

Compliance With Legal and Regulatory Requirements

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

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

This section also includes a crosswalk of management control reviews and Office of Inspector General (OIG) and General Accounting Office (GAO) audits related to:

- The President's Management Agenda; and
- Other management challenges facing the Department.

Federal Managers' Financial Integrity Act (FMFIA)

The FMFIA requires agencies to provide a statement of assurance annually regarding the effectiveness of their management, administrative, and accounting controls, and financial systems. Interior's FY 2003 Annual Assurance Statement is provided in *Figure 25*. The basis for the assurance statement conclusions is discussed in the FY 2003 Management Control Assessments section that follows.

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

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

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

FY 2003 Management Control Assessments

Interior conducted an annual assessment of the effectiveness of its management, administrative, and accounting systems controls in accordance with the FMFIA and OMB guidelines. The conclusions in the Secretary's Annual Assurance Statement are based on the results of management control reviews of programs and administrative functions conducted by bureaus and offices, OIG and GAO program audit reports, and the results of the financial statement audits conducted by the independent public accounting firm, KPMG LLP, under the auspices of the Chief Financial Officers (CFO) Act of 1990 and the Government Management Reform Act (GMRA) of 1994. *Figure 26* presents the distribution of management control

FIGURE 25

FISCAL YEAR 2003 ANNUAL ASSURANCE STATEMENT

The Department conducted the annual assessment of its systems of management, accounting, administrative, and financial systems controls in accordance with the requirements and guidelines prescribed by the Federal Managers' Financial Integrity Act (FMFIA) and the Office of Management and Budget (OMB). Based on the results of this assessment, with the exception of the Department's concerns regarding the controls over the accuracy of ownership records and propriety of account balances in the Indian Trust Fund and the other material weaknesses noted herein, the Department can provide reasonable assurance that its systems of management, accounting, and administrative controls, taken as a whole, meet the objectives specified in Section 2 of FMFIA, and OMB Circular A-123, "Management Accountability and Control."

Based on the results of the annual independent audited financial statement process, the Department is not in full compliance with applicable Federal accounting standards and the U.S. Government Standard General Ledger at the transaction level. Further, due to the weaknesses in information system security controls, the Department does not fully comply with Federal financial management systems requirements specified in OMB Circular A-130, "Management of Federal Information Resources." Therefore, the Department does not fully comply with, or meet the objectives of, Section 4 of the FMFIA and OMB Circular A-127, "Financial Systems." The Department has implemented a remediation plan to resolve these material weaknesses and expects to complete corrective actions in fiscal year 2005.

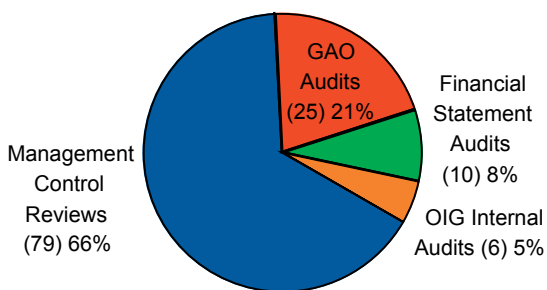


Secretary of the Interior

reviews and audits used to support the FY 2003 Annual Assurance Statement. It should be noted that, as in prior years, management control reviews performed by the Department and its bureaus provided a majority of the support (66%) for the Annual Assurance Statement. As noted later in this section of the report, Interior's FY 2003 manage-

FIGURE 26

Basis for FY 2003 Assurance Statement



ment controls reviews, OIG and GAO program audits, and financial statement audits also focused on areas that were identified as Major Management Challenges for the Department or as Presidential Management Initiatives.

Material Weaknesses and Accounting System Non-conformances

Since the inception of the FMFIA in 1982, Interior has identified and reported 172 material weaknesses and 65 accounting system non-conformances. By the end of FY 2003, Interior had corrected 162 of these material weaknesses (94%). No new material weaknesses were identified during FY 2003 and the one material weakness targeted for correction in FY 2003, (the U.S. Fish and Wildlife Service Federal Aid Management Control and Audit Follow-up Program), was completed on schedule. All accounting system non-conformances identified through FY 2000 have been corrected. The correction of the accounting system non-conformance reported in FY 2001 for financial management system security controls remains pending. Significant progress was achieved during FY 2003 and final corrective actions are on target for FY 2004.

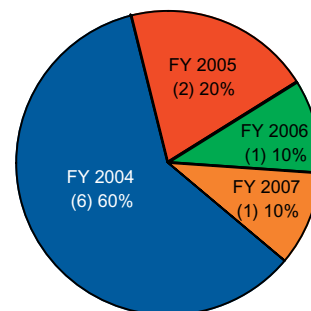
TABLE 14

Number of Material Weaknesses			
Period Reported	Reported	Corrected	Pending
Prior Years	166	160	6
FY 2000	3	1	2
FY 2001	1	1	0
FY 2002	2	0	2
FY 2003	0	0	0
Total	172	162	10

Interior is committed to the timely correction of material weaknesses and non-conformances in order to improve integrity and accountability in all programs, organizations, and functions. As previously noted, only one material weakness was scheduled for correction in FY 2003 and all corrective actions were

FIGURE 27

Planned Correction of Pending Material Weaknesses



accomplished on time. This commitment is further demonstrated by the Government Performance and Results Act (GPRA) goals developed for the timely correction of material weaknesses, timely implementation of OIG and GAO audit recommendations, and the achievement of unqualified (clean) financial statement audit opinions. The performance results for these goals are discussed in the Management Discussion and Analysis section of this report and summarized later in this section. These goals will also be included in the Department’s FY 2004 Annual Performance Plan.

The Department’s progress in correcting material weaknesses and accounting system non-conformances is presented in Table 14 and Table 15. These tables present the number of new material weaknesses and accounting system non-conformances reported in a given fiscal year. The number of weaknesses and non-conformances corrected and pending also correspond to the year in which they are reported. Interior will carry forward 10 material weaknesses to FY 2004. As shown in Figure 27,

TABLE 15

Number of Material Non-Conformances			
Period Reported	Reported	Corrected	Pending
Prior Years	64	64	0
FY 2000	0	0	0
FY 2001	1	0	1
FY 2002	0	0	0
FY 2003	0	0	0
Total	65	64	1

TABLE 16

Pending FMFIA Material Weaknesses as of September 30, 2003			
Bureau	Material Weakness	Corrective Actions	Target Correction Date
Mission Critical Material Weaknesses			
OST, BIA, and OS/OHTA	<u>Trust Fund Management</u> : Beginning balances in the trust funds accounts may not be portrayed fairly due to inadequacies in certain Department of the Interior trust related systems and procedures. The remaining items to correct this material weakness include OHTA's historical accounting and strengthening the existing system of controls to ensure that BIA ownership and distribution information is correct.	Departmental trust policies, procedures, systems, and internal controls will continue to be improved and training provided to achieve the goals of the Comprehensive Trust Management Plan. The reconciliation of all individual Indian money accounts by the Office of Historical Accounting should allow the beginning balances to be more fairly portrayed.	FY 2007
OST and BIA	<u>Records Management</u> : Long-standing deficiencies in the records management program have made it difficult to ensure the maintenance and preservation of Indian Trust records.	An updated work plan with strategies, tasks, timelines, and resource requirements has been developed by the Office of Trust Records. The implementation of this work plan will resolve many of the identified deficiencies and establish an active and comprehensive records management program for the BIA and OST.	FY 2006
NPS	<u>Oil and Hazmat Incident Preparedness and Response Program</u> : The lack of an adequate oil and hazardous material incident preparedness and response program seriously endangers the safety of the public, employees, and park resources.	The NPS will develop and implement a comprehensive corrective action plan to ensure full and complete compliance with applicable laws, regulations, executive orders, and policies to ensure the safety of the public, employees, concessionaires, and park resources.	FY 2004
NPS	<u>Structural Fire Program</u> : The current program does not provide adequate protection of employees and visitors, contents, structures, and resources from the effects of fire as required by Director's Order No. 58.	The NPS will develop and implement a comprehensive structural fire program plan as directed by Congress. The plan will include specific milestones to address the operational, organizational, technical, and staffing deficiencies cited in the May 2000 GAO audit report and July 2000 congressional hearing on fire safety failures of the NPS.	FY 2004
DEPT	<u>Information Technology (IT) Security</u> : The increasing growth in electronic commerce, the heightened reliance on information systems to accomplish basic missions, and potential for exposing information systems to unauthorized access have resulted in the need for a comprehensive Department program to improve IT security further.	The Department is conducting a comprehensive IT security assessment to determine the security and control issues in DOI bureaus and offices. Based on its findings, the Department will develop and implement additional information security measures, including capital budgeting requirements.	FY 2004
DEPT	<u>Wireless Telecommunications</u> : Effective radio communications are critical to employee and public safety, and the efficient management of the parks and public lands. The current wireless telecommunications program in some bureaus does not effectively support bureau and public safety operations, does not comply with Departmental management directives, and is not funded to achieve timely compliance.	The Department will develop and implement a plan to meet employee and public safety objectives; restore program efficiency by reviewing bureau narrowband capital investment and implementation plans; revise plans to maximize radio system sharing, minimize supporting infrastructure requirements; and ensure maximum use of alternative wireless services.	FY 2005
DEPT	<u>Departmentwide Maintenance Management Capability</u> : Interior lacks consistent, reliable, and complete information to plan for, budget, and account for resources dedicated to maintenance activities.	The Department will identify and implement a comprehensive maintenance management system with an appropriate linkage to the accounting system; conduct comprehensive condition assessments; make determinations to repair, replace, or relocate facilities; develop a five-year Deferred Maintenance Plan and Capital Improvement Plan; repair, replace, and relocate facilities to achieve "good condition"; and reduce deferred maintenance to established goals (5% or less of replacement cost).	FY 2004

