FY2004 and replaced the mission goals applicable in fiscal years 2001 through 2003 with four mission goals. The mission goals, which are applicable beginning FY 2004, are: Resource Protection, Resource Use, Recreation, and Serving Communities. In addition, costs and performance are reported for another goal entitled "Reimbursable Activity, and Other Departmental Management**.**"

OMB Bulletin No. 01-09 *Form and Content of Agency Financial Statements* requires that the presentation of the Statement of Net Cost align directly with the goals and outcomes identified in the Strategic Plan. Accordingly, Departmental Offices has presented the earned revenues and gross costs in FY 2004 by the applicable mission goals in the Department's FY 2004 Strategic Plan and the earned revenues and gross costs for fiscal year 2003 by the applicable mission goals in the Department's FY 2001 Strategic Plan. As a result, the FY 2004 Consolidated Statement of Net Cost is not comparable to the FY 2003 Consolidated Statement of Net Cost. The more significant changes from FY 2003 to FY 2004 include the following:

1. Reclassifying the Working Capital Fund activity from a separate mission goal in FY 2003 to the FY 2004 "Reimbursable Activity, and Other Departmental Management mission goal."
2. Allocating the Departmental Management activity from a separate mission goal in FY 2003 to several of the FY 2004 mission goals. Presenting the FY 2003 Service to Native Americans and Office of Insular Affairs mission goals as part of the FY 2004 Serving Communities mission goal.
3. Reclassifying the Central Utah Project activity from a separate mission goal in FY 2003 to the FY 2004 Resource Use mission goal.
4. Reclassifying the Environmental activity from a separate mission goal in FY 2003 to the FY 2004 Resource Protect mission goal.

The tables on the following pages present Departmental Office's earned revenues, gross cost, and net cost of operations by program and by responsibility segment (dollars in thousands).

Consolidating Schedule of Net Cost by Program and Responsibility Segment
For the Year Ended September 30, 2004
(dollars in thousands)

	TOTAL 2004	Office of the Secretary	Office of the Inspector General	Office of the Solicitor	Office of Insular Affairs	National Indian Gaming Commission	Office of the Special Trustee	Central Utah Project	Natural Resources Damage Assessment	Aviation Management Division	Eliminations
Resource Protection: Protect the Nation's Natural, Cultural and Heritage Resources											
Cost - Services provided to the Public	$ 20,190	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 20,190	$ -	$ -
Revenue Earned from the Public	-	-	-	-	-	-	-	-	-	-	-
Net Cost of Services to the Public	20,190	-	-	-	-	-	-	-	20,190	-	-
Net Program Costs	20,190	-	-	-	-	-	-	-	20,190	-	-
Resource Use: Manage Natural resources to Promote Responsible Use and Sustain a Dynamic Economy											
Cost - Services provided to the Public	15,446	-	-	-	-	-	-	15,446	-	-	-
Revenue Earned from the Public	78	-	-	-	-	-	-	78	-	-	-
Net Cost of Services to the Public	15,368	-	-	-	-	-	-	15,368	-	-	-
Cost - Services provided to Federal Agencies	2,309	-	-	-	-	-	-	2,402	-	-	(93)
Revenue Earned from Federal Agencies	2,294	-	-	-	-	-	-	2,387	-	-	(93)
Net Cost (Revenue) of Services provided to Federal Agencies	15	-	-	-	-	-	-	15	-	-	-
Net Program Costs	15,383	-	-	-	-	-	-	15,383	-	-	-
Serving Communities: Safeguard Lives, Property and Assets, Advance Scientific Knowledge, and Improve the Quality of Life for Communities We Serve											
Cost - Services provided to the Public	725,215	224,486	-	-	341,547	11,195	147,987	-	-	-	-
Revenue Earned from the Public	15,622	-	-	-	2,136	13,475	11	-	-	-	-
Net Cost of Services to the Public	709,593	224,486	-	-	339,411	(2,280)	147,976	-	-	-	-
Cost - Services provided to Federal Agencies	6,937	-	-	-	742	-	6,295	-	-	-	(100)
Revenue Earned from Federal Agencies	6,796	-	-	-	742	-	6,154	-	-	-	(100)
Net Cost (Revenue) of Services provided to Federal Agencies	141	-	-	-	-	-	141	-	-	-	-
Net Program Costs	709,734	224,486	-	-	339,411	(2,280)	148,117	-	-	-	-
Reimbursable Activity and Other Departmental Management: Manage the Department to the Highly Skilled, Accountable, Functionally Integrated, Citized-Centered, and Result Orientated											
Cost - Services provided to the Public	181,555	85,973	37,769	55,163	-	-	-	-	-	2,650	-
Revenue Earned from the Public	14,490	11,188	435	-	-	-	-	-	-	2,867	-
Net Cost of Services to the Public	167,065	74,785	37,334	55,163	-	-	-	-	-	(217)	-
Cost - Services provided to Federal Agencies	819,102	818,415	3,488	7,411	-	-	-	-	-	135,039	(145,251)
Revenue Earned from Federal Agencies	808,804	808,562	3,349	7,105	-	-	-	-	-	135,039	(145,251)
Net Cost (Revenue) of Services provided to Federal Agencies	10,298	9,853	139	306	-	-	-	-	-	-	-
Net Program Costs	177,363	84,638	37,473	55,469	-	-	-	-	-	(217)	-
TOTAL											
Cost - Services provided to the Public	942,406	310,459	37,769	55,163	341,547	11,195	147,987	15,446	20,190	2,650	-
Revenue Earned from the Public	30,190	11,188	435	-	2,136	13,475	11	78	-	2,867	-
Net Cost of Services to the Public	912,216	299,271	37,334	55,163	339,411	(2,280)	147,976	15,368	20,190	(217)	-
Cost - Services provided to Federal Agencies	828,348	818,415	3,488	7,411	742	-	6,295	2,402	-	135,039	(145,444)
Revenue Earned from Federal Agencies	817,894	808,562	3,349	7,105	742	-	6,154	2,387	-	135,039	(145,444)
Net Cost (Revenue) of Services provided to Federal Agencies	10,454	9,853	139	306	-	-	141	15	-	-	-
Net Cost of Operations	$ 922,670	$ 309,124	$ 37,473	$ 55,469	$ 339,411	$ (2,280)	$ 148,117	$ 15,383	$ 20,190	$ (217)	$ -

CONSOLIDATING SCHEDULE OF NET COST BY PROGRAM AND RESPONSIBILITY SEGMENT

For the Year Ended September 30, 2003

(in thousands)

	TOTAL 2003	Office of the Secretary	Office of the Inspector General	Office of the Solicitor	Office of Insular Affairs	National Indian Gaming Commission	Office of the Special Trustee	Central Utah Project	Natural Resources Damage Assessment	Aviation Managment Division	Eliminations
Working Capital Fund											
Cost - Services provided to the Public	$ 18,514	$ 17,509	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 1,005	$ -
Revenue Earned from the Public	9,678	7,421	-	-	-	-	-	-	-	2,257	-
Net Cost of Services to the Public	8,836	10,088	-	-	-	-	-	-	-	(1,252)	-
Cost - Services provided to Federal Agencies	482,691	454,420	-	-	-	-	-	-	-	137,836	(109,565)
Revenue Earned from Federal Agencies	476,986	448,715	-	-	-	-	-	-	-	137,836	(109,565)
Net Cost (Revenue) of Services provided to Federal Agencies	5,705	5,705	-	-	-	-	-	-	-	-	-
Net Program Costs	14,541	**15,793**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(1,252)**	**-**
Departmental Management											
Cost - Services provided to the Public	173,097	81,300	37,624	53,205	-	-	-	-	-	968	-
Revenue Earned from the Public	364	13	350	-	-	-	-	-	-	1	-
Net Cost of Services to the Public	172,733	81,287	37,274	53,205	-	-	-	-	-	967	-
Cost - Services provided to Federal Agencies	28,088	27,085	2,635	7,118	-	-	-	-	-	-	(8,750)
Revenue Earned from Federal Agencies	26,936	26,295	2,541	6,850	-	-	-	-	-	-	(8,750)
Net Cost (Revenue) of Services provided to Federal Agencies	1,152	790	94	268	-	-	-	-	-	-	-
Net Program Costs	173,885	**82,077**	**37,368**	**53,473**	**-**	**-**	**-**	**-**	**-**	**967**	**-**
Environmental Activity											
Cost - Services provided to the Public	11,385	-	-	-	-	-	-	-	11,385	-	-
Revenue Earned from the Public	-	-	-	-	-	-	-	-	-	-	-
Net Cost of Services to the Public	11,385	-	-	-	-	-	-	-	11,385	-	-
Net Program Costs	11,385	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**11,385**	**-**	**-**
Services to Native Americans											
Cost - Services provided to the Public	145,289	-	-	-	-	11,122	134,167	-	-	-	-
Revenue Earned from the Public	9,808	-	-	-	-	9,775	33	-	-	-	-
Net Cost of Services to the Public	135,481	-	-	-	-	1,347	134,134	-	-	-	-
Cost - Services provided to Federal Agencies	5,085	-	-	-	-	-	5,085	-	-	-	-
Revenue Earned from Federal Agencies	4,975	-	-	-	-	-	4,975	-	-	-	-
Net Cost (Revenue) of Services provided to Federal Agencies	110	-	-	-	-	-	110	-	-	-	-
Net Program Costs	135,591	**-**	**-**	**-**	**-**	**1,347**	**134,244**	**-**	**-**	**-**	**-**
Service to Insular Areas											
Cost - Services provided to the Public	370,679	-	-	-	370,679	-	-	-	-	-	-
Revenue Earned from the Public	1,937	-	-	-	1,937	-	-	-	-	-	-
Net Cost of Services to the Public	368,742	-	-	-	368,742	-	-	-	-	-	-
Cost - Services provided to Federal Agencies	295	-	-	-	295	-	-	-	-	-	-
Revenue Earned from Federal Agencies	295	-	-	-	295	-	-	-	-	-	-
Net Cost (Revenue) of Services provided to Federal Agencies	-	-	-	-	-	-	-	-	-	-	-
Net Program Costs	368,742	**-**	**-**	**-**	**368,742**	**-**	**-**	**-**	**-**	**-**	**-**
Central Utah Project											
Cost - Services provided to the Public	26,058	-	-	-	-	-	-	26,058	-	-	-
Revenue Earned from the Public	-	-	-	-	-	-	-	-	-	-	-
Net Cost of Services to the Public	26,058	-	-	-	-	-	-	26,058	-	-	-
Cost - Services provided to Federal Agencies	4,085	-	-	-	-	-	-	4,196	-	-	(111)
Revenue Earned from Federal Agencies	4,070	-	-	-	-	-	-	4,181	-	-	(111)
Net Cost (Revenue) of Services provided to Federal Agencies	15	-	-	-	-	-	-	15	-	-	-
Net Program Costs	26,073	**-**	**-**	**-**	**-**	**-**	**-**	**26,073**	**-**	**-**	**-**
Total											
Cost - Services provided to the Public	745,022	**98,809**	**37,624**	**53,205**	**370,679**	**11,122**	**134,167**	**26,058**	**11,385**	**1,973**	**-**
Revenue Earned from the Public	21,787	**7,434**	**350**	**-**	**1,937**	**9,775**	**33**	**-**	**-**	**2,258**	**-**
Net Cost of Services to the Public	723,235	**91,375**	**37,274**	**53,205**	**368,742**	**1,347**	**134,134**	**26,058**	**11,385**	**(285)**	**-**
Cost - Services provided to Federal Agencies	520,244	**481,505**	**2,635**	**7,118**	**295**	**-**	**5,085**	**4,196**	**-**	**137,836**	**(118,426)**
Revenue Earned from Federal Agencies	513,262	**475,010**	**2,541**	**6,850**	**295**	**-**	**4,975**	**4,181**	**-**	**137,836**	**(118,426)**
Net Cost (Revenue) of Services provided to Federal Agencies	6,982	**6,495**	**94**	**268**	**-**	**-**	**110**	**15**	**-**	**-**	**-**
Net Cost of Operations	$ 730,217	**$ 97,870**	**$ 37,368**	**$ 53,473**	**$ 368,742**	**$ 1,347**	**$ 134,244**	**$ 26,073**	**$ 11,385**	**$ (285)**	**$ -**

NOTE 18
BUDGET AUTHORITY
(dollars in thousands)

Description	9/30/2004
Appropriated Trust and Special Fund Receipts	$ 186,564
Appropriations Realized	1,059,790
Transfers of Budget Authority	(1,694)
Receipts not Available for Obligation	(43,992)
Total Budget Authority	$ 1,200,668

Description	9/30/2003
Appropriated Trust and Special Fund Receipts	$ 174,925
Appropriations Realized	684,972
Transfers of Budget Authority	(2,562)
Receipts not Available for Obligation	34,677
Total Budget Authority	$ 892,012

Appropriations received on the Statement of Changes in Net Position differs from that reported on the Statement of Budgetary Resources because appropriations received reported on the Statement of Changes in net position does not include appropriated dedicated and earmarked receipts. Dedicated and earmarked receipts are accounted for as either exchange or non-exchange revenue.

NOTE 19
APPORTIONMENT CATEGORIES OF OBLIGATIONS INCURRED
(dollars in thousands)

9/30/2004		Apportioned Category B
Obligations Incurred:		
Direct	$	1,210,538
Reimbursable		1,293,992
Total Obligations Incurred	$	2,504,530

9/30/2003		Apportioned Category B
Obligations Incurred:		
Direct	$	872,133
Reimbursable		791,050
Total Obligations Incurred	$	1,663,183

NOTE 20
AVAILABLE BORROWING/CONTRACT AUTHORITY, END OF PERIOD

There was no available borrowing/contract authority as of September 30, 2004 and 2003.

NOTE 21
TERMS OF BORROWING AUTHORITY USED
(dollars in thousands)

In 2001, a loan was extended to the SIO from the Bureau of the Public Debt, U.S. Department of the Treasury for the purpose of operating a direct loan. The outstanding loan balances were $14,137 as of September 30, 2004 and $15,473 as of September 30, 2003. Funds are appropriated to the SIO 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 22
PERMANENT INDEFINITE APPROPRIATIONS

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

14X5141	National Indian Gaming Commission, Gaming Activity Fees The primary mission of the NIGC is to regulate gaming activities on Indian lands.
14X5174	Utah Reclamation and Mitigation Conservation Account The Commission has exclusive responsibility for completing the fish, wildlife, and recreation projects in the State of Utah required as part of the Central Utah Project.
14X5198	Natural Resources Damage Assessment and Restoration Fund NRDAR is responsible for the promulgation of regulations for the assessment of damages for injury to, destruction of, or loss of natural resources resulting from a discharge of oil or release of a hazardous substance.
14X5233	Everglades Restoration Account Funds utilized for the acquisition of real property within the Everglades ecosystem and the funding of resource protection and resource maintenance activities in the Everglades ecosystem.
14X5265	Tribal Special Fund Funds in the Tribal Special Fund are those not designated in the law as a trust, and generally are funds held and invested to carry out obligations of the Secretary of the Interior.
14X8030	Tribal Trust Fund Tribal trust funds are deposited into consolidated accounts in the U.S. Treasury pursuant to: (1) general or specific acts of Congress and (2) Federal management of tribal real properties, the titles to which are held in trust for the tribes by the United States. These funds are available to the respective tribal groups for various purposes, under various acts of Congress, and may be subject to the provisions of tribal constitutions, bylaws, charters, and resolutions of the various tribes, bands or groups.
14X8369	Take Pride in America, Gifts and Bequests Utilizes funds for establishing and maintaining a public awareness campaign in cooperation with public and private organizations and individuals.

