UNITED STATES DEPARTMENT OF THE INTERIOR

AGENCY FINANCIAL REPORT FY 2010

U.S. DEPARTMENT OF THE INTERIOR

FISCAL YEAR 2010

AGENCY FINANCIAL REPORT

November 15, 2010

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I am pleased to submit the U.S. Department of the Interior's Fiscal Year 2010 Agency Financial Report, which updates the public and Congress on the Department's financial statements, independent auditors' report, and performance.

I am particularly proud to report our 14th consecutive unqualified audit, a reflection of the Department's continuing commitment to sound financial management. Effective management is vital to carrying out our complex and multi-faceted mission and achieving goals for the advancement of a new energy frontier, tackling the impacts of climate change, improving the sustainable use of water, protecting America's great outdoors, engaging youth in natural resource conservation, and promoting economic development, community safety, and education in Indian communities. As reflected in these goals, the Department's relevance is substantial. Measured by the economic impacts on the national economy, the Department's programs support approximately $370 billion in economic activity—the programs are an engine of prosperity for the future.

At the outset of this Administration, President Obama set a high standard for accountability, transparency, and ethics in Government. The Department continues working hard to uphold this high standard. As Secretary of the Interior, I have made it a priority to strengthen our ethics programs, increase transparency in the conduct of our business, ensure strong scientific support for decision-making, and improve openness and collaboration with the public. I am proud of the reforms we are making on behalf of the American people under extremely challenging circumstances.

The unprecedented disaster at the Deepwater Horizon rig in the Gulf of Mexico has underscored the urgency of implementing substantive reforms. We are determined to fulfill our responsibilities effectively and in a manner that facilitates the balanced, responsible, and sustainable development of the resources entrusted to us. I signaled the reform of the Minerals Management Service by renaming it the Bureau of Ocean Energy Management, Regulation and Enforcement and announced plans to restructure ocean energy management programs into three new entities; the Bureau of Ocean Energy Management, the Bureau of Safety and Environmental Enforcement, and the Office of Natural Resources Revenue. The 30-day report to the President, *Increased Safety Measures for Energy Development on the Outer Continental Shelf, May 27, 2010*, and the report of the Safety Oversight Board, *U.S. Department of the Interior Outer Continental Shelf Safety Oversight Board Report to Secretary of the Interior Ken Salazar*, are the foundation for reforms that will guide the implementation of safe and environmentally-sound offshore oil and gas operations. There will be additional recommendations from the President's National Commission on the BP Deepwater Horizon Oil Spill and Offshore Drilling, ongoing investigations, and other activities that enhance the safety of Outer Continental Shelf operations.

In the aftermath of the Gulf oil spill disaster, our continued response actions, clean-up, and assessment of damages to the affected coastal and marine areas under our jurisdiction remain of utmost importance. In the wake of the oil spill, I dispatched my senior staff to help oversee and coordinate the response, including 800 to 900 staff that protected the shore line from the impacts of oil, rescued wildlife, and coordinated with states to protect cultural resources. The Department continues its efforts working closely with trustees overseeing natural resources damage assessments and developing plans for long-term restoration. The Department is committed to helping the people and communities of the Gulf Coast region protect important places and resources and will take actions based on valuable lessons learned to help prevent future oil spills.

Despite the demands placed on the Department's bureaus and offices by the oil spill in 2010, we advanced our strategic goals and high priority performance goals for renewable energy, climate change adaptation, water conservation, youth stewardship, and safe Indian communities. We continued to focus on the development of a new energy frontier, expanding renewable energy opportunities offshore and onshore. We are helping the Nation move beyond conventional oil and gas development and devote attention and new resources to renewable energy programs and ensure environmental protection.

The Department's accomplishments in 2010 related to high priority performance goals included: our efforts in water conservation resulting in an increase of 150,000 acre-feet of enabled conservation water supply for agricultural, municipal, industrial, and environmental uses, significantly increasing the law enforcement presence in four targeted Indian communities in order to reduce violent crime, greatly accelerating the employment of youth through direct hires and partnerships, and establishing climate science centers and Landscape Conservation Cooperatives.

During FY 2010, we participated in a national dialogue about conservation, hosting the President's White House Conference on the Great Outdoors in April at the Department and engaging in 25 listening sessions across the country. The results of these listening sessions will be used to guide modern-day land conservation and reconnect Americans to the outdoors.

The Department's stewardship of the Nation's lands and diverse natural and cultural resources affects the lives of all Americans. These important functions and many others are administered by our 70,000 employees. We carry out our mission with great dedication, distinction, openness, and accountability. On September 21, 2010, I honored the life and legacy of Stewart Lee Udall with the dedication of the Main Interior Building as the "Stewart Lee Udall Department of the Interior Building," thereby honoring a legacy and commitment to protecting America's natural treasures and resources and setting an example of committed public service to the Nation.

This report provides measurable results of our programs, the status of the Department's compliance with certain legal and regulatory requirements, and information on management challenges, and the steps we are taking to improve our financial performance and management. The financial and performance information presented in this report is fundamentally complete and reliable as required by the Office of Management and Budget. The annual assurance statement required by the Federal Managers' Financial Integrity Act of 1982 (FMFIA) concludes that the Department can provide reasonable assurance that, with the exception of one material weakness—Radio Communication—the Department's systems of management, accounting, and administrative controls, taken as a whole, meet the objectives specified in Section 2 of the FMFIA.

Interior has selected the AFR as an alternative to the Performance Accountability Report (PAR). In addition to the audited financial statements, the AFR presents the results of the annual assessment of program leadership and stewardship of the resources and public funds entrusted to the Department, and it provides a comprehensive snapshot of the most important financial information related to the programs we manage. This financial report includes a brief summary of performance information; the Annual Performance Report (APR) will provide a more comprehensive account of performance. The goals and mission areas contained in the FY 2007-

2012 Strategic Plan are reflected in the four Mission Areas: Resource Protection, Resource Use, Recreation, and Serving Communities. The achievements related to these goals are reflected in this AFR.

In FY 2010, the auditors' report contained no significant deficiencies that were considered to be material weaknesses. While we have no material weaknesses we do recognize that we have significant deficiencies and understand the importance of correcting these. As such we have put a very high priority on addressing and correcting each deficiency.

I am proud of this report and of the progress we are making at the Department. We are dedicated to upholding the trust of the American people, improving our stewardship of the Nation's resources, and strengthening our delivery of programs and services in the years ahead.

I hope you will review this report and recognize our significant efforts to continue improving financial management, performance, accountability and transparency.

Ken Salazar

Ken Salazar
Secretary of the Interior
November 15, 2010

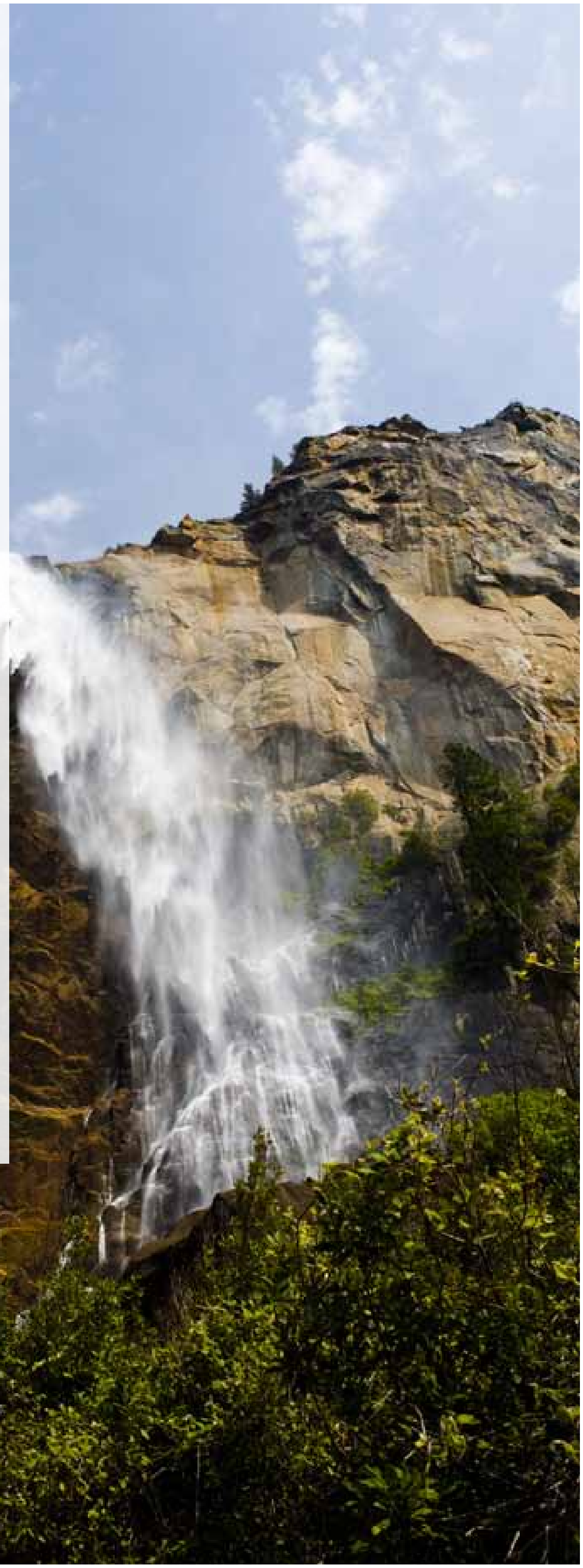
ABOUT THIS REPORT

The U.S. Department of the Interior's Agency Financial Report (AFR) for Fiscal Year (FY) 2010 provides performance and financial information that enables Congress, the President, and the public to assess the performance of Interior relative to its mission and stewardship of the resources entrusted to it. This AFR satisfies the reporting requirements of the following major legislation:

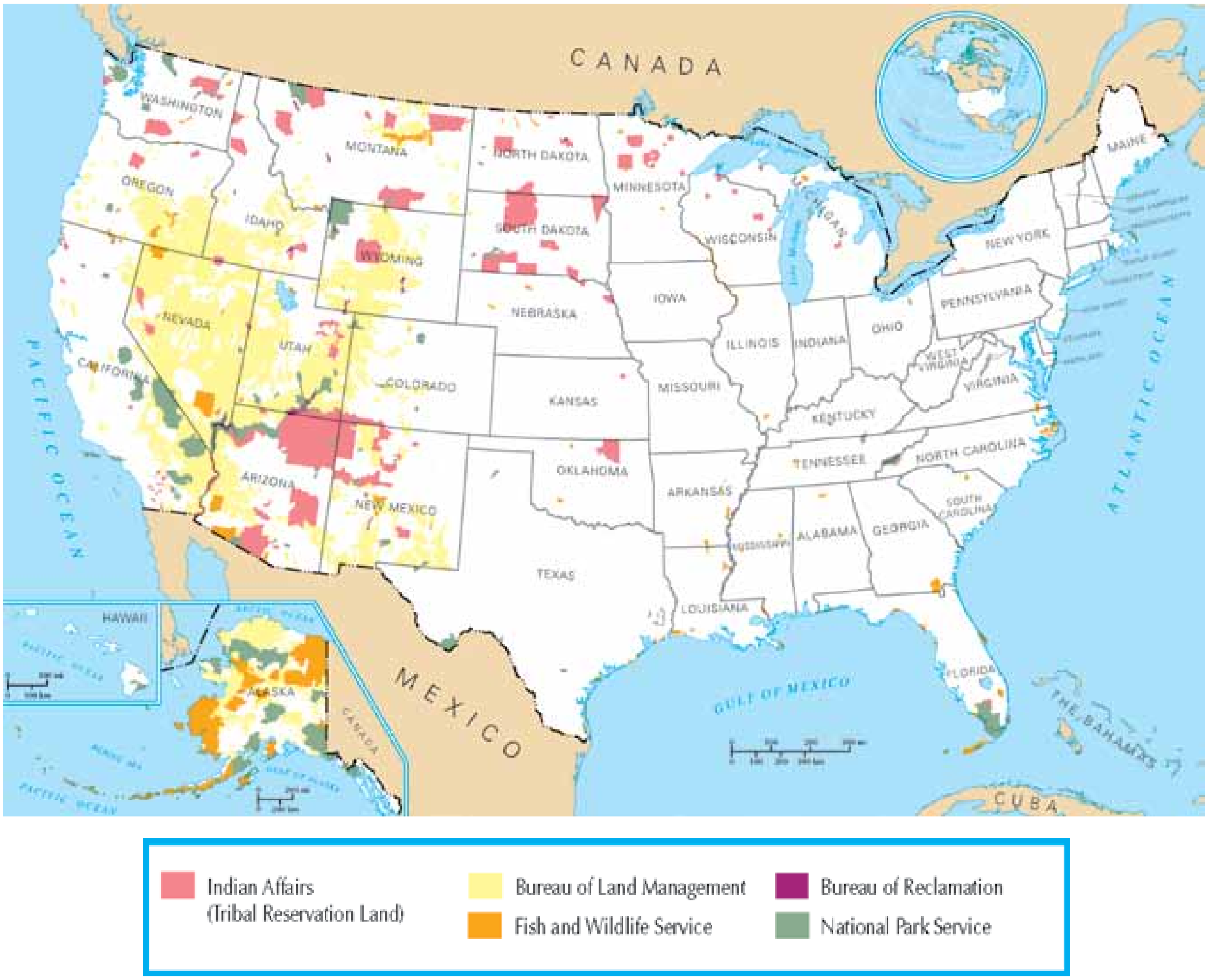
- Chief Financial Officers Act of 1990
- Government Management Reform Act of 1994
- Reports Consolidation Act of 2000
- Office of Management and Budget Circular No. A-136

The Office of Financial Management chooses to produce the Agency Financial Report rather than the alternative Performance and Accountability Report. The Annual Performance Report with detailed performance information that meets Government Performance and Results Act requirements is produced and transmitted with the Congressional Budget Justification. A Summary of Performance and Financial Information (SPFI) is also produced. It is a citizens' report that summarizes this information in a brief, user friendly format. The AFR may be viewed online at ***www.doi.gov/pfm/finstate/index.html*** or on compact disc by submitting a request to:

U.S. Department of the Interior
Office of Financial Management
Mail Stop 2557
1849 C Street, NW
Washington, DC 20240



Surface Lands Managed by The Department of the Interior



Mission

The U.S. Department of the Interior protects and manages the Nation's natural resources and cultural heritage; provides scientific and other information about those resources; and honors its trust responsibilities or special commitments to American Indians, Alaska Natives, and affiliated island communities.

History

Established in 1849, Interior is the Nation's principal Federal conservation agency. Interior manages many of the Nation's special natural, cultural, and historic places, conserves lands and waters, protects cultural legacies, and keeps the Nation's history alive. Interior manages parks, refuges, the National Landscape Conservation System, and other public lands and recreation areas for public enjoyment; provides access to many of the Nation's natural resources; increases scientific knowledge; and fulfills America's trust and other responsibilities to native peoples. Interior also provides hydropower to the Western States. It delivers water to over 31 million citizens through management of 476 dams and 348 reservoirs. A Department for Domestic Concern was considered by the First United States Congress in 1789, but those duties were initially placed in the Department of State. The proposal continued to percolate for a half-century. The 1846–1848 Mexican-American War gave the proposal new energy as the responsibilities of the Federal Government grew. President Polk's Secretary of the Treasury, Robert J. Walker, became a vocal champion for creating a new department.

In 1848, Walker stated in his annual report that several Federal offices were placed in Departments with which they had little in common: the General Land Office in the Department of the Treasury; the

Indian Affairs Office residing in the Department of War; and the Patent Office in the State Department. He proposed that all should be brought together in a new Department of the Interior. A bill authorizing Interior's creation passed the House of Representatives on February 15, 1849, and was adopted by the Senate in just over 2 weeks. The Department was established on March 3, 1849, the eve of President Zachary Taylor's inauguration, when the Senate voted 31 to 25 to create the Department.

Today, Interior manages about one-fifth of America's land, as shown on the previous page, and is made up of departmental offices and eight bureaus with a broad range of responsibilities.

Defining Interior's Goals

The Department's Strategic Plan for FY 2007–2012 provides the framework for activities in eight bureaus and departmental offices in 2010. The Strategic Plan is the guide by which we gauge our success in achieving performance results. The combined Mission Areas contain 14 End Outcome Goals that the Department, through its offices and bureaus, works to accomplish.

The existing goals and measures are under review as the Department updates the current Strategic Plan.
The goals and Key Performance Indicators (KPIs) presented in the following section may change in future reports based on that review.

The Statement of Net Cost is divided into the following five major program segments. The segments consist of the Department's four major mission areas of Resource Protection, Resource Use, Recreation and Serving Communities, plus Reimbursable Activity and Other.

Note: Reimbursable Activity and Other is predominantly the intra-governmental acquisition of goods and services through the Department's Working Capital Funds and Franchise Fund for general support of the Department's mission goals.

DOI'S MISSION AREAS

RESOURCE PROTECTION

Protect the Nation's natural, cultural, and heritage resources

- Improve the health of watersheds, landscapes, and marine resources that are Interior managed or influenced, consistent with obligations and state law regarding the allocation and use of water;
- Sustain biological communities on Interior managed and influenced lands and waters, consistent with obligations and state law regarding the allocation and use of water;
- Protect cultural and natural heritage resources; and
- Improve the understanding of national ecosystems and resources through and integrated interdisciplinary assessment.

RESOURCE USE

Improve resource management to assure responsible use and sustain a dynamic economy

- Manage or influence resource use to enhance public benefit, promote responsible development, and economic value;
- Deliver water consistent with applicable state and Federal law, in an environmentally responsible and cost-efficient manner; and
- Improve the understanding of energy and mineral resources to promote responsible use and sustain the Nation's dynamic economy.

RECREATION

Improve recreation opportunities for America

- Improve the quality and diversity of recreation experiences and visitor enjoyment on Interior lands; and
- Expand seamless recreation opportunities with partners.

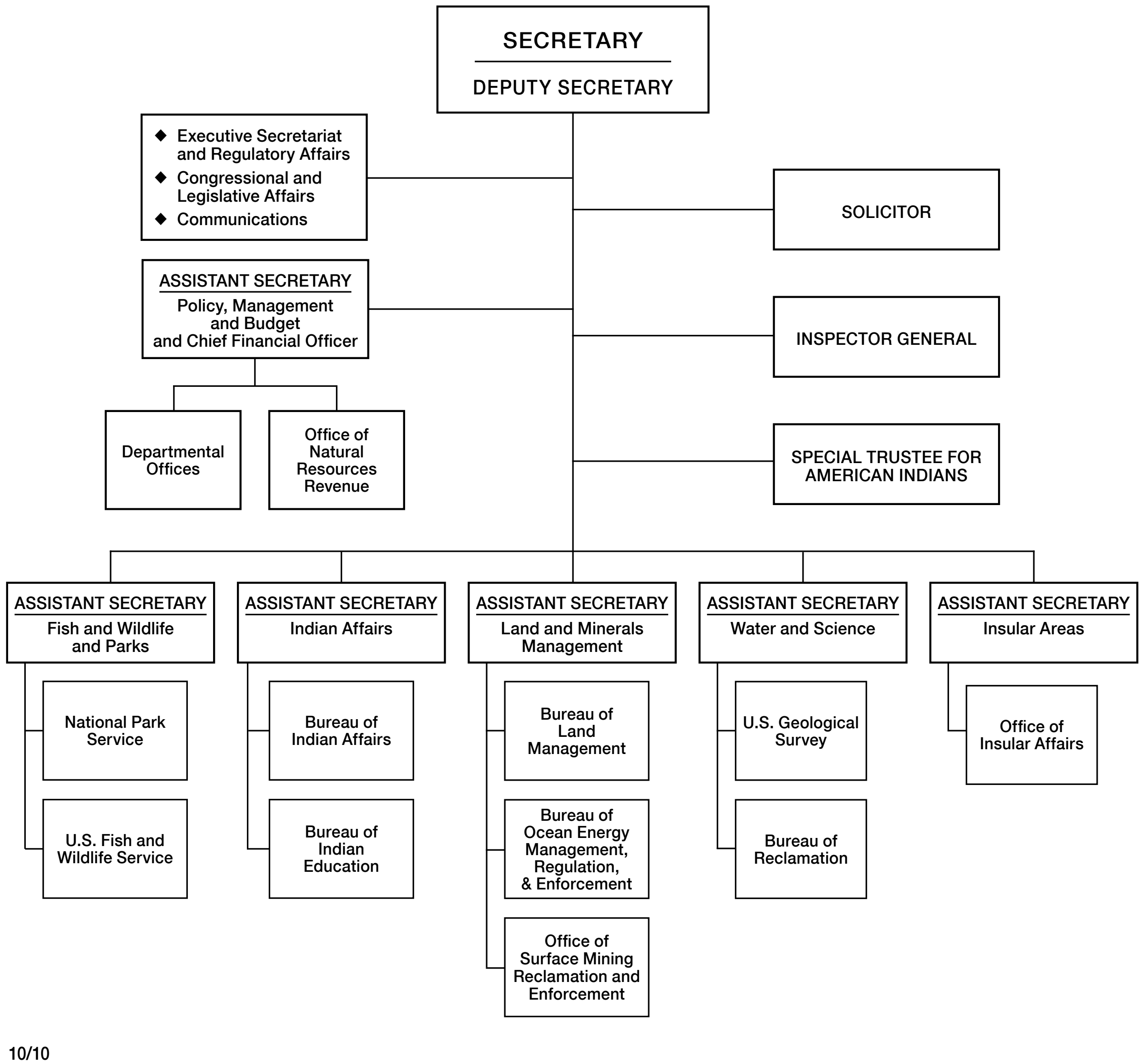
SERVING COMMUNITIES

Improve protection of lives, property, and assets; advance the use of scientific knowledge, and improve the quality of life for communities we serve.

- Improve protection of lives, resources, and property;
- Improve understanding, prediction, and monitoring of natural hazards to inform decisions by civil authorities and the public to plan for, manage, and mitigate the effects of hazard events on people and property;
- Fulfill Indian fiduciary trust responsibilities;
- Advance quality communities for tribes & Alaska Natives; &
- Increase economic self-sufficiency of insular areas

See Note

U.S. Department of the Interior



DOI Bureaus / Components

Each Interior bureau / component has discrete responsibilities.

U.S. Fish and Wildlife Service

- Manages the 150 million-acre National Wildlife Refuge System primarily for the benefit of fish and wildlife
- Protects and conserves:
  - Migratory birds
  - Threatened and endangered species
  - Certain marine mammals
  - Certain fish species
- Hosts about 41 million visitors annually at 552 refuges and 37 wetland management districts

Bureau of Land Management

- Manages and conserves resources for multiple use and sustained yield on approximately 253 million acres of public land, including the following:
  - Energy and mineral exploration and production
  - Timber production
  - Domestic livestock grazing
  - Outdoor recreation
  - Rights-of-way
  - Fish and wildlife conservation
  - Resource protection at sites of natural scenic, scientific, and historical value

Indian Affairs

- Fulfills Indian trust responsibilities
- Promotes self-determination on behalf of more than 565 federally recognized Indian tribes
- Provides funding for education, law enforcement, and other social services on the reservations

BOEMRE

Bureau of Ocean Energy Management, Regulation and Enforcement

- Manages access to the energy resources of the Outer Continental Shelf (OCS) to help meet our Country's energy needs
- Administers over 7,600 active mineral leases on approximately 41.2 million OCS acres
- Oversees 15 percent of the natural gas and 27 percent of the oil produced domestically
- Collects, accounts for, substantiates, and disburses custodial mineral revenues from Federal and Indian mineral leases. Effective October 1, 2010, this function moved to a new office reporting under the Assistant Secretary of Policy, Management and Budget. See Note 1.W.
- Oversees lease and grant issuance for offshore renewable energy projects

Office of Surface Mining Reclamation and Enforcement

- Protects the environment during coal mining
- Ensures that the land is reclaimed afterwards
- Mitigates the effects of past mining by pursuing reclamation of abandoned coal mine lands

National Park Service

- Maintains a network of 392 natural, cultural, and recreational sites for the benefit and enjoyment of the American people
- Provides technical assistance to state and local natural and cultural resource sites
- Provides respite and outdoor recreation to over 275 million annual park visitors

U.S. Geological Survey

- Provides reliable scientific information in ecosystems, climate change, land use change, energy and mineral assessments, environmental health, and water resources to inform effective decision making and planning
- Produces information to increase understanding of natural hazards such as earthquakes, volcanoes, and landslides
- Conducts research on oil, gas and alternative energy potential, production, consumption, and environmental effects
- Leads the effort on climate change science research for the Department

Bureau of Reclamation

- Manages, develops, and protects water resources in an environmentally and economically sound manner
- Largest supplier and manager of water in the 17 Western States
- Maintains 476 dams and 348 reservoirs
- Delivers water to 1 in every 5 western farmers and over 31 million people
- America's second largest producer of hydroelectric power

Departmental Offices

The Secretary of the Interior ensures that the diverse programs and priorities of the Department are conducted effectively and efficiently in accordance with Presidential and Congressional direction. Through the Departmental Offices, the Secretary provides:

- Coordination among, bureaus and manages significant departmental initiatives through programmatic assistant secretaries
- Policy guidance through the Assistant Secretary - Policy, Management and Budget
- Legal services through the Office of the Solicitor
- Audits and investigations through the Office of the Inspector General
- Management and coordination of the design, acquisition, performance, maintenance, use, and disposal of Information Technology through the Office of the Chief Information Officer
- Effective discharge of trust responsibilities to American Indians, Alaska Natives, and Federally recognized Indian tribes through the Office of the Special Trustee for American Indians

Assessing Our Performance

The Department of the Interior is committed to using performance management to focus on key priorities, to improve effective communications with the public, and to promote transparency and accountability. Interior's performance in FY 2010 was evaluated in the context of the FY 2007-2012 Strategic Plan, which defines the goals, strategies, and performance measures in four mission areas: Resource Protection, Resource Use, Recreation, and Serving Communities. The Plan provides context in a 5 year window for prioritization of programmatic activities and development of annual targets to gage programmatic and employee performance, monitor program activities and evaluate impacts of alternative management scenarios, measure progress toward achievement of goals relative to resources and programmatic emphasis, and communicate results to the Administration, Congress, and other stakeholders. The Department is in the process of updating its Strategic Plan, which will be used for execution of programs beginning in Fiscal Year 2011.

The Strategic Plan is complemented by a set of five High Priority Performance Goals for Renewable Energy, Climate Change Adaptation, Water Conservation, Safe Indian Communities, and Youth Stewardship. These tools are key in the Department's efforts to manage a complex mission that is delivered by a geographically dispersed organization. The Plan and High Priority Performance Goals (HPPG) guided the Department through FY 2010, with a focus on advancing a new energy frontier, tackling the impacts of climate change, improving the sustainable use of water, protecting America's great outdoors, engaging youth in natural resources, and promoting economic development, community safety and education in Indian communities. In the face of significant National events and challenges, such as the Deepwater Horizon oil spill, the Plan and HPPG's allowed the Department to maintain a focus on ongoing responsibilities and priorities while attending to the important oil spill response and Outer Continental Shelf oil and gas reform activities.

The strategic plan process, including oversight of the HPPGs, is overseen by the Deputies Operating Group, a cadre of senior executives including Bureau and Office Deputy Directors and Deputy Assistant Secretaries. These individuals are the operational executives that deploy the priorities and strategies contained in the Plan, the HPPGs, and bureau/office plans through the execution of programs and oversight of their organizations. At the most senior level, the Principals Operating Group, comprised of Assistant Secretaries and Bureau/Office Directors and chaired by the Deputy Secretary, provides oversight and engages in the evaluation of progress in strategic plan and HPPG achievement. Each bureau and office has staff that is responsible for planning and performance that engages regularly with leadership to utilize performance information in measuring progress toward achievement of goals and integration of performance and budgetary information in the Congressional Budget Justifications. The Department's Office of Planning and Performance Management that reports to the Assistant Secretary – Policy, Management and Budget is tasked with oversight of this process and produces the Annual Performance Report and the data for the AFR in coordination with bureaus and offices.

For the purpose of the Agency Financial Report, performance is summarized using key indicators which function as thermometers to provide readily understandable trends of performance and the related funding investment of major aspects of achieving strategic plan goals. A summary of the FY 2010 performance is provided for each mission area building on the trends reported in the FY 2009 Annual Performance Report. Notable changes occurring in FY 2010 from expected performance that occurred in FY 2010 are identified. As part of a more complete performance assessment, definitive information on the actual level of achievement and corresponding use of resources will be confirmed and provided in the Department's Annual Performance Report, which is planned for release by February 2011.

The main objective of this mission area is to protect the Nation's natural, cultural and heritage resources. The performance is tracked through four different but related goals.

MISSION AREA ONE: RESOURCE PROTECTION • Interior Costs for Resource Protection					
(dollars in millions)	FY 2010	FY 2009	FY2008	FY2007	FY 2006
Goal #1: Improve health of watersheds, landscapes, and marine resources	$ 1,657	$ 1,511	$ 1,520	$ 1,471	$ 2,351
Goal #2: Sustain biological communities	1,223	1,129	1,084	1,239	1,258
Goal #3: Protect cultural and natural heritage resources	832	785	738	554	338
Goal #4: Improve the understanding of national ecosystems and resources	1,334	1,275	1,232	1,196	-
Total Cost for Resource Protection	**$ 5,046**	**$ 4,700**	**$ 4,574**	**$ 4,460**	**$ 3,947**

Assessment of Goal #1: Improve health of watersheds, landscapes, and marine resources

A key performance indicator characterizes Interior's progress in ensuring the quality of our natural resources, which includes our upland, wetland, open water, streams, and shorelines. The indicator reports on the extent that these resources are determined to be in "desired condition," as defined in locally established management plans. Progress in these areas has been increasing over the past few years, commensurate with the level of investment. However, success is dependent upon the original condition of the asset, the amount of resources that can be applied, the cooperation of Mother Nature in supporting the performed treatments, and the time for treatments to take effect and adequately mature. In years to come, the pursuit of this and the following goal on sustaining biological communities, will be assisted by the application of climate change adaptation strategies. Initiated as part of the Department's High Priority Performance Goal on Climate Change Adaptation, these strategies are further enhanced by science and collaborative knowledge. At this point, the effect that the oil spill in the Gulf of Mexico will have on the actual FY 2010 results has not been fully assessed.