TABLE 16 CONTINUED

Pending FMFIA Material Weaknesses as of September 30, 2003			
Bureau	Material Weakness	Corrective Actions	Target Correction Date
Other Material Weaknesses			
BIA	<u>Irrigation Operations and Maintenance:</u> The establishment of irrigation assessment rates and collection, recording, investment, and utilization of irrigation receipts are inadequate. Operation and maintenance (O&M) receivable balances have not been kept current and billing and debt collection processes have not been consistently followed.	The BIA will publish 25 CFR 171 A and B as a Final Rule, reconcile past O&M receivables, and bring all accounts to current status. The BIA will also develop Operations Handbook regarding project operation and keeping O&M assessments and collection processes current. The BIA will convert irrigation project billings and collections to the National Irrigation Information Management System (NIIMS) and interface with Federal Financial System (FFS).	FY 2004
BLM	<u>Land Appraisal and Exchange Functions:</u> Management and oversight of the land appraisal and exchange functions does not ensure that objective and independent market value opinions from qualified appraisers are used in land transactions.	The BLM will establish an independent appraisal function to review all land exchange transactions and establish a multi-agency team to review and identify appraisal and exchange function deficiencies and implement appropriate corrective actions.	FY 2004
BOR and FWS	<u>Improving Controls and Systems for Accounting and Reporting Real Property:</u> The Bureau of Reclamation and U.S. Fish and Wildlife Service do not have the internal controls, accounting procedures and or systems to properly account for real property.	The BOR will improve its land inventory and financial reconciliations by (1) conducting reconciliations and searches to validate the accuracy of its land records; (2) populating its new real property system with such data; (3) developing and issuing policy and procedures to ensure future quality, accuracy, and completeness of data captured in the lands and finance systems; and (4) conducting an initial and periodic reconciliation between the detailed land data maintained in its real property system and FFS to ensure the quality of information contained in both systems. FWS will improve the processes, procedures, controls and systems to ensure that regions provide accurate and timely information for the real property system.	FY 2005

Interior plans to complete corrective actions for 6 of the 10 material weaknesses (60%) by the end of FY 2004 and all of the remaining material weaknesses by the end of FY 2007. *Table 16* presents a description of the 10 pending material weaknesses, including those designated as “mission critical weaknesses,” along with summaries of planned corrective actions and targeted completion dates.

Government Performance and Results Act Performance Goal

In order to ensure that the material weaknesses identified and reported in the FMFIA program are corrected in a timely manner, the Department’s Management Control and Follow-up (MCAF) Council established a GPRA performance measure. The Department’s annual performance target for FY 2003 was to substantially complete 80% of the material weakness corrective action plans by the targeted completion date reported in the Annual Performance and Accountability Report.

The Department achieved its performance target in FY 2003 by completing corrective actions for the one material weakness targeted for completion in FY 2003. As a result, a 100% performance goal achievement is reported for this measure.

Material Weaknesses Corrected

Figure 28 presents the criteria used by the Department to report a “mission critical” material weakness and to correct or downgrade a material weakness in the Annual Performance and Accountability Report. The criteria are based on guidelines in OMB Circular A-123, “Management Accountability and Control.” The following is a summary of the corrective actions implemented for the U.S. Fish and Wildlife Service’s Federal Aid Management Control and Audit Follow-up Program material weakness.

Federal Aid Management Control and Audit Follow-up Program (FWS). Program deficiencies

FIGURE 28

Material Weakness Guidelines

The Department defines a mission critical material weakness as:

- An inherent program or administrative functional material weakness that makes the program or activity susceptible to fraud, waste, and abuse.
- A systemic deficiency caused by ineffective program or management support, financial systems, policies, and/or procedures established by a bureau or reporting entity to carry out a major program or administrative function.
- A practice that is seriously detrimental to public health or safety, a program or administrative activity, service delivery, national security, economic growth, privacy, or citizens’ rights.
- A practice that could result in significantly impaired service, program failure, significantly reduced program effectiveness or efficiency, public injury or loss of life, unreliable decisionmaking data, reduced confidence in government, and unauthorized disclosure, manipulation or misuse of sensitive information such as personal, financial management, or programmatic data maintained in computerized systems.

The Department will remove a mission critical designation or report a material weakness corrected or downgraded when:

- Senior management has demonstrated its commitment to resolving the material weakness as evidenced by resource deployment and frequent and regular monitoring of corrective action progress.
- Substantial and timely documented progress in completing material weakness corrective actions is provided.
- Corrective actions have been substantially completed, and the remaining actions are minor in scope and will be completed within the next fiscal year.
- Implemented corrective actions have eliminated or minimized the root cause(s) of the material weakness.
- Substantial validation of corrective action effectiveness has been performed.

identified by the Office of Inspector General and U.S. General Accounting Office, as well as increased Congressional interest and scrutiny of selected aspects of the Federal Aid Program, resulted in the Federal Aid Program being declared a material weakness in the FY 2000 Performance and Accountability Report. The program deficiencies cited prevented the FWS from achieving several fundamental objectives of management controls, including complying with laws and regulations; safeguarding assets (grant funds) from waste fraud, and mismanagement; and, providing timely, accurate and

reliable financial information on the distribution of grant funds.

The FWS developed and implemented a multi-phased corrective action plan with a targeted completion date of September 2003. Significant milestones in the corrective action plan included: terminating the FWS administrative grant program; restricting use of Federal Aid travel funds; expanding program management oversight to three Assistant Directors; and establishing process improvement teams in the areas of grant management systems, financial reconciliations, grant operations audit review and resolution, and organization and staffing. In addition, the OIG's FY 2000 financial statement audit opinion identified two aspects of the Federal Aid Grant Program as material internal control weakness: (1) failure to perform timely and complete reconciliations of grant data in the Federal Aid Information Management Systems and the Federal Financial Systems and (2) failure to comply with 43 CFR 12.81 by not requiring grantees to report on the status of funds at least annually.

Over the last three years, the FWS has successfully implemented the comprehensive corrective action plan for this material weakness. Recommendations from the process improvement teams have been completely implemented, sound management controls have been restored in all program areas, and program integrity and accountability have been reinforced by ongoing State Federal Aid Program audits and resolution of audit findings by the FWS Division of Federal Aid Audit Follow-up staff. In addition, the FWS conducted a follow-up management control review of the Federal Aid Program in FY 2003 and found no material weaknesses or major vulnerabilities or deficiencies exist.

New Material Weaknesses

As a result of the FY 2003 audited financial statement process, the FWS elected to report its Real Property Inventory and Reconciliations as a material weakness for FMFIA reporting purposes because information recorded in the Real Property Inventory is used to support budget estimates and justifications for FWS maintenance and funding levels. A similar material weakness has been reported for the Bureau of Reclamation since FY 2000 for the same reasons. Due to the similarity in the scope

of the FWS and BOR material weaknesses and their associated corrective action plans, the Department has combined these material weaknesses for FMFIA reporting purposes under the heading "Improving Controls and Systems for Accounting and Reporting for Real Property." If similar weaknesses are identified in the audited financial statement opinions of other bureaus and offices in the future, they will also be incorporated and tracked under this material weakness.