NOTE 23
LEGAL ARRANGEMENTS AFFECTING USE OF UNOBLIGATED BALANCES
(dollars in thousands)

As of September 30, 2004 and 2003, the unobligated balances - available funds can be used for new obligations - are $371,846 and $392,001, respectively. As of September 30, 2004 and 2003, the amounts in unobligated balances - unavailable funds are only available to pay for upward adjustments to existing obligations - are $3,126 and $13,518, respectively. Unobligated balances whose period of availability has expired are not available for new obligation and may only be used for recording, adjusting, and liquidating obligations properly chargeable to the fiscal year account. For a fixed appropriation account, the balance can be carried forward for five fiscal years after the period of availability ends. At the end of the fifth fiscal year, the account is closed and any remaining balance is canceled. For a no-year account, the unobligated balance is carried forward indefinitely until (1) specifically rescinded by law, or (2) the head of the agency concerned or the President determines that the purposes for which the appropriation was made have been carried out and disbursements have not been made against the appropriation for 2 consecutive years.

NOTE 24
EXPLANATION OF DIFFERENCES BETWEEN THE STATEMENT OF BUDGETARY RESOURCES AND THE BUDGET OF THE U.S. GOVERNMENT
(In millions)

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 2003 amounts was released on February 2, 2004. This information can be found on the OMB Web site: *www.whitehouse.gov/omb*. The DO 2003 Statement of Budgetary Resources included as available $32, which were only available for investment in fund 14X5174 – Utah Reclamation Mitigation and Conservation Account. These funds were reported appropriately as unavailable in the President's Budget. As a result, both Budget Authority and budget resources available for obligation differ from the President's Budget. The actual amounts for 2004 in the President's Budget will not be available until February 2005.

14X5174 Budget resources available for obligation:		2003 Final Financial Statements *(in millions)*	President's Budget FY2003 Actuals *(in millions)*	Difference
22.00 New budget authority (gross)	SF 133, line 1 & 3 & 6	48	16	32
23.90 Total budgetary resources available for obligation	SF 133, line 7	57	25	32
24.40 Unobligated balance carried forward, end of year	SF 133, line 9	45	13	32

OTFM funds 14X8030 and 14X5265 differ from the President's Budget because the President's Budget includes Indian trust fund activity that is not part of the Departmental Offices reporting entity and therefore is properly excluded from the Departmental Offices Statement of Budgetary Resources.

14X5265		2003 Final Financial Statements	Indian Trust Funds	Total from the SF-133	President's Budget FY2003 Actuals
Budget resources available for obligation:		*(in millions)*			*(in millions)*
21.40 Unobligated balance carried forward, start of year	SF 133, line 2.A.(unexpired)	62	92	154	154
22.00 New budget authority (gross)	SF 133, line 1 & 3 & 6	80	158	238	238
23.90 Total budgetary resources available for obligation	SF 133, line 7	143	249	392	392
23.95 Total new obligations	SF 133, line 8	(96)	(232)	(328)	(328)
24.40 Unobligated balance carried forward, end of year	SF 133, line 9	47	17	64	64
Change in obligated balances:					
73.10 Total new obligations	SF 133, line 8	96	232	328	328
73.20 Total outlays (gross)	SF 133, line 15.A.	(96)	(232)	(328)	(328)

14X8030		2003 Final Financial Statements	Indian Trust Funds	Total from the SF-133	President's Budget FY2003 Actuals
Budget resources available for obligation:		*(in millions)*			*(in millions)*
21.40 Unobligated balance carried forward, start of year	SF 133, line 2.A.(unexpired)	23	6	29	29
22.00 New budget authority (gross)	SF 133, line 1 & 3 & 6	57	62	119	119
23.90 Total budgetary resources available for obligation	SF 133, line 7	80	68	148	148
23.95 Total new obligations	SF 133, line 8	(52)	(66)	(119)	(119)
24.40 Unobligated balance carried forward, end of year	SF 133, line 9	27	2	30	30
Change in obligated balances:					
73.10 Total new obligations	SF 133, line 8	52	66	119	119
73.20 Total outlays (gross)	SF 133, line 15.A.	(52)	(66)	(119)	(119)

NOTE 25
EXPLANATION OF DIFFERENCES BETWEEN LIABILITIES NOT COVERED BY BUDGETARY RESOURCES AND COMPONENTS REQUIRING OR GENERATING RESOURCES IN FUTURE PERIODS

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

NOTE 26
STATEMENT OF FINANCING
(dollars in thousands)

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

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

Allocation transfers are the amounts of budget authority and other resources transferred to other agencies or bureaus to carry out the purposes of the parent account. DO is both a parent agency and a recipient of allocation transfers.

OMB Circular A-11 requires parent accounts to report their allocation agency's transactions as part of their Statement of Budgetary Resources, while the recipient of allocation transfers reports the proprietary activity on its Balance Sheet, Statement of Net Cost, and Statement of Changes in Net Position. This process creates a reconciling difference on the Statement of Financing.

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

Appropriation	Parent	Child	9/30/2004 Reconciling Difference	9/30/2003 Reconciling Difference
14X0120	Office of Special Trustee	Bureau of Indian Affairs	$ (21,320)	$ (295)
14X2103	Office of Special Trustee	Bureau of Indian Affairs	(28,060)	(8,645)
14X1618	DOI-Office of the Secretary	Bureau of Indian Affairs	(1,795)	15
14X1618	DOI-Office of the Secretary	Bureau of Land Management	(234)	(158)
14X1618	DOI-Office of the Secretary	Bureau of Reclamation	(103)	(60)
14X1618	DOI-Office of the Secretary	U.S. Fish and Wildlife Service	(3,155)	(2,380)
14X1618	DOI-Office of the Secretary	National Park Service	(218)	(441)
14X1618	DOI-Office of the Secretary	U.S. Geological Survey	(99)	(9)
14X5198	DOI-Office of the Secretary	Bureau of Indian Affairs	13	-
14X5198	DOI-Office of the Secretary	Bureau of Land Management	(89)	(117)
14X5198	DOI-Office of the Secretary	Bureau of Reclamation	-	1
14X5198	DOI-Office of the Secretary	U.S. Fish and Wildlife Service	(10,610)	(10,230)
14X5198	DOI-Office of the Secretary	U.S. Geological Survey	(1,089)	(924)
14X5198	DOI-Office of the Secretary	National Park Service	(989)	(920)
14X8145	Environmental Protection Agency	DOI-Office of the Secretary	929	967
14X1121	Bureau of Land Management	DOI-Office of the Secretary	942	718
14X1125	Bureau of Land Management	DOI-Office of the Secretary	4,704	3,966
14X0600	General Services Administration	DOI-Office of the Secretary	533	59
Total Transfer Accounts Where Budgetary Activity is Reported by Parent Entity			$ (60,640)	$ (18,453)

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

Appropriation 14X0120 – Office of Special Trustee for American Indians

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

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

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

Appropriation 14X2103 – Indian Land Consolidation

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

Appropriation 14X8145 – Hazardous Substance Response Trust Fund

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

Appropriation 14X1121 – Central Hazardous Materials Fund

Funds are transferred from DO to the affected bureau for the necessary expense for the remedial action, including associated activities of hazardous waste substances, pollutants, or contaminants pursuant to the Comprehensive Environmental Response, Compensation, and Liability Act.

Appropriation 14X1125 – Wildland Fire Management

Funds are transferred from DO to the affected bureau for the necessary expenses related to fire preparedness, suppression operations, fire science and research, emergency rehabilitation, hazardous fuel reduction and rural fire assistance.

Appropriation 14X0600 – Electronic Government

Funds are transferred from DO to the affected bureau for the development of Electronic Government under an allocation appropriation from the General Services Administration.

Change in Unfunded Liabilities. DO Statement of Financing includes a section depicting the change in certain unfunded liabilities. The amounts in this section do not necessarily correlate to the change in liabilities not covered by budgetary resources as shown in Note 10, Liabilities Analysis. Differences are primarily the result of certain Treasury requirements related to where changes in various liabilities are reported on the Statement of Financing. These requirements are dependent upon whether the change results in an increase or decrease to the liability account. Additionally, some liability accounts not covered by budgetary resources are not included in the Statement of Financing.

NOTE 27
DEDICATED COLLECTIONS
(dollars in thousands)

The tables below contain summarized information for funds financed with dedicated collections that are held for later use to accomplish the fund's purpose.

	A	B	C	D	E	F	
	NRDAR	NIGC	Commission	Everglades	Priority Land Acq	OST	
	14015198	14055141	14015174	14015233	14015039	14215265 & 14218030	TOTAL 2004
ASSETS							
Fund Balance with Treasury	$ 617	$ 6,933	$ 35,273	$ 2,239	$ 19,990	$ (34)	$ 65,018
Investments, Net	169,524	-	145,066	-	-	268,481	583,071
Accounts Receivable	5,754	-	-	-	-	-	5,754
General Property, Plant, and Equipment, Net	-	-	4,147	-	-	-	4,147
Other Assets	-	-	-	-	1,539	-	1,539
TOTAL ASSETS	$ 175,895	$ 6,933	$ 184,486	$ 2,239	$ 21,529	$ 268,447	$ 659,529
LIABILITIES							
Accounts Payable	$ 5	$ 23	$ 775	$ 76	$ 1,390	$ -	$ 2,269
Other Liabilities	-	1,105	214	8	-	-	1,327
TOTAL LIABILITIES	5	1,128	989	84	1,390	-	3,596
Total Net Position	175,890	5,805	183,497	2,155	20,139	268,447	655,933
TOTAL LIABILITIES AND NET POSITION	$ 175,895	$ 6,933	$ 184,486	$ 2,239	$ 21,529	$ 268,447	$ 659,529
CHANGE IN NET POSITION							
Net Position, Beginning of Fiscal Year	$ 161,802	$ 3,053	$ 174,006	$ 3,181	$ 23,168	$ 257,479	$ 622,689
Change in Net Position:							
Non-exchange Revenue							
Investment Interest	2,024	-	-	-	-	8,230	10,254
Other Non-Exchange Revenue	34,088	495	9,445	-	(1,790)	3,051	45,289
Transfers In/Out without Reimbursement	(19,354)	-	6,163	-	-	8,189	(5,002)
Exchange Revenue - Services Provided and Other	-	11,034	2,250	-	-	-	13,284
Program Expenses	(2,670)	(8,777)	(8,367)	(1,027)	(1,238)	(8,502)	(30,581)
Net Position, End of Fiscal Year	$ 175,890	$ 5,805	$ 183,497	$ 2,154	$ 20,140	$ 268,447	$ 655,933

	A	B	C	D	E	F	
	NRDAR	NIGC	Commission	Everglades	Priority Land Acq	OST	
	14015198	14055141	14015174	14015233	14015039	14215265 & 14218030	TOTAL 2003
ASSETS							
Fund Balance with Treasury	$ 404	$ 4,252	$ 30,379	$ 3,330	$ 22,685	$ (34)	$ 61,016
Investments, Net	155,695	-	140,134	-	-	257,512	553,341
Accounts Receivable	5,706	-	-	-	-	-	5,706
General Property, Plant, and Equipment, Net	-	121	4,170	-	-	-	4,291
Other Assets	-	-	-	5	2,713	-	2,718
TOTAL ASSETS	$ 161,805	$ 4,373	$ 174,683	$ 3,335	$ 25,398	$ 257,478	$ 627,072
LIABILITIES							
Accounts Payable	3	170	446	146	2,229	-	2,994
Other Liabilities	-	1,150	231	8	-	-	1,389
TOTAL LIABILITIES	3	1,320	677	154	2,229	-	4,383
Total Net Position	161,802	3,053	174,006	3,181	23,169	257,478	622,689
TOTAL LIABILITIES AND NET POSITION	$ 161,805	$ 4,373	$ 174,683	$ 3,335	$ 25,398	$ 257,478	$ 627,072
CHANGE IN NET POSITION							
Net Position, Beginning of Fiscal Year	$ 151,620	$ 3,018	$ 161,441	$ 4,844	$ 35,656	$ 224,897	$ 581,476
Change in Net Position:							
Non-exchange Revenue							
Investment Interest	2,116	-	-	-	-	8,839	10,956
Other Non-Exchange Revenue	32,359	434	11,262	-	(12,487)	3,372	34,939
Transfers In/Out without Reimbursement	(22,184)	-	6,061	-	-	28,877	12,754
Exchange Revenue - Services Provided and Other	-	7,891	4,027	-	-	-	11,918
Program Expenses	(2,109)	(8,290)	(8,785)	(1,663)	-	(8,507)	(29,354)
Net Position, End of Fiscal Year	$ 161,802	$ 3,053	$ 174,006	$ 3,181	$ 23,169	$ 257,478	$ 622,689

A. Section 301(c) of the Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA) requires 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. The responsibility for this rulemaking was delegated to DOI by the President in Executive Order 12580 (January 23, 1987). DO accounts for and reports for this fund through the Natural Resource Damage Assessment and Restoration fund 14X5198. The primary aim of NRDAR is to restore natural resources injured as the result of oil spills or hazardous substance releases. The program assesses the damages and injuries to natural resources entrusted to DOI and negotiates legal settlements or takes other legal actions against the responsible parties for the spill or release. Funds from these settlements are then used to restore the injured resources at no expense to the taxpayer. Settlements often include the recovery of the costs incurred in assessing the damages. These funds are then used to fund further damage assessments.

B. NIGC was created in 1988, when Congress enacted the Indian Gaming Regulatory Act. DO accounts for and reports for this fund through the National Indian Gaming Commission fund 14X5141. The primary mission of the NIGC is to regulate gaming activities on Indian lands for the purposes of shielding Indian tribes from organized crime and other corrupting influences;

ensuring that Indian tribes are the primary beneficiaries of gaming revenues; and assuring that gaming is conducted fairly and honestly by both operators and players. To achieve these goals, NIGC is authorized to conduct investigations; undertake enforcement actions, including the assessment of fines and the issuance of closure orders; conduct background investigations; conduct audits; review and approve tribal gaming ordinances and management contracts; and issue such regulations as necessary to meet its responsibilities. The NIGC is funded by an assessment of less than one-tenth of one percent of the gross revenues of Indian gaming operations.