Assessment of Goal #2: Sustain biological communities

Similar factors are at work in gauging the health of species, including fish, birds, wildlife, and especially threatened and endangered species. Much of the success in this goal is characterized using key indicators of the sustainability of the species. Affecting the success requires longer timeframes to achieve results and often shows little change from year to year. These measures reflect the challenging struggle involved in sustaining communities despite natural and human induced pressures, including the loss of habitat. These activities take several years of effort to realize success, assuming the solution can be implemented (i.e. lost habitat cannot necessarily be regained; years of degradation cannot be readily reversed), Mother Nature cooperates, and the factors making the situation worse do not escalate faster than treatment can be effected. Performance has remained relatively steady commensurate with the level of investment. At this point, the effect that the oil spill in the Gulf of Mexico will have on the actual FY 2010 results is uncertain.

Assessment of Goal #3: Protect cultural and natural heritage resources

The condition of our historic structures is the key indicator used for determining the success in maintaining our heritage assets. Our goal is to maintain historic structures in good condition, and to maintain in good condition the collections of assets that they house. These collections are invaluable as they provide insight into our past so we better understand and appreciate where we have come from as a Nation and as a society. This indicator continues to show increases in the number of assets determined to be in desired condition, along with a recent increase in the level of investment.

Assessment of Goal #4: Improve the understanding of national ecosystems and resources

The effectiveness of Interior's efforts to provide scientific research and knowledge that is used to inform resource management decisions within, and outside of the Department is characterized by a survey of those who use this information. The level of the applied use of these science products has remained steady, while increased investments will help develop newer capabilities in understanding adaptation to climate change.

This mission area reflects Interior's collective efforts to effectively manage the access to, and ensure responsible use of, the following types of natural resources pertaining to on-shore and off-shore Federally managed areas:

MISSION AREA TWO: RESOURCE USE • Interior Costs for Resource Use					
(dollars in millions)	FY 2010	FY 2009	FY2008	FY2007	FY2006
Goal #1: Energy-producing resources	$ 2,623	$ 2,559	$ 3,996	$ 2,244	$ 2,519
Goal #2: Water resources	1,557	979	1,033	911	1,098
Goal #3: Other land-related resources including grazing, non-energy minerals, and timber	193	171	187	188	172
Goal #4: Satisfaction of science provided for relevant decision making	121	106	99	95	154
Total Cost for Resource Use	**$ 4,494**	**$ 3,815**	**$ 5,315**	**$ 3,438**	**$ 3,943**

Assessment of Goals #1, #2, & #3: Energy producing resources, water resources, and other land related resources including grazing, non-energy minerals, and timber

Interior agencies provide access to potential users who extract the resources from Federally-managed areas for the benefit of the American public and the economy. Interior has a key responsibility in ensuring the extraction is conducted in a responsible and environmentally sensitive manner. The process for granting permits to access these resources includes determining that the user is following responsible management procedures in protecting the environment and the future supply of the resource. Therefore, the permitting process can be used as the key indicator of progress toward this goal. Without appropriate management practices planned, access is not granted and would result in lower levels of performance.

The key performance measures for granting on-shore fluid energy mineral leases, grazing, and timber are generally showing level or decreasing trends in permits approved due to the significant number of legal challenges and increased demand for additional assessments to be conducted prior to approving access. As approval of these permits becomes more complicated, an increase in processing costs is reflected in the trends. Efforts are underway to determine if automated processing will help decrease the time required to complete the approval process. Access for coal resources has been growing slightly, as there are fewer challenges to these leases.

While the key performance measure for granting access for off-shore fluid mineral leasing had been showing an upward trend, the Deepwater Horizon oil spill is expected to have an effect for 2010 and potentially for future years as well. The specific implications of the reforms that are underway and the impact on future performance in this program have yet to be fully quantified.

Attention has also increased in the development of renewable energy resources from wind, solar, and geothermal. Access to these resources is being facilitated through a collection of Fast Track permitting projects that are being tracked and reported through a High Priority Performance Goal.

Interior has a significant role in managing water resources in the western United States. These efforts involve providing capability for the collection and distribution of water resources. The distribution of water is highly dependent upon the condition of facilities that manage and distribute the water, which is why the key performance indicator is based on the percentage of facilities considered to have a fair to good Facility Reliability Rating (FRR). As these facilities age, there is an increasing investment in maintenance funding. Water conservation is an important component of Interior's water management responsibility as it will contribute to increasing the "effective" water supply. Water conservation is tracked through a High Priority Performance Goal.

Assessment of Goal #4: Satisfaction of science provided for relevant decision making

This goal is directed to providing effective scientific support for managing and extracting natural resources. With some fluctuation in recent years, science products that support these mission areas have been used at fairly high levels in decision making. Demand is increasing for these products resulting from the interest in accessing these resources in the United States and the development of renewable resources.

This mission area's main goal is to improve recreation opportunities for America, particularly on Interior managed lands.

MISSION AREA THREE: RECREATION • Interior Costs for Recreation					
(dollars in millions)	**FY 2010**	**FY 2009**	**FY2008**	**FY2007**	**FY2006**
Goal #1: Improve the quality of recreation experiences and visitor enjoyment on Interior lands	$ 3,375	$ 2,641	$ 2,472	$ 2,450	$ 1,642
Goal #2: Expand recreation opportunities with partners	217	545	482	144	139
Total Cost for Recreation	**$ 3,592**	**$ 3,186**	**$ 2,954**	**$ 2,594**	**$ 1,781**

Assessment of Goal #1: Improve the quality of recreation experiences and visitor enjoyment on Interior lands

The key performance indicator used for this goal is visitor satisfaction, which is measured through surveys. Performance has remained steady while the funding investment has been increasing to keep up with the rising costs of operations and maintenance (materials, labor, energy, etc.) and the restoration of aging facilities. In preparation for the 2016 Centennial, additional funding was applied to National Park Service units. Changes in the level of results related to the additional funding will likely be experienced in subsequent years after the improvements have been implemented.

Assessment of Goal #2: Expand recreation opportunities with partners

Funding is also provided to state and local governments to assist in the development of outdoor recreation. Progress is measured by increasing available acres outside of Interior managed areas for recreational use. Based on the size of the state and local government's contribution, which could exceed the Federal contribution, performance can fluctuate on a year-to-year basis. This is an area where Interior is presently exploring further opportunities for the use of lands and waters, including those in urban areas, that can be used for recreation as part of its America's Great Outdoors initiative.

The goals in this mission area aim to improve the protection of lives, property, and assets; advance the use of scientific knowledge; and improve the quality of life for communities. This includes Interior responsibilities to Indian Tribes, Alaska Natives, and Insular areas.

MISSION AREA FOUR: SERVING COMMUNITIES • Interior Costs for Serving Communities					
(dollars in millions)	**FY 2010**	**FY 2009**	**FY2008**	**FY2007**	**FY2006**
Goal #1: Improve protection of lives, resources, and property	$ 1,824	$ 1,946	$ 1,999	$ 1,888	$ 2,386
Goal #2: Improve understanding, prediction, and monitoring of natural hazards	161	134	128	123	953
Goal #3: Fulfill Indian fiduciary trust responsibilities	681	658	600	702	650
Goal #4: Advance quality of communities for tribes and Alaska Natives	2,775	2,162	2,171	1,939	2,141
Goal #5: Increase economic self-sufficiency of insular areas	469	450	398	439	388
Total Cost for Serving Communities	**$ 5,910**	**$ 5,350**	**$ 5,296**	**$ 5,091**	**$ 6,518**

Assessment of Goal #1: Improve protection of lives, resources and property

The key performance indicator is Interior's wildland fire efforts; which attempt to reduce the chance for wildland fire, to control fires quickly after ignition, and to restore the condition of the land after a fire. Planned treatments to reduce fire hazards and prevent wildland fire have been increasing commensurate with increased funding. However, in general this can be a highly unpredictable area from one year to the next based on changing conditions. Interior's response to control these fires has remained steady and funding investment has actually been decreasing as there have been relatively less severe fire seasons over the past few years. The goal also includes law enforcement efforts across Interior lands. The indicator reflects reduced performance based on challenges related to closing investigations. This is a challenging area, which is getting increased attention to remain effective and potentially improve performance.

Assessment of Goal #2: Improve the understanding, prediction, and monitoring of natural hazards to inform decisions in communities in protecting the public

Performance in this goal is represented primarily by the percentage of communities and tribes using science-based products developed by the U.S. Geological Survey. These products improve understanding about threats, necessary preparedness, and means for avoidance of natural hazards (e.g. earthquakes, volcanoes, etc.). The indicator shows an increase in communities using this information. The funding investment has recently increased slightly in order to provide more information about volcanoes in the Pacific Northwest.

Assessment of Goal #3: Fulfill Indian fiduciary trust responsibilities

The key performance indicator for this goal tracks the accuracy of financial information that is processed in trust beneficiary accounts. Performance is at the top of the scale, above 99 percent. In 2010, efforts continued to automate routine transactions, leaving the more complicated transactions—probates and more involved special deposit account cleanup—to be handled manually. The high sustained performance is expected to continue.

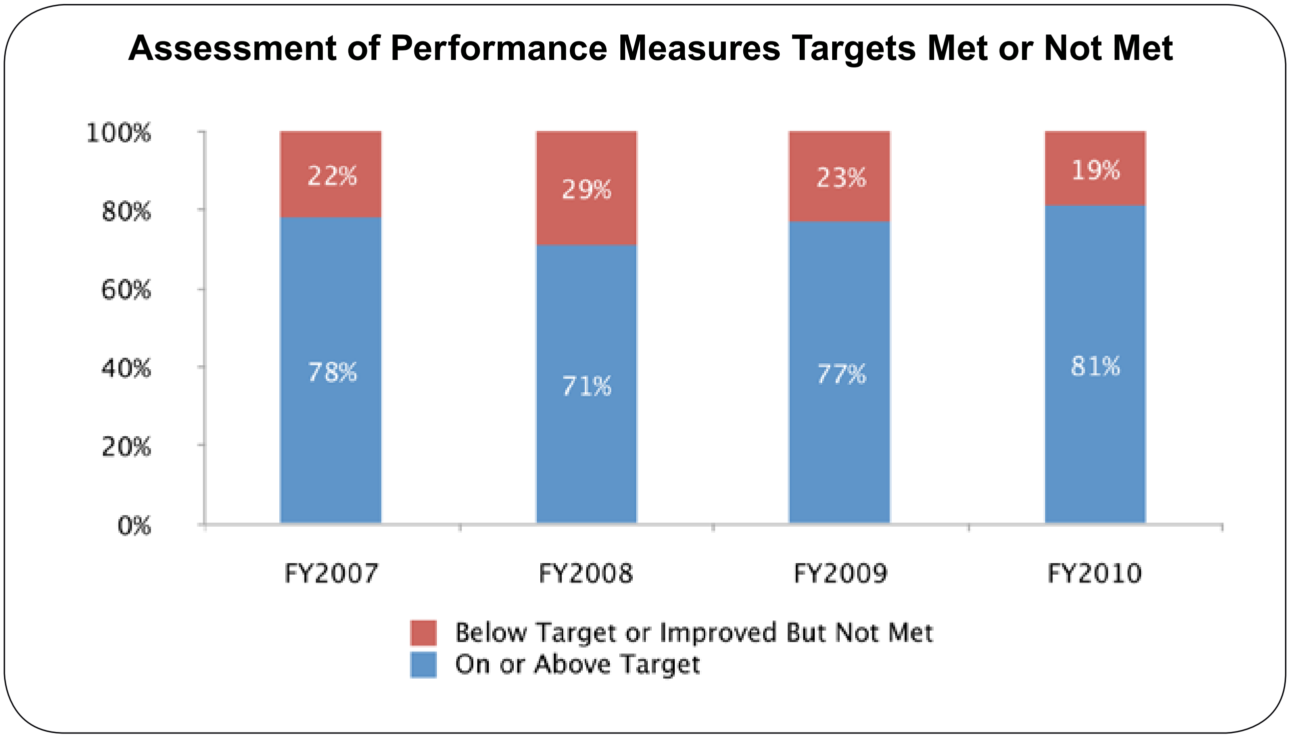
Assessment of Goal #4: Advance quality of communities for tribes and Alaska Natives

In tracking the performance of this goal, the key indicators employed are in the area of Indian education and the level of violent crimes in Indian communities. Increased performance in education is challenging and progress is slow. Higher education standards went into effect in the past year creating additional challenges. The funding has fluctuated in the past, but in recent years funding has increased to assist with the challenge. This program is being considered for an in-depth evaluation to focus on the methods that the Bureau of Indian Education is implementing, compare practices to that of similar systems, assess the impact of the social and economic conditions, and assess the effectiveness of the bureau's efforts.

A new strategy with promising results is being piloted to address violent crime in select Indian communities. This is one of Interior's High Priority Performance Goals. Some communities show slight decreases in violent crime. An increase in the amount of funding for this effort reflects the importance of making Indian communities safer.

Assessment of Goal #5: Increase economic self-sufficiency of Insular areas

The Office of Insular Affairs measures performance of island communities in terms of the degree to which Federal assistance is driving the Gross Domestic Product, the extent to which their financial statements on the use of Federal assistance are completed, and the ratio of private sector employment. In all these cases, performance has remained steady, commensurate with the funding investment.



Target Assessment

Since 2008, Interior has shown a gradual, but steady improvement in meeting the Department's performance targets. Interior's approach has evolved and the Department now evaluates performance data in terms of multi-year trends rather than a single year at a time. This approach, along with linkage to the relevant funding trends, has led to more meaningful and useful performance assessments that better informs management and can be used for future year planning. The recognition of multi-year performance signifies that program performance in a given year reflects the results of multiple years of effort.

In FY 2010, Interior met 81 percent of the Department's targets. In the initial projections, it appears that targets are most often not achieved due to the following factors:

- schedule delays resulting from litigation that slows program implementation or requires additional analyses and assessments
- unexpected weather conditions, natural disasters and other factors that are outside the control of the agencies
- climate change that causes significant alterations in the environment, migration of wildlife, and other effects
- shifts in the economy that result in changes in the ability of partners to participate in activities – Interior has an extensive network of partnerships and cooperative efforts

In FY 2010, the Deepwater Horizon oil spill required a significant redirection of staffing, resources and attention, which caused several measurable targets not to be met. The suspension of exploration, development, increased requirements and reforms also had an impact on targets. The impacts that these events had on the Department's performance targets are being assessed and will be reported in the FY 2010 Annual Performance Report, which will be released by February 2011.

ANALYSIS OF SYSTEMS, CONTROLS AND LEGAL COMPLIANCE

This section of the report provides the required information on the U.S. Department of the Interior's management assurances and compliance with the following legal and regulatory requirements:

- Management Assurances
- Federal Managers' Financial Integrity Act of 1982 (FMFIA)
- Federal Financial Management Improvement Act of 1996 (FFMIA)
- Inspector General Act Amendments (Audit Followup)

In addition, this section includes summaries of the Department's financial management activities and improvement initiatives regarding:

- Results of Financial Statement Audit
- Major Management Challenges Confronting Interior
- Compliance with Other Key Legal and Regulatory Requirements
- Financial Management Systems

Management Assurances

FMFIA requires agencies to provide an annual statement of assurance regarding internal accounting and administrative controls, including program, operational, and administrative areas as well as accounting and financial management and reporting. During Fiscal Year (FY) 2010, the Office of Financial Management (PFM) conducted comprehensive site visits and otherwise provided oversight with regard to risk assessments, internal control reviews, and progress in implementing audit recommendations. Interior's FY 2010 Annual Assurance Statement appears on the next page. The basis for the assurance statement conclusions is discussed below.

Federal Managers' Financial Integrity Act of 1982 (FMFIA)

The Department believes that maintaining integrity and accountability in all programs and operations: (1) is critical for good government; (2) demonstrates responsible stewardship over assets and resources; (3) ensures high-quality, responsible leadership; (4) ensures the effective 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:

- 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
- Timely, accurate, and reliable data are maintained and used for decision making at all levels.

Interior's internal control program is designed to ensure full compliance with the goals, objectives, and requirements of FMFIA and the following Office of Management and Budget (OMB) Circulars:

- OMB Circular A-123, *Management's Responsibility for Internal Control*, including Appendix A, *Internal Control over Financial Reporting*; Appendix B, *Improving the Management of Government Charge Cards*, Appendix C, *Requirements for Effective Measurement and Remediation of Improper Payments;*
- OMB Circular A-127, *Financial Management Systems*; and
- OMB Circular A-130, *Management of Federal Information Resources*.

Internal Control Assessments

Interior conducts annual assessments of the effectiveness of management, administrative, and accounting systems controls in accordance with FMFIA and OMB guidelines. The conclusions in the Secretary's FY 2010 Annual FMFIA Assurance Statement are based on the results of numerous internal control reviews conducted by bureaus and offices, including assessment of internal control over financial reporting. Interior also considered the results of Office of Inspector General (OIG) audits, Government Accountability Office (GAO) program audits, and the financial statement audit conducted by the independent public accounting firm, KPMG LLP. In addition, many of Interior's internal control reviews and related accountability and integrity program activities focused on areas identified as major management challenges.

FMFIA Material Weaknesses and Accounting System Nonconformances

OMB Circular No. A-123 requires that each agency identify and report on material weaknesses affecting the agency. Interior has adopted the OMB guidelines for material weakness designations and recognizes the importance of correcting material weaknesses in a timely manner. The PFM staff and senior program officials continuously monitor corrective action progress for all material weaknesses.

At the beginning of FY 2010 Interior had one Department-level FMFIA material weakness pending correction carried forward from the previous year. Inadequate Wireless Telecommunications had been identified as a material weakness in FY 2000 and downgraded in FY 2004, since it was then considered to be a bureau-specific matter, not a Department-wide issue. However, during FY 2009, as a result of a September 2008 OIG Report and an extensive internal control review conducted department-wide, the Department reinstated the Radio Communications Program as a Department-level material weakness. (see Figure 1-1)

The Department will report a material weakness corrected or downgraded when the following occurs:

- 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 exists; or
- Corrective actions have been substantially completed, remaining actions are minor in scope, and the actions will be completed within the next fiscal year.
- Implemented corrective actions have eliminated or minimized the root cause(s) of the material weakness; and
- Substantial validation of corrective action effectiveness has been performed.

Summaries of the Department's FMFIA material weaknesses, financial statement audit material weaknesses, and management assurances and accounting system nonconformances are presented in Section 3.

FY 2010 ASSURANCE STATEMENT

The Department of the Interior's management is responsible for establishing and maintaining effective internal control and financial management systems that meet the objectives of the Federal Managers' Financial Integrity Act (FMFIA). The Department is able to provide a qualified statement of assurance that the internal controls and financial management systems meet the objectives of FMFIA, with the exception of one material weakness, Radio Communications. The details of the exception are provided in Figure 1-1 in this section of the report.

The Department conducted its assessment of the effectiveness of internal control over the effectiveness and efficiency of operations and compliance with applicable laws and regulations in accordance with the requirements of the Office of Management and Budget (OMB) Circular No. A-123, Management's Responsibility for Internal Control. Based on the results of this evaluation, the Department identified the one material weakness in its internal control over the effectiveness and efficiency of operations and compliance with applicable laws and regulations identified in Figure 1-1 as of September 30, 2010. Other than that exception, the internal controls were operating effectively and no other material weaknesses were found in the design or operation of the internal controls.

In addition, the Department conducted its assessment of the effectiveness of internal control over financial reporting, which includes safeguarding of assets and compliance with applicable laws and regulations, in accordance with the requirements of Appendix A of OMB Circular A-123. Based on the results of this evaluation, the Deparment can provide reasonable assurance that its internal control over financial reporting as of June 30, 2010, was operating effectively and no material weaknesses were found in the design or operation of the internal control over financial reporting. Further, subsequent testing through September 30, 2010, did not identify any reportable changes in key financial reporting internal controls.

The Department can also provide reasonable assurance that its financial systems substantially comply with the FMFIA and with the component requirements of the Federal Financial Management Improvement Act.

Ken Salazar
Secretary of the Interior
November 12, 2010

FIGURE 1-1

FMFIA Material Weaknesses
as of September 30, 2010

Description	Corrective Actions	FY 2010 Progress	Target Completion Date	Status
Office: The Chief Information Officer (OCIO) **Department of the Interior Radio Communications Program:** Interior has an unsafe and unreliable radio communications environment that jeopardizes health and safety of Interior employees and the public.	Interior will: 1) Assign responsibility over the radio communications program to the OCIO; 2) Develop a comprehensive management plan for the radio communications program; 3) Identify specific user groups and ensure that user needs are assessed and addressed, guidance is provided and enforced, and training is provided; 4) Enforce existing safety procedures to notify employees and the general public of hazardous site conditions; and 5) Implement best practices, where appropriate.	1) A policy establishing radio site standards and safety inspection criteria has been issued requiring adherence to industry guidelines and standards. 2) A Radio Facilities Management Official has been recruited in the National Radio and Spectrum Program Management Office to direct material weakness efforts. 3) An organizational transformation analysis has been completed with recommendations to restructure the DOI radio and bureau subcomponents to achieve efficiency in spending and service delivery. 4) Radio over internet protocol technology has been tested and a framework established for enterprise integration. 5) Analysis and project planning has been completed to migrate DOI radio users in the States of Wyoming and Montana to the state-wide Radio Networks. It is anticipated that 19 DOI towers in the State of Wyoming can be decommissioned within the next fiscal year contingent upon funding.	FY 2013	Ongoing

Internal Control Over Financial Reporting

Revised OMB Circular A-123, Appendix A, strengthens internal control requirements over financial reporting in Federal agencies. The Circular provides updated internal control standards and requirements for conducting management's assessment of the effectiveness of internal control over financial reporting.

In FY 2010, Interior completed its fifth annual assessment of the effectiveness of internal control over financial reporting. The results of the assessment revealed that in all financial reporting areas, adequate controls exist, and financial reporting can be relied upon by senior management when used in the decision making processes. Although deficiencies were found in some financial reporting business processes, corrective actions and compensating controls will address the deficiencies. The Department's internal control over financial reporting reasonably ensures the safeguarding of assets from waste, loss, and unauthorized use or misappropriation, as well as compliance with laws and regulations pertaining to financial reporting. (See FY 2010 Assurance Statement, paragraph 2)

Departmental policymakers and program managers continuously seek ways to achieve missions, meet program goals and measures, enhance operational processes, and implement new technological developments. The OMB requirement to assess control over financial reporting strengthens the accountability of Departmental managers regarding internal controls and improves the quality and reliability of Interior's financial information.

Federal Financial Management Improvement Act of 1996 (FFMIA)

FFMIA builds upon and complements the CFO Act, Government Performance and Results Act of 1993 (GPRA), and GMRA. FFMIA requires that Federal agencies substantially comply with: 1) applicable Federal accounting standards; 2) the U.S. Standard General Ledger (USSGL); and, 3) Federal financial management system requirements that support full disclosure of Federal financial data, including the cost of Federal programs and activities.

Federal agencies are required to address compliance with the requirements of FFMIA in the management representations made to the financial statement auditor. The auditor is required to report on the agency's compliance with FFMIA requirements in the Independent Auditors' Report. If an agency is not in compliance with the requirements of the FFMIA, the agency head is required to establish a remediation plan to achieve substantial compliance. For FY 2010, the Department substantially complies with FFMIA.

Inspector General Act Amendments (Audit Followup)

Interior has instituted a comprehensive audit followup program to ensure that audit recommendations are implemented in a timely and cost-effective manner and that disallowed costs and other funds due from contractors and grantees are collected or offset. In FY 2010, Interior monitored a substantial number of new Single Audit Act, OIG, and GAO audit reports. Audit followup actions include analyzing audit reports referred; advising grantors of single audit findings; tracking, reviewing, and validating program and financial audit recommendations; developing mutually acceptable and timely resolution of disputed audit findings and recommendations; overseeing the implementing, documenting, and closing of audit recommendations; and monitoring the recovery of disallowed costs. The OIG Semiannual Report to the Congress provides additional information about OIG activities and results.

To further underscore the importance of timely implementation of OIG and GAO audit recommendations, Interior has an aggressive performance goal to implement 85 percent of all GAO and OIG recommendations where implementation was scheduled to occur during the current year or in previous years. In FY 2010, Interior exceeded this performance goal with a composite implementation rate of 90 percent.

Results of Financial Statement Audit

As required by the GMRA, Interior prepares consolidated financial statements. These financial statements have been audited by KPMG LLP, an independent public accounting firm, since FY 2001 (the OIG audited the financial statements prior to FY 2001). The preparation and audit of financial statements form an integral part of Interior's centralized process to ensure the integrity of financial information.

Figures 1-2 summarizes the status of noncompliance issues reported in the FY 2010 and FY 2009 financial statement audit. No department-level material weaknesses were reported in the FY 2010 and FY 2009 Financial Statement Audit. As noted previously, Interior reports only department-level material weaknesses and noncompliances. Interior has established an internal goal of completing corrective actions for material weaknesses and noncompliance issues by the end of the following fiscal year, unless the magnitude of the corrective action involves a multiyear effort.

The FY 2010 report identified no instances of material weaknesses and three instances of noncompliance with laws and regulations: the Single Audit Act Amendments (SAA) of 1996, the Prompt Payment Act (PPA) of 2002, and the Anti-Deficiency Act. As shown in Figure 1-2, the noncompliances with the SAA and the PPA are carryovers from prior financial statement audits while the Anti-Deficiency Act-related noncompliance was first reported in FY 2010.

Department and bureau staff will work together with Interior's National Single Audit Coordinator to review the Single Audit Act audit deficiencies, analyze the current grant monitoring processes, and improve compliance with the Single Audit Act. The coordinated effort will improve the design and implementation of grant monitoring policies to improve compliance with the Act. Planned system modernization efforts will bring all grant programs onto a common tool to standardize processes and promote SAA compliance.

The PPA noncompliance was attributed to BLM, BOEMRE, DO, and FWS. These bureaus continue to work with the Department to modify the accounting system to properly compute prompt-pay interest. In addition, interfaces between two accounting systems will be tested to ensure accurate data is sent and updated in the general ledger of the official accounting system. Training will be provided to ensure all employees are aware of policies and procedures surrounding the prompt-pay process.

The Department reported a violation of the Antideficiency Act, as required by section 1351 of Title 31, United States Code, which occurred in the Geothermal Lease Revenues, County Share account Treasury symbol 14X5574 in the total amount of $1,212,455. The violation is based on unauthorized payments made by the Bureau of Ocean Energy Management, Regulation and Enforcement (formerly the Minerals Management Service) to

FIGURE 1-2

FYs 2010 and 2009 Audited Financial Statements Departmental Noncompliance Corrective Action Plan (as of September 30, 2010)						
Related Bureaus	Noncompliance Description	Corrective Action	Fiscal Year		Original Target Date	Status
			2010	2009		
BLM BOEMRE DO FWS	Prompt Payment Act of 2002	1) Modify the accounting system to properly calculate prompt payment interest; and, 2) Improve policies and procedures that outline the manual calculation of interest and the requirement for second-level review.	X	X	9/30/10	Carryover
BOR FWS IA NPS OSM	Single Audit Act Amendments of 1996	Obtain Single Audit, Financial Status, Grant Performance, and Annual Reports and issue management decisions on audit findings in accordance with the requirements of the Single Audit Act Amendments.	X	X	9/30/06	Carryover
BOEMRE	Anti-Deficiency Act	Implement policies and procedures requiring the review of legislative provisions in appropriations acts to identify provisions affecting any aspect of BOEMRE operations.	X		9/30/11	In Progress

county governments between November 2009 and February 2010. The unauthorized payments were made as a result of not adjusting for a change in the distribution formula as indicated in the Department of the Interior, Environment and Related Agencies Appropriations Act, 2010 (Public Law 111-88) (2010 Appropriations Act).

To prevent a reoccurrence of the mistake the Department is implementing a Department-wide corrective action plan which includes training on apportionment preparation, new internal operating instructions on apportionment procedures, revised procedures for tracking appropriations actions, new management controls requiring confirmation of authorization and appropriation language review, and acquiring the Office of Management and Budget's approval of the Department's updated funds control regulations.

Major Management Challenges Confronting Interior

The OIG and the GAO annually advise Congress on what are considered to be the major management challenges facing Interior. A summary of the major management challenges identified by the OIG and GAO and Interior's response to the challenges identified are contained in Part 3: Other Accompanying Information, of this report.

Compliance with Other Key Legal and Regulatory Requirements

Interior is required to comply with several other legal and regulatory financial requirements, including the PPA and the Debt Collection Improvement Act (DCIA).

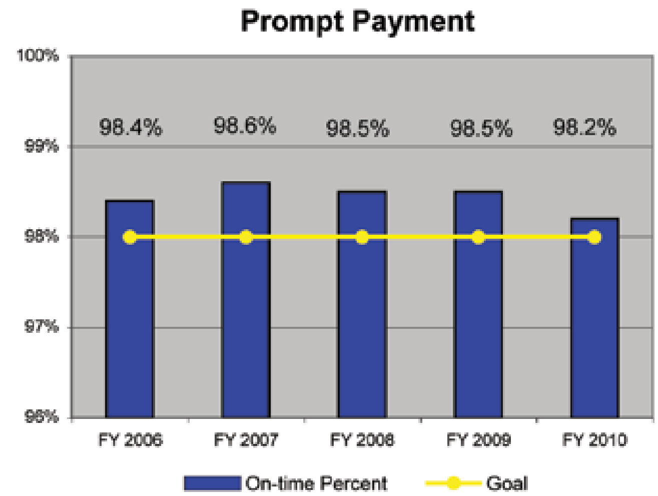
Prompt Pay, Debt Collection, and Electronic Funds Transfer

The Department is continuing to improve performance under the requirements of the PPA and the DCIA. The PPA requires that eligible payments be made within 30 days of receipt of invoice; otherwise, the Federal Government is required to pay interest. The DCIA requires any nontax debt owed to the United States that has been delinquent for a period of over 180 days be turned over to the Department of the Treasury for collection. The Electronic Funds Transfer (EFT) provision of the DCIA mandates all recipients of Federal payment receive their payments electronically, except for tax refunds. The Department exceeded its FY 2010 performance goals for PPA (Figure 1-3), DCIA (Figure 1-4), and payments made by EFT (Figure 1-5).

The American Reinvestment and Recovery Act (ARRA) of 2010

ARRA was signed into law by President Obama on February 17, 2009. It is an unprecedented effort to jump start the economy, create or save millions of jobs, and put a down payment on addressing long-neglected challenges. This effort includes measures to modernize the Nation's infrastructure, enhance energy independence, expand educational opportunities, preserve and improve affordable health care, provide tax relief, and protect those in greatest need. For more information on the impact of Interior's implementation, please see Analysis of Cost in Section 1: Management's Discussion and Analysis, Analysis of Financial statements.