Mission Critical Material Weaknesses

OMB Circular A-123, "Management Accountability and Control," requests that each agency identify and report on the most critical material weaknesses affecting the agency. The Department has adopted the guidelines for mission critical material weakness designations recommended by the GAO. These guidelines are noted in *Figure 28*. Interior has identified 7 of its 10 (70%) pending material weaknesses as "mission critical weaknesses."

Interior recognizes the importance of correcting these mission critical weaknesses in a timely manner. Corrective action plans with key milestones, target dates, and accountable officials have been established and approved. The Department and senior program management officials continuously monitor corrective action progress for each mission critical weakness. The 7 mission critical material weaknesses and corrective action highlights are as follows:

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

The OST provides oversight for all trust reform efforts and coordinates certain trust fund-related projects within the Department. It is headed by the Special Trustee, who reports to the Office of the Secretary. Under the new organization adopted in April 2003, OST consists of the Office of Trust Review and Audit; CIO; Office of Budget, Finance and Administration; Office of External Affairs; Deputy Special Trustee - Trust Accountability; Deputy Special Trustee - Field Operations; and the Deputy Special Trustee - Trust Services.

Past reviews by the General Accounting Office, congressional committees, the Department's Office of Inspector General, and independent accounting firms have identified serious financial management problems in the management of Indian trust funds. Beginning in April 1997, the Department pursued a series of reform efforts, culminating in the current trust reform plan. The Comprehensive Trust Management Plan is based on an analysis of the trust reform program to date and substantially strengthens previous reform efforts in this area. The plan focuses on services to be provided to beneficiaries and calls for the re-engineering of current business processes and the development of Indian trust systems that are fully integrated and parallel the comparable "best practices" of trust services operations in the private sector.

In FY 2003, Interior continued to design and implement long-term comprehensive reform. Specific accomplishments included a new Special Trustee, Ross Swimmer, who was officially sworn in to become the third Special Trustee since the enactment of the American Indian Trust Fund Management Reform Act of 1994. Mr. Swimmer was formerly the Director of the Office of Indian Trust Transition, and has extensive experience with the financial industry and Indian trust; approval and initial implementation of the reorganization of BIA and the Office of the Special Trustee; implementation of a process for determining survey priorities that was developed by the Bureau of Land Management for use by the Bureau of Indian Affairs; and establishment of the Office of Trust Review and Audit (OTRA) to place greater emphasis on audit and accountability. OTRA is expected to increase the audits and reviews of self-governance tribes as well

as respond to questions and concerns from individual Indian trust beneficiaries.

2. Records Management. The Office of Trust Records is responsible for developing and implementing the solution to long-standing problems with the records management programs of the BIA and the Office of the Special Trustee for American Indians. The records management responsibility was assigned to the Office of Trust Records as a subproject of the former High Level Implementation Plan. While some progress was made under that plan, the Department began an intensive effort to revitalize the Office of Trust Records beginning in July 2002.

A permanent Director was selected in December 2002 and a rigorous endeavor was begun to develop a comprehensive work plan for the OTR. To make this commitment even stronger, on September 5, 2002, the Deputy Secretary assigned the Assistant Deputy Secretary the direct management responsibility for OTR. The Assistant Deputy Secretary has worked very closely with the Director of the OTR to develop the work plan.

The work plan identifies six strategies for OTR. They are:

1. Establish records retention schedules;
2. Establish and implement record keeping requirements that allow for record retrieval on an "as needed" basis;
3. Safeguard records;
4. Implement training program;
5. Undertake continual evaluation of the records program; and
6. Establish programs to meet trust and other record retrieval needs of customers and document production requests.

The work plan includes tasks, timelines and resources required for implementation. It incorporates some activities begun within the past two years and represents a significant commitment to re-establishing a strong records management program that provides a real means for measuring accomplishments.

During FY 2003, the records management program continued to evolve with the goals of ensuring that necessary Indian records are maintained; records retention needs are met through authorized schedules and records are safeguarded throughout their life-cycle. Specific accomplishments included: the Deputy Secretary issuing the Definition of Indian Trust Records memorandum; the release of a new Departmental Manual Chapter, "Indian Trust Responsibilities for Indian Fiduciary Trust Records," which provides records management guidance for Interior bureaus and offices to properly identify, manage, protect, and control Indian fiduciary trust records; issue of a Memorandum of Understanding (MOU) between the Secretary and the Archivist of the United States with the purpose of consolidating and preserving on a continuing and long-term basis designated Indian records and related Interior fiduciary records, and to develop an archival and records management studies program at the Haskell Indian Nations university; a conference with tribal leases, tribal record custodians, and other users of Indian Affairs records to provide tribes with information on records management, conduct a scoping session to identify records management policy issues facing Tribes that contract programs or have self-governance compacts, and a tour of the Federal Records Center at Lee's Summit, MO; development of decision trees for BIA, OST, BLM, MMS, OSM and other Department bureaus and offices; guidance was issued to OST and BIA offices for procedures to follow when requesting approval to move records to the Federal Records Center or OTR records center; the records training program was resumed; draft policies and procedures were developed for conducting records site assessments; hardware and software to implement a single index database with full text search capabilities were purchased; and, the contractor indexing Indian records in Albuquerque, NM, and Kansas City, MO, completed indexing approximately 24,800 boxes and loaded 22,601 boxes into the search data base, with priority given to indexing boxes responsive to tribal trust litigation.

3. Structural Fire Program (NPS). In response to the findings and recommendations in a FY 2000 GAO audit report, and Congressional hearings on fire safety issues, the NPS declared its Structural Fire Program a material weakness. In summary,

the Structural Fire Program does not provide adequate protection of people, contents, structures, and resources from the effects of fire. The NPS has developed a comprehensive improvement plan that addresses the operational, technical, and organizational deficiencies in the program which were cited in the GAO audit report and Congressional hearings. The plan is expected to be fully implemented by the end of FY 2004.

The NPS has progressed in its efforts to mitigate risks associated with the Structural Fire Program. For example, additional building inspection training, testing, and structural condition assessments have been performed. Funding requests for the program are now based on priorities established by the condition assessments. To date, condition assessments were conducted at 30,000 buildings and structures. A total of 3,000 have been determined to be high risk. Structural fire condition assessments have been incorporated as an integral part of the ongoing Facility Management Software System which tracks facilities maintenance needs and improvements. NPS has established a Structural Fire Advisory Group which is chartered to assist with program development, direction, and oversight.

The following corrective action milestones were achieved in FY 2003: a new annual fire inspection form was developed and implemented; a core work plan for regional structural fire management officers was developed and implemented, a draft reference manual for field guidance in implementing uniform structural standards was developed and circulated for comments; six new fire engines were procured for the highest risk areas; building inspection, testing, and structural training continued according to plan; and, post corrections follow-up reviews were conducted to ensure that identified deficiencies have been properly corrected.

4. Oil and Hazmat Response Program (NPS). In response to the findings and recommendations from a Department environmental management control review, the NPS Oil and Hazardous Material Incident Preparedness and Response Program were declared a material weakness in FY 2002. In summary, the NPS determined that the program endangers the safety of the general public, employees, and park resources. NPS has developed and

began implementation of a comprehensive corrective action plan which was originally targeted for completion in FY 2005, but based upon progress through the end of FY 2003, is now targeted to be completed one year ahead of schedule (by the end of FY 2004).

Progress to date has focused on the material deficiencies related to fuel transfers, fuel storage and fuel handling operations. In FY 2003, the NPS Office of Environmental Management completed fuel system surveys at nine high risk park units that resulted in immediate on-site corrective actions. The corrective actions were implemented at little or no cost during the survey period. In addition, NPS: prioritized replacement of antiquated fuel distribution systems; retrofitted several single-hulled to double-hulled bulk fuel transport barges; established a “zero tolerance” policy for preventable fuel spills; formally designated a program lead to establish and implement a bureau-wide hazardous materials response program consistent with existing law; and, developed an organizational structure and reporting line of authority for the Hazmat Program which establishes the role of Hazmat Response Program within the Visitor and Resource Protection function. Other ongoing efforts to improve the program are continuing and when fully implemented will insure NPS national policies and facilities are in compliance with applicable laws and regulations governing hazmat response.