C. The primary purpose of CUPCA is to provide for the orderly completion of the Central Utah Project by authorizing water development and conservation features and wildlife mitigation projects, and by providing funding for such activities. The CUPCA office within DO is mandated by the Act to, among other responsibilities, transfer funds to the Commission, which has exclusive responsibility for completing the fish, wildlife, and recreation projects in the State of Utah required as part of the Central Utah Project. The Commission also receives transfers of annual appropriations from the Western Area Power Administration of the Department of Energy. The Commission has discretion to either expend such funds, or parts thereof, for mitigation activities, or to invest such funds, or parts thereof, in a trust fund established by CUPCA, the interest from which is for the future use of the Commission. DO accounts for and reports for this fund through the Utah Reclamation Mitigation and Conservation Commission fund 14X5174.

D. DO also administers a small portion of the funds available for the Everglades restoration effort. Section 390 of the Federal Agriculture Improvement and Reform Act (Farm Bill) of 1996 (P.L. 104-217), authorized the establishment of an “Everglades Restoration Account” consisting of funds deposited to a special Treasury account derived from the sale of surplus Federal property located in the State of Florida. Although the authority to receive these funds was abolished by the Water Resources Development Act (P.L. 106-541) passed on December 11, 2000, funds deposited to the account prior to that date remain available to support the restoration effort. DO accounts for and reports for this fund through the Everglades Restoration Account fund 14X5233. These funds are to be 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.” This legislation also provided $200 million in appropriated funds that have been used primarily for land acquisitions and exchanges necessary to further the restoration effort. These funds have been fully obligated.

E. Funds under the Priority Land Acquisitions, Land Exchanges and Maintenance account are from the Land and Water Conservation Fund Act of 1965, as amended (16 U.S.C. 4601 – 4 through 11) for priority land acquisitions and exchanges. DO accounts for and reports for these funds through the Title V Priority Land Acquisitions, Land Exchanges, and Maintenance fund (148/15039) and the Title VI Priority Land Acquisitions and Land Exchanges fund (140/35039). These funds are available for the high priority land acquisitions and exchanges and for reducing maintenance backlogs.

F. Established by the American Indian Trust Fund Management Reform Act of 1994 (Public Law 103-412), OST was created to improve the accountability and management of Indian funds held in trust by the Federal government. OST develops and implements the policies and procedures governing the management of Indian trust funds. OST manages and is accountable for tribal trust and special funds that are reported in DO financial statements. DO accounts for and reports for these funds through the Tribal Special fund 14X5265 and the Tribal Trust fund 14X8030. Financing sources for these funds are derived from judgment/award monies from

Federal sources and other lease and rental income from public sources.

NOTE 28
PAYMENTS IN LIEU OF TAXES TRANSFER IN
(dollars in thousands)

Public Law 94–565 (31 U.S.C. 6901–07), as amended, authorizes payments in lieu of taxes (PILT) to counties and other units of local government for lands within their boundaries that are administered by the Bureau of Land Management (BLM), Forest Service, National Park Service, Fish and Wildlife Service, and certain other agencies.

Effective October 1, 2004, pursuant to Public Law 108-108, the Bureau of Land Management transferred the PILT account to Departmental Offices in recognition of the fact that it is not just BLM's lands that are included as the basis of the PILT payment.

Departmental Offices received and has reflected the transfer in of the PILT account. These transfers are shown on the fiscal year 2004 Statement of Changes in Net Position and Statement of Budgetary Resources.

The following table reflects amounts Departmental Offices received from BLM:

Description	Amounts
Assets	$ 655
Liabilities	$ 13
Net Position	$ 642
Unobligated Budgetary Resources	$ 357
Obligated Budgetary Resources	$ 298

NOTE 29
Discontinued Operations
(In thousands)

As a result of the significant growth of IFF and increase in operating costs, DOI management determined that it could improve the efficiency of IFF by re-organizing its operations. Effective October 1, 2002, certain products and services offered by the DO working capital fund for sale through the IFF will no longer be offered through the IFF; rather the DO working capital fund will offer these products and services directly to former IFF customers beginning in FY 2003. These products and services include the Federal Financial System, Momentum Financials, Electronic Acquisition System, Electronic Commerce/EDI, Drug & Alcohol Testing, Systems Consulting, Independent Verification and Validation, Quicktime Time and Attendance System, and Crystal Reports Training. DO WCF will provide these products and services for the existing customer agreements and future customer agreements. As a result, DO transferred the related assets of $4,656, liabilities of $5,036 and net position of $(380) from its IFF segment to its working capital fund segment.

Effective October 1, 2002, DO transferred the remaining IFF operations, including Government Works and U.S. Films and Video Productions, to Mineral Management Service. Mineral Management Service (MMS) will provide the products and services for the existing customer agreements and future customer agreements. As a result, Departmental Offices transferred the related assets of $473,526, liabilities of $472,116, and net position of $1,410 to the MMS. DO reported a transfer out of $1,410 on the Statement of Changes in Net Position as a result of this transaction.

The following summarizes the transfer:

Schedule of Assets, Liabilities, and Net Position
As of October 1, 2002
(In thousands)

Description		Transfer
Total Assets	$	473,526
Total Liabilities		472,116
Total Net Position		1,410
Total Liabilities and Net Position	**$**	**473,526**

Schedule of Budgetary Information
As of October 1,2002
(In thousands)

Description		Transfer
Budgetary Resources:		
Obligated	$	48,799
Unobligated		378,442

U.S. Department of the Interior
Departmental Offices

Required Supplementary Information

September 30, 2004 and 2003

Department of the Interior
Departmental Offices
Combining Statement of Budgetary Resources by Budget Account
For the Year Ended September 30, 2004
(in thousands)

	TOTAL Budgetary Accounts	Departmental Management 14_0102	Working Capital Fund 14X4523	Administration of Territories 14X0412	Administration of Free Association 14X0415	Office of Special Trustee 14X0120	Natural Resources Damage Assessment and Restoration 14X1618	Tribal Special Fund 14X5265	Tribal Trust Fund 14X8030	Payments to U.S. Territories 14X0418	Payments in Lieu of Taxes 14_1114	Other Budget Accounts
Budgetary Resources:												
Budget Authority:												
Appropriations Received	**$ 1,202,362**	$ 84,033	$ 11,700	$ 76,343	$ 200,719	$ 189,641	$ 42,493	$ 80,204	$ 43,197	$ 114,927	$ 227,500	$ 131,605
Net Transfers, Current Year Authority (+/-)	**(1,694)**	(200)	-	-	(400)	-	(1,766)	-	-	-	-	672
Unobligated Balance:												
Beginning of Fiscal Year	**404,003**	3,640	35,888	30,305	2,210	17,981	169,897	47,525	28,283	-	-	68,274
Beginning of Fiscal Year, Transferred In, PILT Operations	**357**										357	
Net Transfers, Unobligated Balance, Actual (+/-)	**(9,957)**	-	(6,258)	-	-	260	(3,022)	-	-	-	-	(937)
Spending Authority From Offsetting Collections:												
Earned												
Collected	**962,968**	22,558	918,461	1,060	-	6,241	-	-	-	2,830	-	11,818
Receivable From Federal Sources	**29,044**	6,926	20,608	(182)	-	(77)	-	-	-	-	-	1,769
Change in Unfilled Customer Orders												
Advance Received	**271,755**	(196)	272,079	(128)	-	-	-	-	-	-	-	-
Without Advance From Federal Sources	**24,341**	(3,259)	24,758	89	-	1,224	-	-	-	-	-	1,529
Recoveries of Prior Year Obligations	**27,248**	494	3,953	2,708	53	14,811	1,030	-	-	-	-	4,199
Permanently Not Available	**(32,143)**	(1,039)	(20,144)	(673)	(55)	(2,336)	(69)	-	-	(1,964)	(2,817)	(3,046)
Total Budgetary Resources	**2,878,284**	**112,957**	**1,261,045**	**109,522**	**202,527**	**227,745**	**208,563**	**127,729**	**71,480**	**115,793**	**225,040**	**215,883**
Status of Budgetary Resources:												
Obligations Incurred:												
Direct	**1,209,320**	82,180	7,770	91,849	178,871	193,557	25,381	71,102	51,822	114,927	224,414	167,447
Reimbursable	**1,293,992**	28,637	1,240,723	718	-	7,389	-	-	-	866	-	15,659
Total Obligations Incurred	**2,503,312**	110,817	1,248,493	92,567	178,871	200,946	25,381	71,102	51,822	115,793	224,414	183,106
Unobligated Balance:												
Apportioned	**371,846**	2,747	12,552	16,440	23,656	26,799	183,182	56,627	19,658	-	70	30,115
Unobligated Balance not Available	**3,126**	(607)	-	515	-	-	-	-	-	-	556	2,662
Total Status of Budgetary Resources	**2,878,284**	**112,957**	**1,261,045**	**109,522**	**202,527**	**227,745**	**208,563**	**127,729**	**71,480**	**115,793**	**225,040**	**215,883**
Relationship of Obligations to Outlays:												
Obligations Incurred	**2,503,312**	110,817	1,248,494	92,567	178,871	200,946	25,381	71,102	51,822	115,793	224,414	183,105
Obligated Balance, Net, Beginning of Fiscal Year	**616,055**	1,851	281,631	114,518	52,341	77,884	7,519	-	-	-	-	80,311
Obligated Balance, Transferred In PILT Operations	**298**										298	
Obligated Balance, Net, End of Fiscal Year:												
Accounts Receivable	**55,188**	9,488	40,767	(135)	-	846	-	-	-	-	-	4,222
Unfilled Customer Orders From Federal Sources	**58,916**	1,191	51,274	2,316	-	1,509	-	-	-	-	-	2,626
Undelivered Orders	**(927,664)**	(3,766)	(575,130)	(118,036)	(86,289)	(67,424)	(8,935)	-	-	-	(226)	(67,858)
Accounts Payable	**(139,667)**	(4,885)	(100,996)	(15,690)	-	(7,330)	(854)	-	-	-	(11)	(9,901)
Less: Spending Authority Adjustments	**(80,634)**	(4,162)	(49,319)	(2,614)	(53)	(15,959)	(1,030)	-	-	-	-	(7,497)
Outlays:												
Disbursements	**2,085,804**	110,534	896,721	72,926	144,870	190,472	22,081	71,102	51,822	115,793	224,475	185,008
Collections	**(1,234,721)**	(22,361)	(1,190,540)	(932)	-	(6,241)	-	-	-	(2,830)	-	(11,817)
Subtotal	**851,083**	88,173	(293,819)	71,994	144,870	184,231	22,081	71,102	51,822	112,963	224,475	173,191
Less: Offsetting Receipts	**(175,530)**	-	-	-	-	-	(36,860)	(80,204)	(43,197)	-	-	(15,269)
Net Outlays	**$ 675,553**	**$ 88,173**	**$ (293,819)**	**$ 71,994**	**$ 144,870**	**$ 184,231**	**$ (14,779)**	**$ (9,102)**	**$ 8,625**	**$ 112,963**	**$ 224,475**	**$ 157,922**

Department of the Interior
Departmental Offices
Combining Statement of Budgetary Resources by Budget Account
For theYear Ended September 30, 2003
(in thousands)

	TOTAL Budgetary Accounts	Departmental Management 14_0102	Working Capital Fund 14X4523	Interior Franchise Fund 14X4529	Administration of Territories 14X0412	Administration of Free Association 14X0415	Office of Special Trustee 14X0120	Natural Resources Damage Assessment and Restoration 14X1618	Tribal Special Fund 14X5265	Tribal Trust Fund 14X8030	Payments to U.S. Territories 14X0418	Other Budget Accounts
Budgetary Resources:												
Budget Authority:												
Appropriations Received	$ 894,574	$ 72,427	$ -	$ -	$ 76,217	$ 166,471	$ 141,277	$ 33,156	$ 80,360	$ 56,667	$ 94,822	$ 173,177
Net Transfers, Current Year Authority (+/-)	(2,562)	564	-	-	-	-	(352)	(4,461)	-	-	-	1,687
Unobligated Balance:												
Beginning of Fiscal Year	754,440	1,434	34,146	378,442	16,130	15,023	28,486	160,416	63,153	24,094	-	33,116
Beginning of Fiscal Year, Discontinued Operations, IFF	(378,442)	-	-	(378,442)	-	-	-	-	-	-	-	-
Net Transfers, Unobligated Balance, Actual (+/-)	(349)	2,900	-	-	-	-	354	(1,352)	-	-	-	(2,251)
Spending Authority From Offsetting Collections:												
Earned												
Collected	666,962	29,559	619,080	-	317	-	4,236	-	-	-	2,857	10,913
Receivable From Federal Sources	(24,522)	(3,213)	(22,851)	-	(168)	-	771	-	-	-	-	939
Change in Unfilled Customer Orders												
Advance Received	125,340	(152)	125,602	-	(19)	-	-	-	-	-	-	(91)
Without Advance From Federal Sources	23,746	18	22,531	-	642	-	235	-	-	-	-	320
Recoveries of Prior Year Obligations	12,342	2,459	4,280	-	1,559	-	1,502	483	-	-	-	2,059
Permanently Not Available	(5,128)	(884)	-	-	(339)	(58)	(919)	(36)	-	-	(1,821)	(1,071)
Total Budgetary Resources	2,066,401	105,112	782,788	-	94,339	181,436	175,590	188,206	143,513	80,761	95,858	218,798
Status of Budgetary Resources:												
Obligations Incurred:												
Direct	871,350	75,471	177	-	64,103	179,225	152,366	18,262	95,988	52,478	95,858	137,422
Reimbursable	791,050	26,002	746,722	-	(69)	-	5,243	51	-	-	-	13,101
Total Obligations Incurred	1,662,400	101,473	746,899	-	64,034	179,225	157,609	18,313	95,988	52,478	95,858	150,523
Unobligated Balance:												
Apportioned	392,001	2,234	32,730	-	30,032	2,211	18,025	169,887	47,525	28,283	-	61,074
Unobligated Balance not Available	12,000	1,405	3,159	-	273	-	(44)	6	-	-	-	7,201
Total Status of Budgetary Resources	2,066,401	105,112	782,788	-	94,339	181,436	175,590	188,206	143,513	80,761	95,858	218,798
Relationship of Obligations to Outlays:												
Obligations Incurred	1,662,400	101,473	746,899	-	64,034	179,225	157,609	18,313	95,988	52,478	95,858	150,523
Obligated Balance, Net, Beginning of Fiscal Year	491,251	5,467	115,851	48,799	128,919	63,711	49,392	8,572	-	-	-	70,540
Obligated Balance, Discontinued Operations, IFF	(48,799)	-	-	(48,799)	-	-	-	-	-	-	-	-
Obligated Balance, Net, End of Fiscal Year:												
Accounts Receivable	26,143	2,562	20,160	-	47	-	923	-	-	-	-	2,451
Unfilled Customer Orders From Federal Sources	34,574	4,449	26,515	-	2,228	-	285	-	-	-	-	1,097
Undelivered Orders	(583,217)	(5,835)	(264,627)	-	(106,984)	(52,341)	(69,145)	(6,810)	-	-	-	(77,475)
Accounts Payable	(93,555)	(3,028)	(63,679)	-	(9,808)	-	(9,947)	(709)	-	-	-	(6,384)
Less: Spending Authority Adjustments	(11,566)	735	(3,960)	-	(2,033)	-	(2,508)	(483)	-	-	-	(3,317)
Outlays:												
Disbursements	1,477,231	105,823	577,159	-	76,403	190,595	126,609	18,883	95,988	52,478	95,858	137,435
Collections	(792,302)	(29,406)	(744,682)	-	(298)	-	(4,237)	-	-	-	(2,857)	(10,822)
Subtotal	684,929	76,417	(167,523)	-	76,105	190,595	122,372	18,883	95,988	52,478	93,001	126,613
Less: Offsetting Receipts	(166,969)	-	-	-	-	-	-	(27,618)	(56,667)	(80,295)	-	(2,389)
Net Outlays	$ 517,960	$ 76,417	$ (167,523)	$ -	$ 76,105	$ 190,595	$ 122,372	$ (8,735)	$ 39,321	$ (27,817)	$ 93,001	$ 124,224