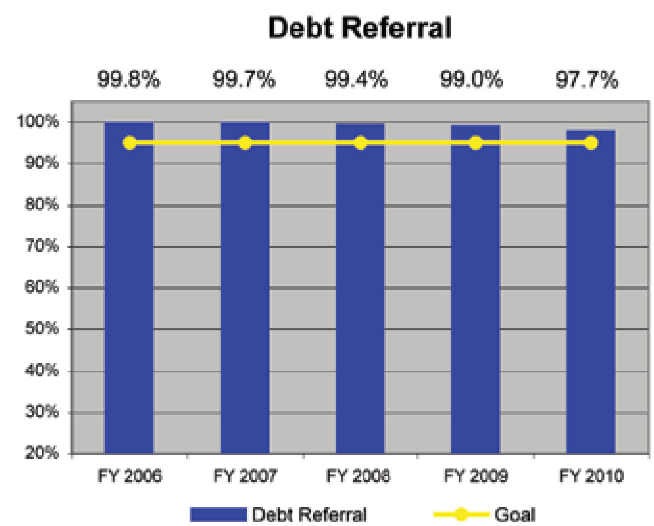
FIGURE 1-3



Department of the Interior Open Government

On December 8, 2009, OMB issued the Open Government Directive instructing Federal agencies to take specific steps to increase transparency, participation, and collaboration in government. The Department assembled a multi-functional team from across the department to develop Interior's Open Government Plan and an Open Government Federal Spending Data Quality Plan. In addition to meeting all of the requirements of the Open Government Directive, Interior's Open Government creates better relationships between the government and citizens, enables Interior to understand citizens' demands for services more clearly, and how to be more responsive to their needs. For more information on Interior's Open Government initiative, see www.doi.gov/open.

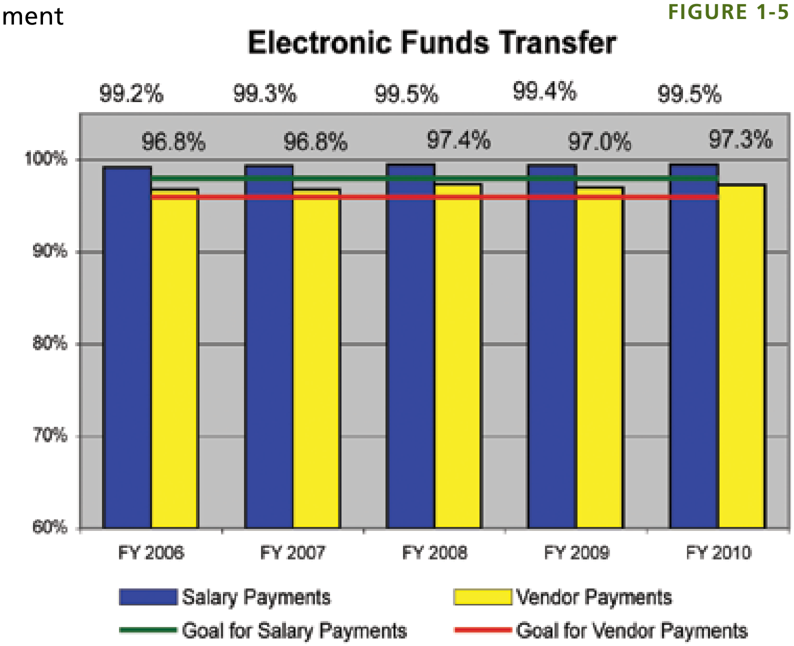
FIGURE 1-4



Financial Management Systems

Interior shares the view of the government-wide CFO Council that robust financial management systems improve management, provide for and strengthen decision making capabilities, and enable Interior program and financial managers to more effectively achieve Interior's missions. Interior recognizes the importance of financial management systems as a part of the capital asset portfolio and uses sound information technology investment management,

FIGURE 1-5



program management, and project governance principles to plan, deploy and generate its systems. With the Financial and Business Management System (FBMS), Interior's goal is to achieve and maintain the objectives stated in OMB Circular No. A-127 – to establish a single, integrated financial management system. In pursuing this goal, Interior is following the information technology investment management practices and principles identified in the Clinger-Cohen Act of 1996.

Financial Management Systems Improvement Strategy

Interior's goal is to continue improvements in financial transaction processing, analysis, and reporting and to enhance financial management systems support through an effective partnership of program, information system, and financial managers. Interior relies on financial management systems planned for, managed together, and operated collectively to support program and financial managers.

Some systems are managed at the bureau level, some at the departmental level, and some are government-wide systems on which the Department relies. Collectively, they represent the Department's financial management systems architecture. The Department has viewed the movement toward a single, integrated financial system as encompassing four interrelated elements that drive business process, improvements, and financial integrity. They are: (1) improvement of internal controls; (2) elimination of redundant data entry; (3) enabling end-to-end transaction processing; and (4) standardization of data for improved information quality. The Department's current, major financial management system improvement effort centers around FBMS. In early FY 2011, Interior will implement the fifth of eight FBMS deployments that will facilitate Department's business transformation.

Financial Systems Modernization

The Department has analyzed the risks, complexities, and costs associated with the deployment schedule of FBMS. To further mitigate the associated risks, Interior has revised its deployment schedule. The Department will also conduct an independent third party review of the project scope and revised deployment schedule, which will be the basis for validation of or further refinement of the plan.

Significant improvements were made to the functionality of the FBMS system in 2010. With each deployment, Interior enhances the capabilities of FBMS and gets closer to meeting the following goals across all of its bureaus:

- Standardized and integrated processes;
- Improved security and internal controls;
- Improved cost information;
- Improved tracking and auditing capabilities;
- Reduced double entry of data in multiple systems and manual paper processing;
- Improved Department-wide and bureau-specific reporting capabilities;
- Increased data integrity; and
- Retirement of aging and unsupported legacy systems.

FY 2010 Accomplishments

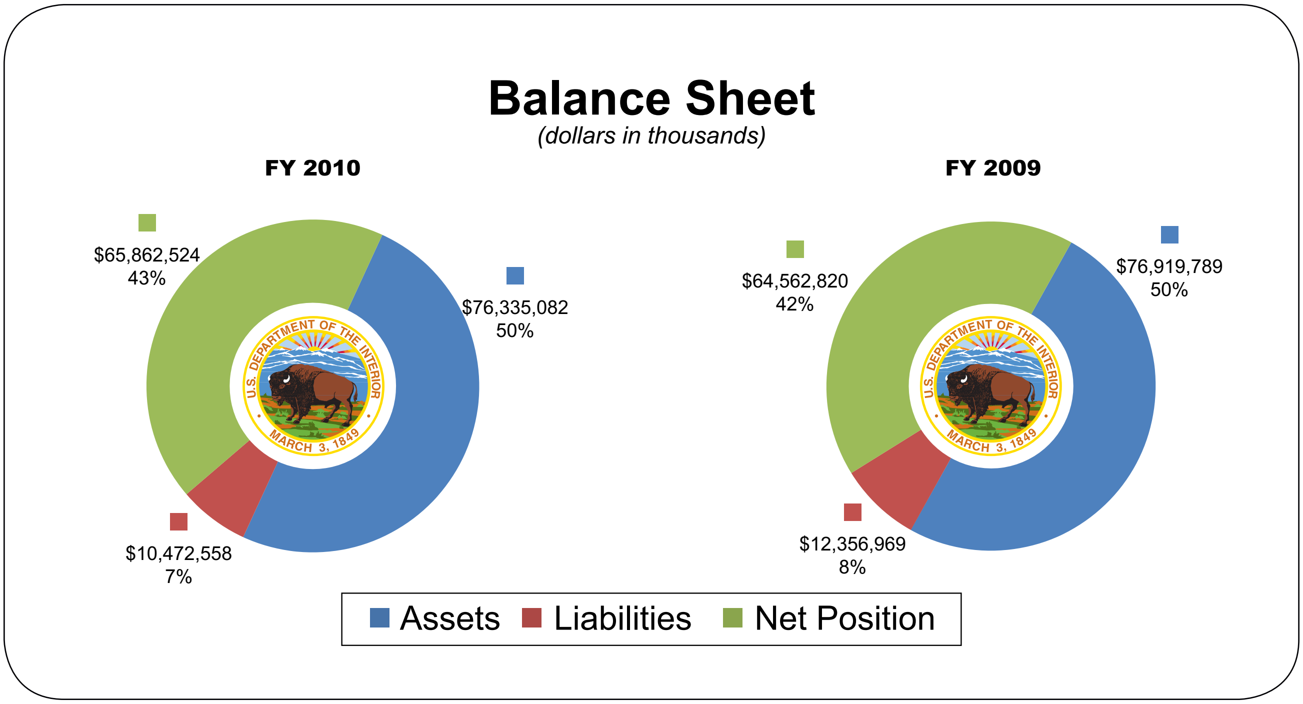
FBMS is in use by the Office of Surface Mining (OSM), the Bureau of Ocean Energy Management, Regulation and Enforcement (BOEMRE), and the Bureau of Land Management (BLM). The Program Management Office (PMO) provides operations and maintenance support to FBMS and the National Business Center (NBC) is the system's shared-service hosting provider. Some of the accomplishments in FY 2010 include:

- FBMS integration with the Internet Payment Platform, Treasury's electronic invoicing solution.
- FBMS implementation of monthly Point Releases, which enhanced FBMS capabilities and closed functionality gaps.
- Converting all deployed bureaus to PRISM Grants.
- Deploying a major hardware and software technical refresh of the hosting environment. The refresh replaced obsolete servers and networking storage equipment to enhance and sustain into the future the support of the associated development, test, and disaster recovery environments.
- Successfully meeting the requirements of the Integrated Baseline Review (IBR), Preliminary Design Review (PDR), Critical Design Review (CDR), Test Readiness Review (TRR-I), and Integration Testing for Deployment 5 to the U.S. Geological Survey (USGS).

- Completing planning and blueprint workshop activities for Deployment 6, which will migrate the Fish and Wildlife Service (FWS) and the Office of the Secretary (OS) to FBMS from its legacy system.

Future Planned Activities

Three DOI bureaus including OSM, BOEMRE, and BLM currently use an extensive set of FBMS to provided business functionality for core financial, acquisition, personal property, fleet management, travel, financial assistance, enterprise management information, and reporting responsibilities. Deployment to the USGS will take place in November 2010 with the addition of real property functionality, with OS and FWS scheduled to deploy in November 2011, including the same functionality as has been deployed to date. Future plans include the deployments to Indian Affairs, the National Park Service, and the Bureau of Reclamation. Further modernization activities are subject to M-10-26 and the results of a pending OMB review.



Interior received, for the 14th consecutive year, an unqualified audit opinion on its financial statements. The statements were audited by the independent accounting firm of KPMG LLP.

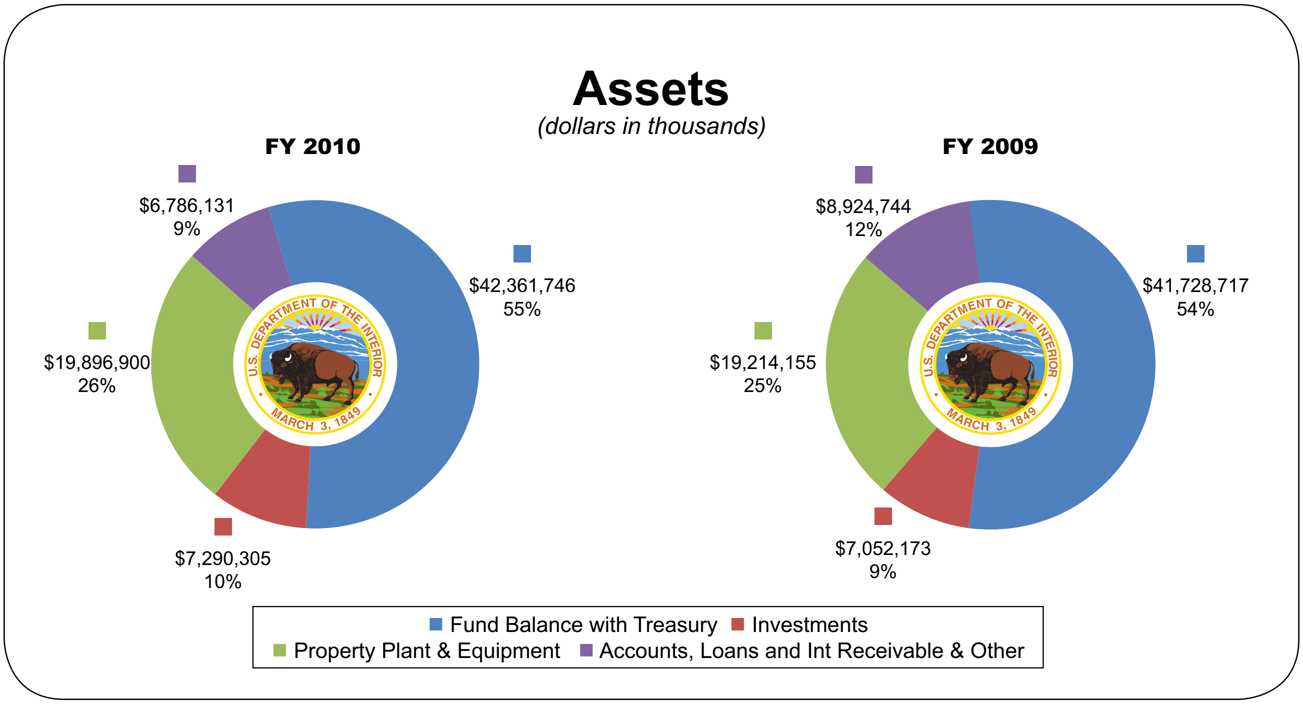
Preparing the financial statements is part of Interior's goal to improve financial management and to provide accurate and reliable information that is useful for assessing financial performance and allocating resources. Interior management is responsible for the integrity and objectivity of the financial information presented on the financial statements.

The financial statements and financial data presented in this Report have been prepared from Interior's accounting records in conformity with Generally Accepted Accounting Principles (GAAP). For Federal entities, these are the standards prescribed by the Federal Accounting Standards Advisory Board.

Information provided on the financial statements, the opinion presented as a result of the independent audit, and other disclosures and information provided in this Report provide assurance to the public that the information is accurate, reliable, and useful for decision making.

Interior expects that balances of line items will fluctuate in the normal course of business. For the purpose of this analysis, we have explained variances in excess of 10 percent and material to Interior as a whole. We have also provided a discussion of significant qualitative items that relate to financial management.

The charts and tables presented on pages 24 through 38 in this Analysis, are based on the Key Financial Measures and Key Budgetary Measures presented at the end of this section. All amounts in the charts included in this analysis are presented "in thousands" unless otherwise noted.



Analysis of Assets

At the end of FY 2010, Interior's assets totaled $76,335,082. This is down slightly from the previous year's assets, which totaled $76,919,789. Interior's assets reflected in the Balance Sheet are summarized below.

Interior's assets are primarily composed of Fund Balance with Treasury, General Property, Plant, and Equipment (PP&E), and Investments. Fund Balance with Treasury is money that Interior is authorized to use to pay liabilities resulting from operational activity and consists of funds received from direct appropriations, transfers, offsetting receipts, recoveries, and funds held in budget clearing accounts. General PP&E is primarily composed of land, structures, and facilities which are used for general operations, power, wildlife enhancement, and recreation. Most of Interior's structures and facilities are composed of power and irrigation facilities, and dams managed by Bureau of Reclamation (BOR). The remainder consists of buildings and facilities used in Interior's operations.

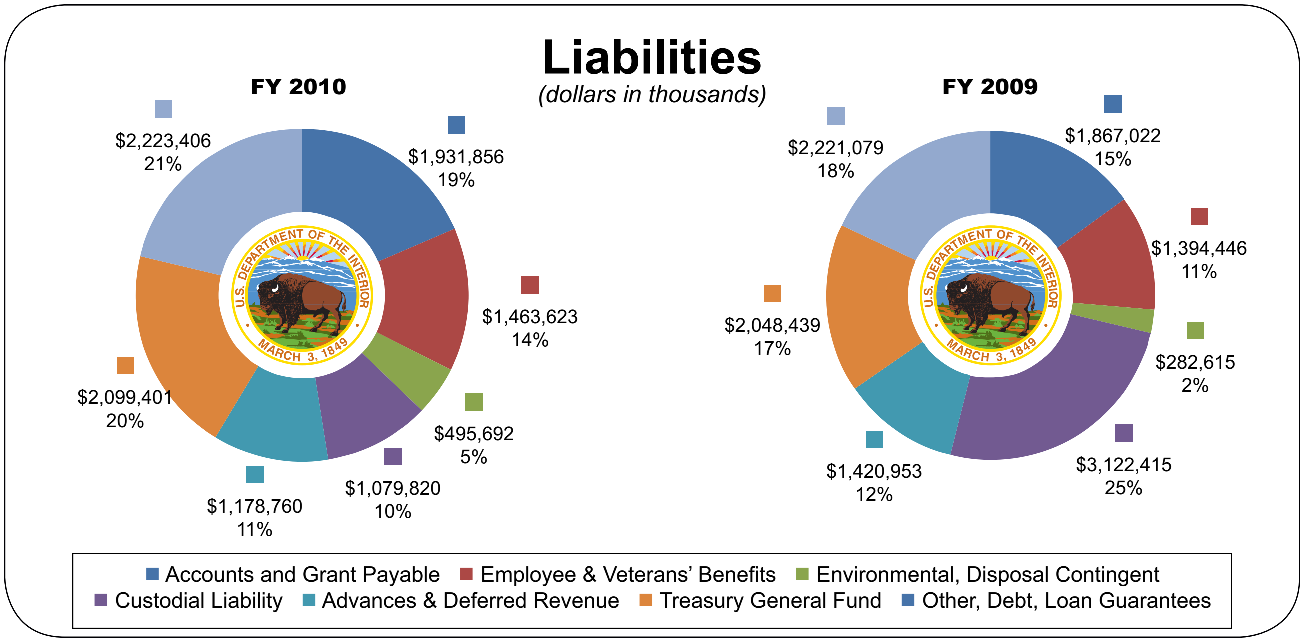
In FY 2010, Interior's Accounts and Interest Receivable (Net) decreased for the year by approximately $2,054,166 or 39 percent. This decrease is mainly due to the decrease in Bureau of Ocean Energy Management, Regulation and Enforcement's receivable from Treasury as a result of the collection of the receivable for the liquidation of refunds due from the loss of the "Kerr-McGee" case. The decrease in receivable is offset by a corresponding decrease in Refunds Payable.

Interior has over 160,000 buildings and structures which are included in Property, Plant, and Equipment. Interior ranks second among all Federal agencies in the number of constructed assets in its real property portfolio.

Special Account Funds

NPS has concession agreements which contain provisions that provide for the establishment of escrow type accounts to be used to develop, improve, and maintain visitor facilities. The concessioner periodically deposits a percentage of gross revenue in the account as provided in the concessioner agreement. These "special account" funds are maintained in separate interest-bearing bank accounts for the concessioners. They are not assets of the NPS, and may not be used in NPS operations.

The balances, inflows, and outflows of these concessioner special accounts are not recognized in the consolidated financial statements of the NPS. The concessioners reported that these special accounts balances totaled approximately $31.9 million and $33.4 million (unaudited), as of September 30, 2010 and 2009, respectively.



Analysis of Liabilities

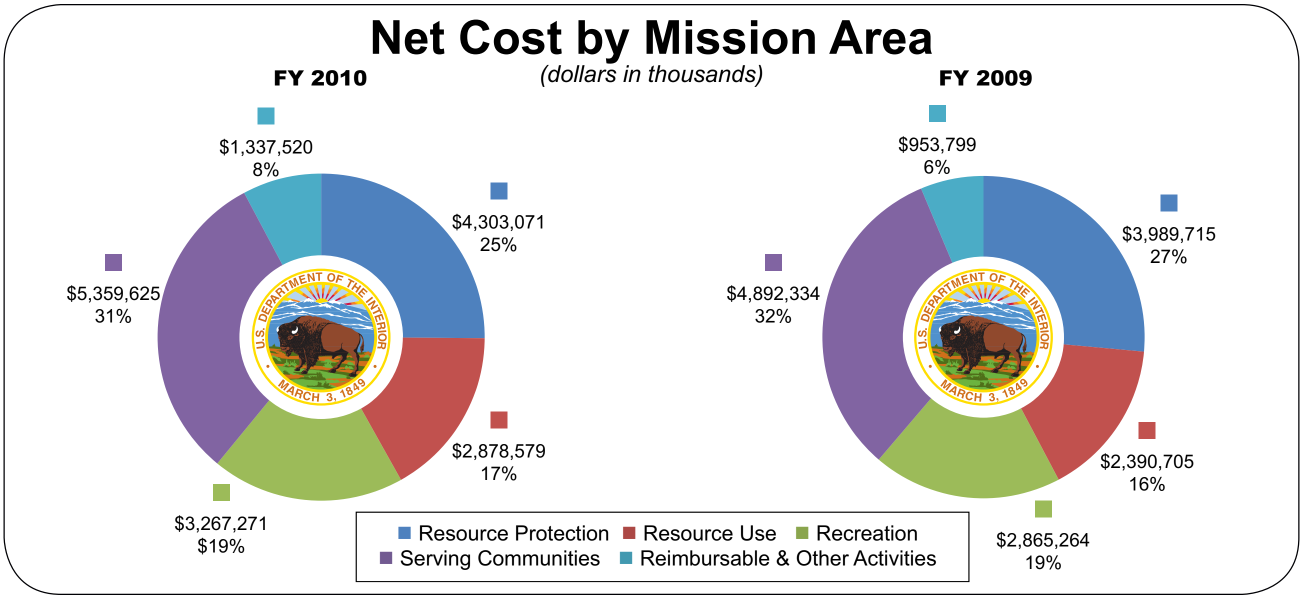
Interior's liabilities are composed of Accounts Payable, Transfers due to the General Fund of the Treasury, Debt & Loan Guarantees, Federal Employee and Veteran Benefits, Environmental and Disposal Liabilities, Refunds Payable, Contingent Liabilities, Advances and Deferred Revenue, Payments due to States, Grants Payable, and Other Liabilities.

Federal agencies, by law, cannot disburse money unless Congress has appropriated funds. Funded liabilities are expected to be paid from funds currently available to the Department. Interior's unfunded liabilities consist primarily of Liabilities for Capital Transfers due to the General Fund of the Treasury, Custodial Liabilities, Environmental and Legal Contingent Liabilities, and unfunded employee compensation costs, which include the Federal Employment and Compensation Act and annual leave amounts. These liabilities will be paid from funds made available to Interior in future years. The associated expense is recognizing the period in which the liability is established, regardless of budgetary funding considerations.

At September 30, 2010, Interior's liabilities totaled $10,472,558 thousand. This is a decrease of $1,884,411 thousand, or 15 percent from previous year's liabilities of $12,356,969 thousand. The decrease is primarily a result of the offset of the "Kerr-McGee" recoupments partially off-set by an increase in contingent liabilities. Interior's liabilities reflected in the Balance Sheet are summarized above.

Effective in fiscal year 2012 FASAB Technical Bulletin 2009-1 *Recognition and Measurement of Asbestos-Related Cleanup Costs* requires Federal agencies to recognize liabilities and the expenses for asbestos-related cleanup costs for both friable and non-friable asbestos and to disclose related information in the notes to the financial statements. Asbestos-related cleanup costs are the costs of removing, containing, and/or disposing asbestos-containing materials from property or material and/or property that consists of asbestos-containing material at permanent or temporary closure or shutdown of the associated Property, Plant, and Equipment (PP&E). Prior to this technical bulletin, most Federal entities recognized liabilities and expenses for cleanup costs associated with the removal of asbestos that posed an immediate health threat (i.e. friable asbestos), but many Federal agencies had not prepared an estimate of cleanup costs for the future removal of asbestos that did not pose an immediate health threat (i.e. non-friable asbestos). To comply with the new requirements, Interior is working with our bureaus in developing a cost estimation methodology to capture both friable and non-friable asbestos-related cleanup costs. Given the large amount of buildings and structures owned by Interior this new accounting policy will have a dramatic effect on the assets, liabilities and costs traditionally reported in our financial statements.

For asbestos-related cleanup costs that are probable but not reasonably estimable, only a disclosure is needed. Beginning in fiscal year 2012, all new assets will include an estimate when placed in service. Also, Interior will have to select an approach to bring existing assets into compliance with this FASAB requirement.

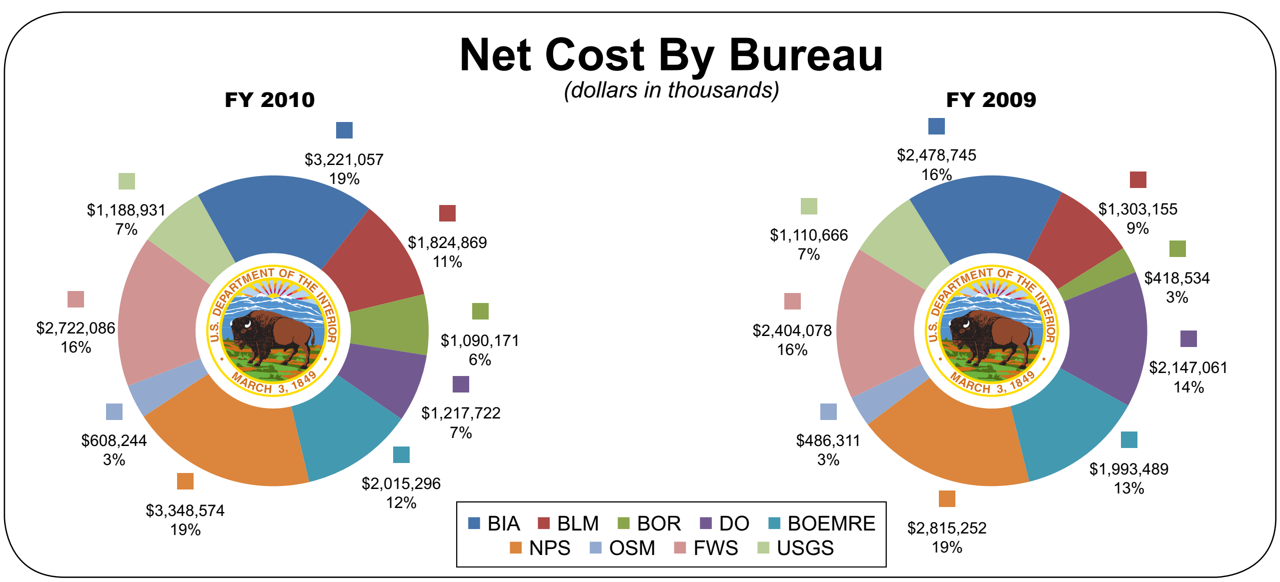


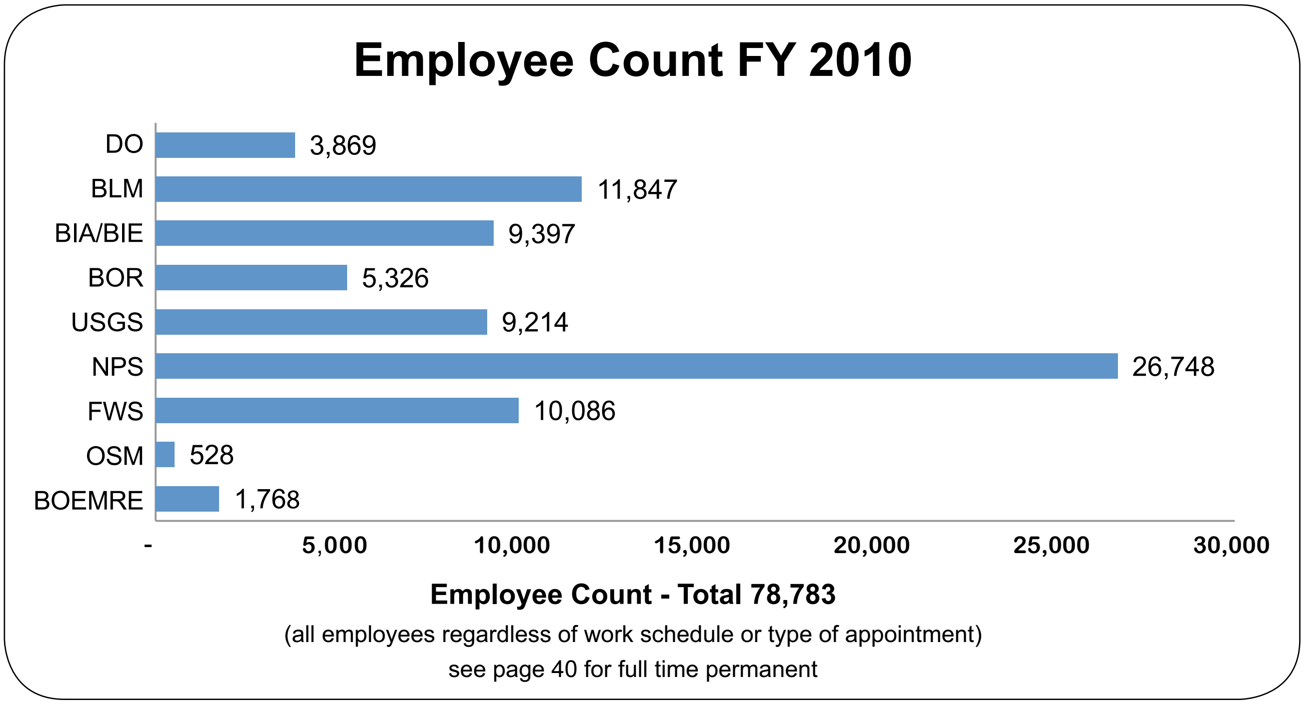
Analysis of Net Costs

Most costs incurred by Interior are directly related to providing services to the public. The Consolidated Statement of Net Cost is divided into five major program segments. The segments consist of the Department's four major mission areas of Resource Protection, Resource Use, Recreation, and Serving Communities, plus Reimbursable Activity and Other. Reimbursable Activity and Other is predominantly the intra-governmental acquisition of goods and services through the Department's Working Capital Fund and Franchise Fund for general support of the Departments mission goals.

Interior's net cost of operations for FY 2010 was $17,146,066 thousand. This is an increase of $2,054,649 thousand or 14 percent from the previous year's net cost of $15,091,817 thousand. The increase is a result of increased American Recovery and Reinvestment Act spending, an increase in contingent liabilities, and the sum of several other small increases. Interior's net cost of operations as reflected in the Statement of Net Cost is summarized above. In the first chart Net Costs are shown by major segment as described above.

In the chart below Net Costs are shown by Interior bureau components. See page 8 for a description of each bureau.