5. Information Technology Security (Department).

In response to findings and recommendations from recent OIG Annual Evaluation of the Information Security Program reports, the results of the annual financial statement audit of the Department and its bureaus, and the Department’s IT security program reviews conducted by the CIO, IT security continues to be a material weakness for the Department. As reported in prior years, the increasing growth in electronic commerce, the heightened reliance on information systems to accomplish basic missions, and the potential exposure of information systems to unauthorized access have all resulted in the need for a comprehensive Department program to improve IT security further. Interior’s strategy focuses on remediating IT security deficiencies beginning with the most important IT systems as expressed through categories and prioritized as follows:

1. National Critical Infrastructure
2. National Security Information Systems
3. Indian Trust Systems
4. Interior Mission Critical Systems
5. Systems supporting Mission Essential Facilities
6. Other Sensitive Systems
7. All Other Systems

As noted in the OIG’s FY 2003 Annual Evaluation of the Information Security Program report dated September 22, 2003, Interior has made substantial progress over the last two years in improving the security of its information and information technology systems.

Interior’s Chief Information Officer has concluded that if the current rate of improvement continues, Interior should meet its target date of having all IT information systems certified and accredited by December 2005. To do so, bureaus and offices must fully implement security policies and procedures, effectively assess risks, and fully integrate corrective action plans with the capital planning and investment control process.

During FY 2003, the Secretary, the Deputy Secretary, the Associate Deputy Secretary, and the Assistant Secretary for Policy, Management and Budget each continued to demonstrate strong support for improving IT security. They declared IT security as a high priority for Interior, required bureaus and offices to standardize functions with their chief information officers, and monitored the successful and timely implementation of 11 of 19 suggested improvements included in the OIG’s Annual Evaluation of the Information Security Program issued in September 2002.

Interior’s Chief Information Officer (CIO) developed and monitored the implementation of new IT security policies, guidance and practices. In addition the CIO designed and implemented a methodology to report on the status of bureau and office progress in safeguarding IT systems and in meeting the requirements of the Federal Information Security Management Act of 2002 (FISMA). The methodology is used by the CIO to conduct semi-annual IT security program reviews for bureaus and offices based on National Institute of Standards and Technology (NIST) SP 800-26 (Self-Assessment

Guide for Information Technology Systems). This semi-annual review process will be used for continued monitoring of bureau and office IT security programs, and to identify and address program weaknesses and strengths. Interior's CIO will continue to utilize the IT Security Scorecard approach developed for this semi-annual review process (derived from reportable elements of FISMA/GISRA and published monthly) to measure performance and improve the IT security posture.

6. *Wireless Telecommunications (Department).* As reported in prior years, effective radio communications are critical to employee and public safety, as well as efficient management of the parks and public lands. The current Wireless Telecommunications Program in two bureaus does not effectively support bureau and public safety operations and does not comply with Department management directives. The Department has developed and is implementing a comprehensive Wireless Communications Plan to meet employee and public safety objectives and restore program efficiency by reviewing bureau narrowband capital investment levels and implementation plans, revising plans to maximize radio system sharing, minimizing supporting infrastructure requirements, and ensuring maximum use of alternative wireless services.

During FY 2003, corrective action milestones included developing a plan for conversion priorities of wireless system to narrowband digital technology with encryption capabilities for emergency service radios; reviewing and analyzing regional radio conversion plans to ensure conformity with established criteria and consistency in application; and continuing the phased radio replacement programs based on Department and regional bureau priorities.

The Department will continue to review and monitor its implementation plans to ensure employee and public safety objectives are being adequately addressed and prioritized; revise implementation plans to account for funding variations; and maximize the use of alternative wireless services.

7. *Department-wide Maintenance Management Capability.* Interior lacks consistent, reliable, and complete information to plan, budget, and account

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

To address substantive issues in a systematic manner, Interior conducted a department-wide review of maintenance and repair issues to reduce financial, health, and safety liability to Interior; increase the effectiveness and awareness of facilities maintenance; manage deferred maintenance; and ultimately improve the stewardship of Interior's constructed assets. Based on this review, the Department has established the following three facilities maintenance objectives: (1) to properly manage and account for maintenance and construction funds from appropriations and fee receipts; (2) to identify the highest-priority facilities maintenance and construction needs of the Department by using standard definitions and data; and (3) to formulate and implement a Five-Year Maintenance and Capital Improvement Plan (Five-Year Plan) for infrastructure, which began with the 2000 Budget. Concurrent with the development of the Five-Year Plan, improvements to the Department's budget structure and accounting systems are being made to enable the Department to measure the effectiveness of its facilities management programs more accurately.

Interior has adopted MAXIMO, a commercial off-the-shelf product, as the core management enterprise software system to manage its facilities inventories, condition assessments, and work management and reporting requirements. The implementation status of MAXIMO varies among bureaus and offices. Highlights of progress during FY 2003 include Interior establishing the Facilities Condition index (FCI) as a standard results-based performance measure for bureau management programs. This will enable Interior to effectively determine at what pace its facilities condition is improving and how effectively the bureaus are

TABLE 17

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

Management Accountability and Integrity Program Activities in FY 2003 Related to Interior's Major Management Challenges and President's Management Agenda	Interior's Top Management Challenges						President's Management Agenda				
	Financial Management	Managing Land Exchanges and Appraisals	Deferred Maintenance Backlog	Responsibilities to Indians and Insular Affairs	Ecosystems Restoration Efforts	Management of National Parks	Competitive Sourcing	Strategic Management of Human Capital	Expanded Electronic Government	Improved Financial Management	Budget and Performance Integration
Management Control Reviews/Management Studies and Initiatives	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Office of Inspector General Audits											
- Program Audits Completed	✓	✓	✓	✓	✓	✓			✓	✓	✓
- Financial Statement Audits Completed	✓									✓	
U.S. General Accounting Audits Completed											
Federal Manager's Financial Integrity Act (FMFIA) Material Weaknesses											
- Corrected During FY 2003	✓									✓	
- Pending and Carried Forward to FY 2004	✓	✓	✓	✓		✓			✓	✓	

using their maintenance funding. It will also allow the Department, OMB, and Congress to make more sound investment decisions; NPS completed deployment of the MAXIMO facilities management software in their remaining park units; USGS has initiated the software in the 3 of 14 installations for which it is to be used; and, BLM, FWS, and BIA/Irrigation Projects and Safety of Dams have begun a phased deployment of the system. NPS expects to have their system fully deployed by the end of this FY 2004, USGS, BLM and FWS by the end of FY 2005 and BIA Irrigation Projects and Safety of Dams by the end of FY 2007.

Major Management Challenges Confronting Interior
 Recently, the OIG and the GAO advised Congress regarding what they consider to be the Major Management Challenges facing the Department. Most of these challenges have met the FMFIA criteria for, and been reported as, material weaknesses in the Department's Annual Performance and Accountability Report. The others, while not meeting the FMFIA material weakness criteria, are receiving priority management attention. *Table 17* presents a crosswalk of the FY 2003 management control reviews, OIG and GAO audits, and financial statement audits related to the Major Management Challenges identified by the GAO and initiatives in

the President's Management Agenda. These management control reviews and audits helped determine progress to date in addressing these challenges and initiatives, and areas for additional management attention and/or improvement.

Table 18 presents a summary of the Major Management Challenges facing Interior and actions taken to address these challenges to date.

Audited Financial Statement Results

As required by the Government Management Reform Act, Interior prepares consolidated financial statements. Beginning in FY 2001, these financial statements have been audited by KPMG, an independent auditing firm (the OIG audited the financial statements prior to FY 2001). Additionally, each individual bureau prepares financial statements that are also audited.