Department of the Interior
Departmental Offices
Supplemental Balance Sheet -- Working Capital Fund
As of September 30, 2004 and 2003
(dollars in thousands)

		2004		2003
ASSETS				
Intragovernmental Assets:				
Fund Balance with Treasury	$	596,637	$	317,520
Accounts and Interest Receivable, Net		39,973		17,668
Other				
Advances and Prepayments		10,658		5,179
Total Intragovernmental Assets		**647,268**		**340,367**
Accounts and Interest Receivable, Net		755		2,668
Inventory and Related Property		567		523
General Property, Plant & Equipment, Net		45,086		31,059
Other				
Advances and Prepayments		5		49
TOTAL ASSETS	**$**	**693,681**	**$**	**374,666**
LIABILITIES				
Intragovernmental Liabilities:				
Accounts Payable	$	3,012	$	1,804
Other				
Accrued Payroll and Benefits		1,450		1,675
Advances and Deferred Revenue		488,658		216,620
Total Intragovernmental Liabilities		**493,120**		**220,099**
Public Liabilities:				
Accounts Payable		94,102		59,019
Federal Employees Compensation Act Liability		6,061		7,165
Environmental Cleanup Costs		1,300		1,000
Other				
Accrued Payroll and Benefits		9,399		7,723
Advances and Deferred Revenue		4,731		4,690
Total Public Liabilities		**115,593**		**79,597**
TOTAL LIABILITIES		**608,713**		**299,696**
NET POSITION				
Unexpended Appropriations		4,827		6,201
Cumulative Results of Operations		80,141		68,769
Total Net Position		**84,968**		**74,970**
TOTAL LIABILITIES AND NET POSITION	**$**	**693,681**	**$**	**374,666**

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

SELECTED ACCOUNT INFORMATION
For the Year ended September 30, 2004 and 2003
(dollars in thousands)

Working Capital Fund Information

The Working Capital Fund (WCF) provides a number of services to other DOI components and to other Federal Agencies. Services include, but are not limited to, management of budget, procurement, personnel management, and finance and accounting services, building management, and aircraft services. These services are provided on a reimbursable basis. The Department of Defense (DOD) is the major customer for the WCF, providing over 52% of WCF revenues. The Finance and Business Management System (FBMS) for DOI is accounted for in the WCF. For 2004, FBMS had transfers in/out of $7,129 and unexpended appropriations of $4,827. Y2K funding was accounted for in the WCF. The unexpended appropriations of $6,201 remaining in this fund at the end of FY 2003 were returned in FY 2004.

Working Capital Fund information by product line for the period ended September 30, 2004, consisted of the following (amounts are in thousands):

Product Line	Revenue	Expense	Net Profit (Loss)
Aircraft Services	$ 137,906	$ 136,740	$ 1,166
Building Management/Rental	38,996	38,368	628
Charge Card Rebate	6,307	7,748	(1,441)
Federal Services	744,860	741,154	3,706
Y2K/Other	-	(49)	49
Unallocated Eliminations*	(138,106)	(138,106)	-
Total	$ 789,963	$ 785,855	$ 4,108

Working Capital Fund information by product line for the period ended September 30, 2003 consisted of the following (amounts are in thousands):

Product Line	Revenue	Expense	Net Profit (Loss)
Aircraft Services	$ 140,093	$ 138,841	$ 1,252
Building Management/Rental	31,279	29,850	1,429
Charge Card Rebate	6,246	5,297	949
Federal Services	418,611	436,774	(18,163)
Y2K/Other	-	8	(8)
Unallocated Eliminations*	(109,565)	(109,565)	-
Total	$ 486,664	$ 501,205	$ (14,541)

* Unallocated eliminations are within the Departmental Offices appropriations to or within the WCF.

U.S. Department of the Interior
Departmental Offices

Required Supplementary Stewardship Information

As of September 30, 2004

Departmental Offices has 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.

STEWARDSHIP LANDS

The Utah Reclamation Mitigation & Conservation Commission's mission is to replace or offset the loss in Utah of fish and wildlife resources and related recreational opportunities caused by the acquisition, construction, and operation of Bureau of Reclamation (BOR) project assets (dams, power plants, roads, pipelines, aqueducts, operation and maintenance buildings, visitor centers, etc.). The Commission's program is separate and distinct from acquisition and construction of BOR PP&E. Land acquired and investments made in order to mitigate for the loss of fish and wildlife resources caused by BOR project construction are not essential or integral parts of the dam, pipeline, etc. and are not "acquired for or in connection with the construction" of the project assets, even if the fish and wildlife mitigation is achieved in the immediate vicinity of the project asset.

The Commission acquires two general categories of lands: 1) fish and wildlife habitat (wetland, riparian and/or upland) for both aquatic and terrestrial species, and 2) land or easements to provide public access to fish and wildlife resources which, once acquired, are also managed to provide habitat values to the extent practicable. In over 95 percent of the acquisitions, the lands have been acquired on a willing seller basis. In all cases, habitat conditions on the lands have been improved, and in many cases improvements have been substantial.

Through the fourth quarter of fiscal year 2004, the Commission has acquired over 300 acres of wetlands around Utah Lake and provided an additional 50 acres of angler access along the Strawberry River. The withdrawal of 320 acres represents a reclassification from Needs Improvement to Acceptable.

Acceptable condition means that no identified improvements are necessary for the land to meet its intended use. Needs intervention means that improvements have been identified and are necessary for the land to meet its intended use.

Utah Reclamation and Conservation Commission
(Number of Acres)

Federal Acres: Beginning Acres	Additions	Withdrawals	Ending Acres	Total Non-Federal Acres	Combined Acres	Condition	Sites
11,285.60	623.72	-	11,909.32	-	11,909.32	Acceptable	1.00
1,094.46	47.20	(320.00)	821.66	-	821.66	Needs Improvement	1.00
12,380.06	**670.92**	**(320.00)**	**12,730.98**	**-**	**12,730.98**		

All acres are related to Fish and Wildlife Habitat.

PL 102-575, Title's II,III, and IV
Five Year Detail in Acres

	FY2000	FY2001	FY2002	FY2003	9/30/2004 FY2004
Beginning Balance	7,391.25	10,500.56	11,888.51	12,138.90	12,380.06
Additions	3,109.31	1,435.29	252.65	241.16	350.92
Withdrawals	-	(47.34)	(2.25)	-	-
Ending Balance	**10,500.56**	**11,888.51**	**12,138.90**	**12,380.06**	**12,730.98**

HERITAGE ASSETS – CULTURAL

The Department of the Interior Museum is the steward for those Heritage Assets defined as museum property within the Office of the Secretary.

Museum Property

The Department of the Interior museum activities, including collection management, exhibit development, educational out-reach, 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 Interior Museum's ability to manage and preserve the objects in accordance with standards established in 411 Departmental Manual and Bureau policies. The deaccession process follows the guidelines outlined in 411 Departmental Manual Chapter 6, and represent donations and sales to other organizations.

The following chart indicates the disciplines addressed, location of objects, and estimated number of objects at Bureau facilities and other institutions as of September 30, 2004.

Discipline	Number of Objects in Bureau Facilities	Number of Objects in Other Institutions	Total Number of Objects
Archeology	15	20	35
Art	809	5	814
Ethnography	357	1,861	2,218
History	1,713	182	1,895
Documents	75	-	75
Botany	28	1	29
Zoology	41	43	84
Paleontology	11	-	11
Geology	380	-	380
Total Number of Objects	3,429	2,112	5,541

Department of the Interior
FY 2004 Status of Cataloging and Condition of Cataloged Bureau Museum Collections
September 30, 2004

Bureaus and Offices	Estimated Total Collection Size FY 2003	Additions Since Last Report	Withdrawals Since Last Report	Estimated Total Collection Size FY 2004	Total Number Of Bureau Items Catalogued	Number of Cataloged Items With Item-level Condition Data	Number of Cataloged Items In Good, Fair, & Poor Condition		
							Good	Fair	Poor
Office of the Secretary	6,463	126	1,048	5,541	5,541	5,200	78%	16%	6%

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

FY 2004 Additions and Withdrawals to Museum Collections, by Discipline
September 30, 2004

	2003 Totals	2004 Additions	2004 Withdrawals	9/30/2004 Totals
Archeology	35	-	-	35
Art	794	21	1	814
Ethnography	3,256	-	1,038	2,218
History	1,837	58	-	1,895
Documents	75	-	-	75
Botany	30	1	2	29
Zoology	47	44	7	84
Paleontology	11	-	-	11
Geology	378	2	-	380
Totals	6,463	126	1,048	5,541

Departmental Offices
FY 2004 Conditions at Locations Housing Bureau Collections
September 30, 2004

Number of locations housing Departmental Offices museum collections	Number of Locations Evaluated	Condition of Collections Based on the % of Departmental Standards Met by the Locations Evaluated		
		Good (Meet > 70%)	Fair (Meet 50-70%)	Poor (Meet < 50%)
Departmental Offices facilities	1		100%	
Other facilities	4	75%	25%	

Indian Arts and Crafts Board

The Indian Arts and Crafts Board (IACB) is a component of the Bureau of Indian Affairs (BIA) in accordance with the accounting standards. IACB museum collections total 11,061 Native American objects, including 8,178 ethnographic and 2,883 art 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 Indian Arts and Crafts Board'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 craftspeople.

Rendezvous of Fact and Visions: Retrospective of Works by T.C. Cannon opened at the Southern Plains Indian Museum in July 2003, and continues to draw national recognition. In addition, several museum objects are on loan for the *Arthur Amiotte Retrospective; Continuity and Diversity*, which toured to seven venues throughout the mid-west during a two-year period.

The Indian Arts and Crafts Board continues to increase public access to museum property. 98.46% of the museum objects are cataloged. The collection is expected to be fully cataloged in 2005.

A. Description of each major category of heritage assets

The Indian Arts and Crafts Board's heritage assets are museum collection objects.

B. Number of physical units as of September 30, 2004 and number of units added or withdrawn from the heritage asset record during FY2004

Museum of the Plains Indian (MPI), Browning, Montana 0 museum objects added	3,032
Sioux Indian Museum (SIM), Rapid City, South Dakota 0 museum objects added	3,798
Southern Plains Indian Museum (SPIM), Anadarko, Oklahoma 8 museum objects added	4,231

C. Description of the methods of acquisition and withdrawal of heritage assets

MPI 0 objects added:
SIM 0 objects added:
SPIM 8 objects added: (1 gift and 7 purchases in Ethnography)

Gifts:	1
Purchases:	7
Total Acquisitions:	8

There are no provisions for withdrawal or deaccessioning of museum collection objects.

D. Condition of the assets

Each of the Indian Arts and Crafts Board's three museum collections are adequately safeguarded. Conservation and fire protection surveys have been completed at each location. Two of the three museums have completed condition of assets surveys. The SPIM reports 4,068 items in good, 103 items in fair, and 60 items in poor condition. The SIM reports 3,482 items in good, 207 items in fair, and 109 items in poor condition. IACB reports a total of 7,550 items in good, 310 items in fair, 169 items in poor, and 3,032 items in unknown condition. MPI Staff will complete survey of condition of assets by the end of FY 2005.

E. Deferred maintenance of stewardship assets

Deferred maintenance for the Museum of the Plains Indian building is reported by the BIA, which is responsible for repairs that exceed $5,000. BIA also reports deferred maintenance for the SPIM building. The SIM is contained within The Journey museum complex, which is responsible for building maintenance.

The following chart indicates the disciplines addressed, location of objects, and estimated number of objects at Bureau facilities and other institutions as of September 30, 2004.

Discipline	# of Objects in Bureau Facilities	# of Objects in Other Institutions	**Total # of Objects**
Art	2,883	-	2,883
Ethnography	8,178	-	8,178
Total # of Objects	11,061	-	11,061

Indian Arts and Crafts Board FY2004 Status of Cataloging and Condition of Cataloged Bureau Museum Collections September 30, 2004						
Bureaus and Office	Estimated Total Collection Size FY2003	Additions Since Last Report	Withdrawals Since Last Report	Estimated Total Collection Size FY2004	Total Number of Bureau Items Cataloged	Number of Cataloged Items With Item-Level Condition Data
Indian Arts and Crafts Board	11,053	8	-	11,061	10,891	8029

FY 2004 Additions and Withdrawals to IACB Museum Collections, by Discipline

	2003 Totals	2004 Additions	2004 Withdrawals	9/30/2004 Totals
Art	2,883	-	-	2,883
Ethnography	8,170	8	-	8,178
Totals	11,053	8	-	11,061

Office of the Special Trustee for American Indians

Summary of Accomplishments – The Office of the Special Trustee for American Indians (OST) art and museum property is maintained in the Fixed Assets System (RFA22). The inventories are conducted semi-annually by the Senior Property Management Officer. The art and museum property records are maintained in a subsidiary hard copy file complete with colored photographs and pertinent information to identify the museum items.

Goals – Maintain accountability of art and museum property:

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

FY 2004 goals have been completed.

History – In April 1998, the BIA transferred 12 items of art and museum property to OST/OTFM. At the present time, OST offices at various locations have obtained additional items. The Senior Property Management Officer ensures that all art and museum property of each OST office is properly accessioned, photographed for identification purposes and accounted for by supporting documents.