Analysis of Net Cost – DOI Workforce

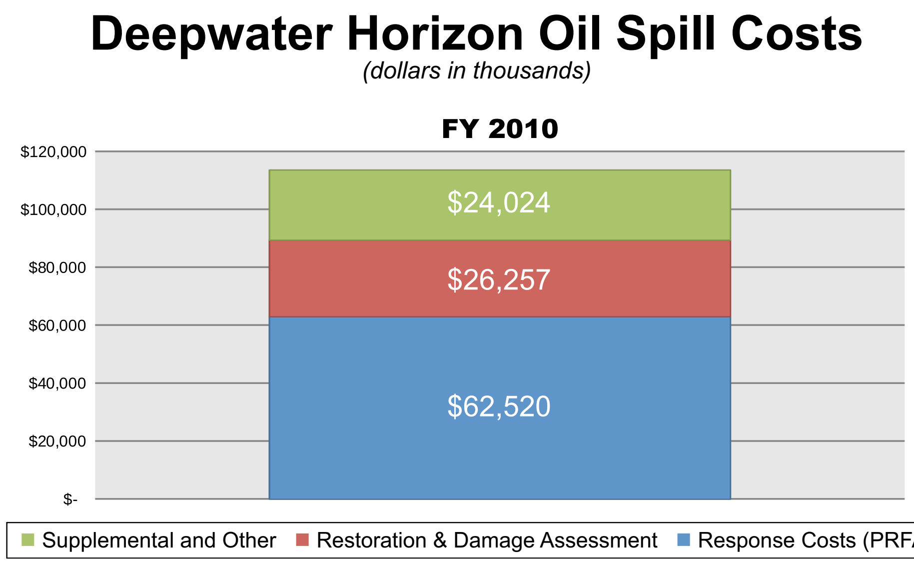
Interior costs include $6,477,057 thousand in payroll and benefit costs for employees executing Interior's mission and programs.

Interior employs 78,783 people in approximately 2,400 locations with offices across the United States, Puerto Rico, U.S. territories, and Freely Associated States.

At Interior our employees take pride in knowing that the work they do every day is of real significance – from managing our Nation's natural resources and cultural heritage to honoring responsibilities to strengthen Tribal nations and advocate for America's island communities. We rely on their expertise and commitment to better serve the public and to help achieve our organizational goals and objectives.

In our continuing effort to better serve America, we continue to broaden the diversity of our Department's workforce. We are committed to identifying, hiring, and retaining the best qualified individuals, wherever they are and whatever their background, so we reflect the diversity of the communities in which we operate.

(dollars in thousands)	**Total Payroll & Benefits**
DO	$ 456,069
BLM	998,831
BIA/BIE	684,834
BOR	523,100
USGS	896,852
NPS	1,759,005
FWS	903,469
OSM	58,858
BOEMRE	196,039
Total	$ 6,477,057



Analysis of Net Cost concerning the Deepwater Horizon Oil Spill

Charged with protecting America's natural and cultural resources, the Department and its bureaus have played an integral part in the National Federal response to the explosion of the Deepwater Horizon drilling rig since the tragedy first occurred. Some of the highlights of the activities undertaken to date include:

- Working with the U.S. Coast Guard (USCG) and the operator of the drilling rig to secure the well and oversee its continuing decommissioning.
- Assisting in alleviating the threats to fragile habitat as well as providing expertise in assessing and addressing the long-term damage to impacted resources.
- Deploying incident management personnel from across the Country to prepare for and respond to oil impacts along the Gulf Coast.
- Working with the USCG for wildlife reconnaissance and recovery and shoreline cleanup and assessment; conducting surveys, sampling, and flyovers to document baseline conditions; mobilizing resource experts to direct USCG and responsible party contractors during cleanup and recovery; and providing guidance and prioritization for protection measures such as boom placement in sensitive areas.
- Developing geospatial and remote sensing information for use by the Unified Command in short- and long-term science planning.

As of September 30, 2010, the costs to perform these critical activities were approximately $113 million. Funding to cover the costs associated with the activities has come through Pollution Reimbursable Funding Agreements (PRFA) with the USCG, interagency agreements between the Departments Natural Resource Damage Assessment and Restoration (NRDAR) activity, the National Pollution Funds Center, funds from the NRDAR fund itself, funds from the responsible party, and supplemental appropriations. The "supplemental and other" costs are those not subject to PRFA or NRDAR reimbursement. Total funding received to date is approximately $123 million.

Analysis of Net Position

Interiors Net Position consists of Unexpended Appropriations and Cumulative Results of Operations. Changes in net position are reported in the Statement of Changes in Net Position. At September 30, 2010 the Departments Net Position was $65,862,524 thousand of which $6,593,065 thousand was Unexpended Appropriations and $59,269,459 was Cumulative Results of Operations. The FY 2010 Net Position was an increase of $1,299,704 thousand from the FY 2009 balance of $64,562,820 thousand.

In certain cases costs that are directly attributable to Interior are paid by other Federal agencies. These costs are reflected as costs on the statement of net cost when recognized and as "Imputed Financing from Costs Absorbed by Others" on the Statement of Changes in Net Position when paid. In FY 2010 and FY 2009 Interior recognized approximately $98,521 thousand and $1,149,107 thousand respectively in Imputed Financing from Costs Absorbed by Others for legal settlement payments made on behalf of Interior by the Judgment Fund maintained by the Department of the Treasury. The $966,065 thousand decrease in Imputed Financing From Costs Absorbed by Others from the FY 2009 amount of $1,632,943 thousand to the FY 2010 amount of $666,878 thousand is predominantly the result of legal settlement payments made on one large case in FY 2009 that were not made in FY 2010.

Analysis of Net Cost concerning the American Recovery and Reinvestment Act of 2009 (ARRA)

The American Recovery and Reinvestment Act was signed into law by President Obama on February 17, 2009. It is an unprecedented effort to jumpstart our economy, create or save millions of jobs, and put a down payment on addressing long-neglected challenges so our Country can thrive in the 21st century. ARRA is an extraordinary response to a crisis unlike any since the Great Depression, and includes measures to modernize our Nation's infrastructure, enhance energy independence, expand educational opportunities, preserve and improve affordable health care, provide tax relief, and protect those in greatest need. Learn more on recovery.gov.

ARRA includes $3 billion appropriated to bureaus within the Department. All of these investments focus on job creation, and the majority contribute to the goals outlined in ARRA for renewable energy and infrastructure. ARRA provided the opportunities to: accelerate a move toward a clean energy economy by directly supporting the use and generation of renewable sources and reduce energy consumption by improving energy efficiency in existing facilities; put young adults to work in jobs that provide an opportunity to build employable skills and develop an appreciation for environmental stewardship; and preserve and restore the Nation's iconic and treasured structures, landscapes, and cultural resources.

The Department's geographically dispersed and field-based service delivery network afford unprecedented opportunities to employ individuals in communities in all 50 states. The Department manages one of every 5 acres of land in the United States, with 391 national park units, 550 wildlife refuges, and a 26-million acre National Landscape Conservation System. Nearly every American lives within a 1-hour drive of lands or waters managed by the Department. With 165,000 buildings and structures at 2,400 operating locations, Interior is second only to the Department of Defense in managed assets. Programs in Indian Affairs provide services to 564 federally recognized Tribes and provide education services to 44,000 students in 23 states. Interior's investments in water infrastructure programs are unrivaled, with 476 dams and 348 reservoirs. The Bureau of Reclamation delivers irrigation water to 31 million people and is the largest supplier and manager of water in the 17 Western States.

ARRA funding has been used for projects in parks, refuges, and public lands throughout the Nation; to improve conditions in Indian Country; to strengthen the Department's scientific infrastructure; and for water projects throughout the Western States.

"These investments in our American landscapes and icons are the Nation's most significant since President Franklin D. Roosevelt, in the midst of the Great Depression, put people to work building the trails, roads, water systems, and other public lands infrastructure that we still enjoy today," said Secretary Salazar. "This is our time—through the investments we make in our Nation's treasures, in renewable energy, and in opportunities for youth—to create a lasting legacy for our children and grandchildren."

-Secretary Salazar, February 20, 2009, Media Roundtable at DOI.

To view an interactive map of the Department's ARRA projects by State and other up-to-date information on specific projects visit http://recovery.doi.gov/.

ARRA Milestones and Progress at the Department of the Interior

While the types of projects funded by ARRA are different, each project is monitored through the use of three milestones. These milestones are awarded, mobilized, and substantially complete. The DOI bureaus track each project to these three milestones, which help those responsible for project oversight and monitoring to evaluate if the projects are being completed on time, within budget, and in line with the goals of ARRA. Milestone tracking also supports the Department's effort to monitor ARRA implementation at the portfolio level. Provided below are definitions of these three project milestones and their importance to effectively monitor and oversee the activities of the program.

- ***Awarded*** indicates that the bureau has successfully issued an award for the activities of the project. Once a project is awarded, contractors are provided with contracting documentation that enables them to begin the planning for the project. This may involve hiring resources, purchasing materials, or creating teaming agreements that help stimulate the economy.

- ***Mobilized*** indicates that the project activities have started on the ground. A mobilized project is one where people and/or resources are currently being leveraged on the project site. To execute the work, contractors may need to hire additional resources or execute teaming agreements to properly staff the project. They may also fully utilize their own teams to execute the contract requirements, which help to keep people employed and funding moving through the economy.

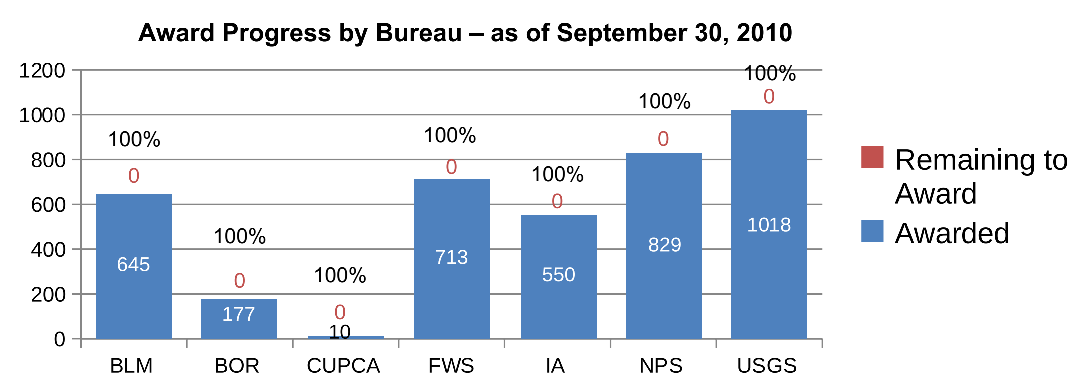
- ***Substantially Complete*** indicates that project activities are 90 percent complete according to the project outlays. Outlays are an indicator used to assess payments provided to the contractor by the government for services rendered. If a project is substantially complete, this indicates that the contractor has successfully invoiced and received 90 percent of the value of the project. The funding provided to the contractor allows the contractor to retain and/or hire additional employees, which is a key goal of ARRA.

Milestones

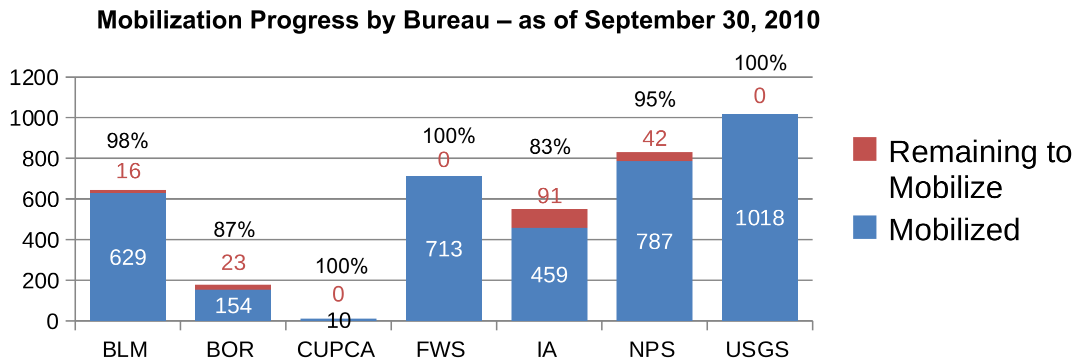
Milestone tracking is an important element of monitoring and overseeing the DOI ARRA implementation. The table below shows milestone progress as of September 30, 2010, and highlights milestone achievements relative to the total number of projects.

Milestones	Current Actual	Total Projects	Percent Achieved
Awarded	3,942	3,942	100%
Mobilized	3,770	3,942	96%
Substantially Complete	1,768	3,942	45%

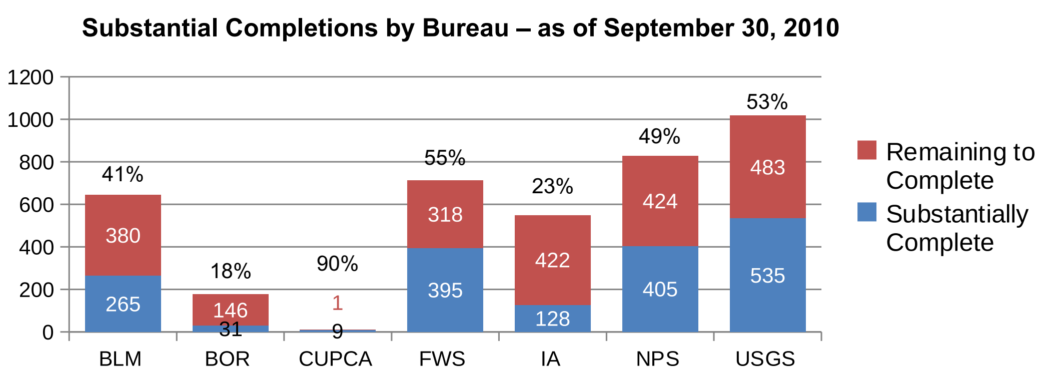
The following charts show the progress made in milestone achievements, by bureau.



Award Progress By Bureau	Awarded	Remaining to Award	% Awarded	Total Projects
Bureau of Land Management	645	-	100%	645
Bureau of Reclamation	177	-	100%	177
Central Utah Project	10	-	100%	10
U.S. Fish and Wildlife Service	713	-	100%	713
Bureau of Indian Affairs	550	-	100%	550
National Park Service	829	-	100%	829
U.S. Geological Survey	1,018	-	100%	1,018
TOTAL	**3,942**	-	**100%**	**3,942**



Mobilization Progress By Bureau	Mobilized	Remaining to Mobilize	% Mobilized	Total Projects
Bureau of Land Management	629	16	98%	645
Bureau of Reclamation	154	23	87%	177
Central Utah Project	10	-	100%	10
U.S. Fish and Wildlife Service	713	-	100%	713
Bureau of Indian Affairs	459	91	83%	550
National Park Service	787	42	95%	829
U.S. Geological Survey	1,018	-	100%	1,018
TOTAL	**3,770**	**172**	**96%**	**3,942**



Substantial Completions By Bureau	Substantially Complete	Remaining to Complete	% Substantially Complete	Total Projects
Bureau of Land Management	265	380	41%	645
Bureau of Reclamation	31	146	18%	177
Central Utah Project	9	1	90%	10
U.S. Fish and Wildlife Service	395	318	55%	713
Bureau of Indian Affairs	128	422	23%	550
National Park Service	405	424	49%	829
U.S. Geological Survey	535	483	53%	1,018
TOTAL	**1,768**	**2,174**	**45%**	**3,942**

Financial Update

The table below provides an overview of the Department's ARRA obligations and outlays, by bureau, through September 30, 2010.

Bureau *dollars in thousands*	Appropriation	Obligated Amount	% of Appropriation Obligated	Outlayed Amount	% of Appropriation Outlayed
Bureau of Land Management	$ 304,059	$ 301,464	99%	$ 123,485	41%
Bureau of Reclamation	949,691	902,946	95%	271,290	29%
Central Utah Project	50,000	50,000	100%	47,296	95%
U.S. Fish and Wildlife Service	279,276	279,276	100%	138,860	50%
Bureau of Indian Affairs	491,635	490,518	99%	196,692	40%
National Park Service	748,060	747,717	99%	284,230	38%
U.S. Geological Survey	139,568	139,496	99%	64,458	46%
Wildland FIre Managment	15,000	14,567	97%	9,951	66%
DOI Working Capital Fund	5,888	5,545	94%	4,002	68%
Total	**$ 2,983,177**	**$ 2,931,529**	98%	**$ 1,140,264**	38%

The following table below provides a detailed listing of the Department's ARRA by bureau and appropriation in more detail, through September 30, 2010

Bureau	Appropriation *dollars in thousands*	Appropriation	Obligations through 9/30/2010	% of Appropriation Obligated	Outlays through 9/30/2010	% of Appropriation Outlayed
BLM	Management of Lands and Resources Recovery Act 14-1108	$ 123,114	$ 121,639	99%	$ 42,282	34%
	Construction 14-1112	180,945	179,825	99%	81,203	45%
	Total	**304,059**	**301,464**	**99%**	**123,485**	**41%**
BOR	Water / Related Resources 14-0681	926,091	882,070	95%	250,927	27%
	Water / Related Resources (14-0681,2012)	3,772	1,048	28%	946	25%
	Working Capital Fund	19,828	19,828	100%	19,417	98%
	Total	**949,691**	**902,946**	**95%**	**271,290**	**29%**
CUPCA	**Central Utah Project Completion 14-0786**	**50,000**	**50,000**	**100%**	**47,296**	**95%**
FWS	Resource Management 14-1610	164,573	164,573	100%	93,622	57%
	Construction-14-1613	114,703	114,703	100%	45,238	39%
	Total	**279,276**	**279,276**	**100%**	**138,860**	**50%**
IA	Operation of Indian Programs 14-2101	42,944	42,644	99%	30,874	72%
	Construction14-2302	445,513	444,696	99%	162,640	37%
	Indian Guaranteed Loan 14-2629	3,178	3,178	100%	3,178	100%
	Total	**491,635**	**490,518**	**99%**	**196,692**	**40%**
NPS	Operation of the National Park System 14-1035	146,000	145,657	99%	85,238	58%
	Construction14-1041	587,135	587,135	100%	198,187	34%
	Historic Preservation Fund 14-5541	14,925	14,925	100%	804	5%
	Total	**748,060**	**747,717**	**99%**	**284,229**	**38%**
USGS	**Surveys, Investigations, and Research 14-0803**	**139,568**	**139,496**	**99%**	**64,458**	**46%**
FIRE	**Wildland Fire Management 14-1126**	**15,000**	**14,567**	**97%**	**9,951**	**66%**
WCF	**DOI Working Capital Fund**	**5,888**	**5,545**	**94%**	**4,002**	**68%**
TOTAL		**$ 2,983,177**	**$2,931,529**	**98%**	**$1,140,264**	**38%**

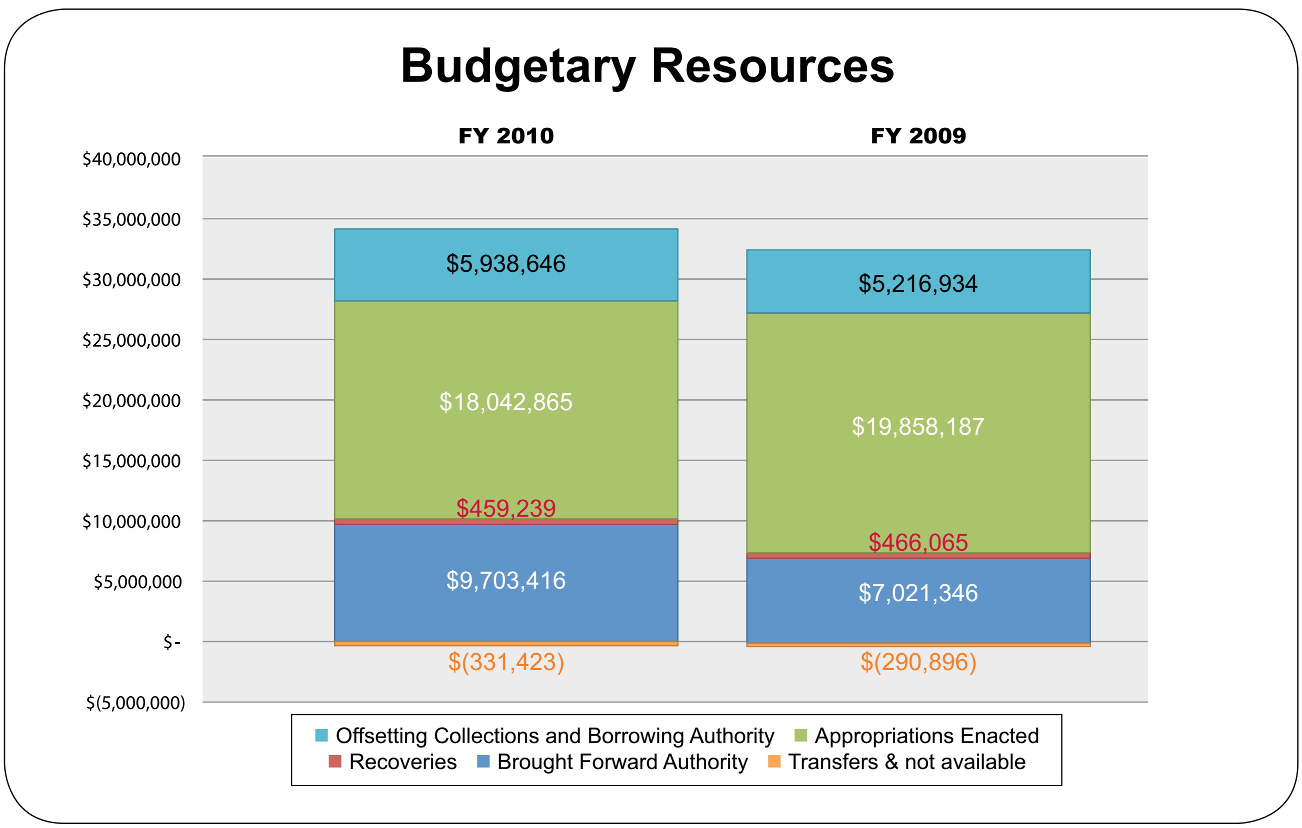
Analysis of Budgetary Resources

Interior receives most of its funding from general government funds administered by the U.S. Treasury and appropriated for Interior's use by Congress. Interior's resources consist of unobligated balances brought forward, new appropriations received during the year, spending authority from offsetting collections, and reimbursable work done for others. A portion of Interior's resources come from Special and Trust Funds, such as Conservation Funds (the Land and Water Conservation Fund, Historic Preservation Fund, and the Environmental Improvement and Restoration Fund), the Reclamation Fund, and the Aquatic Resources Trust Fund. These funds are administered in accordance with applicable laws and regulations.

The Statement of Budgetary Resources provides information on how budgetary resources and non-budgetary credit program financing were made available to Interior for the year and their status at fiscal year-end. In FY 2010, Interior's Budgetary Resources were $33,812,743 thousand, an increase of approximately $1,541,107 thousand from the FY 2009 amount of $32,271,636 thousand. The increase is a result of an increase in the balance of unobligated balances brought forward related to unobligated ARRA funding. Budgetary Resources are summarized in the following table.

Interior incurred obligations $25,968,887 thousand in FY 2010. This was up $3,400,667 thousand from obligations incurred in FY 2009 of $22,568,220 thousand. The increase was primarily related to increased ARRA obligation activity in FY 2010.

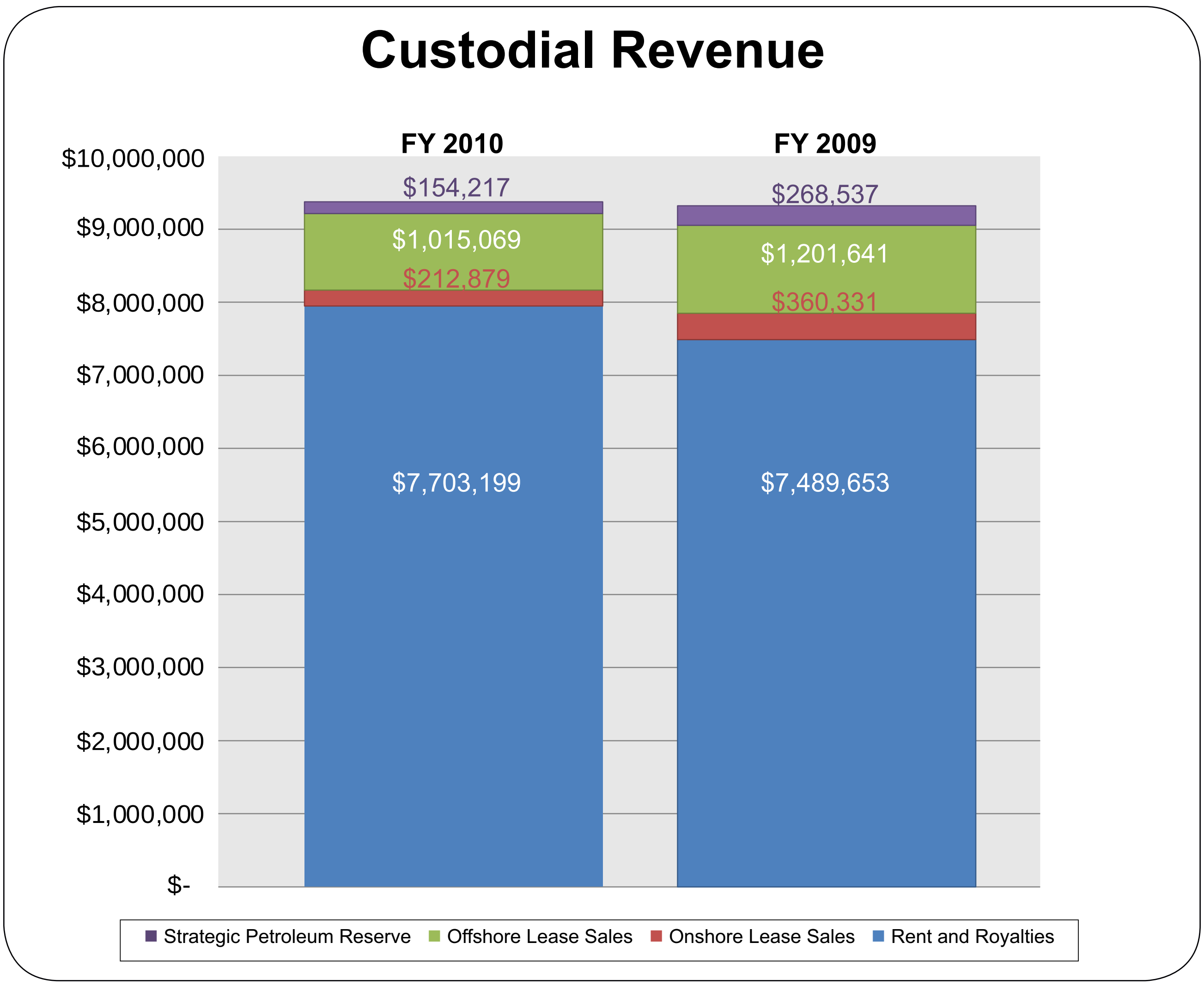
The Federal budgetary outlook for 2011 and 2012 will emphasize constraint and reductions. Interior faces the prospect of a longer term Continuing Resolution for the first part of 2011 and Congressional budget allocations that are lower than the President's requested level. The Administration's guidance to all agencies regarding the 2012 budget reiterates the President's commitment to deficit reduction and fiscal constraint. The 2012 budget will be the second of a 3-year freeze on non-defense discretionary funding initiated by the Administration in 2010. As a result, Interior will continue to focus on identifying efficiencies and on efforts to avoid costs through operational consolidation and process reengineering. At the same time, as the Administration and Congress try to balance priorities, Interior will place additional scrutiny on the execution of discretionary funding and the appropriateness of carryover balances.



Analysis of Custodial Activity

In accordance with Federal accounting standards, receipts from mineral leasing revenue are presented in Interior's Statement of Custodial Activity, since the collections are considered to be revenue of the Federal Government as a whole rather than Interior. Mineral leasing revenue was $9,085,364 thousand and $9,320,162 thousand as of September 30, 2010, and September 30, 2009, respectively, and includes Outer Continental Shelf and onshore oil, gas, and mineral sales and royalties. During FY 2010 BOEMRE issued refunds, processed recoupments, or resolved balances for payments previously made by payors on the subject leases, including estimated interest related to the "Kerr-McGee" deepwater litigation. The activity reduced rents and royalties paid by companies. In FY 2010 Lease Sales were $1,227,948 thousand, a decrease of $334,024 thousand from the FY 2009 amount of $1,561,972 thousand. The decrease was due to a reduction in the number of lease sales taking place in FY 2010.

On April 13, 2010, the Federal Accounting Standards Advisory Board (FASAB) issued a new Statement of Federal Financial Accounting Standard (SFFAS) #38, Accounting for Federal Oil and Gas Resources. The Standard requires the value of Federal proved oil and gas reserves, both onshore and offshore, be estimated and reported in a series of schedules and disclosures as Required Supplementary Information (RSI) in the DOI Annual Financial Report by the royalty collecting entity. Implementation is required in FY 2012, with RSI reporting for 3 years. Prior to the conclusion of the 3-year RSI period, the Board plans to make a determination whether to transition to financial statement recognition or Note disclosure.



Analysis of Custodial Activity Related to the Deepwater Horizon Oil Spill

On July 15, 2010, BOEMRE sent a letter to BP indicating to them that royalties were due immediately on the oil and gas captured from the Macondo well. On August 24, 2010, BOEMRE sent similar letters to MOEX OFFSHORE and Anadarko Petroleum informing them that they are responsible for their share of royalties due on oil and gas captured from the Macondo well. BP holds 65 percent record title in the lease, Anadarko holds 25 percent record title, and MOEX holds 10 percent record title. Under 30 USC 1712, the person owning operating rights in a lease shall be primarily liable for its pro rata share of payment obligations under the lease.

The most recent estimates provided by the FRTG as of August 2, 2010, are that 4.9 million barrels of oil had been released from the well. It also estimated that burning, skimming, and direct recovery from the wellhead removed 25 percent of the oil released from the well. BP, MOEX OFFSHORE and Anadarko Petroleum reported and paid royalties of approximately $7.1 million for the year ended September 30, 2010, on oil captured from the Macondo well. Unpaid amounts still expected to be reported next fiscal year for captured oil are approximately $2.9 million and are anticipated to be received timely.

The companies may also be responsible for paying royalties for oil and gas lost or wasted from the Macondo well if the investigation currently underway finds negligence on the part of the operator of the lease, or due to the failure to comply with any applicable regulation, order or law. If the unrecovered oil is deemed 'avoidably lost', and other legal criteria are met, the full 4.9 million barrels of oil could become royalty bearing.

Stewardship Investments

Stewardship investments represent expenses charged to current operations that are expected to benefit the Nation over time. Interior's Stewardship Investments include research and development programs, investments in human capital, and investments in non-Federal physical property. Stewardship investments' are summarized in the following table.