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

The results of the FY 2002 and FY 2003 audited financial statement process are summarized in *Table 19*. As shown in the table, there were instances

TABLE 18

Summary of Major Management Challenges Facing Interior		
Major Management Challenge Area	Description of Challenge	Interior Actions to Date
Financial Statement	Interior's consolidated financial statements for fiscal year 2002 received an unqualified opinion. However, the auditors identified 15 reportable internal control weakness, 6 of which were material weaknesses.	<p>Interior aggressively initiated the first phase of a transformation process designed to significantly change financial management in the Department. Progress was achieved in the following key areas:</p> <ul style="list-style-type: none"> - Revised policies and processes to improve financial operations, particularly related to real and personal property, eliminations, environmental liabilities, and the US Geological Survey; - Reduced vulnerabilities to unauthorized access, use or loss of sensitive information in Interior's financial management systems; - Implemented revised financial guidance and processes to meet accelerated deadlines for financial reporting; and - Addressed over 60% of the internal control findings and non-compliance issues reported in the FY 2002 financial statement audit reports. <p>Interior established metrics to measure progress in these areas, and commenced development of a workforce plan to address financial management structures, recruitment, retention, and training needs.</p>
Managing Land Exchanges and Appraisals	While a private contractor has studied Interior's land exchange program, concern still exists that land exchange appraisals do not ensure that lands are appropriately valued or that the public's interest is protected.	Established an independent appraisal function to review all land exchange transactions. Establish a multi-agency team to review and identify appraisal and exchange function deficiencies and implement appropriate corrective actions.
Management of National Parks	Better scientific information on the condition of its natural resources is needed, and persistent management problems in its concessions program still need to be addressed.	The NPS has received funding to start to build natural resources inventories and has hired a private firm to analyze its concession program. These are recognized as good first steps.
Deferred Maintenance Backlog	Interior faces a deferred maintenance backlog of between \$7.5 billion and \$12.8 billion.	Interior issued guidance to standardize deferred maintenance estimates and repair priorities, but these efforts are new and attention will need to be paid to how they are implemented.
Ecosystems Restoration Efforts	Interior needs to address the growing wildland fire threat caused by the excessive fuel buildup; complete actions to improve the South Florida ecosystems restoration effort; issue guidance to increase and restore natural habitats; and establish an agencywide goal to control and eradicate invasive species.	Interior has taken steps to better manage ecosystem restoration efforts. It has adopted the National Fire Plan, identified the resources needed to restore the South Florida ecosystem, and issued a plan to control invasive species.
Responsibilities to Indians and Insular Affairs	Interior's efforts to properly account for Indian trust funds continues to be hampered by information systems and internal control weaknesses in the collection of Indian trust funds. Interior also has varying responsibilities to seven island communities that have long-standing financial and program management deficiencies.	<p>Interior has continued its efforts to resolve deficiencies in its collection of Indian trust funds and places a high priority on solving these problems. Departmental trust policies, procedures, systems, and internal control are being improved and training is being provided to achieve the goals of the Comprehensive Trust Management Plan.</p> <p>An updated work plan with strategies, tasks, timelines and resource requirements have been developed by the Office of Trust Records. The implementation of this work plan will resolve many of the identified deficiencies and establish an active and comprehensive records management program for BIA and OST.</p> <p>Interior is assisting the island communities in developing more efficient and effective government by providing financial and technical assistance and helping manage Federal-island relations by promoting appropriate Federal policies.</p>

TABLE 19

Summary of FY 2002 and FY 2003 Financial Statement Audits											
	Unqualified Opinion on Financial Statements		Clean Report on Internal Controls		Full Compliance with Laws and Regulations (Non FFMIA)		Full Compliance with Laws and Regulations (FFMIA)		Full Component Compliance with Laws and Regulations (FFMIA)		
	FY 2002	FY 2003	FY 2002	FY 2003	FY 2002	FY 2003	FY 2002	FY 2003	Systems	Accounting	SGL
	FY 2002	FY 2003	FY 2002	FY 2003	FY 2002	FY 2003	FY 2002	FY 2003	FY 2003	FY 2003	FY 2003
Dept	Yes	Yes	No	No	No (3,4)	No (3,5,6)	No	No	No	No	No
FWS	Yes	Yes	No	No	Yes	Yes	No	No	No	No	Yes
USGS	No (1)	Yes (2)	No	No	Yes	Yes	No	No	No	No	Yes
BIA	Yes	Yes	No	No	No (3)	No (3,5,6)	No	No	No	No	No
BLM	Yes	Yes	No	No	Yes	Yes	No	No	No	No	Yes
MMS	Yes	Yes	No	No	Yes	Yes	No	No	No	Yes	No
NPS	Yes	Yes	No	No	Yes	No (6)	No	No	No	No	Yes
BOR	Yes	Yes	No	No	Yes	Yes	No	No	No	No	Yes
OSM	Yes	Yes	Yes	No	Yes	Yes	Yes	No	No	Yes	Yes
DO	Yes	Yes	No	No	No (4)	No (6)	No	No	No	No	Yes

(1) No opinion issued.

(2) Balance sheet only.

(3) Debt Collection Improvement Act

(4) P.L. 104-28 Advances to Interior Franchise Fund

(5) Prompt Payment Act

(6) Single Audit Act

where exceptions on internal controls were noted as material weaknesses or reportable conditions, as well as instances of noncompliance with laws and regulations other than compliance with the Federal Financial Management Improvement Act (FFMIA).

Resolution of Internal Control Weaknesses Reported in FY 2002 Audited Financial Statements

Table 20 summarizes the status of material weaknesses reported in the FY 2002 audited financial statements. The Department has established an internal goal of completing corrective actions for audited financial statement material weaknesses by the end of the following fiscal year, unless the magnitude of the corrective action plans involves a multi-year effort.

While the Department made good progress in correcting material weaknesses reported in FY 2002, delays in completing corrective action in some bureaus and several multi-year corrective action plans precluded the achievement of the internal goal in FY 2003. In summary, 21 of the 34 (62%) total material weaknesses reported in FY 2002 financial statements were corrected or downgraded to reportable conditions during FY 2003. Moreover, 20 of the 26 (77%) material weaknesses reported

in FY 2002 and targeted for correction in FY 2003 were corrected or downgraded to reportable conditions. This was a substantial improvement over the performance level in FY 2002 when only 14 of the 38 (37%) material weaknesses were corrected or downgraded. The Department intends to continue its aggressive monitoring actions during FY 2004 in order to correct material weaknesses and noncompliance issues reported in FY 2003.

Table 21 presents a summary of each of the material weaknesses reported in Department consolidated and bureau FY 2003 financial statement audit opinions. A total of 16 material weaknesses were reported, of which 14 (88%) were carried over from FY 2002. Of the 16 material weaknesses reported in FY 2003, 13 (81%) are expected to be corrected or downgraded by the end of FY 2004.

Federal Financial Management Improvement Act (FFMIA)

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

TABLE 20

FY 2002 Audited Financial Statements Status of Material Weakness Corrective Actions (as of 9/30/03)				
Bureau	Material Weakness Description	Corrective Action	Original Target Date	Corrective Action Status
DEPT	General and Application Controls Over Financial Management Systems	Establish and implement controls and other safeguards to ensure that sensitive and critical financial data and systems are protected.	9/30/04	Downgraded to Reportable Condition
DEPT	Reconciliation of Trading Partner Data	Implement policies and procedures to ensure the timely reconciliation of trading partner data, and a more streamlined and efficient year-end reporting process.	9/30/03 9/30/04	Intra-departmental Downgraded to Reportable Condition Intra-governmental
DEPT	Controls Over Property, Plant, and Equipment	Implement policies and procedures to ensure the proper accounting for and reconciliation of Property, Plant, and Equipment.	9/30/04	Carryover
DEPT	Controls Over Trust Funds	Implement the Department's Comprehensive Trust Management Plan to achieve comprehensive Indian Trust reform, including vital improvements to systems, policies and operations necessary to fulfill trust obligations to Indian Tribes and individuals.	9/30/05	Carryover
DEPT	Financial Processes at the U.S. Geological Survey	Implement procedures and controls to ensure timely and accurate financial transaction recording.	9/30/04	Completed
DEPT	Financial Reporting Controls	Implement policies and procedures to improve transaction entry, reconciliations, grant monitoring and activity-based costing.	9/30/04	Carryover
DO	Controls to Reconcile Transactions and Balances with Trading Partners	Adopt procedures to reconcile and clear balances with other Interior components on a quarterly basis.	9/30/03	Downgraded to Reportable Condition on Financial Reporting
DO	Accounting Controls over Interior Franchise Fund	Establish and implement policies and procedures to monitor service provider disbursements, update pricing schedules, improve controls over receipts and accounts receivables, and improve software change control.	9/30/03	Completed
DO	Controls over Tribal and Other Special Trust Funds	Implement policies, procedures, controls and systems to effectively manage Tribal and Other Special Trust Funds.	9/30/05	Carryover
DO	Controls over Property, Plant, and Equipment	Implement policies and procedures to ensure the proper accounting for and reconciliation of Property, Plant, and Equipment.	9/30/03	Completed
DO	Controls over Financial Reporting	Improve controls over year-end adjustments, suspense accounts and communications with the Office of the Solicitor.	9/30/03	Downgraded to Reportable Condition with Exception of Suspense Account Issues
FWS	Controls to Reconcile Transactions and Balances with Trading Partners	Adopt procedures to reconcile and clear balances with other Interior components on a quarterly basis.	9/30/03	Downgraded to Reportable Condition
FWS	Controls over Accounting for Property	Implement policies, procedures, controls to improve accounting for property.	9/30/03	Carryover
FWS	Controls over Year-End Accruals	Improve processes to identify and record year-end payables.	9/30/03	Completed
FWS	Financial Reporting Processes	Improve controls and processes associated with accounting and financial reporting.	9/30/03	Downgraded to Reportable Condition
NPS	Controls to Reconcile Transactions and Balances with Trading Partners	Adopt procedures to reconcile and clear balances with other Interior components on a quarterly basis.	9/30/03	Downgraded to Reportable Condition
NPS	Security and Controls Over Information Technology Systems	Develop and implement the Department IT security initiatives designed to provide appropriate policies, procedures, controls, and segregation of duties to effectively control and protect information technology systems.	9/30/03	Downgraded to Reportable Condition