Discipline	Number of Objects in Bureau Facilities	Number of Objects in Other Institutions	Total Number of Objects
Art	91	-	91
Total Number of Objects	91	-	91

Office of the Special Trustee for American Indians
FY 2004 Status of Cataloging and Condition of Cataloged Bureau Museum Collections
September 30, 2004

Bureaus and Offices	Estimated Total Collection Size FY 2003	Additions Since Last Report	Withdrawals Since Last Report	Estimated Total Collection Size FY 2004	Total Number Of Bureau Items Catalogued	Number of Cataloged Items With Item-level Condition Data	Number of Cataloged Items In Good, Fair, & Poor Condition		
							Good	Fair	Poor
Office of the Special Trustee for American Indians	73	18	-	91	91	91	99%	-	1%

FY 2004 Additions and Withdrawals to Museum Collections, by Discipline
September 30, 2004

	2003 Totals	2004 Additions	2004 Withdrawals	9/30/2004 Totals
Art	73	18	-	91
Totals	73	18	-	91

FY 2004 Conditions at Locations Housing Bureau Collections
September 30, 2004

Number of Locations Housing Departmental Offices Museum Collections	Number of Locations Evaluated	Condition of Collections Based on the % of Departmental Standards Met by the Locations Evaluated		
		Good (Meet > 70%)	Fair (Meet 50-70%)	Poor (Meet < 50%)
OST facilities	3	99%	-	1%

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 our 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. 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. Library staff applies emerging technologies in the form of an integrated library system operating on an 18 GB web server and the use of digital copies and microfilm reader-printers to expedite document delivery. The condition of the Library collection is rated generally as good, based on the professional judgment of the staff. Good condition represents paper and bindings that are of good quality and which show no sign of deterioration and are free from blemishes, tears, or fraying of pages. The condition of the collection is subject to potential harm from being housed in a facility where mold and water leaks are common.

Publications are selected and deselected from the collection according to the procedures established by library policy, the Aspen Collection Development Plan, and priorities as set by the Contracting Officer's Technical

Representative (COTR). Publications are removed from the collection when they become out of date/out of scope, as approved by the COTR.

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

Department of the Interior (Library) Collectible Heritage Assets - September 30, 2004							
					Condition		
Library Collections:	September 30, 2003 (units)	Additions (units)	Withdrawals (units)	September 30, 2004 (units)	Good	Fair	Poor
Departmental Library	997,950	33,895	21,562	1,010,283	100%		

INVESTMENTS IN NON-FEDERAL PHYSICAL PROPERTY

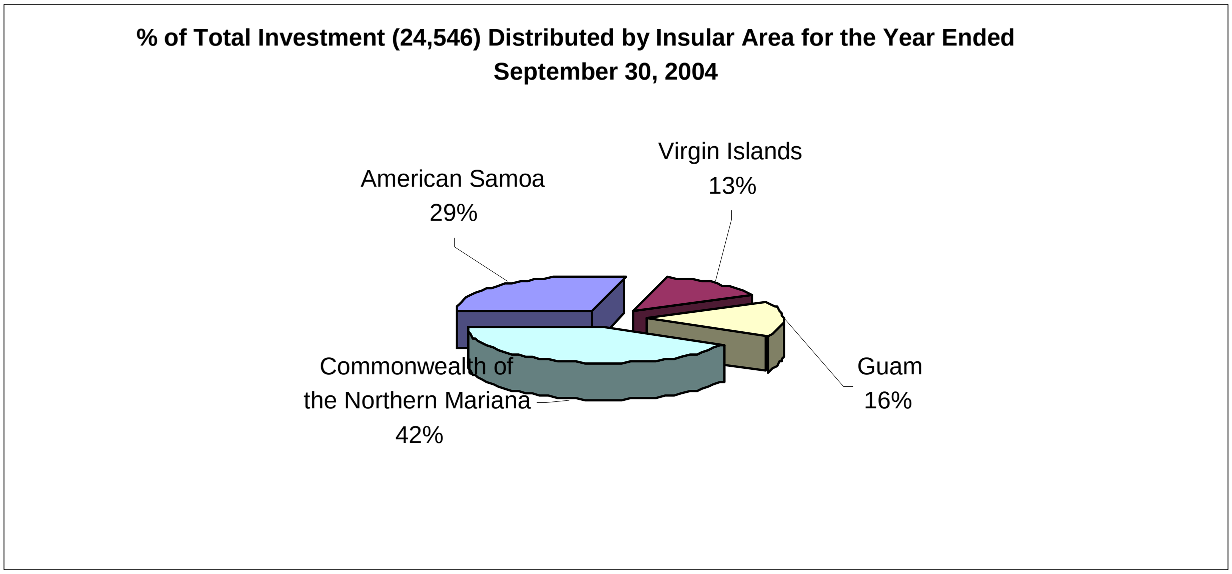
Office of Insular Affairs

The Office of Insular Affairs (OIA) is a small office which carries out the Secretary's responsibilities for U.S.-affiliated insular areas. These include the territories of Guam, American Samoa, the U.S. Virgin Islands, and the Commonwealth of the Northern Mariana Islands, as well as the three freely associated states: the Federated States of Micronesia, the Republic of the Marshall Islands, and the Republic of Palau. OIA will achieve its mission by improving the financial management practices of insular governments, increasing economic development, and increasing Federal responsiveness to the unique needs of island communities. OIA hopes to increase the resources available to the insular area governments while promoting economic self-sufficiency. The total estimated OIA budget for fiscal year 2005 is $385 million, of which all but $49 million is mandatory funding.

The OIA provides capital improvement grants to the insular areas. The capital investment in non-federal physical property in the territories was approximately $17.5 million in FY 2004. Capital Investment funds provided to the freely associated states: the Federated States of Micronesia, the Republic of the Marshall Islands, and the Republic of Palau are not included in this report. [/1]

Figure 1 depicts total investment distributed by insular area. Figure 2 shows capital investment dollars by major activity for each of the insular areas. Figure 3 compares investment dollars for fiscal years 2000 through 2004.

Figure 1
(dollars in thousands)



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

Figure 2
CAPITAL INVESTMENT BY MAJOR ACTIVITY WITHIN INSULAR AREA
As of September 30, 2004
(dollars in thousands)

American Samoa		
Hospitals	$	1,278
Ports		2,501
Public Buildings		426
Roads		377
Schools		444
Sewer		1,459
Solid Waste		262
Water		352
Total	$	7,099

Guam		
Hospitals		1,358
Roads		455
Schools		1,394
Solid Waste		699
Total	$	3,906

Commonwealth of the Northern Mariana Islands		
Airports	$	1
Health/Hospitals		1,521
Ports		63
Electrical/Power		735
Public Buildings		3,338
Roads		1,076
Education/Schools		759
Sewer		1,035
Solid Waste		480
Water		1,335
Total	$	10,343

Virgin Islands		
Hospitals		77
Public Buildings		415
Schools		47
Sewer		2,138
Solid Waste		521
Total	$	3,198

Figure 3
(dollars in thousands)
Capital Investment by Major Activity within Insular Area

American Samoa

2000		2001		2002		2003		2004	
Hospitals	$ 1,184	Hospitals	$ 1,416	Hospitals	$ 1,564	Hospitals	$ 1,567	Hospitals	$ 1,278
Ports	1,039	Ports	83	Ports	319	Ports	520	Ports	2,501
Power	238	Power	13	Power	238	Public Buildings	956	Public Buildings	426
Public Buildings	413	Public Buildings	161	Public Buildings	446	Roads	46	Roads	377
Roads	533	Roads	85	Roads	485	Schools	2,568	Schools	444
Schools	4,094	Schools	4,587	Schools	2,242	Sewer	1,735	Sewer	1,459
Sewer	1,105	Sewer	2,700	Sewer	3,593	Solid Waste	153	Solid Waste	262
Solid Waste	239	Solid Waste	252	Solid Waste	100	Water	786	Water	352
Tank Farm	1,000	Water	694	Water	733				
Water	1,088								
Total	$ 10,933	**Total**	$ 9,991	**Total**	$ 9,720	**Total**	$ 8,331	**Total**	$ 7,099

Commonwealth of the Nothern Mariana Islands

2000		2001		2002		2003		2004	
Electrical	$ 599	Airports	$ 1,525	Airports	$ 625	Airports	$ 883	Airports	$ 1
Health/Hospitals	623	Electrical	511	Electrical	777	Health/Hospitals	402	Health/Hospitals	1,521
Ports	-	Ports	-	Ports	-	Ports	-	Ports	63
Public Buildings	2,030	Health/Hospitals	299	Health/Hospitals	108	Electrical	1,124	Electrical	735
Roads	3,515	Public Buildings	4,188	Public Buildings	4,240	Public Buildings	5,381	Public Buildings	3,338
Schools	3,950	Roads	701	Roads	431	Roads	346	Roads	1,076
Solid Waste	1,528	Schools	5,693	Schools	7,485	Schools	275	Schools	759
Sewer	-	Sewer	-	Sewer	-	Sewer	-	Sewer	1,035
Sewer/Drainage	860	Solid Waste	955	Solid Waste	4,793	Solid Waste	6,562	Solid Waste	480
Water	1,042	Wastewater	1,086	Wastewater	1,384	Wastewater	708	Wastewater	-
		Water	1,535	Water	229	Water	222	Water	1,336
Total	$ 14,147	**Total**	$ 16,493	**Total**	$ 20,072	**Total**	$ 15,903	**Total**	$ 10,344

Federated States of Micronesia

2000		2001	
Airports	$ 26	Electrical	$ 337
Electrical	21	Wastewater	646
Wastewater	547		
Total	$ 594	**Total**	$ 983

Figure 3 (Continued)
Capital Investment by Major Activity within Insular Area
(dollars in thousands)

Guam

2000		2001		2002		2003		2004	
Public Buildings	97	Hospitals	1,309	Hospitals	2,059	Public Buildings	38	Hospitals	1,358
School Gyms	195	Public Buildings	240	Public Buildings	504	Roads	636	Roads	455
Sewer	879	Roads	5,092	Roads	1,268	Schools	1,427	Schools	1,394
Water	255	Sewer	490	Sewer	86	Solid Waste	1,995	Solid Waste	288
		Water	2,701	Water	573	Water	710	Sewer	411
Total	$ 1,426	**Total**	$ 9,832	**Total**	$ 4,490	**Total**	$ 4,806	**Total**	$ 3,906

Republic of the Marshall Islands

2000	
Health/Hospitals	567
Total	$ 567

Republic of Palau

2000		2002	
Health/Hospitals	$ 581	Health/Hospitals	$ 68
Electrical	115	Roads	401
Public Buildings	56		
Wastewater	89		
Total	$ 841	**Total**	$ 469

U.S. Virgin Islands

2000		2001		2002		2003		2004	
Schools	$ 3,419	Hospitals	$ 54	Hospitals	$ 4,538	Hospitals	$ 1,210	Hospitals	$ 77
		Prisons	536	Schools	31	Schools	159	Schools	47
		Schools	1,004	Sewer	560	Sewer	145	Sewer	2,138
		Sewer	66	Water	359	Solid Waste	366	Solid Waste	521
		Water	805					Public Buildings	415
Total	$ 3,419	**Total**	$ 2,465	**Total**	$ 5,488	**Total**	$ 1,880	**Total**	$ 3,198

Utah Reclamation Mitigation & Conservation Commission

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

PL 102-575, Title III
2000-2004
(dollars in thousands)

PL 102-575, Title III	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004
Total	**$ 1,868**	**$ 2,096**	**$ 3,885**	**$ 778**	**$ 244**
Public Buildings					
Sec 313 (c)					
Fish Hatchery Production	1,827	1,605	3,845	158	112
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.					
Dams & Other Structures					
Sec 203 (a)(5)					
Duchesne Strawberry Diversion Structures	41	390	5	380	70
The Commission, in conjunction with the Duchesne County Water Conservancy District, is reconstructing and rehabilitating diversion structures on the Duchesne and Strawberry Rivers.					
LAND					
Sec 306 (a)					
Wetlands Around Great Salt Lake	-	101	35	240	62
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.					

Central Utah Project Completion Act (CUPCA)

CENTRAL UTAH PROJECT COMPLETION ACT (CUPCA) CAPITAL INVESTMENT 2000 - 2004 (dollars in thousands)					
	2000	2001	2002	2003	2004
Sec 203 (a) (5)					
Duchesne Strawberry Diversion Structures Construction of permanent diversion facilities on the Duchesne and Strawberry Rivers. The Moon Lake Water Users Association privately owns these diversion facilities.	$ 222	$ -	$ -	$ -	$ -
Total	**$ 222**	**$ -**	**$ -**	**$ -**	**$ -**

INVESTMENTS IN RESEARCH AND DEVELOPMENT

Central Utah Project Completion Act (CUPCA)

In order to provide for the completion of the Central Utah Project, Public Law 102-575 was enacted on October 30, 1992. Funds authorized pursuant to this act are appropriated annually to the Secretary and such appropriations are made immediately available in their entirety to the Central Utah Water Conservancy District (CUWCD). In addition, Sec 204 of Public Law 102-575 requires the CUWCD 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)). All CUPCA R&D is applied.

CENTRAL UTAH PROJECT COMPLETION ACT (CUPCA) R&D INVESTMENT 2000 - 2004					
	2000	2001	2002	2003	2004
Sec 202(a)(1)					
Conjunctive Use of Surface and Ground Water Purpose: Feasibility study and development by the Utah Division of Water Resources in coordination with the Jordan Valley Water Conservancy District to allow ground water recharge, management, and the conjunctive use of surface water resources with ground water resources in Salt Lake, Utah, Davis, Wasatch, and Weber Counties in the State of Utah. Cost Share Percentage required: 35%	0	0	0	0	0
Sec 202(a)(4)					
Utah Lake Salinity Control Purpose: Feasibility study by the District to reduce the salinity of Utah Lake. Cost Share Percentage required: 50%	114	39	23	3	22
Sec 202(a)(5)					
Provo River Studies 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.	0	0	0	0	0
Sec 206 (b)					
Local Development in Lieu of Irrigation and Drainage 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%	956	150	250	840	1,482

Sec 207(e)(1)					
Water Management Improvement	69	35	35	37	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%					
Sec 207(e)(2)					
Conservation Measures	13,616	4,000	3,728	5,976	4,075
Purpose: Implementation of the conservation measures in accordance with the Water Management Improvement Plan identified in Sec 207(b). Cost Share Percentage required: 35%					
Sec 314 (c)					
Mitigation & Conservation Measures	272	287	426	548	223
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 BOR program. Cost Share Percentage required: NONE					
Total	**$ 15,027**	**$ 4,511**	**$ 4,462**	**$ 7,404**	**$ 5,803**

Performance Goal: The Central Utah Project Completion Act Office will coordinate with the Central Utah Water Conservancy District conservation and supply projects. It will also work with the District to coordinate local cost-sharing, ensure compliance with Federal environmental laws, and promote a program of water conservation.

Utah Reclamation Mitigation & Conservation Commission

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).

Utah Reclamation Mitigation and Conservation Commission
(dollars in thousands)

PL 102-575, Title's II and III	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004
Applied Research	184	121	109	70	94
Development	38	22	436	392	304
Total	**222**	**143**	**545**	**462**	**398**

Through the fourth quarter of fiscal year 2004, the Commission's research has focused primarily on the Sage Grouse and the June Sucker.