Interior's reported values for Property, Plant, and Equipment exclude stewardship assets because they are considered priceless and do not have an identifiable value. Therefore, monetary amounts cannot be assigned. An in-depth discussion of these assets is presented in the Notes to the Financial Statements Section and the Required Supplementary Information section of the Agency Financial Report.

Stewardship Investments

(in millions)	FY 2010	FY 2009	Change	% Change
Non-Federal Physical Property	$ 765	$ 623	+141	23%
Research and Development	$ 1123	$ 901	+222	24%
Human Capital	$ 688	$ 615	+73	12%

Limitations of Financial Statements

Management prepares the accompanying financial statements to report the financial position and results of operations for the Department pursuant to the requirements of Chapter 31 of the U.S.C. Section 3515(b).

While these statements have been prepared from the records of the Department in accordance with GAAP and formats prescribed in OMB Circular No. A-136, *"Financial Reporting Requirements,"* these statements are in addition to the financial reports used to monitor and control the budgetary resources that are prepared from the same records. These statements should be read with the understanding that they are for a component of the U.S. Government, a sovereign entity.

Key Financial Measures *(dollars in thousands)*	FY 2010	FY 2009	Increase/ (Decrease)	% Change
Fund Balance with Treasury	42,361,746	41,728,717	633,029	1.5%
Investments	7,290,305	7,052,173	238,132	3.4%
General Property Plant & Equipment	19,896,900	19,214,155	682,745	3.6%
Accounts, Loans and Int Receivable & Other	6,786,131	8,924,744	(2,138,613)	-24.0%
Assets	**$ 76,335,082**	**$ 76,919,789**	**$ (584,707)**	**-0.8%**
Accounts & Grant Payable	1,931,856	1,867,022	64,834	3.5%
Employee & Veterans Benefits	1,463,623	1,394,446	69,177	5.0%
Environmental, Disposal, Contingent	495,692	282,615	213,077	75.4%
Custodial Liability	1,079,820	3,122,415	(2,042,595)	-65.4%
Advances & Deferred Revenue	1,178,760	1,420,953	(242,193)	-17.0%
Treasury General Fund	2,099,401	2,048,439	50,962	2.5%
Other, Debt, Loan Guarantees	2,223,406	2,221,079	2,327	0.1%
Liabilities	**$ 10,472,558**	**$ 12,356,969**	**$ (1,884,411)**	**-15.2%**
Unexpended Appropriations	6,593,065	6,885,405	(292,340)	-4.2%
Cumulative Results of Operations	59,269,459	57,677,415	1,592,044	2.8%
Net Position	**$ 65,862,524**	**$ 64,562,820**	**$ 1,299,704**	**2.0%**
Resource Protection	4,303,071	3,989,715	313,356	7.9%
Resource Use	2,878,579	2,390,705	487,874	20.4%
Recreation	3,267,271	2,865,264	402,007	14.0%
Serving Communities	5,359,625	4,892,334	467,291	9.6%
Reimburseable & Other Activities	1,337,520	953,799	383,721	40.2%
Net Costs - by Mission	**$ 17,146,066**	**$ 15,091,817**	**$ 2,054,249**	**13.6%**
Indian Affairs	3,221,057	2,478,745	742,313	29.9%
Bureau of Land Management	1,824,869	1,303,155	521,713	40.0%
Bureau of Reclamation	1,090,171	418,534	671,637	160.5%
Departmental Offices	1,217,722	2,147,061	(929,338)	-43.3%
Bureau of Ocean Energy Management, Regulation & Enforcement	2,015,296	1,993,489	21,808	1.1%
National Park Service	3,348,574	2,815,252	533,322	18.9%
Office of Surface Mining	608,244	486,311	121,933	25.1%
U.S. Fish & Wildlife Service	2,722,086	2,404,078	318,006	13.2%
U.S. Geological Survey	1,188,931	1,110,666	78,265	7.0%
Eliminations	(90,884)	(65,474)	(25,410)	38.8%
Net Costs - by Bureau	**$ 17,146,066**	**$ 15,091,817**	**$ 2,054,249**	**13.6%**
Rents and Royalties	7,703,199	7,489,653	213,546	2.9%
Onshore Lease Sales	212,879	360,331	(147,452)	-40.9%
Offshore Lease Sales	1,015,069	1,201,641	(186,572)	-15.5%
Strategic Petroleum Reserve	154,217	268,537	(114,320)	-42.6%
Total Custodial Revenue	**$ 9,085,364**	**$ 9,320,162**	**$ (234,798)**	**-2.5%**

Key Budgetary Measures (dollars in thousands)	FY 2010	FY 2009	Increase/ (Decrease)	% Change
Brought Forward Authority	$ 9,703,416	$ 7,021,346	$ 2,682,070	38.2%
Recoveries	459,239	466,065	(6,826)	-1.5%
Appropriations Enacted	18,042,865	19,858,187	(1,815,322)	-9.1%
Borrowing Authority	7,620	2,665	4,955	185.9%
Offsetting Collections Authority	5,931,026	5,214,269	716,757	13.7%
Transfers & Not Available	(331,423)	(290,896)	(40,527)	13.9%
Total Budgetary Resources	**$ 33,812,743**	**$ 32,271,636**	**$ 1,541,107**	**4.8%**
Obligations Incurred	25,968,887	22,568,220	3,400,667	15.1%
Unobligated Balance Available	7,655,235	9,520,378	(1,865,143)	-19.6%
Unobligated Balance Not Available	188,621	183,038	5,583	3.1%
Status of Budgetary Resources	**$ 33,812,744**	**$ 32,271,636**	**$ 1,541,108**	**4.8%**
Bureau of Indian Affairs	4,452,229	4,094,072	358,157	8.7%
Bureau of Land Management	3,725,882	3,294,811	431,071	13.1%
Bureau of Reclamation	4,215,629	4,387,201	(171,572)	-3.9%
Departmental Offices	5,617,289	5,881,125	(263,836)	-4.5%
Bureau of Ocean Energy Management, Regulation & Enforcement	3,127,896	3,065,258	62,638	2.0%
National Park Service	5,140,394	4,960,847	179,547	3.6%
Office of Surface Mining	783,371	661,377	121,994	18.4%
U.S. Fish & Wildlife Service	4,444,724	3,794,042	650,682	17.2%
U.S. Geological Survey	2,305,330	2,132,903	172,427	8.1%
Budgetary Resources - By Bureau	**$ 33,812,744**	**$ 32,271,636**	**$ 1,541,108**	**4.8%**

Response Costs (PFRA)	62,520
Restoration & Damage Assessment	26,257
Supplemental and Other	24,024
Total Deepwater Horizon Oil Spill Cost	**$ 112,801**

Bureau / Office	FTP	Total
IA	5,279	9,397
BLM	9,695	11,847
BOR	4,965	5,326
DO	3,569	3,869
BOEMRE	1,729	1,768
NPS	16,051	26,748
OSM	500	528
FWS	8,262	10,086
USGS	7,155	9,214
Count -by Bureau	**57,205**	**78,783**

FTP = Full Time with permanent appointment

Total = All employees regardless of work schedule or type of appointment

Source: FY2011 Presidents Budget

The Department manages 20 percent of the land mass of the United States and 1.7 billion acres of the Outer Continental Shelf. The Department is the steward of lands, waters, wildlife, and cultural and historic resources. Interior fulfills special responsibilities to Native Americans as the manger of the one of the largest land trusts in the world – over 10 million acres owned by individual Indians and 46 million acres held in trust for Indian tribes.

Energy generated from public lands powers America's homes and businesses; mineral and timber resources are building blocks for the products consumed; grazing helps supply food; and the landscapes, recreational opportunities, and cultural properties draw visitors to Interior lands and support jobs and businesses in surrounding communities. These important functions and many others are administered by Interior's 78,798 employees.

The Department supports over 1.3 million jobs and over $370 billion in economic activity. Parks, refuges, and monuments generate over $24 billion in recreation and tourism. Conventional and renewable energy produced on Interior lands and waters results in $292 billion in economic benefits and the water managed by Interior supports over $25 billion in agriculture.

The Department will play a key role in a number of important initiatives. The Department's activities are guided by a Strategic Plan and a set of High Priority Performance Goals that align with the 2011 agenda.

New Energy Frontier. The Secretary's New Energy Frontier initiative will create clean sources of energy using the Nation's vast domestic resources. Implementation of a comprehensive New Energy Frontier strategy will create jobs, reduce the Nation's dependence on foreign oil, and reduce climate change impacts. The Department oversees one-fifth of the Nation's landmass and more than 1.7 billion acres of the OCS. As the steward of the Nation's energy and mineral estate, Interior has a leadership role, promoting clean energy that can reduce climate impacts, and responsibly developing conventional energy sources, thereby reducing reliance on foreign oil.

The Department has a High-Priority Performance Goal to increase approved capacity for solar, wind, and geothermal energy resources on Interior managed lands, while ensuring full environmental review, by at least 9,000 megawatts by the end of 2011. This would provide sufficient energy to power 2 million homes each year.

Climate Change Adaptation. Resource managers consider climate change to be the single most challenging issue they face. In order to equip them with the tools and strategies they need, Interior's Climate Change Adaptation initiative will determine the causes and formulate solutions to mitigate climate impacts to lands, waters, and natural and cultural resources. As the pre-eminent manager of lands and resources, Interior will leverage its experience and expertise in partnership with other governmental and non-governmental entities. Interior's Climate Science Centers and Landscape Conservation Cooperatives will conduct and communicate research and monitoring to improve understanding and forecasting for those natural and cultural heritage resources that are most vulnerable to climate change impacts.

WaterSMART. The Department's sustainable water strategy will assist local communities in stretching water supplies and improving water management. A Priority Performance Goal is established to enable capability to increase water supply for agricultural, municipal, industrial, and environmental uses in the Western United States up to 350,000 acre-feet by the end of 2011 through Reclamation's programs including water reuse and recycling and WaterSMART grants.

Youth in Natural Resources. The future of resource conservation depends upon the next generation's understanding of the importance of natural resources and cultural treasures. The Department's Youth in Natural Resources initiative signals the Secretary's emphasis on youth involvement. The Department's High-Priority Performance Goal for Youth in Natural Resources is, by the end of 2011, to increase by 50 percent from the 2009 level, the employment of youth under the age of 25 in the conservation mission of the Interior Department.

America's Great Outdoors. During FY 2010, the Department participated in a national dialogue about conservation, hosting the President's White House Conference on the Great Outdoors in April in the Main Interior Building and engaging in 25 listening sessions across the Country. The results of these listening sessions will be used to guide modern-day land conservation and reconnect Americans to the outdoors.

The Department is responsible for programs that are key components of the President's agenda for protecting America's treasured landscapes and a 21st Century conservation agenda. The budget will allow Interior to intensify efforts to protect treasured landscapes; participate in major restoration efforts to restore, protect, and preserve key ecosystems; and operate and maintain landscapes. Parks, refuges, and units of the National Landscape Conservation System contain breathtaking vistas, relate historical and cultural events, and preserve and protect important resource values for the Nation.

Empowering Tribal Nations. The Secretary's agenda includes advancing Nation-to-Nation relationships, improving Indian education for students in Bureau of Indian Education funded schools, improving the safety of Indian communities, and reforming trust land management with an ultimate goal of greater self-determination. In November 2009, the White House held a Tribal Nations Conference, which was attended by over 400 tribal leaders. At the conference, the President pledged to strengthen Nation-to-Nation relationships, improve the tribal consultation process, and empower strong and stable Indian communities.

The Interior Department's High-Priority Performance Goal for Safe Indian Communities will achieve significant reductions in criminal offenses of at least five percent within 24 months on targeted tribal reservations by implementing a comprehensive strategy involving community policing, tactical deployment, and critical interagency and intergovernmental partnerships.

Ensuring Safety and Environmental Protection in Energy Programs. Since April the Department's attention has been focused on the unprecedented BP Deepwater Horizon disaster in the Gulf of Mexico. Although immediate actions focused on response and mitigation, Interior also responded to the urgency of implementing substantive reforms in the management of offshore energy programs. The Minerals Management Service was abolished and the new Bureau of Ocean Energy Management, Regulation and Enforcement was established and the Department released a plan to restructure ocean energy management programs into three new entities; the Bureau of Ocean Energy Management, Regulation and Enforcement, the Bureau of Safety and Environmental Enforcement, and the Office of Natural Resources Revenue.

The 30 day report to the President, Increased Safety Measures for Energy Development on the Outer Continental Shelf May 27, 2010, and the Report of the Safety Oversight Board, U.S. Department of the Interior Outer Continental Shelf Safety Oversight Board Report to Secretary of the Interior Ken Salazar, are the foundation for reforms that will guide the implementation of safe and environmentally-sound offshore oil and gas operations. There will be additional recommendations from the President's National Commission on the British Petroleum Deepwater Horizon Oil Spill and Offshore Drilling, ongoing investigations, and other activities that enhance the safety of the Outer Continental Shelf (OCS) operations.

Secretary Salazar, in his message at the beginning of this report, describes the most significant challenges that Interior faced in Fiscal Year (FY) 2010 and the accomplishments made in addressing those challenges and moving forward in meeting our mission and high priority performance goals.

As outlined in the Secretary's message, the disaster at the Deepwater Horizon has created challenges across the Department. In addition to operational challenges, the disaster has also created unique financial and reporting challenges. The Department and its bureaus are determined to maintain a transparent and accurate accounting of the resources used in meeting our responsibilities and continue to work with the U.S. Coast Guard and other partners to implement processes to meet the current and long-term reporting requirements associated with the disaster.

Despite the challenges of the Deepwater Horizon oil spill and the associated demands placed on Interior's organizations and employees, in FY 2010, the Department met or exceeded 81 percent of its performance targets, an increase of four percent over last year. This success reflects our commitment to advance the Department's strategic and high priority performance goals. The Department also continued to make significant reforms to improve services and efficiency across the Department's programs to include:

- Implementing reorganizations in Policy, Management and Budget to more effectively support Interior's diversity of missions and responsibilities.
- Developing and implementing an Acquisition Improvement Plan to achieve savings of 3.5 percent in FY 2010 and 7 percent in FY 2011, reduce high-risk contracting, increase strategic sourcing (leveraged purchasing through enterprise contracting), strengthening the acquisition workforce, and balancing contractors and Federal employees.
- Development of a Real Property Cost Savings and Innovation Plan, a Data Center Consolidation Plan, and a Sustainability Plan to target actions that will reduce Interior's footprint, achieve energy savings, achieve cost reductions, and improve the use of assets.
- Implementing plans to reduce the cost of information technology infrastructure with a Department-wide messaging system, strategic evaluation of the portfolio, and improved management and oversight.
- Appointing a new Chief Diversity Officer and issuing an Inclusive Workplace Strategy to leaders and managers making them accountable for implementing the strategy through action plans, and directing that each bureau develop its own inclusivity and diversity implementation plan by September 30, 2010.
- Undertaking a broad array of workforce and employee wellness initiatives to make Interior a better place to work and to improve long-term capacity building and skills development.

The Department also continues to execute the requirements of the American Recovery and Reinvestment Act (ARRA). At the close of FY 2010 the Department had awarded $2.93 billion or 98 percent of its $2.98 billion of ARRA funding on 3,942 projects. Of these projects, 44 percent were substantially complete at year end. The Department has also outlayed $1.1 billion, or 38 percent of available funds. Oversight of the ARRA program requires rigorous control and oversight to balance the requirements of speed, quality, and accountability to ensure that ARRA funds are executed quickly and accurately.

The Department's accountability in these and other areas begins with clearly stated strategies for long-term goals contained in our Strategic Plan and five shorter-term high priority performance goals. In addition to the performance information in this report, Interior will incorporate performance information in its Congressional Budget Justifications and will issue a separate Annual Performance Report (APR) to present performance information more comprehensively and in performance terms. Interior is currently revising its Strategic Plan and will implement the plan in FY 2011.

One of the Department's top goals is sound financial management. In light of this, I am especially pleased to note that for the 14th consecutive year, Interior received an unqualified ("clean") audit opinion on the Department's consolidated financial statements. Furthermore, the auditors reported that none of the Department's control deficiencies were considered to be a material weakness and that the Department complied with all tenets of the Federal Financial Management Improvement Act (FFMIA). The "clean" opinion demonstrates our continued commitment to financial reporting excellence and our high standards of accountability, transparency, and ethics. Other noteworthy accomplishments in FY 2010 include:

- Receiving the Association of Government Accountants' Certificate of Excellence in Accountability Reporting. This marks the 9th consecutive year that Interior has been recognized for quality reporting.

- Exceeding its goal to close-out 85 percent of the OIG and Government Accountability Office findings in its goal base. To continue to improve on this success, Interior plans to pilot an Association of Government Accountants program in FY 2011 called the "Cooperative Audit Resolution and Oversight Initiative". This program provides tools in preventing and resolving audit findings and oversight.

- Documenting and testing the internal controls over financial reporting and issuing the statement of assurance including the results of the assessment. The Department continues to improve its risk assessment process.

- Improving the level of collaboration between the finance, budget, and performance communities as well as the various partnerships within each of those communities to promote improved communication, transparency, and integration.

- Continuing the Financial Systems Modernization–The Department is revising its deployment schedule for the Financial and Business Management System to reduce complexity, risk, and cost. In concert with the Financial Systems Advisory Board and OMB, the Department is finalizing project deployment plans and a third party review. In 2010, efforts were underway to improve functionality in use by deployed bureaus and preparations were completed for USGS to go live in November 2010. Planning and deployment activities are also underway for the deployment of FWS and the Office of the Secretary to migrate to FBMS in November 2012.

While we celebrate our successes we also realize we have areas in which we can improve, and strive to identify and address such areas. We continue to address the management challenges highlighted by the Inspector General and have achieved significant improvements in each of the seven areas identified and continue efforts to make even further improvements. Additionally, we place a very high priority on correcting findings that are identified in conjunction with the annual CFO audit. In FY 2010, the CFO audit firm identified three non-compliance findings related to the Single Audit Act, the Anti-Deficiency Act, and the Prompt Payment Act. The auditors also identified four significant deficiencies associated with controls over information technology, undelivered orders, grant monitoring, and legislative monitoring. For each of these findings we have either already implemented, or are in the process of implementing corrective action plans to address the findings and expect to correct the control gaps in FY 2011.

One of the major impediments to the correction of certain significant deficiencies is the continued reliance on legacy systems. For example most of our information technology findings are in the area of systems access and change management. Many of our legacy systems that will be retired with the deployment of

FBMS lack the sophisticated user access and change controls needed in today's environment. These findings and corrective action plans will continue to be a major challenge until the legacy systems can be retired.

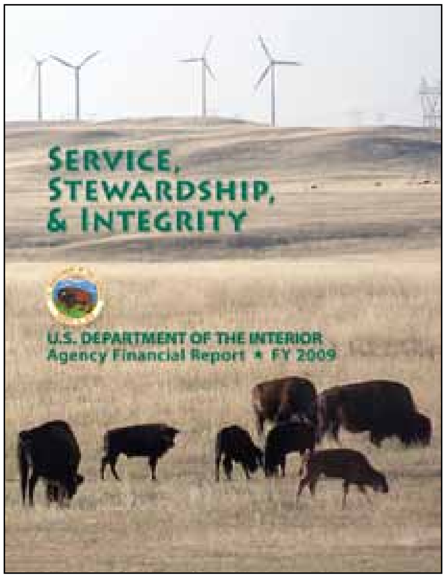
We are working diligently to correct audit weaknesses and instances of noncompliance identified as a result of the 2009 and 2010 audits. We have implemented a significant number of the recommendations noted during the FY 2009 audit and have fully closed three of the eight internal control and non-compliance findings identified in the FY 2009 Auditor's report. We are currently assessing the findings and recommendations noted during the FY 2010 audit, but expect to implement most of the recommendations in FY 2011. See the Analysis of Systems, Controls, and Legal Compliance section for corrective actions to address the significant deficiencies and noncompliance issues.

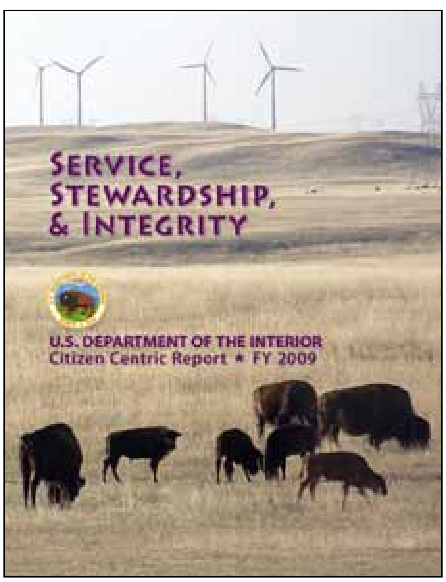
This AFR provides timely information that the American public can use to better understand Interior's programs. We hope that you find it useful and that you will follow our progress in advancing the Department's strategic and high priority performance goals and efforts to improve transparency and accountability. More information about our performance can be found at http://goals.performance.gov/agencies/agency?agencyId=14

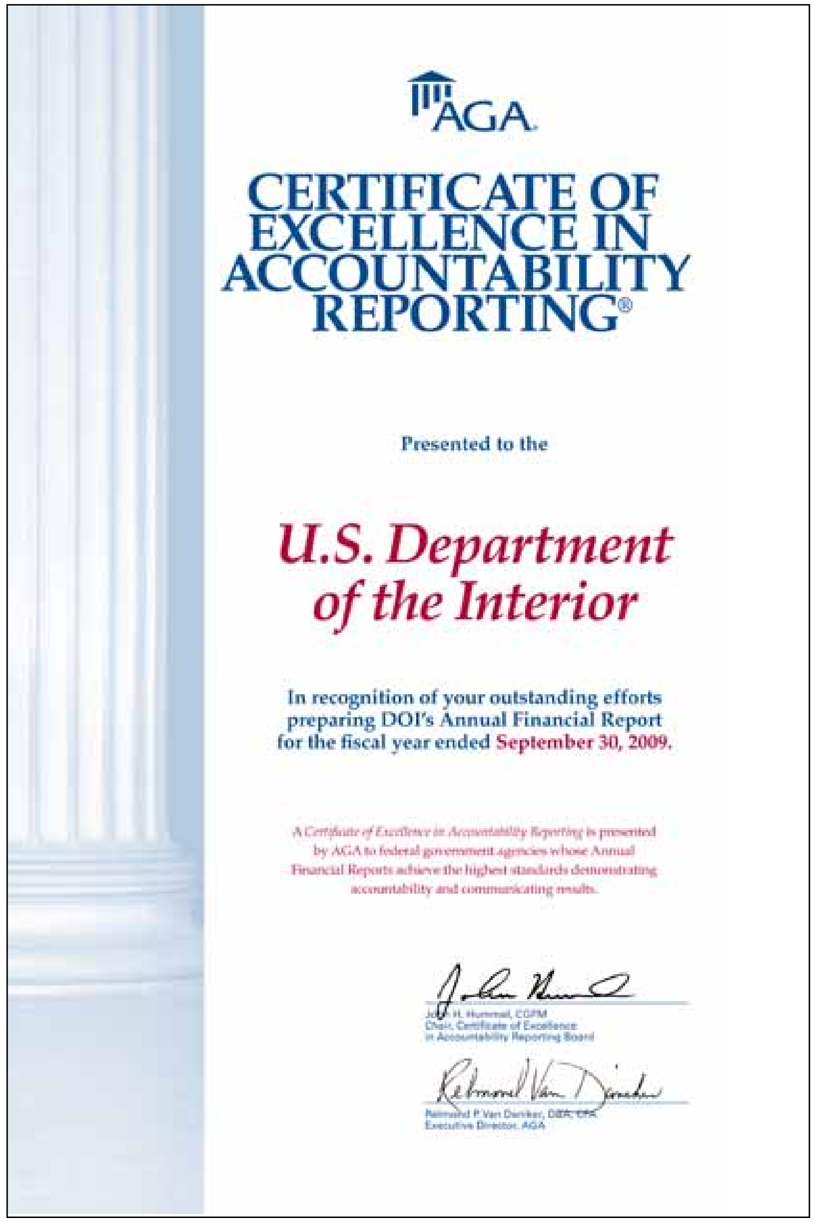
Rhea Suh
Assistant Secretary – Policy, Management and Budget and Chief Financial Officer
November 15, 2010

CERTIFICATE OF EXCELLENCE IN ACCOUNTABILITY REPORTING

We are pleased to present our FY 2009 Certificate of Excellence in Accountability Reporting (CEAR)© award. AGA's CEAR Program has been helping Federal agencies produce high-quality Performance and Accountability Reports since 1997. The program was established in conjunction with the Chief Financial Officers Council and the U.S. Office of Management and Budget to improve financial and program accountability by streamlining reporting and improving the effectiveness of such reports. We are honored to receive this prestigious award and believe it demonstrates our commitment to excellence in financial reporting and providing a comprehensive understanding of Interior's fiscal and programmatic accomplishments.







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John H. Hummel, CGFM
Chair, Certificate of Excellence in Accountability Reporting Board

Relmond P. Van Daniker, DBA, CPA
Executive Director, AGA

OFFICE OF
INSPECTOR GENERAL
U.S.DEPARTMENT OF THE INTERIOR

NOV 15 2010

Memorandum

To: Secretary Salazar

From: Mary L. Kendall
Acting Inspector General

Subject: Independent Auditors' Report on the U.S. Department of the Interior Financial Statements for Fiscal Years 2010 and 2009
Report No. X-IN-MOA-0004-2010

Introduction

This memorandum transmits the KPMG LLP (KPMG) auditors' report of the U.S. Department of the Interior (DOI) financial statements for fiscal years (FYs) 2010 and 2009. The Chief Financial Officers Act of 1990 (Public Law 101-576), as amended, requires the DOI Inspector General or an independent auditor, as determined by the Inspector General, to audit the DOI financial statements.

Under a contract issued by DOI and monitored by the Office of Inspector General (OIG), KPMG, an independent public accounting firm, performed an audit of the DOI FY2010 and FY2009 financial statements. The contract required that the audit be performed in accordance with the "Government Auditing Standards," issued by the Comptroller General of the United States and Office of Management and Budget Bulletin No. 07-04, "Audit Requirements for Federal Financial Statements."

Results of Independent Audit

In its audit report, KPMG issued an unqualified opinion on the DOI financial statements. However, KPMG identified four significant deficiencies in internal controls over financial reporting, of which none was considered a material weakness. In addition, KPMG identified three instances in which DOI did not comply with laws and regulations, specifically, the Anti-Deficiency Act, the Single Audit Act Amendments of 1996 and the Prompt Payment Act.

KPMG performed auditing procedures at Departmental Offices, Indian Affairs, Bureau of Reclamation, National Park Service, U.S. Geological Survey, Bureau of Land Management, U.S. Fish and Wildlife Service, Bureau of Ocean Energy Management, Regulation and Enforcement, and Office of Surface Mining, Reclamation and Enforcement to support the DOI consolidated financial statement audit.

Office of Inspector General | Washington, DC

Evaluation of KPMG Audit Performance

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

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

KPMG is responsible for the attached auditors' report, and the conclusions expressed in it. We do not express an opinion on DOI financial statements nor on KPMG's conclusions regarding the effectiveness of internal controls or compliance with laws and regulations.

Report Distribution

The legislation creating the OIG requires semiannual reporting to the Congress on all audit reports issued, actions taken to implement audit recommendations, and unimplemented recommendations. Therefore, we will include a summary of the information contained in the attached audit report 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 DOI personnel during the audit. If you have any questions regarding the report, please contact me at 202–208–5745.

Attachments

KPMG LLP
2001 M Street, NW
Washington, DC 20036

Independent Auditors' Report

Secretary and Acting Inspector General,
U.S. Department of the Interior:

We have audited the accompanying balance sheets of the U.S. Department of the Interior (Interior) as of September 30, 2010 and 2009, and the related statements of net cost, changes in net position, budgetary resources, and custodial activity for the years then ended (hereinafter referred to as "financial statements"). The objective of our audits was to express an opinion on the fair presentation of these financial statements. In connection with our fiscal year 2010 audit, we also considered Interior's internal control over financial reporting and tested Interior's compliance with certain provisions of applicable laws, regulations, contracts, and grant agreements that could have a direct and material effect on these financial statements.

Summary

As stated in our opinion on the financial statements, we concluded that Interior's financial statements as of and for the years ended September 30, 2010 and 2009, are presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles. As discussed in our opinion on the financial statements, Interior changed the reporting of costs and exchange revenue related to allocation transfer accounts within Interior, adopted Statement of Federal Financial Accounting Standard No. 33 *Pensions, Other Retirement Benefits, and Other Post-employment Benefits: Reporting the Gains and Losses from Changes in Assumptions and Selecting Discount Rates and Valuation Dates* (SFFAS No. 33), and adopted Office of Management and Budget (OMB) guidance for distributed offsetting receipts as of October 1, 2009.

Our consideration of internal control over financial reporting resulted in identifying certain deficiencies that we consider to be significant deficiencies, as defined in the Internal Control Over Financial Reporting section of this report, as follows:

A. Information Technology Controls Over Financial Management Systems
B. Controls Over Undelivered Orders
C. Monitoring Legislation
D. Grant Monitoring Controls

We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses as defined in the Internal Control Over Financial Reporting section of this report.

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

E. *Anti-Deficiency Act*
F. *Single Audit Act Amendments of 1996*
G. *Prompt Payment Act*

KPMG

The following sections discuss our opinion on Interior's financial statements; our consideration of Interior's internal control over financial reporting; our tests of Interior's 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 the U.S. Department of the Interior as of September 30, 2010 and 2009, and the related statements of net cost, changes in net position, budgetary resources, and custodial activity for the years then ended.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the U.S. Department of the Interior as of September 30, 2010 and 2009, and its net costs, changes in net position, budgetary resources, and custodial activity for the years then ended, in conformity with U.S. generally accepted accounting principles.

As discussed in note 1 to the financial statements, Interior changed the reporting of costs and exchange revenue related to allocation transfer accounts within Interior as of October 1, 2009. Also as discussed in note 12 to the financial statements, Interior adopted SFFAS No. 33 as of October 1, 2009. Finally, as discussed in note 18 to the financial statements, Interior adopted OMB guidance for distributed offsetting receipts as of October 1, 2009.

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

Our audits were conducted for the purpose of forming an opinion on the financial statements taken as a whole. The information in the Introduction section, Message from the Chief Financial Officer, and Other Accompanying Information section is presented for purposes of additional analysis and is not required as part of the financial statements. This information has not been subjected to auditing procedures and, accordingly, we express no opinion on it.