TABLE 20 CONTINUED

FY 2002 Audited Financial Statements Status of Material Weakness Corrective Actions (as of 9/30/03)				
Bureau	Material Weakness Description	Corrective Action	Original Target Date	Corrective Action Status
BLM	Accounting for Property	Implement procedures to ensure proper accounting for and reconciliation of property	9/30/03	Downgraded to Reportable Condition
BLM	Controls for Accounting for Year-End Payables	Implement procedures to ensure year-end payables are completely captured and recorded.	9/30/03	Completed
USGS	Security and Controls over Information Technology Systems	Develop and implement the Department IT security initiatives designed to provide appropriate policies, procedures, controls, and segregation of duties to effectively control and protect information technology systems.	9/30/03	Downgraded to Reportable Condition
USGS	Financial Management Organization Structure	Improve controls over processing field office information; delegate authority to ensure uniform administration of and compliance with accounting policies Survey-wide; review decentralized financial management systems and internal controls; and fill existing vacancies and provide accounting training programs.	9/30/03	Completed
USGS	Account Analysis and Adjustments	Develop and implement procedures to ensure that all accounting adjustments and reconciliations (including intra-departmental eliminations) are adequately supported, timely, and independently reviewed throughout the year.	9/30/03	Downgraded to Reportable Condition
USGS	Controls over Property, Plant, and Equipment	Implement policies and procedures to ensure the proper accounting for and reconciliation of Property, Plant, and Equipment.	9/30/03	Downgraded to Reportable Condition
USGS	Controls over Revenue Cycle	Perform a study of the entire revenue cycle and consider redesigning or re-engineering the process to achieve greater efficiency and simplicity.	9/30/03	Carryover (as Unbilled Accounts Receivable issue)
USGS	Accounting for Inventory	Establish policies and procedures to account for map and hydrological inventory that will ensure full compliance with SF-FAS No. 3 – Accounting for Inventory and Related Property.	9/30/03	Completed
USGS	Working Capital Fund Compliance with Accounting Standards	Develop and implement a posting model to record fee-for-services and investment components of the working capital fund.	9/30/03	Completed
USGS	Policies and Procedures	Document policies and procedures for all accounts having a material effect on the financial statements and train personnel in the applications.	9/30/03	Downgraded to Reportable Condition
BOR	Controls over Land Inventory	Develop a complete and accurate inventory system that identifies by project all land and land rights.	9/30/05	Carryover
BIA	Controls over Processing Trust Transactions	Improve fiduciary controls over the processing of Trust transactions including segregation of duties, related party transactions, probate backlogs, and appraisal compacts	9/30/04	Carryover
BIA	Controls over Financial Reporting	Improve controls and processes for financial reconciliations, transaction entry, and analysis.	9/30/03	Carryover
BIA	Legal Liabilities	Develop a communication and tracking plan with the Solicitor to provide complete, accurate, and timely contingent liability data for financial reporting	9/30/03	Carryover
BIA	Security and Controls over Information Technology Systems	Develop and implement the Department IT security initiatives designed to provide appropriate policies, procedures, controls, and segregation of duties to effectively control and protect information technology systems.	9/30/03	Downgraded to Reportable Condition
OST	Reliance on Processing of Trust Transactions	Work collaboratively with Departmental offices to monitor progress and ensure timely completion of trust reform initiatives.	9/30/03	Carryover
OST	Resolution of Financial Reporting Issues from Prior Periods	Continue to develop issue papers and action plans to address and resolve prior period issues.	9/30/03	Carryover

TABLE 21

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

TABLE 21 CONTINUED

FY 2003 Audited Financial Statements Material Weakness Correction Action Plan				
Bureau	Material Weakness Description	Corrective Action	Target Date	New Weakness or Carryover from FY 2003
BIA	Year-End Accruals and Deobligations	Develop and implement policies and procedures to ensure that appropriate accruals and deobligations are recorded in financial management systems.	9/30/04	New
BIA	Controls Over Procurement Activity	Implement controls and processes to improve the timely, accurate, and complete recording of acquisitions. Ensure that documentation complies policies and procedures.	9/30/04	New
BIA	Controls Over Processing Trust Transactions	Improve fiduciary controls over the processing of Trust transactions including segregation of duties, related party transactions, probate backlogs, and appraisal compacts.	9/30/04	Carryover
OST	Reliance on Processing of Trust Transactions in the BIA	Work collaboratively with Departmental offices to monitor progress, ensure timely completion of trust reform initiatives, and fulfill fiduciary responsibility to trust fund beneficiaries.	9/30/04	Carryover
OST	Resolution of Financial Reporting Issues from Prior Periods	Continue to develop issue papers and action plans to address and resolve prior period issues.	9/30/04	Carryover

(SGL), comply with all applicable Federal accounting standards, establish financial management systems that meet government-wide standards and requirements, and support full disclosure of Federal financial data, including the costs of Federal programs and activities.

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

As a result of the material weaknesses and other reportable conditions identified in FY 2003 financial statement audits, Interior concluded that its financial management systems did not substantially comply with all Federal financial management systems requirements and all Federal accounting standards. The Department has reported this non-compliance with the components of the FFMIA.

Information Technology Initiatives

The Department has developed initiatives to correct the material weaknesses in information technology systems as well as ensure compliance with all Federal accounting standards. The corrective actions are targeted for completion between FY 2004 and FY 2005.

Information Technology Security. Interior developed an Information Technology (IT) Security Plan to improve controls over financial and information technology systems, and protect information resources. Substantial progress has been achieved in implementing the plan at both the Department and bureau-levels to date. When completely implemented, the IT Security Plan will bring Interior's financial management and information technology systems into substantial compliance with the requirements of the FFMIA and Appendix III of OMB Circular A-130, "Management of Federal Information Resources."

IT Security Management Structure. Interior's IT Security Management Structure is aimed at provid-

ing a framework and a continuing cycle of activity for managing risks, developing and implementing security policies, assigning responsibilities, and monitoring the adequacy of Department and bureau information technology system controls. Bureaus with material weaknesses or vulnerabilities in this area, and the related corrective action plans, are noted in *Tables 21 and 26*.

Segregation of Duties. The Department requires the review and restructuring of employee roles and responsibilities to achieve a higher degree of segregation of duties in information technology system-related operations. Some bureaus have not sufficiently ensured proper segregation of duties for personnel working with information technology systems and applications through its policies, procedures, and organization structures. As a result, key aspects of information system-related operations could be controlled by a single employee, and unauthorized actions or access to assets or records could go undetected. Bureaus with material weaknesses and vulnerabilities in this area, and the related corrective action plans, are noted in *Tables 21 and 26*.

Access Controls. The Department has taken action to secure networks and improve access controls in each of the following areas: network configuration management; password management; monitoring of security audit logs; access to sensitive program files that control computer hardware and sensitive applications; and, other physical security controls. Some bureaus have not yet established sufficiently robust access controls that limit or detect inappropriate access to information technology systems and related resources. Bureaus with material weaknesses and vulnerabilities in this area, and the related corrective action plans, are noted in *Tables 21 and 26*.

Software Development and Change Controls. The Department seeks to assure that appropriate policies, procedures, and operational controls are developed and implemented to prevent unauthorized system, program, or application modifications. Some bureaus do not yet have adequate controls over application software development and change controls for all information technology systems and applications. The bureaus with material weaknesses and vulnerabilities in this area, and the related

corrective action plans, are noted in *Tables 21 and 26*.