U.S. Department of the Interior
Departmental Offices

Other Supplementary Information
September 30, 2004

Department of the Interior
Departmental Offices
Consolidating Balance Sheet
As of September 30, 2004
(dollars in thousands)

	TOTAL	Working Capital Fund	Departmental Management	Environmental Activity	Services to Native Americans	Services to Insular Areas	Central Utah Project	Eliminations
ASSETS								
Intragovernmental Assets:								
Fund Balance with Treasury	**$ 1,046,014**	$ 596,637	$ 10,826	$ 43,389	$ 89,950	$ 267,345	$ 37,867	$ -
Investments, Net	**392,303**	-	-	169,523	77,714	-	145,066	-
Accounts and Interest Receivable, Net	**47,832**	39,973	12,792	-	846	(341)	93	(5,531)
Other								
Advances and Prepayments	**22,719**	10,658	460	1,984	22,176	-	8	(12,567)
Total Intragovernmental Assets	**1,508,868**	647,268	24,078	214,896	190,686	267,004	183,034	(18,098)
Investments	**190,767**	-	-	-	190,767	-	-	-
Accounts and Interest Receivable, Net	**8,231**	755	1,483	5,755	12	206	20	-
Loans and Interest Receivable, Net	**23,098**	-	-	-	-	23,098	-	-
Inventory and Related Property	**567**	567	-	-	-	-	-	-
General Property, Plant & Equipment, Net	**298,728**	45,087	87	-	4,105	3	249,446	-
Other								
Advances and Prepayments	**655**	5	11	-	24	-	615	-
TOTAL ASSETS	**2,030,914**	**693,682**	**25,659**	**220,651**	**385,594**	**290,311**	**433,115**	**(18,098)**
LIABILITIES								
Intragovernmental Liabilities:								
Accounts Payable	**5,607**	3,012	3,230	1,983	791	1,397	725	(5,531)
Debt	**21,962**	-	-	-	-	21,962	-	-
Other								
Accrued Payroll and Benefits	**4,516**	1,450	2,172	20	806	47	21	-
Advances and Deferred Revenue	**476,185**	488,658	64	-	-	30	-	(12,567)
Deposit Fund Liability	**(489)**	-	(489)	-	-	-	-	-
Total Intragovernmental Liabilities	**507,781**	493,120	4,977	2,003	1,597	23,436	746	(18,098)
Public Liabilities:								
Accounts Payable	**113,545**	94,102	1,523	1,223	1,907	14,215	575	-
Federal Employees Compensation Act Liability	**17,809**	6,061	7,780	23	3,616	231	98	-
Environmental Cleanup Costs	**1,300**	1,300	-	-	-	-	-	-
Other								
Accrued Payroll and Benefits	**31,207**	9,399	16,688	95	4,766	132	127	-
Advances and Deferred Revenue	**4,729**	4,731	-	-	(2)	-	-	-
Deposit Fund Liability	**7,665**	-	5,484	-	2,181	-	-	-
Contingent Liabilities	**712**	-	22	-	690	-	-	-
Total Public Liabilities	**176,967**	115,593	31,497	1,341	13,158	14,578	800	-
TOTAL LIABILITIES	**684,748**	608,713	36,474	3,344	14,755	38,014	1,546	(18,098)
Commitments and Contingencies								
Net Position								
Unexpended Appropriations	**402,565**	4,827	12,628	18,859	97,340	251,475	17,436	-
Cumulative Results of Operations	**943,601**	80,140	(23,443)	198,447	273,499	823	414,135	-
Total Net Position	**1,346,166**	84,967	(10,815)	217,306	370,839	252,298	431,571	-
TOTAL LIABILITIES AND NET POSITION	**$ 2,030,914**	**$ 693,680**	**$ 25,659**	**$ 220,650**	**$ 385,594**	**$ 290,312**	**$ 433,117**	**$ (18,098)**

Department of the Interior
Departmental Offices
Consolidating Balance Sheet
As of September 30, 2003
(dollars in thousands)

	TOTAL	Working Capital Fund	Departmental Management	Environmental Activity	Services to Native Americans	Services to Insular Areas	Central Utah Project	Eliminations
ASSETS								
Intragovernmental Assets:								
Fund Balance with Treasury	**$ 899,714**	$ 317,520	$ 189,099	$ 52,439	$ 96,558	$ 211,917	$ 32,181	$ -
Investments, Net	**371,802**	-	-	155,695	75,973	-	140,134	-
Accounts and Interest Receivable, Net	**22,005**	17,668	4,732	-	890	47	-	(1,332)
Other								
Advances and Prepayments	**9,788**	5,179	1,049	3,015	315	213	17	-
Total Intragovernmental Assets	**1,303,309**	340,367	194,880	211,149	173,736	212,177	172,332	(1,332)
Investments, Net	**181,540**	-	-	-	181,540	-	-	-
Accounts and Interest Receivable, Net	**10,419**	2,668	2,000	5,705	46	-	-	-
Loans and Interest Receivable, Net	**24,675**	-	-	-	-	24,675	-	-
Inventory and Related Property	**523**	523	-	-	-	-	-	-
General Property, Plant & Equipment, Net	**241,008**	31,059	887	-	1,688	7	207,367	-
Other								
Advances and Prepayments	**4,035**	49	16	-	11	-	3,959	-
TOTAL ASSETS	**1,765,509**	**374,666**	**197,783**	**216,854**	**357,021**	**236,859**	**383,658**	**(1,332)**
LIABILITIES								
Intragovernmental Liabilities:								
Accounts Payable	**10,342**	1,804	140	2,396	6,354	278	272	(902)
Debt	**25,307**	-	-	-	-	25,307	-	-
Other								
Accrued Payroll and Benefits	**20,945**	1,675	18,213	16	961	53	28	(1)
Advances and Deferred Revenue	**216,819**	216,620	259	-	-	158	-	(218)
Deposit Fund Liability	**992**	-	1,203	-	-	-	-	(211)
Other Liabilities	**1,157**	-	771	-	386	-	-	-
Total Intragovernmental Liabilities	**275,562**	220,099	20,586	2,412	7,701	25,796	300	(1,332)
Public Liabilities:								
Accounts Payable	**73,850**	59,019	2,066	97	2,574	9,808	286	-
Federal Employees Compensation Act Liability	**20,750**	7,165	9,013	27	4,176	246	123	-
Environmental Cleanup Costs	**1,000**	1,000	-	-	-	-	-	-
Other								
Accrued Payroll and Benefits	**25,996**	7,723	14,827	66	3,178	83	119	-
Advances and Deferred Revenue	**4,688**	4,690	-	-	(2)	-	-	-
Deposit Fund Liability	**160,998**	-	159,152	-	1,846	-	-	-
Contingent Liabilities	**693**	-	-	-	693	-	-	-
Total Public Liabilities	**287,975**	79,597	185,058	190	12,465	10,137	528	-
TOTAL LIABILITIES	**563,537**	299,696	205,644	2,602	20,166	35,933	828	(1,332)
Commitments and Contingencies								
Net Position								
Unexpended Appropriations	**338,947**	6,201	16,167	25,867	80,272	200,346	10,094	-
Cumulative Results of Operations	**863,025**	68,769	(24,028)	188,385	256,583	580	372,736	-
Total Net Position	**1,201,972**	74,970	(7,861)	214,252	336,855	200,926	382,830	-
TOTAL LIABILITIES AND NET POSITION	**$ 1,765,509**	**$ 374,666**	**$ 197,783**	**$ 216,854**	**$ 357,021**	**$ 236,859**	**$ 383,658**	**$ (1,332)**

U.S. Department of the Interior
Departmental Offices

Independent Auditors' Report

United States Department of the Interior
Office of Inspector General
Washington, D.C. 20240

December 6, 2004

Memorandum

To: Assistant Secretary for Policy, Management and Budget

From: Roger La Rouche Roger La Rouche
Assistant Inspector General for Audits

Subject: Independent Auditors' Report on the Departmental Offices' Financial Statements for Fiscal Years 2004 and 2003 (Report No. E-IN-DMO-0058-2004)

We contracted with KPMG LLP (KPMG), an independent certified public accounting firm, to audit the Departmental Offices' financial statements for fiscal years 2004 and 2003. The contract required that KPMG conduct its audit in accordance with the Comptroller General of the United States of America's *Government Auditing Standards*; Office of Management and Budget Bulletin 01-02, as amended, *Audit Requirements for Federal Financial Statements*; and the Government Accountability Office/President's Council on Integrity and Efficiency *Financial Audit Manual.*

In its audit of Departmental Offices (Attachment 1), KPMG found that the financial statements were fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. As discussed in KPMG's report and note 17 to the financial statements, Departmental Offices' fiscal year 2004 consolidated statement of net cost is not comparable to its fiscal year 2003 consolidated statement of net cost. This occurred because in fiscal year 2004, Departmental Offices revised the presentation of costs and revenues to match the *Government Performance and Results Act* strategic plan applicable to fiscal year 2004, which is different from the plan applicable to fiscal year 2003.

In addition, KPMG identified seven reportable conditions related to internal controls and financial reporting, the first three of which KPMG consider to be material weaknesses:

- Trust Funds
- Budgetary Transactions
- Accruals
- General and Application Controls Over Financial Management Systems
- Payments in Lieu of Taxes
- Grants
- Costing Methodology.

KPMG also found that Departmental Offices' financial management systems did not substantially comply with the *Federal Financial Management Improvement Act* (FFMIA) of 1996 because of noncompliance with federal financial management systems requirements and federal accounting standards. Excluding FFMIA, KPMG found instances of noncompliance with the *Prompt Payment Act* and the *Single Audit Act Amendments of 1996*.

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

In its November 19, 2004 response (Attachment 2), Departmental Offices indicated general concurrence with the findings and recommendations. However, Departmental Offices did not concur that application and general controls over financial management systems constituted a reportable condition in internal controls. In its comments on this matter, KPMG acknowledged that Departmental Offices had made improvements in the security and controls over information systems. However, KPMG also indicated that it identified a number of conditions that could have affected Departmental Offices' ability to detect unauthorized changes to financial information, control electronic access to sensitive information, and protect its information. The recommendations will be referred to the Assistant Secretary for Policy, Management and Budget for tracking of implementation.

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

We appreciate the cooperation and assistance of Departmental Offices personnel during the audit. If you have any questions, please contact me at (202) 208-5512.

Attachments (2)

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 Departmental Offices as of September 30, 2004 and 2003, and the related consolidated statements of net cost of operations, consolidated statements of changes in net position, combined statements of budgetary resources, and consolidated statements of financing, for the years then ended (hereinafter referred to as the financial statements). The objective of our audits was to express an opinion on the fair presentation of these financial statements. In connection with our audits, we also considered Departmental Offices internal control over financial reporting and tested the Departmental Offices compliance with certain provisions of applicable laws, regulations, contracts, and grant agreements that could have a direct and material effect on its financial statements.

Summary

As stated in our opinion on the financial statements, we concluded that the Departmental Offices financial statements as of and for the years ended September 30, 2004 and 2003 are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America.

As discussed in note 17 to the financial statements, Departmental Offices fiscal year 2004 statement of net cost of operations is not comparable to the fiscal year 2003 statement of net cost of operations because, in fiscal year 2004, Departmental Offices revised the presentation of costs and revenues to match the Government Performance and Results Act strategic plan applicable to fiscal year 2004, which is different from the plan applicable to fiscal year 2003.

Our consideration of internal control over financial reporting identified the following reportable conditions:

Reportable Conditions Considered to be Material Weaknesses:

A. Trust funds
B. Budgetary transactions
C. Accruals

Other Reportable Conditions:

D. General and application controls over financial management systems
E. Payments in Lieu of Taxes
F. Grants
G. Costing methodology

The results of our tests of compliance with certain provisions of laws, regulations, contracts, and grant agreements disclosed 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 Office of Management and Budget (OMB) Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements*:

H. *Prompt Payment Act*
I. *Single Audit Act Amendments of 1996*
J. *Federal Financial Management Improvement Act of 1996 (FFMIA)*

The following sections discuss our opinion on the financial statements; our consideration of Departmental Offices internal control over financial reporting; 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 balance sheets of Departmental Offices as of September 30, 2004 and 2003, and the related statements of net cost of operations, changes in net position, budgetary resources, and financing for the years then ended.

In our opinion the financial statements referred to above present fairly, in all material respects, the financial position of Departmental Offices as of September 30, 2004 and 2003, and its net costs, changes in net position, budgetary resources, and reconciliation of net costs to budgetary obligations for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

As discussed in note 17 to the financial statements, Departmental Offices fiscal year 2004 statement of net cost of operations is not comparable to the fiscal year 2003 statement of net cost of operations because, in fiscal year 2004, Departmental Offices revised the presentation of costs and revenues to match the Government Performance and Results Act strategic plan applicable to fiscal year 2004, which is different from the plan applicable to fiscal year 2003.

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 accounting principles generally accepted in the United States of America or OMB Bulletin No. 01-09, *Form and Content of Agency Financial Statements*. 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 consolidated financial statements taken as a whole. The consolidating information in the Other Supplementary Information section is presented for purposes of additional analysis of the consolidated balance sheets, rather than to present the financial position of Departmental Offices components individually. The consolidating information has 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 internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be reportable conditions. Under standards issued by the American Institute of Certified Public Accountants, reportable conditions are matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Departmental Offices ability to record, process, summarize, and report financial data consistent with the assertions by management in the financial statements.

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

In our fiscal year 2004 audit, we noted certain matters involving internal control over financial reporting and its operation that we consider to be reportable conditions. We believe that reportable conditions A through C are material weaknesses.

A. Trust Funds

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

The Indian Trust Funds' balances include appropriated accounts that are considered Federal funds and non-federal accounts that belong to beneficiaries of the Indian Trust Funds. The Federal accounts are reflected in Departmental Offices financial statements, while the non-federal accounts, which represent the majority of the Indian Trust Funds, are not reflected in Departmental Offices financial statements. However, the Indian Trust Funds' transactions and balances are disclosed in a footnote to Departmental Offices financial statements, in accordance with Federal accounting standards.

We noted that the procedures and internal controls are not adequate to ensure that the Indian Trust Funds' activity and balances are recorded properly or timely. Specifically we noted the following:

1. Trust Fund Balances

As of September 30, 2004, several financial reporting differences from prior periods relating to the fairness of the Indian Trust Funds balances have not been resolved. Certain parties, for whom Departmental Offices holds monetary assets in trust, have filed a class action lawsuit for an accounting of Individual Indian Monies that may or may not lead to claims against the United States Federal Government. Additionally, other parties do not agree with the Indian Trust Funds balances reported by Departmental Offices and have filed claims against the United States Federal Government. Interior is in the process of providing an accounting to beneficiaries of the Indian Trust Funds.

2. Individual Indian Monies Subsidiary Ledger

The balance of the Individual Indian Monies control account does not agree to the sum of the balances from the subsidiary ledger and it cannot be determined which balance, if either, is correct. As of September 30, 2004, the aggregate sum of all positive balances included in the subsidiary ledger exceeded the control account by approximately $6 million. Departmental Offices has requested funding from Congress to resolve the $6 million difference. In addition, as of September 30, 2004, the subsidiary ledger contains negative account balances totaling approximately $44 million (of which approximately $238,000 is attributed to individual Indian accounts as of September 30, 2004).