Internal Control Over Financial Reporting

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the Responsibilities section of this report and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. In our fiscal year 2010 audit, we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting described below as A through D that we consider to be significant deficiencies in internal control over financial reporting. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

A. Information Technology Controls Over Financial Management Systems

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

1. *Access Controls*
   Access controls protect financial and sensitive information from unauthorized modification, disclosure, and loss; however, Interior did not fully establish controls to prevent and detect unauthorized access. One Interior component had user access policies that were not consistent with Interior's Department-wide guidance. In addition, Interior did not consistently review and approve segregation of user responsibilities. Additionally, Interior did not properly protect certain generic users or consistently limit use of emergency privilege users. Interior also did not consistently approve user access before granting access, document review and approval of user access, recertify user access, maintain user access documentation, and remove access for terminated users. Furthermore, Interior did not establish controls over contractor access to applications. Finally, Interior did not consistently configure applications to prepare audit logs, review audit logs, or document that audit log reviews were completed for two applications.

2. *Configuration Management*
   Configuration management controls ensure that only authorized programs and modifications are implemented. Interior did not fully segregate software development and change responsibilities for two applications. Interior also did not fully segregate conflicting user responsibilities in one application. In addition, Interior did not consistently test and document testing of application changes before the changes were implemented. Furthermore, Interior did not properly configure an application to prepare application change audit logs. Finally, Interior did not apply the latest security updates for several applications.

Recommendations
We recommend that Interior continue to improve the information technology controls over its financial management systems to ensure adequate security and protection of the systems as follows:
1. Issue consistent user access guidance, review and approve segregation of user responsibilities, protect generic users, limit use of emergency privilege users, approve user access before granting access, document review and approval of user access, recertify user access, maintain user access documentation, remove access for terminated users, controls contractor access to applications, prepare and review audit logs, and document audit log reviews.
2. Segregate software development and change responsibilities, segregate conflicting user responsibilities, test and document testing of application changes, prepare and review application change audit logs, and apply the latest security updates.

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

KPMG

B. Controls Over Undelivered Orders

Interior obligates its budgetary resources when placing orders with other federal entities and public organizations and reduces the order balances as goods and services are received. Interior policies require Interior components to review and certify undelivered orders quarterly and to de-obligate invalid obligations. Although Interior has improved compliance with its policies, Interior should continue improving the effectiveness of the review and certification procedures because Interior incorrectly certified undelivered orders overstating undelivered orders by approximately $214.5 million. In addition, Interior recorded invalid recoveries or did not record recoveries of undelivered orders timely for approximately $30.5 million. Furthermore two Interior components did not modify the period of performance timely for 3 of the 157 expired orders tested. As a result of our observations, Interior analyzed and adjusted its undelivered orders.

Recommendations

We recommend that Interior implement the following recommendations to improve controls over its undelivered orders:

1. Provide training to program and finance personnel on certifying and closing out undelivered orders.
2. Improve the effectiveness of the review and certifications of undelivered orders by the Office of Financial Management and component personnel.
3. Monitor and close out, as appropriate, undelivered orders with minimal to no activity during the past three months, on at least a quarterly basis.
4. Analyze system-generated recoveries to ensure that the transactions are valid recoveries.
5. Modify expired orders either before the order expires or within 30 days of expiring.

Management Response

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

C. Monitoring Legislation

Interior's operations are impacted by legislation, including the programs that Interior is authorized to operate and amounts that Interior is authorized to spend. Interior did not consistently monitor and communicate new legislation to those required to implement the new legislation. As a result, Interior disbursed $1.2 million to counties that Interior was not authorized to disburse in accordance with new legislation and did not comply with the *Anti-Deficiency Act*.

Recommendations

We recommend that Interior implement the following recommendations to improve controls over monitoring legislation:

1. Improve its procedures on monitoring legislative provisions to identify provisions affecting Interior operations.
2. Implement a formal communication process to communicate new legislation affecting Interior operations to those responsible for implementing such legislation.

Management Response

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

D. Grant Monitoring Controls

Interior should improve controls over grant monitoring as Interior is required to monitor its grantees in accordance with the *Single Audit Act Amendments of 1996*, the related OMB Circular No. A-133, *Audits of States, Local Governments, and Non-Profit Organizations* (OMB Circular No. A-133), and other laws. Interior did not have a complete listing of grant awards or grantees to ensure that it monitored grantees, obtained single audit reports, and issued management decisions on audit findings. Interior also did not consistently communicate federal award requirements to grantees. In addition, Interior did not obtain or follow up on past due financial status or performance reports for 29 of the 160 grantees tested at four Interior components. Furthermore, two Interior components did not obtain single audit reports within nine months of the grantee's fiscal year-end for 19 of 91 grantees tested. Finally, two Interior components did not issue management decisions on audit findings within six months after receipt of single audit reports or ensure that the grantees completed appropriate and timely corrective action on such findings for 6 of the 36 grantees tested.

Recommendations

We recommend that Interior perform the following to improve its grant monitoring process:

1. Maintain a complete and accurate listing of grantees to enable monitoring of grantees, receipt of single audit reports, and issuance of management decisions on findings.
2. Communicate federal award requirements to grantees.
3. Follow up on financial status, performance, and single audit reports not received and consider the need to limit future grant awards until these reports are received.
4. Issue management decisions on audit findings within six months after receipt of single audit reports and verify that grantees take appropriate and timely corrective action.

Management Response

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

Exhibit I presents the status of prior year significant deficiencies. We noted certain additional matters that we will report to management of Interior in a separate letter.

Compliance and Other Matters

The results of certain of our tests of compliance as described in the Responsibilities section of this report, exclusive of those referred to in the *Federal Financial Management Improvement Act of 1996* (FFMIA), disclosed three instances of noncompliance or other matters that are required to be reported herein under *Government Auditing Standards* or OMB Bulletin No. 07-04, and are described below.

E. *Anti-Deficiency Act*

Interior may not make or authorize an expenditure or obligation exceeding an apportionment or an amount permitted by regulations as specified by Section 1341 in Title 31 of the United States Code (*Anti-Deficiency Act*). As discussed in the Internal Control over Financial Reporting section above, Interior did not comply with the *Anti-Deficiency Act* because Interior disbursed $1.2 million to counties that was not authorized under legislation. The unauthorized disbursements occurred because Interior did not modify its automated system to end disbursements in accordance with new legislation.

Recommendation

We recommend that in fiscal year 2011, Interior improve its procedures on monitoring legislative provisions to identify provisions affecting Interior operations and to implement a formal communication process to communicate new legislation affecting Interior operations to those responsible for implementing such legislation to ensure compliance with the *Anti-Deficiency Act*.

Management Response

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

F. *Single Audit Act Amendments of 1996*

As discussed in the Internal Control over Financial Reporting section of this report, Interior did not perform adequate monitoring of grantees in accordance with the *Single Audit Act Amendments of 1996*, the related OMB Circular No. A-133, and other laws. Interior should ensure that it obtains financial status, performance, and single audit reports, issues management decisions on audit findings, and monitors grantees timely.

Recommendation

We recommend that in fiscal year 2011, Interior obtain financial status and single audit reports, issue management decisions on audit findings, and monitor grantees to ensure compliance with the *Single Audit Act Amendments of 1996*, the related OMB Circular No. A-133, and other laws.

Management Response

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

G. *Prompt Payment Act*

In accordance with the *Prompt Payment Act*, Interior is required to pay interest penalties when payments are late. Interior did not properly calculate prompt payment interest at four of its Interior components because the accounting system is not properly configured to calculate prompt payment interest for certain transactions, individuals incorrectly entered prompt payment information into the accounting system, and individuals incorrectly manually calculated prompt payment interest. In addition, Interior did not update the prompt payment interest rate in one accounting system. As a result, four Interior components paid the incorrect prompt payment interest amount on 16 of the 170 disbursements tested.

Recommendations

We recommend that in fiscal year 2011, Interior perform the following to ensure compliance with the *Prompt Payment Act*:

1. Modify the accounting system to properly calculate prompt payment interest.
2. Require a second individual to compare the prompt payment information from the accounting system to supporting documentation to verify that the prompt payment information was properly entered into the accounting system and document such comparison.
3. Require a second person to review prompt payment interest that is manually calculated and document such review.
4. Update the prompt payment interest rate in the accounting system when the rate changes.

KPMG

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

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

The results of our tests of FFMIA disclosed no instances in which Interior's financial management systems did not substantially comply with the (1) Federal financial management systems requirements, (2) applicable Federal accounting standards, and (3) the United States Government Standard General Ledger at the transaction level.

* * * * * * *

Responsibilities

Management's Responsibilities. Management is responsible for the financial statements; establishing and maintaining effective internal control; and complying with laws, regulations, contracts, and grant agreements applicable to Interior.

Auditors' Responsibilities. Our responsibility is to express an opinion on the fiscal year 2010 and 2009 financial statements of Interior based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Bulletin No. 07-04. Those standards and OMB Bulletin No. 07-04 require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Interior's internal control over financial reporting. Accordingly, we express no such opinion.

An audit also includes:

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

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

In planning and performing our fiscal year 2010 audit, we considered Interior's internal control over financial reporting by obtaining an understanding of Interior's internal control, determining whether internal controls had been placed in operation, assessing control risk, and performing tests of controls as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Interior's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Interior's internal control over financial reporting. Furthermore, we did not test all controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*.

KPMG

As part of obtaining reasonable assurance about whether Interior's fiscal year 2010 financial statements are free of material misstatement, we performed tests of Interior's compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of the financial statement amounts, and certain provisions of other laws and regulations specified in OMB Bulletin No. 07-04, including the provisions referred to in Section 803(a) of 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 Interior. However, providing an opinion on compliance with laws, regulations, contracts, and grant agreements was not an objective of our audit and, accordingly, we do not express such an opinion.

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

KPMG LLP

November 15, 2010

Exhibit I

U.S DEPARTMENT OF THE INTERIOR

Status of Prior Year Findings

September 30, 2010

FY2009 Ref	Fiscal Year 2009 Condition	Status of Fiscal Year 2009 Findings
A	Information Technology Controls over Financial Management Systems	This condition has not been corrected and is repeated in fiscal year 2010. See finding A.
B	Controls over Property	This condition has been corrected.
C	Controls over Undelivered Orders	This condition has not been corrected and is repeated in fiscal year 2010. See finding B.
D	Controls over Estimated Liabilities	This condition has been corrected.
E	Grant Monitoring Controls	This condition has not been corrected and is repeated in fiscal year 2010. See finding D.
F	Controls over Fiduciary Activity	This condition has been corrected.
G	*Single Audit Act Amendments of 1996*	This condition has not been corrected and is repeated in fiscal year 2010. See finding F.
H	*Prompt Payment Act*	This condition has not been corrected and is repeated in fiscal year 2010. See finding G.

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United States Department of the Interior

OFFICE OF THE SECRETARY
WASHINGTON, D.C. 20240

Memorandum

NOV 12 2010

To: Mary L. Kendall
Acting Inspector General

KPMG LLP
2001 M Street, NW
Washington, DC 20036

From: Rhea Suh
Assistant Secretary for Policy, Management and Budget
and Chief Financial Officer

Subject: Management's Response to Independent Auditors' Report for Fiscal Year 2010 (Assignment No. X-IN-MOA-0004-2010)

The Department of the Interior has reviewed the draft report prepared by KPMG LLP and provides its response to the findings and recommendations. We are pleased that the result of the audit is an unqualified opinion on the Department's Consolidated Financial Statements. The Department appreciates the recognition noted in several findings and recommendations of the improvement and progress achieved during Fiscal Year 2010. We appreciate the value of the audit process and look forward to working with you to continue our marked improvement of financial management in the Department.

A. Information Technology Controls over Financial Management Systems

Management concurs. During FY 2010 Interior continued to improve its information technology controls including policies and guidance. In FY 2011 we will continue to enhance application and general controls over financial management systems with a specific focus on the areas of access controls and configuration management. We are constantly striving to improve and strengthen the related programmatic aspects of the IT security program (including awareness training) and will continue to review all aspects of the IT program for refinement, as appropriate. We are in the process of implementing reforms including the consolidation of information technology infrastructure, management, and oversight that will improve the efficiency and effectiveness of IT services and our ability to ensure the implementation of policies and controls.

B. Controls over Undelivered Orders

Management concurs. Interior and its components will continue to enhance its controls over undelivered orders (UDO). We will continue to improve the quarterly review and certification process and provide training over certifying and closing aged and completed UDO's. Interior will evaluate the problems with "recoveries" to ensure their validity. We will also analyze the treatment of expired orders in order to develop effective modification procedures. Management is committed to bringing each component together to address these concerns in an integrated and consistent manner.

C. Controls over Monitoring Legislation

Management concurs. A Department-wide corrective action plan has been implemented, which includes training on apportionment preparation, new internal operating instructions on apportionment procedures, revised procedures for tracking legislative actions, new management controls requiring confirmation of authorization and appropriation language review, and acquiring the Office of Management and Budget's approval of the Department's updated funds control regulations. As a result, communications will be strengthened between the Department and the components tasked with tracking the appropriations acts and those responsible for budget execution, financial management, and program operations.

D. Grant Monitoring Controls

Management concurs. Management will continue to improve grantee communication and outreach procedures to yield a timelier and effective single audit receipt and follow-up process. The Department and its components will enhance its system for maintaining its inventory of grantees to provide a more effective means to monitor grantees and ensure receipt of single audit reports. Interior will continue to work with the components to ensure that all necessary reports are obtained and that management decisions on audit findings are issued in a timely and compliant manner.

E. Anti-Deficiency Act

Management concurs. As discussed in the Internal Control over Financial Reporting section above, a Department-wide corrective action plan has been implemented, which includes training on apportionment preparation, internal operating instructions on apportionment procedures, revised procedures for tracking legislative actions, new management controls requiring confirmation of authorization and appropriation language review, to improve communications across the Department and the components tasked with tracking the appropriations acts and those responsible for budget execution, financial management, and program operations.

F. Single Audit Act Amendments of 1996

Management concurs. As noted in the Internal Control over Financial Reporting section above, the Department will work to obtain Single Audit, Financial Status, Grant Performance, and Annual Reports in a timely manner. Enhancements will continue to be made to the business process for complying with the Single Audit Act.

G. Prompt Payment Act

Management concurs. During FY 2011, the Department will continue to work to modify the core financial systems to calculate prompt pay interest correctly and to establish an appropriate level of review of both automated and manual interest calculations.

In closing, corrective action plans will be established for each of these findings, which will be monitored and tracked through completion. The Department is highly committed to improving these and all other elements of financial management.

PRINCIPAL FINANCIAL STATEMENTS

The Department of Interior's financial statements have been prepared to report the financial position, results of operations, net position, budgetary resources, and custodial activity of the Department pursuant to the requirements of the Chief Financial Officers Act of 1990, the Government Management Reform Act of 1994, and OMB Circular A-136, "Financial Reporting Requirements." The statements have been prepared in accordance with Generally Accepted Accounting Principles (GAAP) as outlined by the Federal Accounting Standards Advisory Board (FASAB).

The responsibility for the integrity of the financial information included in these statements rests with Interior's management. The audit of Interior's principal financial statements was performed by an independent certified public accounting firm selected by Interior's Office of Inspector General. The auditors' report, issued by the independent certified public accounting firm, is included in Section 2, Financial Section, of this report.

The following provides a brief description of the nature of each required financial statement.

- **Balance Sheet**
  The Balance Sheet present amounts of future economic benefits owned or managed by the Department (assets), amounts owed by the Department (liabilities), and residual amounts which comprise the difference (net position).

- **Statement of Net Cost**
  The main purpose of the Statement of Net Cost is to provide an understanding of the net costs of the Department and each program that the government supports with taxes and other unearned monies. The Department's Statement of Net Cost summarize the net cost of operations by major segment which consist of its four major mission areas and Reimbursable Activity and Other. The mission areas are identified in the Departments 2007 - 2012 Strategic Plan. All operating costs reported reflect full costs which includes both direct and indirect costs. Costs are reduced by earned revenues to arrive at net costs.

- **Statement of Changes in Net Position**
  The Statement of Changes in Net Position reports the change in net position during the reporting period. Net position is affected by changes to its two components, Cumulative Results of Operations and Unexpended Appropriations.

- **Statement of Budgetary Resources**
  The Statement of Budgetary Resources provides information on the Department's Budgetary Resources, Status of Budgetary Resources, Change in Obligated Balances, and Net Outlays. The Department's budgetary resources consist of appropriations, borrowing authority, and spending authority from offsetting collections. Budgetary resources provide the Department its authority to incur financial obligations that will ultimately result in outlays.

- **Statement of Custodial Activity**
  The Statement of Custodial Activity identifies revenues collected by the Department on behalf of others. Custodial Revenue is comprised of royalties, rents, bonuses and other receipts for Federal oil, gas, and mineral leases. Proceeds are distributed to the U.S. Treasury, other Federal agencies, States, and coastal political subdivisions.

Balance Sheet
as of September 30, 2010 and 2009

(dollars in thousands)	FY 2010	FY 2009
ASSETS		
Intragovernmental Assets:		
Fund Balance with Treasury (Note 2)	$ 42,361,746	$ 41,728,717
Investments, Net (Note 3)	7,290,284	7,052,150
Accounts and Interest Receivable (Note 4)	1,864,132	3,976,487
Loans and Interest Receivable, Net (Note 5)	3,234,340	3,338,756
Other	2,989	4,622
Total Intragovernmental Assets	**54,753,491**	**56,100,732**
Cash	457	456
Investments, Net (Note 3)	21	23
Accounts and Interest Receivable, Net (Note 4)	1,285,003	1,226,814
Loans and Interest Receivable, Net (Note 6)	101,860	109,056
Inventory and Related Property, Net (Note 7)	205,674	224,364
General Property, Plant and Equipment, Net (Note 8)	19,691,226	18,989,791
Other	297,350	268,553
TOTAL ASSETS (Note 10)	**$ 76,335,082**	**$ 76,919,789**
Stewardship Assets (Note 9)		
LIABILITIES		
Intragovernmental Liabilities:		
Accounts Payable	$ 616,958	$ 678,968
Debt (Note 11)	490,410	643,272
Other		
Liability for Capital Transfers to the General Fund of the Treasury (Note 21)	2,099,401	2,048,439
Advances and Deferred Revenue	485,879	627,065
Custodial Liability	638,718	495,508
Other Liabilities	602,356	571,051
Total Intragovernmental Liabilities	**4,933,722**	**5,064,303**
Accounts Payable	988,258	890,421
Loan Guarantee Liability (Note 6)	62,763	50,779
Federal Employee and Veteran Benefits (Note 12)	1,463,623	1,394,446
Environmental and Disposal Liabilities (Note 13)	162,395	155,684
Other		
Refunds Payable	10,008	2,150,034
Contingent Liabilities (Note 13)	333,297	126,931
Advances and Deferred Revenue	692,881	793,888
Payments Due to States	431,094	476,873
Grants Payable	326,640	297,633
Other Liabilities	1,067,877	955,977
TOTAL LIABILITIES (Note 14)	**10,472,558**	**12,356,969**
Commitments and Contingencies (Note 13 and 15)		
Net Position		
Unexpended Appropriations -Earmarked Funds (Note 20)	385,103	448,217
Unexpended Appropriations -Other Funds	6,207,962	6,437,188
Cumulative Results of Operations -Earmarked Funds (Note 20)	55,674,628	54,125,552
Cumulative Results of Operations -Other Funds	3,594,831	3,551,863
Total Net Position	**$ 65,862,524**	**$ 64,562,820**
TOTAL LIABILITIES AND NET POSITION	**$ 76,335,082**	**$ 76,919,789**

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

Statement of Net Cost
for the years ended September 30, 2010 and 2009

(dollars in thousands)	FY 2010	FY 2009
RESOURCE PROTECTION		
Gross Costs	$ 5,045,636	$ 4,699,990
Less: Earned Revenue	742,565	710,275
Net Cost	4,303,071	3,989,715
RESOURCE USE		
Gross Costs	4,494,278	3,815,256
Less: Earned Revenue	1,615,699	1,424,551
Net Cost	2,878,579	2,390,705
RECREATION		
Gross Costs	3,592,420	3,185,965
Less: Earned Revenue	325,149	320,701
Net Cost	3,267,271	2,865,264
SERVING COMMUNITIES		
Gross Costs	5,910,444	5,350,284
Less: Earned Revenue	550,819	457,950
Net Cost	5,359,625	4,892,334
REIMBURSABLE ACTIVITY AND OTHER		
Gross Costs	2,950,858	2,467,643
Less: Earned Revenue	1,613,338	1,513,844
Net Cost	1,337,520	953,799
TOTAL		
Gross Costs	21,993,636	19,519,138
Less: Earned Revenue	4,847,570	4,427,321
Net Cost of Operations (Notes 17 and 19)	$ 17,146,066	$ 15,091,817

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

Statement of Changes in Net Position

for the years ended September 30, 2010 and 2009

	FY 2010			FY 2009		
(dollars in thousands)	Earmarked	All Other	Consolidated	Earmarked	All Other	Consolidated
	(Note 20)			(Note 20)		
UNEXPENDED APPROPRIATIONS						
Beginning Balance	$ 448,217	$ 6,437,188	$ 6,885,405	$ 263,665	$ 4,280,612	$ 4,544,277
Budgetary Financing Sources						
Appropriations Received, General Funds	297,291	11,894,556	12,191,847	479,897	13,084,992	13,564,889
Appropriations Transferred In/(Out)	1,429	10,083	11,512	(1,813)	11,450	9,637
Appropriations - Used	(361,834)	(12,090,368)	(12,452,202)	(301,343)	(10,911,209)	(11,212,552)
Other Adjustments	-	(43,497)	(43,497)	7,811	(28,657)	(20,846)
Net Change	(63,114)	(229,226)	(292,340)	184,552	2,156,576	2,341,128
Ending Balance - Unexpended Appropriations	$ 385,103	$ 6,207,962	$6,593,065	$448,217	$ 6,437,188	$ 6,885,405
CUMULATIVE RESULTS OF OPERATIONS						
Beginning Balance	$54,125,552	$ 3,551,863	$57,677,415	$51,994,648	$ 2,007,706	$54,002,354
Budgetary Financing Sources						
Appropriations - Used	361,834	12,090,368	12,452,202	301,343	10,911,209	11,212,552
Royalties Retained	4,397,252	2,407	4,399,659	4,458,799	2,855	4,461,654
Non-Exchange Revenue	893,574	4,387	897,961	1,005,187	7,452	1,012,639
Transfers In/(Out) without Reimbursement	336,221	50,523	386,744	486,968	23,416	510,384
Donations and Forfeitures of Cash and Cash Equivalents	46,687	-	46,687	37,729	-	37,729
Other Budgetary Financing Sources/(Uses)	-	-	-	(2,489)	-	(2,489)
Other Adjustments	-	-	-	(8,377)	5,436	(2,941)
Other Financing Sources						
Donations and Forfeitures of Property	96	18,080	18,176	11,039	13,757	24,796
Transfers In/(Out) without Reimbursement	(86,010)	101,530	15,520	(57,137)	75,808	18,671
Imputed Financing from Costs Absorbed by Others (Note 16)	133,667	533,211	666,878	133,411	1,499,532	1,632,943
Other Non-Budgetary Financing Sources/(Uses)	(14,383)	(131,334)	(145,717)	(12,929)	(126,131)	(139,060)
Total Financing Sources	6,068,938	12,669,172	18,738,110	6,353,544	12,413,334	18,766,878
Net Cost of Operations	(4,519,862)	(12,626,204)	(17,146,066)	(4,222,640)	(10,869,177)	(15,091,817)
Net Change	1,549,076	42,968	1,592,044	2,130,904	1,544,157	3,675,061
Ending Balance - Cumulative Results of Operations	$ 55,674,628	$ 3,594,831	$ 59,269,459	$ 54,125,552	$ 3,551,863	$ 57,677,415
TOTAL NET POSITION	$ 56,059,731	$ 9,802,793	$ 65,862,524	$ 54,573,769	$ 9,989,051	$ 64,562,820

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

Statement of Budgetary Resources

for the years ended September 30, 2010 and 2009

	Total Budgetary Accounts		Non-Budgetary Credit Program Financing Accounts	
(dollars in thousands)	FY 2010	FY 2009	FY 2010	FY 2009
Budgetary Resources:				
Unobligated Balance, Beginning of Fiscal Year:	$ 9,667,949	$ 6,978,126	$ 35,467	$ 43,220
Recoveries of Prior Year Unpaid Obligations	459,239	466,065	-	-
Budget Authority:				
Appropriation	18,042,865	19,858,187	-	-
Borrowing Authority	-	-	7,620	2,665
Spending Authority from Offsetting Collections				
Earned				
Collected	5,297,379	4,875,123	65,151	27,508
Change in Receivables from Federal Sources	30,775	54,359	-	(61)
Change in Unfilled Customer Orders:				
Advance Received	(148,388)	43,007	-	-
Without Advance from Federal Sources	686,109	214,333	-	-
Total Budget Authority	23,908,740	25,045,009	72,771	30,112
Nonexpenditure Transfers, Net, Anticipated and Actual	(197,919)	(216,665)	-	-
Permanently Not Available	(118,022)	(64,681)	(15,482)	(9,550)
Total Budgetary Resources	**$ 33,719,987**	**$ 32,207,854**	**$ 92,756**	**$ 63,782**
Status of Budgetary Resources:				
Obligations Incurred (Note 18):				
Direct	20,033,557	17,385,644	24,278	28,315
Reimbursable	5,911,052	5,154,261	-	-
Total Obligations Incurred	25,944,609	22,539,905	24,278	28,315
Unobligated Balance Available:				
Apportioned	7,550,251	9,449,978	64,746	35,467
Exempt from Apportionment	40,238	34,933	-	-
Total Unobligated Balance Available	7,590,489	9,484,911	64,746	35,467
Unobligated Balance Not Available (Note 18)	184,889	183,038	3,732	-
Total Status of Budgetary Resources	**$ 33,719,987**	**$ 32,207,854**	**$ 92,756**	**$ 63,782**
Change in Obligated Balance:				
Obligated Balance, Net				
Unpaid Obligations, Brought Forward, Beginning of Fiscal Year	$ 9,836,765	$ 9,223,469	$ -	$ 61
Less: Uncollected Customer Payments From Federal Sources, Brought Forward, Beginning of Fiscal Year	(2,015,466)	(1,746,775)	-	(61)
Total Unpaid Obligated Balances, Net, Beginning of Fiscal Year	7,821,299	7,476,694	-	-
Obligations Incurred, Net	25,944,609	22,539,905	24,278	28,315
Less: Gross Outlays	(23,312,578)	(21,460,543)	(24,278)	(28,376)
Less: Recoveries of Prior Year Unpaid Obligations, Actual	(459,239)	(466,065)	-	-
Change in Uncollected Customer Payments From Federal Sources	(716,884)	(268,692)	-	61
Total, Unpaid Obligated Balance, Net, End of Period	**$ 9,277,207**	**$ 7,821,299**	**$ -**	**$ -**
Obligated Balance, Net, End of Period				
Unpaid Obligations	12,009,557	9,836,765	-	-
Less: Uncollected Customer Payments From Federal Sources	(2,732,350)	(2,015,466)	-	-
Total, Unpaid Obligated Balance, Net, End of Period	**$ 9,277,207**	**$ 7,821,299**	**$ -**	**$ -**
Net Outlays				
Gross Outlays	23,312,578	21,460,543	24,278	28,376
Less: Offsetting Collections	(5,148,991)	(4,918,130)	(65,151)	(27,508)
Less: Distributed Offsetting Receipts	(5,007,103)	(5,257,387)	-	-
Net Outlays (Receipts)	**$ 13,156,484**	**$ 11,285,026**	**$ (40,873)**	**$ 868**

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

Statement of Custodial Activity

for the years ended September 30, 2010 and 2009

(dollars in thousands)	FY 2010	FY 2009
Revenues on Behalf of the Federal Government		
Mineral Lease Revenue		
Rents and Royalties	$ 7,703,199	$ 7,489,653
Onshore Lease Sales	212,879	360,331
Offshore Lease Sales	1,015,069	1,201,641
Strategic Petroleum Reserve	154,217	268,537
Total Revenue	$ 9,085,364	$ 9,320,162
Disposition of Revenue		
Distribution to Department of the Interior		
National Park Service Conservation Funds	$ 1,049,000	$ 1,049,000
Bureau of Reclamation	1,363,952	1,454,181
Bureau of Ocean Energy Management, Regulation and Enforcement	2,210,090	2,332,550
Bureau of Land Management	23,769	37,445
Fish and Wildlife Service	1,323	1,407
Distribution to Other Federal Agencies		
Department of the Treasury	3,986,774	4,430,239
Department of Agriculture	108,541	82,950
Department of Energy	204,217	318,537
Distribution to States and Others	46,787	55,889
Change in Untransferred Revenue	79,635	(448,309)
Royalty Credits Redeemed	11,276	6,273
Total Disposition of Revenue	**$ 9,085,364**	$ **9,320,162**
Net Custodial Activity	$ -	$ -

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

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NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The U.S. Department of the Interior is a Cabinet-level agency of the Executive Branch of the Federal Government. Created in 1849 by Congress as the Nation's principal conservation agency, Interior has responsibility for most of the Nation's publicly owned lands and natural resources. Interior protects and manages the Nation's natural resources and cultural heritage; provides scientific and other information about those resources; and, honors its trust responsibilities or special commitments to American Indians, Alaska Natives, and affiliated island communities.

The accompanying financial statements include all Federal funds under Interior's control or which are a component of the reporting entity, including Conservation Funds (Land and Water Conservation Fund, Historic Preservation Fund, and Environmental Improvement and Restoration Fund), and Custodial Funds. A summary of fiduciary activities managed by Interior is included in Note 22. Fiduciary Assets are not assets of Interior and are not recognized on the balance sheet. The financial statements included herein also do not include the effects of centrally administered assets and liabilities related to the Federal Government as a whole, such as public borrowing or certain tax revenue, which may in part be attributable to Interior.

B. Organization and Structure of Interior

Interior is composed of the following eight operating Bureaus and the Departmental Offices:

- National Park Service (NPS) (includes the Land and Water Conservation Fund and Historic Preservation Fund)
- U.S. Fish and Wildlife Service (FWS)
- Bureau of Land Management (BLM)
- Bureau of Reclamation (BOR)
- Office of Surface Mining Reclamation and Enforcement (OSM)
- Bureau of Ocean Energy Management, Regulation and Enforcement (BOEMRE) (includes the Environmental Improvement and Restoration Fund)
- U.S. Geological Survey (USGS)
- Indian Affairs (IA)
- Departmental Offices (DO)

The U.S. Bureau of Mines (BOM) was abolished in 1996. Although it no longer exists, certain transactions and data related to BOM programs and activities are reflected in Interior's FY 2010 and FY 2009 financial statements and notes.