Service Continuity. The Department provides a framework for all bureaus and offices to: identify critical operations and resources; prioritize data and operations; document emergency processing priorities; provide current backup tapes and files to secure off-site facilities; and, ensure comprehensive Continuity of Operations Plans are established and communicated for all major system applications and operation centers. Some bureaus do not yet have adequate controls in place in all programs and operations to minimize the risk of unplanned interruptions, to recover critical operations, and to protect data should interruptions occur. Bureaus with material weaknesses and vulnerabilities in this area, and the related corrective action plans, are noted in *Tables 21 and 26*.

Federal Accounting Standards and U.S. Standard General Ledger. Interior is striving to fully develop and implement strengthened policies, procedures and controls to ensure that financial statements and related disclosures are prepared in accordance with Federal accounting standards and the U.S. Standard General Ledger, specifically the standards concerning intra-governmental eliminations and real property. The Department consolidated bureau material weaknesses and vulnerabilities in these areas. The related corrective action plans are noted in *Tables 21 and 26*.

Inspector General Act Amendments (Audit Follow-Up)

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

TABLE 22

FY 2003 GPRA Performance Goal for Implementation of OIG and GAO Audits			
Bureau/Office	Number of Recommendations Meeting GPRA Goal Criteria	Number of Recommendations Implemented Within Planned One Year Target	Percentage Implementation
BIA	19	17	89%
NPS	15	3	20%
FWS	28	23	82%
BLM	18	9	50%
MMS	12	12	100%
OSM	1	1	100%
BOR	28	28	100%
USGS	17	17	100%
OS (Dept)	11	9	82%
PIA (Dept)	9	9	100%
OST (Dept)	3	2	67%
TOTAL	161	130	81%

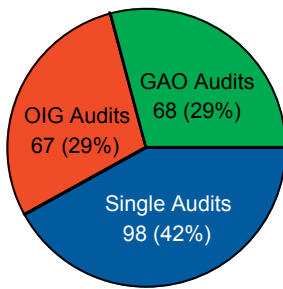
To further demonstrate the importance of timely implementation of OIG and GAO audit recommendations, beginning in FY 2001 Interior established an aggressive annual GPRA performance goal of implementing 75% of all GAO and OIG audit recommendations within one year of the referral of those recommendations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

Interior was able to meet its GPRA performance goal for FY 2003. A composite implementation rate of 81% was achieved (*Table 22*). The primary reason for Interior's success in achieving the GPRA performance goal for the second consecutive year was the aggressive progress monitoring plan implemented at the direction of the Assistant Secretary – Policy, Management and Budget. In addition to the detailed quarterly management control and audit follow-up progress reports submitted by each bureau and office, a monthly summary progress report was implemented to ensure audit recommendation implementation commitments were being met, and that immediate senior management attention was directed to slippage when it occurred. Interior plans to employ the same aggressive progress monitoring plan in FY 2004 to ensure the

achievement of its GPRA performance goal.

In FY 2003, Interior monitored a substantial amount of Single Audit, OIG, and GAO audit activity, including 98 Single Audits, 67 OIG audits, and 68 GAO audits (Figure 29). Audit follow-up actions included tracking, reviewing, and validating audit recommendations; developing mutually acceptable and timely resolution to disputed audit findings and recommendations; and, monitoring the recovery of disallowed costs.

FIGURE 29
FY 2003 Audit Follow-up Program Workload



Single Audits

Interior provides over \$2 billion each year in funding for grants, cooperative agreements, Indian self-determination contracts, and self-governance compacts to State and local governments, Indian tribes, colleges and universities, and other nonprofit organizations. Under the provisions of the Single Audit Act, the grantees’ financial operations, management control structure, and level of compliance with applicable laws and regulations must be audited each year. All Single Audit reports are now forwarded to and screened by the Federal Single Audit Clearinghouse (Clearinghouse). Those Single Audit reports, with findings and recommendations requiring OIG processing (review and audit follow-up actions), are then forwarded to the OIG for distribution to the appropriate bureaus for tracking. Each bureau is responsible for meeting with grantees and negotiating a resolution of the deficiencies identified in the audit reports, as well as for determining the allowability of any expenditure of Federal funds that has been questioned by the auditors.

Reaching Timely Management Decisions on Single Audits

Management decisions (agreement on actions to implement audit recommendations between the bureau and grantee) are expect-

ed to be agreed to within six months from receipt of the audit report. If an audit results in disallowed costs, bureaus are responsible for collecting the disallowed costs from the grantees.

During FY 2003, 98 single audits were tracked by the Department. At the end of the year, 86 audits were still pending, of which 34 (40%) had management decision dates less than six months from the date of the audit report.

Collecting and Offsetting Disallowed Costs

As shown in Table 23, Interior only closed 12 of 98 (12%) audits in tracking during FY 2003. There was a substantial increase in the number of audits referred for tracking with disallowed costs (62 audits with \$47.2 million in disallowed costs) compared to prior years. This was primarily due to the completion of the first cycle of U.S. Fish and Wildlife Federal Aid audit program, and a clearing of the backlog in audits of insular area governments and programs. As a result, the percentage of audits in tracking closed was significantly less than the prior year. However, the \$9.9 million in disallowed costs recovered was over 10 times greater than the prior year. The \$9.9 million in disallowed costs recovered represented about 18% of total disallowed costs in tracking during the year.

TABLE 23

FY 2003 Summary of Actions Taken on Contract, Grant, and Single Audits with Disallowed Costs			
		Number of Reports	Disallowed Costs
(A) Reports on Hand at Beginning of Period		36	\$8,237,836
(B) New reports		62	\$47,265,309
Total reports in tracking		98	\$55,503,145
(C) Final action taken during period		12	\$9,911,042
Collected	10	\$6,116,677	
Written Off			
Offset	1	\$3,407,022	
Reinstated	1	\$387,343	
Referred to Treasury for Collection Action			
(D) Reports in progress at end of period		86	\$45,592,103
Mgmt Dec < 1 yr old	34	\$3,189,903	
Mgmt Dec > 1 yr old	51	\$40,232,585	
Mgmt decision under formal appeal	1	\$2,169,615	

Internal Audits

Internal audits are audits conducted by the OIG of Interior’s programs, organizations, and financial and administrative operations. During FY 2003, 67 audits were being tracked (51 audits carried over from FY 2002 and 16 new audits were referred for tracking during FY 2003), and 21 of those audits were closed (31%). A total of 443 recommendations from OIG internal audit reports were in tracking during the year. For the 46 audits pending at the end of FY 2003, there are 227 recommendations awaiting final implementation action.

One category of OIG internal audits is those audits where the OIG presents recommendations to improve efficiency and where funds can be put to better use (FBU audits). Interior tracks the successful implementation of FBU audit recommendations and FBU dollar estimates, which are agreed to by management. As noted in *Table 24*, there was no change in the number of audits or FBU dollars tracked during FY 2003. The two audits carried forward from FY 2002 have recommendations with multi-year targeted implementation dates. In addition, there were no new FBU audits referred to the Department for tracking during FY 2003.

General Accounting Office Audits

GAO audits are a major component of Interior’s audit follow-up program workload and cover a variety of programs, operations, and activities. A total of 25 GAO final audit reports were carried over from FY 2002, and GAO issued a total of 25

TABLE 24

Summary of Actions Taken with Funds to be Put to Better Use (FBU) in FY 2003			
		Number of Reports	FBU Dollars
(A) Reports on hand at beginning of report period		2	\$14,435,553
(B) New reports received during report period			
Total reports in tracking		2	\$14,435,553
(C) Reports closed during report period			
(D) Reports in progress at end of report period		2	\$14,435,553
Mgmt dec < 1 yr old			
Mgmt dec > 1 yr old	2	\$14,435,553	
Mgmt dec under formal appeal			

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

TABLE 25

Summary of Actions Taken on Reports Issued by the GAO in FY 2003			
		Number of Recommendations	Number of Reports
In tracking at the beginning of reporting period		58	25
Issued during the reporting period		10	25
Subtotal		68	50
Closed during the reporting period		(11)	(25)
In tracking at the end of the reporting period		57	25
Code	Status of final reports in tracking	No. of Recommendations	No. of Reports
D1	Management decisions < 1 yr old	16	4
D2	Management decisions > 1 yr old	41	21
D3	Mgmt decisions under formal appeal	0	0

new final audit reports. The Department was successful in closing 25 of the 50 (50%) audits in tracking during FY 2003, along with 11 recommendations. A total of 25 final audit reports and 57 recommendations were pending at the end of the fiscal year (*Table 25*).