3. *Special Deposit Accounts*

In accordance with Title 25 of the Code of Federal Regulations and as directed by BIA, OST records receipts into special deposit accounts within the subsidiary ledger when the recipient trust fund account is unknown at the time of receipt. When BIA identifies the trust fund account(s), OST transfers the amount from the special deposit account(s) to the designated trust fund account(s) in accordance with BIA instructions. A significant number of special deposit accounts have remained inactive for the past several years and new accounts continued to be established during fiscal year 2004. As of September 30, 2004, there were approximately 20,000 special deposit accounts, with balances totaling approximately $46 million.

4. *Undistributed and Unusual Balances*

OST has not been able to determine the proper recipients of undistributed interest of approximately $1.8 million as of September 30, 2004. In addition, OST and BIA have not been able to determine the proper recipients of approximately $1.3 million transferred from certain special deposit accounts to undistributed interest accounts. Furthermore, there were twelve Tribal Trust Funds accounts with negative cash balances totaling approximately $724,000 as of September 30, 2004.

5. *Entering and Maintaining Trust Fund Information*

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

a. Trust Fund Systems

BIA has not consistently implemented automated systems for tracking and processing activities of the Indian Trust Funds. Agency offices use "off-the-shelf" software, internally developed software, in-house databases, and manual processes to manage ownership records, track lease activity, account for receivables/revenue, and determine disbursement amounts. BIA has developed an automated system for certain activities; however, BIA has not yet implemented this new system in all agency offices. This situation increases the risk that transactions are recorded inaccurately and untimely.

b. Segregation of Duties

The responsibilities for Indian Trust Funds processing are not properly segregated to prevent or detect errors. BIA did not segregate realty and land management activities (i.e., lease compliance) from accounting activities (i.e., collecting, depositing, recording, and distributing receipts). Also, in some offices the same employee was responsible for all activities associated with trust transactions, including initiating lease agreements, generating bills, collecting funds, making deposits, sending instructions to OST to create accounts, and distributing funds.

c. Accounts Receivable

BIA has not developed and communicated standardized policies and procedures for establishing, tracking, and pursuing accounts receivable for the Indian Trust Funds. This has resulted in inconsistent processes and has increased the risk that amounts due to Indian Trust Funds are not identified and ultimately collected. Several agency offices prepare bills after receiving payments rather than sending bills in advance of the payment due date. In addition, certain agency offices do not identify and pursue past due receivables and instead rely on landowners/lessors to inquire of overdue payments before pursuing the receivable. Furthermore, several agency offices did not maintain a listing of leases and permits against which receivables could be established.

d. Probate Backlog

BIA does not enter probate orders for land title into the trust management systems timely. Although BIA has made progress in reducing the backlog, BIA still has probate orders that have not been recorded. This increases the potential for inaccurate and untimely distributions of income to the account holders of the Indian Trust Funds.

e. Untimely Deposits

Several agency offices did not consistently forward trust receipts to OST in a timely manner. In certain agency offices, deposits of trust receipts were delayed for up to five business days and in others, delays were between six and ten days. Finally, though rare, certain agency offices took up to sixteen business days to deposit receipts.

f. Supervised and Restricted Accounts

BIA did not consistently maintain documentation for supervised accounts, including social service assessment and evaluation forms, disbursement documentation, annual review documentation, court orders, and notification of restriction letters. Furthermore, BIA did not consistently perform annual reviews of accounts or prepare distribution plans for inactive accounts.

g. Appraisal Review

One of the key elements in performing realty trust transactions is the requirement to obtain appraisals for realty transactions. Current laws allow the appraisal function to be carried out to tribes, who are often the named parties involved in realty transactions. BIA is responsible for assisting trust beneficiaries in the negotiation and execution of realty transactions. Office of Appraisal Services (OAS) is responsible for conducting reviews of appraisals that are completed for the benefit of tribes or individual trust beneficiaries. Controls are not in place to ensure that all appraisals, conducted under compacts or contracts completed for the benefit of tribes or individual trust beneficiaries, are provided to OAS.

Recommendation

We recommend that the 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 agreed with our findings and its comments were responsive to our recommendations.

B. Budgetary Transactions

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

1. ***Offsetting Receipts***

Departmental Offices initially did not record offsetting receipts for the Utah Reclamation Mitigation and Conservation Account of approximately $15 million. After we notified Departmental Offices of this condition, Departmental Offices inadvertently increased offsetting receipts by approximately $1.182 billion resulting in an overstatement of offsetting receipts by approximately $1.167 billion. This occurred because Departmental Offices improperly entered the amount into the accounting system and did not effectively review and approve the journal entry to ensure that the general ledger matched the TFS-6655 Receipt Account Trial Balance and the SF-224 *Statement of Transactions*.

2. ***Budgetary Resources***

The Utah Reclamation Mitigation and Conservation Commission, a component of Departmental Offices, is authorized by law to deposit contributions from project beneficiaries and transfers from the Secretary of Energy into an investment account. After the Mitigation and Conservation Commission elects to deposit these contributions and transfers into an investment account, these funds are no longer available for future obligations. However, Departmental Offices incorrectly presented approximately $32 million of these funds as appropriations received and as available budgetary resources in the prior year.

3. ***Unapportioned Authority***

At the beginning of the fiscal year, Departmental Offices recorded unapportioned authority for anticipated reimbursement agreements and during the fiscal year Departmental Offices recorded reimbursement authority as orders were received. However, Departmental Offices did not consistently reclassify unapportioned authority to apportioned authority at the time Departmental Offices received customer orders. In addition, Departmental Offices did not properly reverse the remaining unapportioned authority at the end of the fiscal year in accordance with the reporting requirements. As a result of our observations, Departmental Offices decreased the unapportioned authority by $29 million.

4. ***Recoveries of Prior Year Obligations***

The accounting system (i.e., Federal Financial System) incorrectly records recoveries of prior year obligations for reclassifications of obligations between program accounts, receipts, and other transactions resulting in an overstatement of total budgetary resources and obligations incurred. Although, Departmental Offices implemented new policies and procedures in fiscal year 2004 to investigate and correct invalid recoveries resulting from the system configuration, Departmental Offices did not follow these policies and procedures in at least one instance. As a result, Departmental Offices incorrectly reported budgetary recoveries of approximately $7 million.

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

Recommendations

We recommend that Departmental Offices improve internal controls to ensure that budgetary transactions are properly recorded in the financial report as follows:

1. ***Offsetting Receipts***

   a. Require a second individual to compare the offsetting receipts from the TFS-6655 *Receipt Account Trial Balance* and the *SF-224 Statement of Transactions* to the general ledger to ensure that offsetting receipts are properly recorded.

   b. Require a supervisor to review and approve all journal entries and continue to train employees on reviewing and approving journal entries to ensure adjustments are properly recorded in the general ledger and properly supported.

2. ***Budgetary Resources***

   a. Research the appropriation laws and regulations surrounding transactions to ensure that Departmental Offices properly records budgetary resources as unavailable or available.

   b. Require the budget office to review and approve these determinations.

3. ***Unapportioned Authority***

   a. Reclassify unapportioned authority to apportioned authority at the time Departmental Offices receives customer orders.

   b. Require management to review the year-end unapportioned authority general ledger accounts to ensure that they are correct.

4. ***Recoveries of Prior Year Obligations***

   a. Modify the system configuration of its accounting system to properly record budgetary recoveries.

   b. Until the accounting system is properly configured or until Departmental Offices implements a new financial system that properly records recoveries, Departmental Offices should analyze the amounts included in recoveries of prior year obligations and record correcting entries on a monthly basis.

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.

C. Accruals

In order to meet the accelerated reporting deadlines, Departmental Offices estimated certain accrual balances. However, Departmental Offices had to revise the accrual methodology at the end of the year as a result of our observations. In addition, the accrual calculation did not match the general ledger by approximately $22 million. As a result of our observations, Departmental Offices expended additional time and resources revising its accrual methodology, reconciling the calculations to the ledger, and adjusting the accrual balances to ensure the amounts were fairly stated.

Recommendations

We recommend that Departmental Offices perform the following:

1. Test and finalize the accrual methodology for its interim financial statements to reduce the year-end accrual effort. Testing should include comparing prior year estimated to actual accrual results and adjusting the methodology based on these results.

2. Reconcile the accrual calculations to the general ledger and enhance controls to ensure that the accruals calculations are complete and accurate. This should include having a supervisor review and approve the accrual calculation and reconciliation from the calculation to the general ledger.

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.

D. General and Application Controls Over Financial Management Systems

The National Business Center (NBC), a component within Departmental Offices, administers several of the Department's financial management systems, including the Federal Financial System (FFS); Federal Personnel and Payroll System (FPPS); and the Interior Department Electronic Acquisitions System (IDEAS).

NBC continues to improve the security and controls over its information systems; however, we determined that NBC needed to improve controls in the areas described below, as required by OMB Circular A-130, *Management of Federal Information Resources*. These conditions could have affected Departmental Offices' ability to prevent and detect unauthorized changes to financial information, control electronic access to sensitive information, and protect its information. We identified the following conditions during fiscal year 2004:

1. *Entity-wide Security Program*

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

a. Security Program

NBC has made progress towards establishing a security infrastructure; however, continued efforts were needed to implement security policies and procedures and monitor the security program. Furthermore, the NBC had not fully implemented memorandums of understanding with certain Interior customers to designate security responsibilities.

b. Certification and Accreditation

NBC has established a certification and accreditation program and has obtained certification and accreditation for many of the systems. However, NBC had not finalized the certification and accreditation process for certain applications and general support systems.

c. Background Investigations

NBC has established procedures for conducting background investigations for contractors, but had not fully implemented controls to ensure that background investigations are performed for all contractors.

d. Security Training

The NBC has established a process to monitor the completion of specialized security training, including security awareness training, for employees holding key Information Technology (IT) positions. However, NBC did not have a process to monitor the periodic completion of technical training by IT employees and contractors.

2. *Access Controls*

Access controls should provide reasonable assurance that computer resources such as data files, application programs, and computer-related facilities and equipment are protected against unauthorized modification, disclosure, and loss. The NBC needs to improve controls over granting, terminating, and monitoring system access to applications.

3. *Software Development and Change Controls*

Establishing controls over the modification of application software programs helps ensure that only authorized programs and modifications are implemented. NBC had not formalized and approved policies for changes to the Hyperion application.

Recommendation

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

Management Response

Management has prepared an official response presented as a separate attachment to this report. In summary, management partially agreed with our findings. Management indicated that Departmental Offices has made substantial progress improving internal controls and believes that our findings did not constitute a reportable condition, because Departmental offices completed certification and accreditation of systems and implemented development and change control procedures.

Auditors' Response to Management's Response

We agree that Departmental Offices has made improvements in the security and controls over information systems. However, we identified a number of conditions that could have affected Departmental Offices' ability to detect unauthorized changes to financial information, control electronic access to sensitive information, and protect its information as summarized in our finding above. Therefore, we believe that the control weaknesses identified constitute a reportable condition.

E. Payments in Lieu of Taxes

In accordance with legislation, Departmental Offices is required to provide approximately $200 million of payments in lieu of taxes to counties and other local governments for lands within their boundaries that are administered by the Bureau of Land Management (BLM), Forest Service, National Park Service, Fish and Wildlife Service, and certain other agencies. In fiscal year 2004, the President's Budget transferred this program from BLM to Departmental Offices. Under a reimbursable agreement with Departmental Offices, BLM calculated and disbursed the payments in lieu of taxes on behalf of Departmental Offices during fiscal year 2004. However, BLM did not establish effective controls over this program as follows:

1. ***Segregation of Duties***

BLM did not properly segregate responsibilities, as the same individual calculated, recorded, approved, and disbursed the payments in lieu of taxes.

2. ***Payment Calculations***

BLM did not calculate the payment in lieu of taxes in accordance with the formula designated in legislation, as BLM miscalculated the consumer price indices for 1999 through 2004. However, BLM disbursed the proper amounts because the total amount appropriated for payments in lieu of taxes was lower than the amounts calculated using the proper consumer price indices.

Recommendations

We understand that Departmental Offices plans to calculate and disburse the payments in lieu of taxes without BLM's involvement starting in fiscal year 2005. We recommend that Departmental Offices perform the following to improve controls over the payments in lieu of taxes:

1. ***Segregation of Duties***

Segregate the responsibilities for calculating, recording, approving, and disbursing payments in lieu of taxes.

2. ***Payment Calculations***

Implement policies and procedures to ensure that the payments in lieu of taxes are determined in accordance with legislation and use the proper consumer price indices.

Management Response

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

F. Grants

In accordance with the *Single Audit Act Amendments of 1996*, the Office of Insular Affairs (OIA), a component of Departmental Offices, should monitor grantees to ensure grantees expend awards in accordance with grant agreements and Federal regulations. Although OIA has implemented policies and improved controls over monitoring grantees for detecting and preventing misuse of Federal awards, OIA still needs to improve controls. Specifically, we noted the following:

1. ***Audit Reports***

OIA did not consistently ensure that grantees complete single audits and submit reports within nine months of the grantees' year-end. OIA only received one of the five single audit reports within the required timeframe.

2. ***Audit Findings***

OIA did not consistently issue management decisions on audit findings within six months after receipt of audit reports and did not ensure that grantees took appropriate and timely corrective action.

Recommendations

We recommend that the OIA improve the overall monitoring efforts of grantees as follows:

1. ***Audit Reports***

   a. Establish a monitoring and follow up process to verify that OIA receives single audits reports within nine months of the grantees' year-end.

   b. Utilize the Federal Clearinghouse website to determine when an audit report has been submitted.

   c. If reports are not received, OIA should inquire of grantees and consider the need to limit future grant awards until reports are submitted.

2. ***Audit Findings***

   Issue management decisions on audit findings within six months after receipt of single audit reports and perform steps to ensure that grantees take appropriate and timely corrective action.

Management Response

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

G. Costing Methodology

Departmental Offices, through its Working Capital Fund (WCF), provides certain services including aircraft, building, communication, reproduction, supply, contracting, and other services that are performed more advantageously centrally on a reimbursable basis. Departmental Offices did not have a consistent method to arrive at and adjust prices of products and services offered through the WCF in accordance with cost accounting standards. Departmental Offices implemented an account code structure for its components to track costs by activity; however, Departmental Offices did not consistently use the data elements for activity-based costing. In addition, Departmental Offices did not fully implement policies and procedures that provide a standardized process for handling agreements, billings, collections, and overhead costs.

Recommendations

We recommend Departmental Offices perform the following:

1. Utilize consistent methods to arrive at and adjust prices of products and services offered through the WCF in accordance with cost accounting standards.

2. Train users on the new account code structure so that all components can track their costs consistent with activity-based costing.