C. Basis of Accounting and Presentation

These financial statements have been prepared to report the financial position, net cost, changes in net position, budgetary resources, and custodial activities of Interior as required by the Chief Financial Officers Act of 1990 and the Government Management Reform Act of 1994. These financial statements have been prepared from the books and records of Interior in accordance with generally accepted accounting principles (GAAP) and Office of Management and Budget (OMB) Circular No. A-136, *Financial Reporting Requirements.* 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. Interior, pursuant to OMB directives, prepares additional financial reports that are used to monitor and control Interior's use of budgetary resources.

Throughout the financial statements and notes, certain assets, liabilities, earned revenue, and costs have been classified as intragovernmental which is defined as exchange transactions made between two reporting entities within the Federal Government.

The accounting structure of Federal agencies is designed to 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 to receipt or payment of cash. The budgetary accounting principles, on the other hand, are designed to recognize the obligation of funds according to legal requirements, which in many cases is prior to the occurrence of an accrual-based transaction. The recognition of budgetary accounting transactions is essential for compliance with legal constraints and controls over the use of Federal funds.

D. Fund Balance with Treasury and Cash

Interior maintains all cash accounts with the U.S. Department of the Treasury except for imprest fund accounts. Treasury processes cash receipts and disbursements on behalf of Interior and Interior's accounting records are reconciled with those of Treasury on a monthly basis.

The Fund Balance with Treasury includes several types of funds available to pay current liabilities and finance authorized purchases, as well as funds restricted until future appropriations are received.

General Funds. These funds consist of expenditure accounts used to record financial transactions arising from Congressional appropriations, as well as receipt accounts.

Special Funds. These accounts are credited with receipts from special sources that are earmarked by law for a specific purpose. These receipts are available for expenditure for special programs, such as providing housing for employees on field assignments, operating science and cooperative programs, etc.

Revolving Funds. These funds conduct continuing cycles of business activity, in which the fund charges for the sale of products or services and uses the proceeds to finance spending, usually without requirement for annual appropriations.

Trust Funds. These funds are used for the acceptance and administration of funds contributed from public and private sources and programs and in cooperation with other Federal and State agencies or private donors.

Other Fund Types. These include miscellaneous receipt accounts, transfer accounts, performance bonds, deposit and clearing accounts maintained to account for receipts and disbursements awaiting proper classification.

The cash amount includes balances held by private banks and investing firms, change-making funds maintained in offices where maps are sold over the counter, and impress funds.

E. Investments, Net

Interior invests funds in Federal Government and public securities on behalf of various Interior programs and for amounts held in certain escrow accounts. The Federal government securities include marketable Treasury securities and/or nonmarketable, market-based securities issued by the Federal Investment Branch of the Bureau of the Public Debt. Market-based securities are Treasury securities that are not traded on any securities exchange but mirror the prices of marketable securities with similar terms.

Public securities include, but are not limited to, marketable securities issued by government-sponsored entities and consist mainly of various mortgage instruments, bonds, and bank notes. Interior generally invests in mortgage instruments issued by the Federal National Mortgage Association and the Federal Home Loan Mortgage Corporation.

It is expected that investments will be held until maturity; therefore, they are valued at cost and adjusted for amortization of premiums and discounts, if applicable. The premiums and discounts are recognized as adjustments to interest income, utilizing the straight-line method of amortization for short-term securities (i.e., bills) and the interest method for longer-term securities (i.e., notes). Interest on investments is accrued as it is earned.

The market value is estimated by multiplying the par value of each security by the market price on the last day of the fiscal year.

Investments are exposed to various risks such as interest rate, market, and credit risks. Such risks, and the resulting investment security values, may be influenced by changes in economic conditions and market perceptions and expectations. Accordingly, it is at least reasonably possible that changes in the value of investments will occur in the near term and that such changes could materially affect the market values of investments reported.

F. Accounts and Interest Receivable, Net

Accounts and Interest Receivable consists of amounts owed to Interior by other Federal agencies and the public. Federal accounts receivable arise generally 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. The Federal accounts receivable also includes custodial amounts remitted to Treasury at the end of the year in accordance with legislation and due back from Treasury in the following year for disbursement to States and refunds to oil companies. Receivables from the public generally arise either from the provision of goods and services or from the levy of fines and penalties resulting from Interior's regulatory responsibilities. An allowance for doubtful accounts is established for reporting purposes based on past experience in the collection of accounts receivable and analysis of outstanding balances.

G. Loans and Interest Receivable, Net

Intragovernmental Loans. Interior has a restricted, unavailable receipt fund entitled Interior Reclamation Fund, into which is deposited a substantial portion of revenues (mostly repayment of capital investment costs, associated interest, and operations/maintenance reimbursements from water and power users) and receipts from other Federal agencies (primarily revenues from certain Federal mineral royalties and hydropower transmissions). No expenditures are made directly from the Reclamation Fund; however, funds are transferred from the Reclamation Fund into Interior's appropriated expenditure funds or other Federal agencies pursuant to specific appropriation acts authorized by the Congress.

The funds transferred from the Reclamation Fund to other Federal agencies are primarily for the purpose of funding operations/maintenance and capital investment activities at Western Area Power Administration (Western), a component of the Department of Energy (DOE). Western recovers the capital investments, associated interest, and operating and maintenance costs through future power rates, and subsequently remits amounts to the Reclamation Fund.

The Bonneville Power Administration (BPA), also a component of DOE, is responsible for the transmission and marketing of hydropower generated at BOR facilities located in the Pacific Northwest region. Unlike Western, BPA does not receive appropriations from the Reclamation Fund, but they legislatively assumed the repayment obligation for the appropriations used to construct BOR's hydropower generation facilities. This legislation, part of the BPA Appropriations Refinancing Act, requires BPA to recover BOR's appropriations related to hydropower generation facilities, plus interest, and to deposit these recoveries into the Reclamation Fund.

The amounts transferred to Western and BPA are recorded as receivables at the time of the transfer as Western and BPA are required to repay Interior. Interior reduces the receivables at the time payments are received from Western and BPA.

Loans with the Public. Loans are accounted for as receivables after the funds have been disbursed. For loans obligated on or after the effective date of the Credit Reform Act, October 1, 1991, the amount of the Federal loan subsidy is computed. The loan subsidy includes estimated delinquencies and defaults, net of recoveries, the interest rate differential between the loan rates and Treasury borrowings, offsetting fees, and other estimated cash flows associated with these loans. The value of loans receivable is reduced by the present value of the expected subsidy costs. The allowance for subsidy cost is reestimated annually.

For loans obligated prior to October 1, 1991, principal, interest, and penalties receivable are presented net of an allowance for estimated uncollectible amounts. The allowance is based on past experience, present market conditions, an analysis of outstanding balances, and other direct knowledge relating to specific loans.

Loans are exposed to various risks such as interest rate and credit risks. Such risks, and the resulting loans, may be influenced by changes in economic conditions and market perceptions and expectations. Accordingly, it is at least reasonably possible that changes in the collectibility of loans will occur in the near term and that such changes could affect the collectibility of loans reported.

H. Inventory and Related Property, Net

Interior's inventory and related property is primarily composed of published maps; gas and storage rights; operating supplies for the Working Capital Fund; airplane parts and fuel; and recoverable, below-ground, crude helium. These inventories were categorized based on Interior's major activities and the services Interior provides to the Federal Government and the public. There are no restrictions on these inventories.

The USGS maintains maps and map products that are located at several Earth Science Information Centers across the United States. All inventory products and materials are valued at historical cost, using a method of averaging actual costs to produce like-kind scale maps within the same fiscal year. The USGS estimates an allowance for excess, spoiled, and obsolete map inventory to arrive at a net realizable value, based on inventory turnover and current stock levels.

The BLM maintains a helium stockpile inventory which is stored in a partially depleted natural gas reservoir. The inventory is valued at cost and the volume of helium is accounted for on a perpetual basis. Annually, the volume is verified by collecting reservoir data and using generally accepted petroleum engineering principles to calculate the volume. The values shown for stockpile helium are net of the estimated unrecoverable amount, so no allowance is required. Gas and storage rights for the storage of helium are recorded at historical cost.

Under the Helium Privatization Act of 1996, Interior is authorized to store, transport, and withdraw crude helium and maintain and operate crude helium storage facilities that were in existence when the Helium Privatization Act was enacted. Interior also has the authority to sell crude stockpile helium until January 1, 2015.

Aircraft fuel and parts are held in inventory as operating materials to be consumed and are valued at historical cost, based on the moving average cost method. The value of this inventory is adjusted based on the results of periodic physical inventories.

Interior's Working Capital Fund maintains an inventory of operating materials that will be consumed during future operations and is stated at historical cost using the weighted average cost method. These operating materials are maintained for sign construction, employee uniforms, and Interior's standard forms functions.

I. General Property, Plant, and Equipment, Net

General Purpose Property, Plant, and Equipment. General purpose property, plant, and equipment (PP&E) consists of buildings, structures, and facilities used for general operations, power, irrigation, fish protection, wildlife enhancement, and recreation; land and land improvements acquired for general operating purposes; equipment, vehicles, and aircraft; construction in progress; capital leases; leasehold improvements; and internal use software.

All general purpose PP&E are capitalized at acquisition cost and depreciated using the straight-line amortization method over the assigned useful lives of the property. Buildings, structures, and facilities are depreciated over a useful life from 10 to 80 years, with the exception of dams and certain related property, which are depreciated over useful lives of up to 100 years. Equipment, vehicles, and aircraft are depreciated over useful lives generally ranging from 2 to 50 years. Capital leases and leasehold improvements are amortized over the life of the lease.

For land, buildings, structures, land improvements, leasehold improvements, and facilities purchased prior to October 1, 2003, capitalization thresholds were established by the individual bureaus and generally ranged from $50,000 to $500,000. For these same items purchased subsequent to September 30, 2003, Interior has established a capitalization threshold of $100,000 with the exception of dams and certain related property, which are fully capitalized. An administrative site may contain more than one building, structure, or facility, but it is always bounded by a defined perimeter or an established boundary.

For equipment, vehicles, aircraft, and capital leases of other personal property, Interior has established a capitalization threshold of $15,000. There are no restrictions on the use or convertibility of Interior's general purpose PP&E.

In accordance with the standards, Interior recorded certain general PP&E acquired on or before September 30, 1996, at its estimated net book value (i.e., gross cost less accumulated depreciation) or its estimated gross cost. Interior estimated these costs and net book values based on available historic supporting documents, current replacement cost deflated to date of acquisition, and the cost of similar assets at the time of acquisition.

Construction in Progress. Construction in Progress (CIP) 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 CIP when the project is substantially completed.

CIP also includes projects in abeyance. In past years, Interior began construction on 13 projects located in Arizona, California, Colorado, New Mexico, North Dakota, and South Dakota, for which activities were placed in abeyance. These projects were authorized to provide various benefits, among them irrigation, fish and wildlife conservation and enhancement, recreation, municipal water supplies, and flood control. Until Congressional disposition of these assets is determined, maintenance costs have been and will continue to be budgeted and expended to minimize the erosive effects of time and weather and to keep the asset ready for completion.

Internal Use Software. Internal use software includes purchased commercial off-the-shelf (COTS) software, contractor-developed software, and software that was internally developed by agency employees. Internal use software is capitalized at cost, over a useful life of 5 years, if the acquisition cost is $100,000 or more.

J. Stewardship Assets

Stewardship assets consist of public domain land and heritage assets such as national monuments and historic sites that have been entrusted to Interior to be maintained in perpetuity for the benefit of current and future generations.

The majority of public lands, presently under the management of Interior were acquired by the Federal Government during the first century of the Nation's existence and are considered stewardship land. A portion of these lands has been reserved as national parks, wildlife refuges, and wilderness areas, while the remainder is managed for multiple uses. Interior is also responsible for maintaining a variety of cultural and natural heritage assets, which include national monuments, historic structures, and library and museum collections.

The stewardship land and heritage assets managed by Interior are considered priceless and irreplaceable. As such, Interior assigns no financial value to them and the PP&E capitalized and reported on the Balance Sheet excludes these assets. Note 9, Stewardship Assets, provides additional information concerning stewardship land and heritage assets. The Required Supplementary Information Section provides information on the condition of stewardship land and heritage assets.

Multi-Use Heritage Assets. Some heritage assets have been designated as multi-use heritage assets. These assets have both operating and heritage characteristics, however, in a multi-use heritage asset, the predominant use of the asset is in government operations. Predominant use is defined as more than 50% of the entire building, structure, or land being used in government operations. For financial reporting purposes, multi-use heritage assets are included in Interior's General PP&E balances and are further discussed in Note 9.

K. Advances and Prepayment

Payments in advance of the receipt of goods and services are recorded as advances and prepayments at the time of prepayment and recognized as expenditures/operating expenses when the related goods and services are received.

L. Liabilities

Liabilities represent the amount of monies or other resources that are likely to be paid by Interior as the result of a transaction or event that has already occurred. No liability can be paid by Interior absent an appropriation of funds by Congress. Liabilities for which an appropriation has not been enacted are, therefore, disclosed as liabilities not covered by budgetary resources or unfunded liabilities. The liquidation of liabilities not covered by budgetary or other resources is dependent on future Congressional appropriations or other funding. There is no legal certainty that the appropriations will be enacted.

Interior estimates certain accounts payable balances based on past history of payments in current periods that relate to prior periods or on a current assessment of services/products received but not paid.

Environmental and Disposal Liabilities. Interior has a responsibility to remediate the sites on Interior land that have environmental contamination; and, it is party to various administrative proceedings, legal actions, and tort claims which may result in settlements or decisions adverse to the Federal Government. Interior has accrued environmental liabilities when losses are determined to be probable and the amounts can be estimated. Such liabilities are probable when the government is responsible for creating the hazard or is otherwise legally liable to clean up the contamination.

When Interior is not legally liable, but chooses to accept financial responsibility, it is considered government-acknowledged. When Interior accepts financial responsibility for cleanup, has an appropriation for the cleanup, and has begun incurring cleanup costs, then any unpaid amounts for work performed are reported as accounts payable.

Changes in cleanup cost estimates are recorded based on progress made in and revision of the cleanup plans, assuming current technology, laws, and regulations.

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

M. Revenues and Financing Sources

Appropriations. Congress appropriates the majority of Interior's operating funds from the general receipts of the Treasury. These funds are made available to Interior for a specified time period (one or more fiscal years) or until expended. Appropriations are reflected as a financing source entitled “Appropriations Used” on the Statement of Changes in Net Position once goods and services have been received. Appropriations are reported as apportioned on the Statement of Budgetary Resources when authorized by legislation.

Exchange and Non-Exchange Revenue. Interior classifies revenues as either exchange revenue or non-exchange revenue.

Exchange revenues are those transactions in which Interior provides goods and services to another party for a price. These revenues are presented on the Statement of Net Cost and serve to offset the costs of these goods and services.

Non-exchange revenues result from donations to the government and from the government’s sovereign right to demand payment, including taxes, fines for violation of environmental laws, and abandoned mine land duties charged per ton of coal mined. These revenues are not considered to reduce the cost of Interior’s operations and are reported on the Statement of Changes in Net Position.

In certain cases, the prices charged for goods and services by Interior are set by law or regulation, which for program and other reasons may not represent full cost (e.g., grazing fees, park entrance, and other recreation fees). 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.

Interior transfers a portion of royalty collections from the custodial fund to the operating funds for distribution to certain states. In accordance with SFFAS 7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*, Interior reports these State amounts as “Royalties Retained,” and other budgetary financing sources on the Statement of Changes in Net Position, rather than on the Statement of Net Cost. This is mainly because BOEMRE and BOR incurred minimal costs in earning this revenue.

Custodial Revenue. Interior’s Minerals Revenue Management (MRM) administered by BOEMRE, collects royalties, rents, bonuses, and other receipts for Federal oil, gas, and mineral leases. MRM distributes the proceeds in accordance with legislated allocation formulas to U.S. Treasury accounts, other Federal agencies, states, and coastal political subdivisions. Interior is authorized to retain a portion of the custodial rental income collected to fund operating costs. Interior records custodial revenue based on accounts reported by producers. Custodial revenue is reported when the government has a legal claim to the revenue.

The royalty accrual, included in accounts receivable, represents royalties on September production of oil and gas leases for which Interior subsequently receives payment in October and November. The royalty accrual is estimated based on an analysis of the last 12 months of royalty activity and recent events. Interior does not record a liability for potential overpayments and refunds until requested by the payor or until Interior completes a compliance audit and determines the refundable amount. This is in accordance with the Federal Oil and Gas Royalty Management Act of 1982.

Royalty-in-Kind (RIK). Interior, under the provisions of the Mineral Lands Leasing Act of 1920 and the Outer Continental Shelf Lands Act of 1953, may take part or all of its oil and gas in RIK (a volume of the commodity) rather than in value (cash). Interior may either transfer the volume of oil or gas commodity taken in-kind to Federal agencies for internal use or sell the commodity on the open market at fair market value and transfer the cash received. Interior reflects RIK as mineral lease revenue on the Statement of Custodial Activity.

On September 16, 2009, Secretary Salazar announced the orderly termination of the RIK program. All current RIK contracts will be executed through the existing contract termination date; and, when the termination date is reached, Federal royalties previously paid in-kind will revert to being paid as royalty-in-value. Both RIK and royalty-in-value collections are reported as rents and royalties on the Statement of Custodial Activities.

Interior assisted the Administration’s initiative to fill the Strategic Petroleum Reserve and transferred to the Department of Energy (DOE) royalty oil received-in-kind from Federal leases in the Gulf of Mexico. Interior determines the value of the commodity transferred using the fair market value on the date of transfer. Interior reports these transfers as mineral lease revenue distributed to DOE on the Statement of Custodial Activity.

Imputed Financing Sources. In certain instances, operating costs of Interior are paid out of funds appropriated to other Federal agencies. For example, the Office of Personnel Management (OPM), by law, pays certain costs of retirement programs, and certain legal judgments against Interior are paid from the Judgment Fund maintained by Treasury. When costs that are identifiable to Interior and directly attributable to Interior's operations are paid for by other agencies, Interior recognizes these amounts as operating expenses. In addition, Interior recognizes an imputed financing source on the Consolidated Statement of Changes in Net Position to indicate the funding of Interior operations by other Federal agencies.

Advances and Deferred Revenue. Advances and deferred revenue received from Federal agencies primarily represent cash advances for shared administrative services and products to be provided to Federal agencies. Advances and deferred revenue from the public represent liabilities to perform services or deliver goods to customers that have remitted payment in advance.

N. Personnel Compensation and Benefits

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 that were appropriated to Interior as of the date of the financial statements. The amount accrued is based upon current pay rates of the employees. Sick leave and other types of leave are expensed when used and no liability is recognized for these amounts, as employees do not vest in these benefits.

Federal Employees Workers' Compensation Program (FECA). 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 FECA program is administered by the Department of Labor (DOL), which pays valid claims and subsequently seeks reimbursement from Interior for these paid claims.

The FECA liability consists of two components. The first component is based on actual claims paid by DOL but not yet reimbursed by Interior. Interior reimburses DOL for the amount of the actual claims as funds are appropriated for this purpose. There is generally a 2 to 3 year lag between payment by DOL and reimbursement by Interior. As a result, Interior recognizes a liability for the actual claims paid by DOL and to be reimbursed by Interior.

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. DOL determines this component annually, as of September 30, using a method that considers historical benefit payment patterns, wage inflation factors, medical inflation factors, and other variables. Interior recognizes an unfunded liability to DOL for these estimated future payments. 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 used to recognize the timing of benefit payments as 13 payments per year rather than an annual lump sum.

Federal Employees' Group Life Insurance Program (FEGLI). Most Interior employees are entitled to participate in the FEGLI Program. Participating employees can obtain "basic life" term life insurance, with the employee paying two-thirds of the cost and Interior 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 the basic life coverage. Because Interior's contributions to the basic life coverage are fully allocated by OPM to the preretirement portion of coverage, Interior has recognized the entire service cost of the postretirement portion of basic life coverage as an imputed cost and imputed financing source.

Retirement Programs. Interior employees participate in one of three retirement programs: (1) the Civil Service Retirement System (CSRS); (2) the Federal Employees Retirement System (FERS), which became effective on January 1, 1987; or (3) the United States Park Police (USPP) Pension Plan. The majority of Interior 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 employees participating in FERS, Interior contributes an amount equal to 1 percent of the employee's basic pay to the tax deferred Thrift Savings Plan and matches employee contributions up to an additional 4 percent of pay. Employees participating in CSRS receive no matching contribution from Interior.

OPM is responsible for reporting assets, accumulated plan benefits, and unfunded liabilities, if any, applicable to CSRS participants and FERS employees Government-wide, including Interior participants. Interior has recognized an imputed cost and imputed financing source for the difference between the estimated service cost and the contributions made by Interior and covered CSRS employees.

Police Officers hired by the NPS on or before December 31, 1985, participate in the USPP Pension Plan, which is administered by the District of Columbia. Each in-service member contributes 7 percent of his/her gross earnings. The normal retirement benefit is 2.5 percent for each year of service up to 20, with an additional 3 percent for each year beyond 20, but no more than an aggregate of 80 percent. Retirement is permitted after 20 years of service, but mandatory by the age of 60. Annual benefits paid from the USPP Pension Plan are funded on a pay-as-you-go basis through a permanent indefinite appropriation from the Treasury's General Fund. Police Officers hired by NPS after December 31, 1985 are covered under the provisions for Law Enforcement Officers under CSRS or FERS.

Interior reports the USPP pension liability and associated expense in accordance with OMB guidance. Interior estimates the future cost to provide benefits to current and future retirees using economic assumptions and historical cost information. The estimate is adjusted by the time value of money and the probability of having to pay benefits due to assumed decrements for mortality, morbidity, and terminations.

The actuarial liabilities are measured during the fiscal year using discount rate assumptions and on the valuation date in accordance with Statement of Federal Financial Accounting Standards (SFFAS) 33: Pensions, Other Retirement Benefits, and Other Post-employment Benefits: Reporting the Gains and Losses from Changes in Assumptions and Selecting Discount Rates and Valuation Dates, with roll-forward or projection adjustments for the effects of changes during the year in major factors such as pay increases, cost of living adjustments, and material changes in the number of participants.

O. Federal Government Transactions

Interior's financial activities interact with and are dependent upon the financial activities of the centralized management functions of the Federal government. These activities include public debt and cash management activities and employee retirement, life insurance, and health benefit programs. The financial statements of Interior do not contain the costs of centralized financial decisions and activities performed for the benefit of the entire government. However, expenses have been recognized as expenses incurred by other agencies on behalf of Interior, including settlement of claims and litigation paid by Treasury's Judgment Fund and the partial funding of employee benefits by OPM.

Transactions and balances among Interior's entities have been eliminated from the Balance Sheet, the Statement of Net Cost, and the Statement of Changes in Net Position. As provided for by OMB Circular A-136, the Statement of Budgetary Resources is presented on a combined basis; therefore, intradepartmental transactions and balances have not been eliminated from this statement. Intradepartmental transactions have been eliminated within the Statement of Custodial Activity. In order to present all custodial activity, the distributions to the Interior's entities have not been eliminated on the Statement of Custodial Activity and the Statement of Changes in Net Position.

P. Possessory Interest and Leasehold Surrender Interest (PI/LSI)

Interior has contracts with organizations that manage and operate hotels, lodges, restaurants, gift shops, and other concession operations at various parks. In accordance with legislation and the contracts, some of these concessioners have a possessory interest or leasehold surrender interest (PI/LSI) in certain real property construction or improvements that the concessioner pays for and Interior approves.

A concessioner's interest may be extinguished provided the concessioner is compensated for the PI/LSI in accordance with concession laws and contracts. At the end of the contract period, PI/LSI amounts are negotiated and either incorporated into new contracts or extinguished through payment. Payment for this interest has been made by a subsequent concessioner in most situations.

Interior does not report the assets used by concessioners in its financial statements because the concessioners control the benefits of the assets and have the responsibilities of the risks and maintenance of the assets. In addition, Interior does not report a PI/LSI liability at the time a concessioner receives PI/LSI because an event of financial consequence has not occurred. However, Interior does record a liability at the time that Interior decides to discontinue a concession operation or take possession of the assets.

Interior has concession agreements which contain provisions that provide for the establishment of escrow-type accounts to be used to develop, improve, and maintain visitor facilities. The concessioner periodically deposits a percentage of gross revenue in the account as provided in the concessioner agreement. These Special Account funds are maintained in separate interest-bearing bank accounts for the concessioners, are not assets of Interior, and may not be used in Interior operations. Therefore, the balances, inflows, and outflows of these concessioner Special Accounts are not recognized in the financial statements.

Q. Liability for Capital Transfers to the General Fund of the Treasury

Interior receives appropriations from Treasury's General Fund to construct, operate, and maintain various multipurpose projects. Many of the projects have reimbursable components, for which Interior is required to recover the capital investment and operating costs through user fees – mainly the sale of water and power. These recoveries are deposited in Treasury's General Fund.

Interior records a liability for appropriations determined to be recoverable from project beneficiaries. The liability is decreased when reimbursements are received from Interior's customers and subsequently transferred to Treasury's General Fund.

For additional information, see Note 21, Liability for Capital Transfers to the General Fund of the Treasury.

R. Earmarked Funds

Earmarked funds are financed by specifically identified revenues and other financing sources. These funds are required by statute to be used for designated activities or purposes and must be accounted for separately from the Federal government's General Fund.

The Federal Government does not set aside assets to pay future expenditures associated with earmarked funds. The cash generated from earmarked funds is used by the U.S. Treasury for general government purposes. Treasury securities are issued to the earmarked fund as evidence of earmarked receipts and provide the earmarked fund with the authority to draw upon the U.S. Treasury for future authorized expenditures. These securities are an asset to the earmarked fund and are presented as investments in the table accompanying Note 20, Earmarked Funds. Treasury securities are a liability of the Treasury and are eliminated in the consolidation of the U.S. government wide financial statements. Treasury will finance any future redemption of the securities by an earmarked fund in the same manner that all other government expenditures are financed.

S. Allocation Transfers

Interior is a party to allocation transfers with other Federal agencies as both a transferring (parent) entity and a receiving (child) entity. Allocation transfers are legal delegations by one Department to obligate budget authority and outlay funds to another Department. A separate fund (allocation account) is created in Treasury as a subset of the parent fund account for tracking and reporting purposes. All allocation transfers of balances are credited to this account and subsequently obligations and outlays incurred by the child entity are charged to this allocation account as the child entities execute the delegated activity on behalf of the parent entity. All financial activity related to these allocation transfers is reported in the financial statements of the parent entity from which the underlying legislative authority, appropriations, and budget apportionments are derived. Interior allocated funds, as a parent, to the Department of Agriculture, the Department of Transportation, and the Army Corps of Engineers. Interior receives allocation transfers, as the child, from the Department of Agriculture, the Department of Health and Human Services, the Department of Labor, the Department of Transportation, the Army Corps of Engineers, and the U.S. Agency for International Development.

Effective October 1, 2009, Interior changed the reporting of costs and exchange revenue related to allocation transfer accounts within Interior to better align the costs and exchange revenue with the entities responsible for managing such revenue and costs. For fiscal year 2010, the Interior components with child allocation transfer accounts reported both the budgetary and proprietary activity that they manage rather than having the component with the parent account report such activity. As a result, the FY 2010 schedule of intragovernmental costs and exchange revenue by responsibility segment is not comparable to the FY 2009 schedule of intragovernmental costs and exchange revenue by responsibility segment. This change caused a net decrease in costs and earned revenue reported in Interior's DO and IA responsibility segments and a net increase in costs and earned revenue reported in Interior's FWS, BLM, USGS, BOR, and NPS responsibility segments.

T. Income Taxes

As an agency of the Federal government, Interior is generally exempt from all income taxes imposed by any governing body, whether it be a Federal, state, commonwealth, local, or foreign government.

U. Estimates

Interior has made certain estimates and assumptions related to the reporting of assets, liabilities, revenues, expenses, and the disclosure of contingent liabilities to prepare these financial statements. Actual results could differ from these estimates.

V. Fiduciary Activities

Fiduciary activities are the collection or receipt, and the management, protection, accounting, investment and disposition by the Federal Government of cash or other assets in which non-Federal individuals or entities have an ownership interest the Federal government must uphold. Fiduciary cash and other assets are not assets of the Federal government and are not recognized on the balance sheet. Fiduciary activities are no longer recognized on the proprietary financial statements (see SFFAS 31, Accounting for Fiduciary Activities).

W. Change in Organization

The Deepwater Horizon tragedy and the resulting British Petroleum oil spill in the Gulf of Mexico have underscored the need for fundamental structural and functional reform of the Minerals Management Service (MMS). On May 19, 2010, Secretary Salazar announced the restructuring of MMS to the Bureau of Ocean Energy Management, Regulation and Enforcement (BOEMRE) by issuing Secretarial Order No. 3299. The structure established in Secretarial Order No. 3299 reflects Interior's conclusions regarding how best to achieve the goals of mission independence, appropriate checks and balances, and rigorous oversight, while maintaining ongoing communication and coordination necessary to facilitate an effective, efficient, and predictable process.

Specifically, MMS's successor organization will be divided into three new entities. First, the Office of Natural Resources Revenue (ONRR) will perform the roles of the former Minerals Revenue Management organization and report to the Assistant Secretary for Policy, Management and Budget. Second, the Bureau of Ocean Energy Management and the Bureau of Safety and Environmental Enforcement will divide the duties of the former Offshore Energy and Minerals Management organization, with the former managing the development of conventional and renewable resources and minerals on the Outer Continental Shelf, and the latter providing safety and environmental oversight. These new Bureaus will report to the Assistant Secretary for Land and Minerals Management.

Under Secretarial Order No. 3302, signed June 18, 2010, Secretary Salazar changed the name of the Minerals Management Service to the Bureau of Ocean Energy Management, Regulation and Enforcement (BOEMRE) while the agency undergoes reorganization and reform.

The Secretary further ordered the establishment of an Investigations and Review Unit (IRU) within BOEMRE to: (1) promptly and credibly respond to allegations or evidence of misconduct and unethical behavior by BOEMRE employees as well as by industry; (2) oversee and coordinate BOEMRE's internal auditing, regulatory oversight and enforcement systems and programs; and (3) assure BOEMRE's ability to respond swiftly to emerging issues and crises, including significant incidents such as spills, accidents and other crises. As appropriate, the IRU's functions and capabilities will continue in the new organizations.

On September 30, 2010, the Secretary of Interior issued Secretarial Order 3306, officially transitioning the MRM program to the Office of Natural Resources Revenue (ONRR), effective October 1, 2010. Also effective October 1, 2010, the new ONRR organization transferred out of BOEMRE and from the Assistant Secretary for Land and Minerals Management (AS-LMM), into the Department of Interior, Office of the Secretary (OS) under the Assistant Secretary for Policy, Management and Budget (AS-PMB). The Director of ONRR will report to a newly created Deputy Assistant Secretary (DAS) for Natural Resources Revenue who will report to the AS-PMB.