Compliance With Other Key Legal and Financial Regulatory Requirements

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

Based on the results of the FY 2003 independent financial statement audit, Interior was determined to be non-compliant with several legal and regulatory financial requirements, in addition to the Federal Financial Management Improvement Act (FFMIA). *Table 26* presents a summary of the areas of non-compliance, as well as planned corrective actions and target dates.

The Department is continuing to strive to improve performance under the requirements of the Prompt Payment Act and the Debt Collection Improvement Act. The Department's FY 2003 performance in these areas is summarized in *Figure 30* (Prompt Pay), *Figure 31* (Debt Collection), and *Table 27* (Electronic Fund Transfers). In addition, the Chief Financial Officers Act of 1990 requires biennial reviews by Federal agencies of agency fees, rents, and other charges imposed for services and things of value provided to specific beneficiaries, as opposed to the American public in general. The objective of these reviews is to identify such activities and begin charging fees, if permitted by law, and to periodically adjust existing fees to reflect current costs or market value. This minimizes general taxpayer subsidy of specialized services or things of value (such as rights or privileges) provided directly to identifiable non-Federal beneficiaries.

Interior conducted a biennial review of its user fee programs during FY 2003 as required by the Chief Financial Officers Act of 1990. Interior expects all bureaus to submit a summary of their reviews on or before January 15, 2004. Based on preliminary review results, Interior does not expect any significant deficiencies to be reported by the bureaus. The last biennial review was completed in FY 2002 based on FY 2001 performance data.

The results of the FY 2003 consolidated financial statement audit indicated that Interior is not in compliance with the Debt Collection Improvement Act. This non-compliance is primarily attributable to BIA because its eligible delinquent debt represents a significant share (approximately 70%) of the Department's total. The BIA referred approximately 35% of its eligible delinquent debt to Treasury in FY 2003, which negatively impacted the overall performance of the Department (approximately 54%). It is significant to note that by excluding BIA, the Department's total referral performance would be 96%, exceeding the target of 93%.

TABLE 26

FY 2003 Audited Financial Statements Non-Compliance with Laws and Regulations Status Report				
Bureau	Non-Compliance Description	Corrective Action	Target Date	New Issues or Carryover from FY 2003
DEPT	Debt Collection Improvement Act of 1996	DOI should establish a process to ensure eligible receivables in all bureaus are referred to the U.S. Department of the Treasury in a timely manner.	9/30/04	Carryover
DEPT	Prompt Payment Act of 1982 (P.L. 97-177)	Ensure that all bureaus correctly enter payment data voucher into FFS in order to properly calculate and pay prompt pay interest due.	9/30/04	New
DEPT	Single Audit Act Amendments of 1996	Improve grantee monitoring processes to ensure compliance with the reporting requirements of the Single Audit Act Amendments.	9/30/04	New
DEPT	Federal Financial Management Improvement Act (FFMIA)	Develop and implement appropriate controls to ensure full compliance with Federal financial management systems, accounting standards, and U.S. standard general ledger at the transaction level.	9/30/04	Carryover
BIA	Single Audit Act Amendments of 1996	Improve grantee monitoring processes to ensure compliance with the reporting requirements of the Single Audit Act Amendments.	9/30/04	New
BIA	Federal Financial Management Improvement Act (FFMIA)	Develop and implement appropriate controls to ensure full compliance with Federal financial management systems, accounting standards, and the SGL at the transaction level.	9/30/04	Carryover
BIA	Prompt Payment Act of 1982 (P.L. 97-177)	Train and monitor employees to ensure that the acceptance dates per the invoice and receiving report are correctly transferred to the payment voucher and that the information should also be correctly entered into FFS.	9/30/04	New
BIA	Debt Collection Improvement Act of 1996	Establish, implement, and monitor policies and procedures addressing debt collection issues to ensure compliance with the Debt Collection Improvement Act.	9/30/04	Carryover
DO	Federal Financial Management Improvement Act (FFMIA)	Develop and implement appropriate controls to ensure full compliance with Federal financial management systems and accounting standards.	9/30/04	Carryover
DO	Single Audit Act Amendments of 1996	Improve grantee monitoring processes to ensure compliance with the reporting requirements of the Single Audit Act Amendments.	9/30/04	New

TABLE 26 CONTINUED

FY 2003 Audited Financial Statements Non-Compliance with Laws and Regulations Status Report				
Bureau	Non-Compliance Description	Corrective Action	Target Date	New Issues or Carryover from FY 2003
MMS	Federal Financial Management Improvement Act (FFMIA)	Develop and implement appropriate controls to ensure full compliance with Federal financial management systems and the U.S. Standard General Ledger at the transaction level.	9/30/04	Carryover
FWS	Federal Financial Management Improvement Act (FFMIA)	Develop and implement appropriate controls to ensure full compliance with Federal financial management systems and accounting standards.	9/30/04	Carryover
BLM	Federal Financial Management Improvement Act (FFMIA)	Develop and implement appropriate controls to ensure full compliance with Federal financial management systems and accounting standards.	9/30/04	Carryover
NPS	Federal Financial Management Improvement Act (FFMIA)	Develop and implement appropriate controls to ensure full compliance with Federal financial management systems and accounting standards.	9/30/04	Carryover
NPS	Single Audit Act Amendments of 1996	Develop controls to ensure grantees complete, report on, and implement timely corrective actions for single audits.	9/30/04	New
BOR	Federal Financial Management Improvement Act (FFMIA)	Develop and implement appropriate controls to ensure full compliance with Federal financial management systems and accounting standards.	9/30/04	Carryover
USGS	Federal Financial Management Improvement Act (FFMIA)	Develop and implement appropriate controls to ensure full compliance with Federal financial management systems accounting standards.	9/30/04	Carryover
OSM	Federal Financial Management Improvement Act (FFMIA)	Continue to improve security and internal controls over information technology systems to substantially comply with OMB Circular A-130	9/30/04	Carryover

FIGURE 30

**Prompt Payment Act
Payments without Interest Penalties**

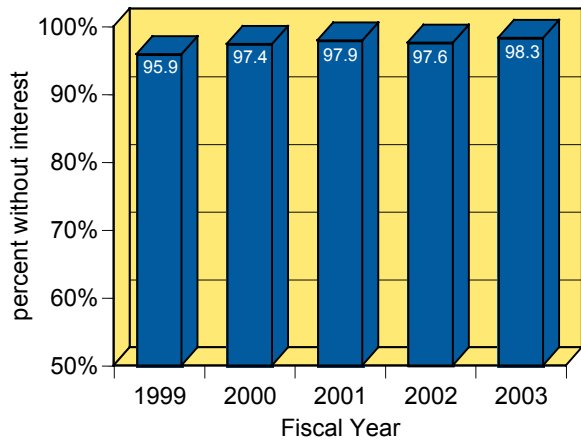


FIGURE 31

**Debt Collection Improvement Act
Referral of Eligible Debt to Treasury**

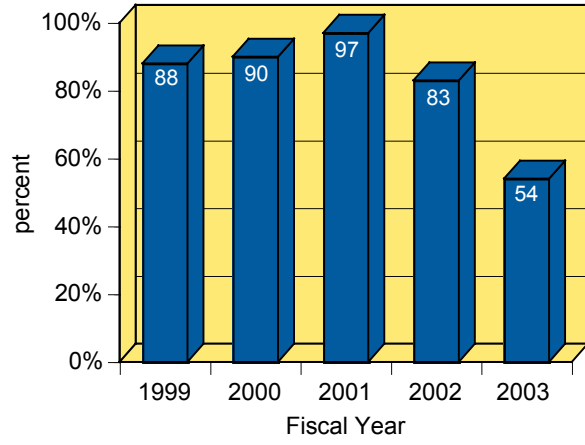


TABLE 27

Electronic Funds Transfer Payments					
Type of Payment	FY 1999	FY 2000	FY 2001	FY 2002	FY 2003
Salary	97.9%	98.0%	98.6%	98.9%	99.2%
Vendor	61.1%	76.5%	80.6%	84.9%	88.1%
Miscellaneous	83.5%	91.6%	92.8%	93.3%	94.7%