3. Implement policies and procedures that standardize the process for handling agreements, billings, collections, and overhead costs.

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 identified controls over budgetary transactions and accruals as material weaknesses that Departmental Offices did not include in its *Federal Managers' Financial Integrity Act* assurance statement to the Department of the Interior.

A summary of the status of prior year reportable conditions is included as Exhibit I. We also noted other matters involving internal control over financial reporting and its operation that we have reported to the management of Departmental Offices in a separate letter dated October 31, 2004.

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* (FFMIA), disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and OMB Bulletin No. 01-02, and are described below.

H. Prompt Payment Act

In accordance with the Prompt Payment Act, Departmental Offices is required to pay interest penalties when payments are late. Departmental Offices did not update its accounting system to properly reflect the semi-annual interest rate changes as published by the U.S. Department of the Treasury. As a result, Departmental Offices used a lower interest rate from January through September of 2004.

Recommendation

We recommend that Departmental Offices establish a process in fiscal year 2005 to ensure that semi-annual interest rates published by the U.S. Department of the Treasury are properly updated in the accounting system.

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.

I. Single Audit Act Amendments of 1996

As discussed in the Internal Control over Financial Reporting section of this report, Departmental Offices does not perform adequate monitoring of grantees in accordance with the *Single Audit Act Amendments of 1996*. Departmental Offices needs to ensure that grantees complete single audits and submit single audit reports to Departmental Offices in a timely manner. In addition, Departmental Offices needs to issue management decisions on findings in a timely manner.

Recommendation

We recommend that in fiscal year 2005, Departmental Offices improve its grantee monitoring process to ensure grantee compliance with the reporting requirements of the Single Audit Act Amendments of 1996.

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.

The results of our tests of compliance with certain provisions of other laws and regulations, exclusive of those referred to in FFMIA, disclosed no other instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* or OMB Bulletin No. 01-02.

The results of our tests of FFMIA disclosed instances, described below, where the Departmental Offices financial management systems did not substantially comply with Federal financial management systems requirements and 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 United States Standard General Ledger at the transaction levels.

J. Federal Financial Management Improvement Act of 1996 (FFMIA)

1. Federal Financial Management Systems Requirements

As discussed in the section of our report entitled "Internal Control over Financial Reporting," Departmental Offices needs to improve its EDP security and general control environment. Departmental Offices needs to improve the entity-wide security program, strengthen access controls, and enhance controls over system software development and change controls. As a result, Departmental Offices does not substantially comply with the security and general control requirements of OMB Circular A-130, *Management of Federal Information Resources.*

2. Federal Accounting Standards

Departmental Offices is required to prepare its financial statements in accordance with Federal accounting standards. As discussed in the section of our report entitled "Internal Control over Financial Reporting," we identified material weaknesses that affected Departmental Offices' ability to prepare its financial statements and related disclosures in accordance with Federal accounting standards. Specifically, we determined that Departmental Offices needs to improve controls over trust funds, budgetary transactions, and accruals. As a result of these conditions, Departmental Offices did not substantially comply with Federal accounting standards.

Recommendations

We recommend that during fiscal year 2005, Departmental Offices perform the following:

1. ***Federal Financial Management Systems Requirements***

   Improve the application and general controls over its financial management systems in accordance with requirements set forth in OMB Circular A-130.

2. ***Federal Accounting Standards***

   Improve procedures and internal controls to ensure that the financial statements and related disclosures are prepared in accordance with 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 findings and its comments were responsive to our recommendations.

We also noted other matters involving compliance with laws, regulations, contracts, and grant agreements, that, under *Government Auditing Standards* and OMB Bulletin No. 01-02, were not required to be included in this report, that we have reported to the management of Departmental Offices in a separate letter dated October 31, 2004.

Responsibilities

Management's Responsibilities

The *Government Management Reform Act of 1994* (GMRA) requires each Chief Financial Officer (CFO) Act agency to report annually to Congress on its financial status and any other information needed to fairly present its financial position and results of operations. To assist the Department of the Interior in meeting the GMRA reporting requirements, the Departmental Offices prepares annual financial statements.

Management is responsible for the financial statements, including:

- Preparing the financial statements in conformity with accounting principles generally accepted in the United States of America;
- Establishing and maintaining internal controls over financial reporting and preparation of the Management's Discussion and Analysis (including the performance measures), Required Supplementary Information, and Required Supplementary Stewardship Information; and
- Complying with laws, regulations, contracts, and grant agreements, including FFMIA.

In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control policies. Because of inherent limitations in internal control, misstatements, due to error or fraud, may nevertheless occur and not be detected.

Auditors' Responsibilities

Our responsibility is to express an opinion on the fiscal year 2004 and 2003 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*, and OMB Bulletin No. 01-02. Those standards and OMB Bulletin No. 01-02 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:

- 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 2004 audit, we considered the Departmental Offices internal control over financial reporting by obtaining an understanding of the Departmental Offices internal control, determining whether internal controls had been placed in operation, assessing control risk, and performing tests of controls in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements. We limited our internal control testing to those controls necessary to achieve the objectives described in *Government Auditing Standards* and OMB Bulletin No. 01-02. We did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*. Because of inherent limitations in internal control, misstatements due to error or fraud, losses, or noncompliance may nevertheless occur and not be detected. Also projecting our evaluation to future periods is subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with controls may deteriorate. In addition, our internal control testing may not be sufficient for other purposes. The objective of our audit was not to provide assurance on internal control over financial reporting. Consequently, we do not provide an opinion thereon.

As required by OMB Bulletin No. 01-02, we considered the Departmental Offices internal control over Required Supplementary Stewardship Information by obtaining an understanding of the Departmental Offices internal control, determining whether these internal controls had been placed in operation, assessing control risk, and performing tests of controls. Our procedures were not designed to provide assurance on internal control over Required Supplementary Stewardship Information and, accordingly, we do not provide an opinion thereon.

As further required by OMB Bulletin No. 01-02, 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 significant internal controls relating to the existence and completeness assertions. Our procedures were not designed to provide assurance on internal control over performance measures and, accordingly, we do not provide an opinion thereon.

As part of obtaining reasonable assurance about whether the Departmental Offices fiscal year 2004 financial statements are free of material misstatement, we performed tests of the 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 financial statement amounts, and certain provisions of other laws and regulations specified in OMB Bulletin No. 01-02, including certain provisions referred to in FFMIA. We limited our tests of compliance to the provisions described in the preceding sentence and we did not test compliance with all laws, regulations, contracts, and grant agreements applicable to the Departmental Offices. Accordingly, noncompliance may occur and not be detected by these tests and such testing may not be sufficient for other purposes. 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. 01-02 and FFMIA, we are required to report whether the Departmental Offices financial management systems substantially comply with (1) Federal financial management systems requirements, (2) applicable Federal accounting standards, and (3) the United States Government Standard General Ledger at the transaction level. To meet this requirement, we performed tests of compliance with FFMIA Section 803(a) requirements.

Distribution

This report is intended for the information and use of Departmental Offices and the Department of the Interior's management, the Department of the Interior's Office of Inspector General, the U.S. Government Accountability Office, OMB, 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

October 31, 2004

Exhibit I

DEPARTMENTAL OFFICES

Summary of the Status of Prior Year Findings

September 30, 2004

Ref	Condition	Status
A	Trust funds	This condition has not been corrected and is repeated in fiscal year 2004. See finding A.
B	Suspense accounts	This condition has been corrected.
C	Application and general controls over financial management systems	This condition has not been corrected and is repeated in fiscal year 2004. See finding D.
D	Financial reporting	This condition has been partially corrected in fiscal year 2004. See finding C.
E	Revenue transactions	This condition has been corrected.
F	Budgetary resources	This condition has not been corrected and is repeated in fiscal year 2004. See finding B.
G	Costing methodology	This condition has not been corrected and is repeated in fiscal year 2004. See finding G.
H	Grants	This condition has not been corrected and is repeated in fiscal year 2004. See finding F.
I	*Single Audit Act Amendments of 1996*	This condition has not been corrected and is repeated in fiscal year 2004. See finding I.
J	*Federal Financial Management Improvement Act of 1996* (FFMIA)	This condition has not been corrected and is repeated in fiscal year 2004. See finding J.

ATTACHMENT 2

United States Department of the Interior

OFFICE OF THE ASSISTANT SECRETARY
POLICY, MANAGEMENT AND BUDGET
Washington, DC 20240

TAKE PRIDE® IN AMERICA

November 19, 2004

Memorandum

To: Earl E. Devaney
Inspector General

KPMG LLP
2001 M Street, N.W.
Washington, D.C. 20036

From: P. Lynn Scarlett P Ln Scarlett
Assistant Secretary for Policy, Management and Budget

Subject: Management Response to the Independent Auditors' Report on the Departmental Offices' Financial Statements for Fiscal Years 2004 and 2003

We appreciate the KPMG LLP (KPMG) audit of the Departmental Offices' Financial Statements for Fiscal Years 2004 and 2003 and the recommendations on how to improve our financial reporting processes. Our offices worked diligently together, culminating in the issuance of the Fiscal Year 2004 report on a vastly accelerated basis. We are pleased that the result of KPMG's audit is an unqualified opinion on the Department Offices' financial statements.

As noted in KPMG's audit report, the Departmental Offices made progress in addressing financial management deficiencies in FY 2004. While we are pleased to have achieved an unqualified audit opinion, we recognize that we had to employ labor intensive procedures in certain critical areas to compensate for our financial systems' deficiencies, which hampers us in our efforts to produce timely, reliable financial information.

I would like to respond to each of the recommendations made in the Independent Auditors' Report. Corrective actions have been completed or are underway to address each of the items identified.

INTERNAL CONTROL OVER FINANCIAL REPORTING

A. Trust Funds

The Secretary has fiduciary responsibility for resources held in trust on behalf of American Indian Tribes, individual Indians, and other trust funds (the Indian Trust Funds). These Indian Trust Funds, like the trust funds held for Indian Tribes, are non-Federal monies and are only reflected on the Departmental Offices' financial statement footnotes.

Management concurs with the recommendations to develop and implement additional procedures and internal controls to address the control issues noted in the audit. A variety of actions are underway within Interior to improve internal controls for non-Federal Indian trust funds.

B. Budgetary Transactions

Management concurs with the recommendations. Departmental Offices have made improvements and are committed to continuing to improve controls over budgetary transactions. We are developing guidance on processing journal vouchers, adding unapportioned authority to our quarterly financial statement checklist, and continuing to educate our staff on the proper classification of recoveries of prior year obligations.

C. Accruals

Management concurs with the recommendations. During Fiscal Year 2004, the Departmental Offices revised its processes and controls to calculate accruals to meet the accelerated reporting deadlines. Management is committed to continue its improvements of the accrual calculations for Fiscal Year 2005.

D. General and Application Controls over Financial Management Systems

Management partially concurs. While management agrees that continued improvements are beneficial and has already implemented most of the recommendations, management does not concur that the findings rise to the level of a reportable condition. As a part of Interior's overall improvement efforts, NBC had established a certification and accreditation program. Although at the time of audit testing, some of the NBC systems had been certified and accredited, as of September 30, 2004, all NBC systems had been certified and accredited. Likewise, NBC had implemented formal policies and procedures for software development and change controls of its systems. As of June 1, 2004, NBC applied its standard change control policies and procedures to the Hyperion application. The NBC, consistent with FISMA requirements, is using a detailed plan of action and milestones (POAM) to track action plans to improve security controls for systems. Consequently, the Departmental Offices believe that substantial work was performed in Fiscal Year 2004 to improve controls over financial management systems and is committed to continued improvements in Fiscal Year 2005.

E. Payments in Lieu of Taxes

Management concurs with the recommendations on the Payments in Lieu of Taxes program and provides the following information about our actions to date on these issues. We have developed a new procedure that segregates the duties for calculating, recording, approving and disbursing payments. The PILT program coordinator will continue to manage the process for calculation of payments, although he will now have a staff person to back him up and provide an additional check point. We have assigned the duties for recording payments to a separate staff person, who will be responsible for the interface of the payment calculation process with the control of funds through the apportionment process (in the FFS). We have expanded the required approval process to include the Deputy Budget Director, the Budget Director, Deputy Assistant Secretary-Business Management and Wildland Fire, and the Assistant Secretary, Policy, Management and Budget. These senior officials will provide the approval of payments prior to disbursement. The duties for disbursement are now segregated and will be performed by the National Business Center. For payment calculations, we are developing the models for the 2005 payments using the proper consumer price indices. We will be using this model to formulate the 2005 payment amounts and will ensure that payments are properly calculated.

F. Grants

Management concurs with the recommendations. Interior will continue to work with its financial assistance programs to implement revised policies and improvements to encourage grantees to comply with the requirements of the *Single Audit Act Amendments of 1996.* During fiscal 2004, Interior has been aggressive in improving its monitoring processes. Interior added additional staff resources to more assertively monitor single audit reporting and grantee compliance. In March 2004, Interior, in consultation with the USDA Graduate School and CPA firms familiar with the U.S. territories, launched an initiative to bring all territories into compliance with the Single Audit Act and to implement effective audit resolution practices. Interior entered into a Memorandum of Agreement with American Samoa for fiscal reform, which includes a schedule for completion of American Samoa's past due single audits. In addition, new policies were implemented which become effective in fiscal 2005 that provide for the allocation of capital improvement funding among the U.S. territories based, among other things, on good financial management. For such grants, compliance with the Single Audit Act is now a "threshold requirement", meaning grants cannot be awarded until compliance is achieved or there is agreement on a schedule to achieve compliance.

G. Costing Methodology

Management concurs with the recommendations. In Fiscal Year 2004, the Departmental Offices revised its pricing procedures and did implement an activity based costing system. While these systems are in place, implementation improvement is needed, and management is committed to make continued improvements in Fiscal Year 2005.

COMPLIANCE AND OTHER MATTERS

H. Prompt Pay Act

Management concurs with the recommendation. During FY 2005, Departmental Offices will ensure that the procedures for entering the prompt pay rate in the accounting system are accurate.

I. Single Audit Act Amendments of 1996

Management concurs with the recommendation. Please see Section F, "Grants," for additional information and planned action.

J. Federal Financial Management Improvement Act of 1996 (FFMIA)

Interior recognizes that improved controls will result in more efficient and improved financial reporting. While Interior recognizes that the audit revealed areas at the time of the reviews which can be improved, management believes that it has made substantial improvement as outlined in the response to Finding D and that it is operating a sound "risk-based" security program. During fiscal 2005, Interior will strive to continue its improvements in security and general controls over its financial management systems and the FFMIA components related to Federal accounting standards. This will include improved monthly financial statement reporting, monitoring or performance metrics, and periodic reviews of financial performance with senior Department and bureau management.

We appreciate the value of the audit process and look forward to working with you to continue our manifest improvement in financial management in the Department of the Interior. Earning an unqualified opinion on the Department Offices' financial statements is a mark of our resolve to pursue excellence in financial management.