X. Subsequent Events

Effective August 4, 2010, Interior adopted SSFAS No. 39, *Subsequent Events: Codification of Accounting and Financial Reporting Standards Contained in* *the AICPA Statements on Auditing Standards.* In accordance with the standard, Interior: (1) identifies any subsequent events as "recognized" (events relating to conditions that existed as of September 30, 2010) or "unrecognized" (events that did not exist at September 30, 2010 but arose subsequent to September 30, 2010); and (2) makes appropriate adjustments to financial statements, notes to the financial statements, or RSI for recognized events and makes appropriate disclosures in the notes to financial statements or RSI for unrecognized events.

Y. Change in Accounting Policy

In July of 2010, OMB issued guidance stating that the revenues as collected by the Department of Energy Power Marketing Agencies and deposited to the Reclamation Fund, are to be reported as Distributed Offsetting Receipts by the Department of Energy and should no longer be reported by Interior on its financial statements. Interior has adopted this change prospectively, and as such, has removed these deposits from the FY 2010 Distributed Offsetting Receipts line on the Statement of Budgetary Resources. The FY 2009 Distributed Offsetting Receipts line includes $204 million in power revenues as collected by the Department of Energy Power Marketing Agencies.

NOTE 2. FUND BALANCE WITH TREASURY

Fund Balance with Treasury by fund type as of September 30, 2010 and 2009, consists of the following:

(dollars in thousands)	FY 2010	FY 2009
General Funds	$ 8,798,946	$ 9,417,771
Special Funds	31,804,348	30,623,426
Revolving Funds	1,305,372	1,311,248
Trust Funds	196,267	167,285
Other Fund Types	256,813	208,987
Total Fund Balance with Treasury by Fund Type	$ 42,361,746	$ 41,728,717

Treasury performs cash management activities for all Federal agencies. The net activity represents Fund Balance with Treasury. The Fund Balance with Treasury represents the right of Interior to draw down funds from Treasury for expenses and liabilities.

The “Status of the Fund Balance with Treasury” may be classified as unobligated available, unobligated unavailable, or obligated. Unobligated funds, depending on budget authority, are generally available for new obligations in current operations. The unavailable balance also includes amounts appropriated in prior fiscal years, which are not available to fund new obligations. The obligated but not yet disbursed balance represents amounts designated for payment of goods and services ordered but not yet received; or goods and services received, but for which payment has not yet been made. The unavailable amounts are primarily comprised of funds in unavailable collection accounts, such as the Land and Water Conservation Fund and the Reclamation Fund, which are not available to Interior for use unless appropriated by Congress.

Obligated and unobligated balances reported for the status of fund balance with Treasury do not agree with obligated and unobligated balances reported in the Combined Statement of Budgetary Resources because the budgetary balances are supported by amounts other than fund balance with Treasury, such as investments in Treasury securities.

The Fund Balances with Treasury are reconciled on a monthly basis to the balances in the general ledger. Differences are related to temporary timing differences between submission to Treasury and recognition in the general ledger.

Status of Fund Balance with Treasury as of September 30, 2010 and 2009, consists of the following:

(dollars in thousands)	FY 2010	FY 2009
Unobligated		
Available	$ 5,085,511	$ 7,390,640
Unavailable	188,548	182,717
Obligated Not Yet Disbursed	8,054,864	6,478,504
Subtotal	13,328,923	14,051,861
Fund Balance with Treasury Not Covered by Budgetary Resources		
Unavailable Receipt Accounts	28,857,320	27,507,009
Clearing and Deposit Accounts	175,503	169,847
Subtotal	29,032,823	27,676,856
Total Status of Fund Balance with Treasury	$ 42,361,746	$ 41,728,717

NOTE 3. INVESTMENTS, NET

Interior invests funds in Federal Government and public securities on behalf of various Interior programs and for amounts held in certain escrow accounts. The Federal government securities include marketable Treasury securities and/or nonmarketable, market-based securities issued by the Federal Investment Branch of the Bureau of the Public Debt. Market-based securities are Treasury securities that are not traded on any securities exchange but mirror the prices of marketable securities with similar terms.

Public securities include, but are not limited to, marketable securities issued by government-sponsored entities and consist mainly of various mortgage instruments, bonds, and bank notes. Interior generally invests in mortgage instruments issued by the Federal National Mortgage Association and the Federal Home Loan Mortgage Corporation.

Investments as of September 30, 2010, consist of the following:

(dollars in thousands)	Cost	Net Amortized (Premium)/ Discount	Investments, Net	Market Value Disclosure
U.S. Treasury Securities				
Marketable	$ 54,568	-	$ 54,568	$ 54,568
Nonmarketable, market-based	7,231,380	(17,471)	7,213,909	7,510,439
Total U.S. Treasury Securities	7,285,948	(17,471)	7,268,477	7,565,007
Accrued Interest	21,807	-	21,807	-
Total Non-Public Investments	7,307,755	(17,471)	7,290,284	7,565,007
Public Securities				
Marketable	21	-	21	21
Total Public Securities	21	-	21	21
Total Public Investments	21	-	21	21
Total Investments	$ 7,307,776	$ (17,471)	$ 7,290,305	7,565,028

Investments as of September 30, 2009, consist of the following:

(dollars in thousands)	Cost	Net Amortized (Premium)/ Discount	Investments, Net	Market Value Disclosure
U.S. Treasury Securities				
Marketable	$ 61,070	$ -	$ 61,070	$ 61,070
Nonmarketable, market-based	6,993,748	(26,653)	6,967,095	7,184,741
Total U.S. Treasury Securities	7,054,818	(26,653)	7,028,165	7,245,811
Accrued Interest	23,985	-	23,985	-
Total Non-Public Investments	7,078,803	(26,653)	7,052,150	7,245,811
Public Securities				
Marketable	23	-	23	23
Total Public Securities	23	-	23	23
Total Public Investments	23	-	23	23
Total Investments	$ 7,078,826	$ (26,653)	$ 7,052,173	$ 7,245,834

NOTE 4. ACCOUNTS AND INTEREST RECEIVABLE, NET

Due From the Public, Net. Accounts receivable due to Interior from the public may arise either from the sale of products and services or from the imposition of regulatory fines and penalties. Products and services sold by Interior are diverse and include mineral leases sold, from which royalties are then collected; the sale of water; water testing and other scientific studies conducted for State and local governments; remittance of fees from park concessioners collected by NPS; and, fees for irrigation and power services collected by IA. Fines and penalties are imposed in the enforcement of various environmental laws and regulations. Unbilled receivables reflect work performed to date on agreements and uncollected revenue for royalties due subsequent to year-end, which will be billed in the future.

Recovery of Reimbursable Capital Costs. BOR enters into long-term repayment contracts and water service contracts with non-Federal (public) water users that allow the use of irrigation and municipal and industrial (M&I) water facilities in exchange for annual payments to repay a portion of the Federal investment allocation to the construction of reimbursable irrigation and M&I water facilities. Also, power-marketing agencies enter into agreements with power users to recover capital investment costs allocated to power, on BOR's behalf. Costs associated with multipurpose plants are allocated to the various purposes through a cost allocation process. Generally, only those costs associated with power, irrigation, and M&I water are reimbursable. The typical repayment contract is up to 40 years, but may extend to 50 years or more if authorized by Congress.

Unmatured repayment contracts are recognized on the Balance Sheet when the annual repayment amount is earned, at which time current accounts receivable and current period exchange revenue is recorded. As of September 30, 2010 and September 30, 2009, amounts not yet earned under unmatured repayment contracts were $2.6 billion and 2.7 billion, respectively.

Due from Federal Agencies, Net. Accounts receivable due from Federal agencies arise from the sale of products and services to other Federal agencies, including the sale of maps, the performance of environmental and scientific services, and administrative and other services. These reimbursable arrangements generally reduce the duplication of effort within the Federal Government resulting in a lower cost of Federal programs and services. Substantially all receivables from other Federal agencies are considered to be collectible, as there is no credit risk. However, an allowance for doubtful accounts is used occasionally to recognize billing disputes.

Accounts and Interest Receivable from Federal entities consist of the following as of September 30, 2010 and 2009:

(dollars in thousands)	FY 2010	FY 2009
Accounts and Interest Receivable from Federal Agencies		
Billed	$ 1,293,372	$ 1,301,332
Unbilled	570,760	2,675,155
Total Accounts and Interest Receivable - Federal	$ 1,864,132	$ 3,976,487

Accounts and Interest Receivable from the Public consist of the following as of September 30, 2010 and 2009:

(dollars in thousands)	FY 2010	FY 2009
Total Billed Accounts and Interest Receivable - Public	$ 259,066	$ 242,752
Unbilled Accounts and Interest Receivable - Public	1,145,243	1,260,801
Total Accounts and Interest Receivable - Public	1,404,309	1,503,553
Allowance for Doubtful Accounts - Public	(119,306)	(276,739)
Total Accounts and Interest Receivable - Public, Net	$ 1,285,003	$ 1,226,814

NOTE 5. INTRAGOVERNMENTAL LOANS AND INTEREST RECEIVABLE, NET

Intragovernmental Loans and Interest Receivable, as of September 30, 2010 and 2009, are summarized as follows:

(dollars in thousands)	FY 2010	FY 2009
Principal	$ 7,173,016	$ 7,019,127
Interest	2,688,648	2,524,845
Cumulative Repayments	(6,297,319)	(6,183,514)
Allowance for Non-Reimbursable Costs	(330,005)	(21,702)
Intragovernmental Loans and Interest Receivable, Net	$ 3,234,340	$ 3,338,756

The interest rate for 2010 was 4% and range from 4.5 percent to 7.1 percent for FY 2009. Repayment terms are generally over a period not to exceed 50 years from the time revenue producing assets are placed in service.

NOTE 6. LOANS AND INTEREST RECEIVABLE, NET

Direct loans and loan guarantees made prior to FY 1992 were funded by Congressional appropriation from general or special funds. These loans, referred to as liquidating loans, are reported net of an allowance for estimated uncollectible loans. Net loans receivable, or the value of the assets related to direct loans, is not necessarily equal to the proceeds that could be expected from selling these loans.

Direct loans and loan guarantees made after FY 1991 are governed by the Federal Credit Reform Act (FCRA). Under credit reform, loans are comprised of two components. The first component is borrowed from Treasury with repayment provisions. The second component is for the subsidized portion of the loan and is funded by Congressional appropriation. FCRA provides that the present value of the subsidy costs (i.e., interest rate differentials, interest subsidies, estimated delinquencies and defaults, fee offsets, and other cash flows) associated with the direct loans and loan guarantees be recognized as a cost in the year the direct or guaranteed loan is disbursed. While this component is not subject to repayment, the loan program receives appropriations to fund any increases in subsidy due to interest rate fluctuations and changes in default rate estimates. Included in the financial statements is a subsidy reestimate computed at the end of the fiscal year. The amounts included in the consolidated financial statements are not reported in the budget until the following fiscal year.

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

In FY 2010 and 2009 there were no other changes in economic conditions, other risk factors, legislation, credit policies, and assumptions that have had a significant and measurable effect on subsidy rates, subsidy expense, and subsidy re-estimates. For FY 2010 and 2009, there were no additional loan appropriations; therefore, there is no budget subsidy rate.

Indian Affairs. IA provides guaranteed loans to Indian Tribes and organizations, Indian individuals, and Alaska Natives for economic development purposes. The IA loan program includes the Indian Direct Loan Program (which ceased providing loans in 1995), the Indian Loan Guarantee Program under the FCRA, and a Liquidating Fund for loans made prior to 1992.

Interest is accrued daily on the outstanding principal balance of direct and assigned loans based on a 360-day year for precredit reform loans and a 365-day year for credit reform loans. The interest rate charged on each loan is the Indian Financing Act rate that was effective at the time the loan was made. Interest is accrued on current and delinquent loans. Late fees accrue if a payment is received 15 days after its due date. For pre-credit reform loans, the amount of interest and late fees receivable is reduced by an allowance for uncollectible accounts. For credit reform direct loans, the interest and late fees receivable are considered in the subsidy allowance account.

Bureau of Reclamation. BOR operates loan programs that provide Federal assistance to non-Federal organizations for constructing or improving water resource projects in the Western States. Reclamation's loan programs are authorized under the Small Reclamation Projects Act of 1956, the Distribution System Loans Act, the Rural Development and Policy Act of 1980, and the Rehabilitation and Betterment Act.

Other loans consist primarily of drought relief and repayment loans. The other loans receivable balances represent amounts due to BOR, net of an allowance for estimated uncollectible loan balances. The allowance is determined by management for loan balances where collectability is considered to be uncertain based on various factors, including age, past experience, present market and economic conditions, and characteristics of debtors.

Loan interest rates vary depending on the applicable legislation; in some cases, there is no stated interest rate on agricultural and Native American loans. Interest on applicable loans does not accrue until the loan enters repayment status.

The subsidy expense reported for FY 2010 and FY 2009 includes a technical reestimate

Departmental Offices (DO). DO has one post credit reform loan to the American Samoa Government (ASG).

In 2001, a loan was extended to ASG. The total was approved for $18.6 million and made available to ASG bearing interest at a rate equal to the Treasury cost of borrowing for obligations of similar duration. The proceeds of the loan were used by ASG for debt reduction and fiscal reform. Each year Interior reserves the amount of the loan that is required, based on reassessment of the loan's collectability.

National Park Service. NPS has a single noninterest bearing loan with the Wolf Trap Foundation for the Performing Arts with an original loan principal totaling $8.56 million. The loan principal is to be repaid to the NPS within 25 years from June 1, 1991. The loan principal is repaid in equal annual installments of approximately $360,000. Repayment of the loan principal may include a credit of up to $60,000 annually for public service tickets given to entities exempt from taxation pursuant to section 501(c)(3) of the Internal Revenue Code of 1986. In FY 2010 and 2009, NPS granted the full $60,000 credit to Wolf Trap. The monies received in repayment of this loan may be retained by NPS until expended, in consultation with the Wolf Trap Foundation, for the maintenance of structures, facilities, and equipment of the park.

Outstanding loan balances, as of September 30, 2010 and 2009, are summarized as follows:

A. Direct Loan and Loan Guarantee Program Names:	*(dollars in thousands)*	
	FY 2010	FY 2009
Indian Affairs - Direct Liquidating Loans (Pre-Credit Reform)	$ 5,536	$ 10,471
Indian Affairs - Direct Loans (Credit Reform)	6,047	6,687
Indian Affairs - Guaranteed Liquidating Loans (Pre-Credit Reform)	72	86
Indian Affairs - Guaranteed Loans (Credit Reform)	1,693	1,354
Bureau of Reclamation - Direct Loans (Pre-Credit Reform)	35,409	38,719
Bureau of Reclamation - Direct Loans (Credit Reform)	47,264	49,580
Departmental Offices - American Samoa Government (Credit Reform)	4,040	-
National Park Service - Wolf Trap Foundation (Pre-Credit Reform)	1,799	2,159
Total Loans and Interest Receivable, Net	$ 101,860	$ 109,056

B. Direct Loans Obligated Prior to FY 1992 (Allowance for Loss Method): *(dollars in thousands)*

	Direct Loan Programs (Pre-Credit Reform)	Loans Receivable Gross	Interest Receivable	Allowance For Loan Losses	Foreclosed Property	Direct Loans, Net
	Indian Affairs - Direct Liquidating Loans	$ 4,750	$ 1,783	$ (997)	-	$ 5,536
	Bureau of Reclamation - Direct Loans	42,594	70	(7,255)	-	35,409
	National Park Service - Wolf Trap Foundation	1,799	-	-	-	1,799
FY 2010	Total	$ 49,143	$ 1,853	$ (8,252)	-	$ 42,744
	Indian Affairs - Direct Liquidating Loans	9,821	1,700	(1,050)	-	10,471
	Bureau of Reclamation - Direct Loans	45,902	72	(7,255)	-	38,719
	National Park Service - Wolf Trap Foundation	2,159	-	-	-	2,159
FY 2009	Total	$ 57,882	$ 1,772	$ (8,305)	$ -	$ 51,349

C. Direct Loans Obligated After FY 1991: *(dollars in thousands)*

	Direct Loan Programs (Credit Reform)	Loans Receivable Gross	Interest Receivable	Foreclosed Property	Allowance for Subsidy Cost	Value of Assets Related to Direct Loans
	Indian Affairs - Direct Loans	$ 4,064	$ 276	-	$ 1,707	$ 6,047
	Bureau of Reclamation - Direct Loans	69,215	-	-	(21,951)	47,264
	Departmental Offices - American Samoa Government (Credit Reform)	13,467	369	-	(9,796)	4,040
FY 2010	Total	$ 86,746	$ 645	-	$ (30,040)	$ 57,351
	Indian Affairs - Direct Loans	$ 4,954	$ 215	-	$ 1,518	$ 6,687
	Bureau of Reclamation - Direct Loans	73,524	14,220	-	(38,164)	49,580
	Departmental Offices - American Samoa Government (Credit Reform)	14,585	534	-	(15,119)	-
FY 2009	Total	$ 93,063	$ 14,969	-	$ (51,765)	$ 56,267

D. Subsidy Expense for Direct Loans by Program and Component: *(dollars in thousands)*

	Modifications and Reestimates Direct Loan Programs (Credit Reform)	Total Modifications	Interest Rate Reestimates	Technical Reestimates	Total Reestimates
	Indian Affairs	$ -	$ (470)	$ 711	$241
	Bureau of Reclamation	-	-	(18,802)	(18,802)
	Departmental Offices - American Samoa Government (Credit Reform)	-	-	(4,042)	(4,042)
FY 2010	Total	$ -	$ (470)	$ (22,133)	$ (22,603)
	Indian Affairs	$ -	$ (561)	$ 664	$ 103
	Bureau of Reclamation	-	-	(852)	(852)
FY 2009	Total	$ -	$ (561)	$ (188)	$ (749)

Total Direct Loan Subsidy Expense Direct Loan Programs (Credit Reform)	FY 2010	FY 2009
Indian Affairs	$ 241	$ 103
Bureau of Reclamation	(18,802)	(852)
Departmental Offices - American Samoa Government (Credit Reform)	(4,042)	-
Total	$ (22,603)	$ (749)

E. Schedule for Reconciling Direct Loan Subsidy Cost Allowance Balances (Post-1991 Direct Loans) *(dollars in thousands)*	FY 2010	FY 2009
Beginning balance of the subsidy cost allowance	$ 51,765	$ 41,185
Adjustments:		
(a) Loans written off	(358)	11
(b) Subsidy allowance amortization	1,236	11,318
Ending balance of the subsidy cost allowance before reestimates	52,643	52,514
Add or subtract subsidy reestimates by component:		
(a) Interest rate reestimate	(470)	(561)
(b) Technical/default reestimate	(22,134)	(188)
Total of the above reestimate components	(22,604)	(749)
Ending balance of the subsidy cost allowance	$ 30,039	$ 51,765

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

F. Defaulted Guaranteed Loans from Pre-1992 Guarantees (Allowance for Loss Method): *(dollars in thousands)*

Guaranteed Liquidating Loans (Pre-Credit Reform)	Defaulted Guaranteed Loans Receivable, Gross	Interest Receivable	Foreclosed Property	Allowance for Loan Losses	Value of Assets Related to Defaulted Guaranteed Loans, Receivable, Net
FY 2010	$ 1,685	$ 690	-	$ (2,303)	$ 72
FY 2009	$ 2,008	$ 891	-	$ (2,813)	$ 86

G. Defaulted Guaranteed Loans from Post-1991 Guarantees (Present Value Method): *(dollars in thousands)*

Guaranteed Liquidating Loans (Credit Reform)	Defaulted Guaranteed Loans Receivable, Gross	Interest Receivable	Foreclosed Property	Allowance for Subsidy Cost (Present Value)	Value of Assets Related to Defaulted Guaranteed Loans, Receivable, Net
FY 2010	$ 15,595	$ 2,662	-	$ (16,564)	$ 1,693
FY 2009	$ 12,628	$ 1,815	-	$ (13,089)	$ 1,354

H. Guaranteed Loans Outstanding as of September 30, 2010:	*(dollars in thousands)*	
Loan Guarantee Programs	**Outstanding Principal of Guaranteed Loans, Face Value**	**Amount of Outstanding Principal Guaranteed**
Pre-1992	$ 94	$ 84
FY1992-2008	335,976	301,710
FY2009	66,645	59,788
FY2010	52,038	46,834
Total	$ 454,753	$ 408,416
New Guaranteed Loans Disbursed (Current reporting year):		
Amount Paid in FY2010 for Prior Years	$ 66,476	$ 59,828
Amount Paid in FY2010 for 2010 Guarantees	51,455	46,310
FY 2010 Total	117,931	106,138
Amount Paid in FY2009 for Prior Years	47,261	42,535
Amount Paid in FY2009 for 2009 Guarantees	31,316	28,185
FY 2009 Total	$ 78,577	$ 70,720

I. Liability for Loan Guarantees:			*(dollars in thousands)*
Guaranteed Liquidation Loans (Pre-Credit Reform)	**Liabilities for Losses on Pre-1992 Guarantees, Estimated Future Default Claims**	**Liabilities for Loan Guarantees, for Post-1991 Guarantees, Present Value**	**Total Liabilities for Loan Guarantees**
Liability for Loan Guarantees (Estimated Future Default Claims for pre-1992 guarantees):			
FY 2010	-	$ 62,763	$ 62,763
FY 2009	-	$ 50,779	$ 50,779

J. Subsidy Expense for Loan Guarantees by Program and Component:					*(dollars in thousands)*
Guaranteed Loans (Credit Reform)	**Interest Supplements**	**Defaults**	**Fees and Other Collections**	**Other**	**Total**
Subsidy Expense for New Loan Guarantees:					
FY 2010	$ 5,474	$ 5,407	$ (2,129)	-	$ 8,752
FY 2009	$ 3,352	$ 3,595	$ (1,409)	-	$ 5,538

Guaranteed Loans (Credit Reform)	**Total Modifications**	**Interest Rate Reestimates**	**Technical Reestimates**	**Total**
Modifications and Reestimates				
FY 2010 Total	-	985	1,859	2,844
FY 2009 Total	$ -	$ 3,799	$ 11,214	$ 15,013

Total Loan Guarantee Program Subsidy Expense	**FY 2010**	**FY 2009**
Indian Affairs	$ 11,596	$ 20,551

K. Subsidy Rates for Loan Guarantees by Program and Component:

Guaranteed Loans (Credit Reform)	Interest Supplements	Defaults	Fees and Other Collections	Other	Total
Budget Subsidy Rates for Loan Guarantees for the Current Year's Cohorts:					
FY 2010	5.00%	4.00%	(2.00%)	0.00%	7.00%
FY 2009	5.00%	4.50%	(1.80%)	0.00%	7.70%

L. Schedule for Reconciling Loan Guarantee Liability Balances: *(dollars in thousands)*

	FY 2010	FY 2009
Beginning balance of the loan guarantee liability	$ 50,779	$ 36,180
Add: Subsidy expense for guaranteed loans disbursed during the reporting years by component:		
(a) Interest supplement costs	5,474	3,352
(b) Default costs (net of recoveries)	5,407	3,595
(c) Fees and other collections	(2,129)	(1,409)
Total of the above subsidy expense components	8,752	5,538
Adjustments:		
(a) Fees received	2,120	1,122
(b) Interest supplements paid	(1,540)	(2,134)
(c) Claim payments to lenders	(3,218)	(7,561)
(d) Interest accumulation on the liability balance	3,773	2,544
(e) Other (recovery, revenue, and prior period adjustments)	(748)	76
Ending balance of the loan guarantee liability before reestimates	$ 59,918	35,765
Add or subtract subsidy reestimates by component:		
(a) Interest rate reestimate	985	3,799
(b) Technical/default reestimate	1,859	11,214
Total of the above reestimate components	2,844	15,013
Ending balance of the loan guarantee liability	$ 62,762	$ 50,779

M. Administrative Expense: *(dollars in thousands)*

	Direct Loans (Credit Reform)	Guaranteed Loans Programs
FY 2010	$ 89	$ 1,982
FY 2009	$ 138	$ 1,560

NOTE 7. INVENTORY AND RELATED PROPERTY, NET

Interior's inventory and related property is primarily composed of published maps; gas and storage rights; operating supplies for the Working Capital Fund; airplane parts and fuel; and recoverable, below-ground, crude helium. These inventories were categorized based on Interior's major activities and the services Interior provides to the Federal Government and the public. There are no restrictions on these inventories. The USGS maintains maps and map products that are located at several Earth Science Information Centers across the United States. The BLM maintains a helium stockpile inventory which is stored in a partially depleted natural gas reservoir. Aircraft fuel and parts are held in inventory as operating materials to be consumed and are valued at historical cost, based on the moving average cost method. The value of this inventory is adjusted based on the results of periodic physical inventories. Interior's Working Capital Fund maintains an inventory of operating materials that will be consumed during future operations.

Inventory and Related Property as of September 30, 2010 and 2009, consist of the following:

(dollars in thousands)	FY 2010	FY 2009
Inventory		
Published Maps Held for Current Sale	$ 6,243	$ 7,564
Gas and Storage Rights held for Current Sale	870	882
Operating Materials		
Working Capital Fund: Inventory Held for Use	2,676	3,359
Airplane Parts and Fuel Held for Use	1,683	1,016
Stockpile Materials		
Recoverable Below-Ground Crude Helium Held in Reserve	7,235	7,235
Recoverable Below-Ground Crude Helium Held for Sale*	192,858	211,443
Total Inventory and Related Property	211,565	231,499
Allowance for Obsolescence	(5,891)	(7,135)
Inventory and Related Property, Net	$ 205,674	$ 224,364

* The difference in carrying value and the estimated selling price of recoverable below ground crude helium held for sale is $842,769 ($1,035,627 - $192,858) and $880,140 ($1,091,583 - $211,443) at September 30, 2010 and 2009, respectively. Valuation methods and other information regarding inventories are presented in Note 1.H.

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

General purpose property, plant, and equipment (PP&E) consists of buildings, structures, and facilities used for general operations, power, irrigation, fish protection, wildlife enhancement, and recreation; land and land improvements acquired for general operating purposes; equipment, vehicles, and aircraft; construction in progress; capital leases; leasehold improvements; and internal use software.

All general purpose PP&E are capitalized at acquisition cost and depreciated using the straight-line amortization method over the assigned useful lives of the property.

PP&E categories with corresponding accumulated depreciation as of September 30, 2010, are shown in the following table:

(dollars in thousands)	Acquisition Cost	Accumulated Depreciation	Net Book Value
Land and Land Improvements	$ 2,170,080	$ 96,344	$ 2,073,736
Buildings	3,944,444	1,547,688	2,396,756
Structures and Facilities	21,041,025	10,125,537	10,915,488
Leasehold Improvements	42,823	22,039	20,784
Construction in Progress			
Construction in Progress - General	2,591,547	-	2,591,547
Construction in Progress in Abeyance	575,690	-	575,690
Equipment, Vehicles, and Aircraft	2,051,590	1,252,855	798,735
Assets Under Capital Lease	54,287	22,460	31,827
Internal Use Software:			
In Use	251,249	161,824	89,425
In Development	197,238	-	197,238
Total Property, Plant, and Equipment	$ 32,919,973	$ 13,228,747	$ 19,691,226

PP&E categories with corresponding accumulated depreciation as of September 30, 2009, are shown in the following table:

(dollars in thousands)	Acquisition Cost	Accumulated Depreciation	Net Book Value
Land and Land Improvements	$ 2,150,650	$ 89,045	$ 2,061,605
Buildings	3,627,797	1,470,249	2,157,548
Structures and Facilities	20,616,461	9,842,522	10,773,939
Leasehold Improvements	62,823	30,679	32,144
Construction in Progress			
Construction in Progress - General	2,333,982	-	2,333,982
Construction in Progress in Abeyance	575,004	-	575,004
Equipment, Vehicles, and Aircraft	1,939,306	1,213,934	725,372
Assets Under Capital Lease	76,740	29,551	47,189
Internal Use Software:			
In Use	237,200	117,188	120,012
In Development	162,996	-	162,996
Total Property, Plant, and Equipment	$ 31,782,959	$ 12,793,168	$ 18,989,791

NOTE 9. STEWARDSHIP ASSETS

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

The predominant laws governing the management of stewardship land are the NPS Organic Act of 1916 and the Federal Land Policy and Management Act (FLPMA) of 1976. However, there are many other significant laws that provide additional guidance on various aspects of stewardship land. Combined, these laws direct the management of the land for the benefit of present and future generations.

FLPMA created the concept of multiple use, which Congress defines as management of both the land and the use of the land in a combination that will best meet the present and future needs of the American people. The resources and uses embraced by the multiple use concept include mineral development; natural, scenic, scientific, and historical values; outdoor recreation; livestock grazing; timber management; watersheds; and wildlife and fish habitat.

The preservation and management of heritage assets located on Federal lands or preserved in Federal and non-Federal facilities is guided chiefly by the Antiquities Act of 1906; the Archaeological Resources Protection Act of 1979, as amended; Curation of Federally-Owned and Administered Archeological Collections; the Native American Graves Protection and Repatriation Act of 1990; the National Historic Preservation Act of 1996; and Executive Order 13287 "Preserve America."

Through these laws and regulations, Interior strives to preserve and manage stewardship land and heritage assets so that their value is preserved intelligently and that they are thoughtfully integrated into the needs of the surrounding communities. The cited legislation is implemented through Interior policy and guidance, whereby continuous program management evaluations and technical reviews ensure compliance.

Stewardship Lands

Interior-administered stewardship lands encompass a wide range of activities, including recreation; conservation; resource extraction such as mining and oil and gas leasing; and other functions vital to the health of the economy of the American people. These include National Parks, National Wildlife Refuges, Public Lands, and many other lands of national and historical significance.

Each bureau within Interior that administers stewardship lands serves to preserve, conserve, protect, and interpret how best to manage the Nation's natural, cultural, and recreational resources. Some of these stewardship lands have been designated as multiple use.

In general, units of stewardship land are added or deleted through Presidential, Congressional, or Secretarial action. However, boundaries of individual units may be expanded or altered by fee title purchase, transfer of jurisdiction, gift, or withdrawal from the public domain. The change in boundaries of individual units occurs to enhance the purpose for which the unit exists.

Donated Stewardship Land

Interior received donated stewardship land with a fair value of $5,108 thousand and $0 as of September 30, 2010 and 2009 respectively.

Primary Land Management Categories		As of 10/1/2008	Increase	Decrease	As of 9/30/2009	Increase	Decrease	As of 9/30/2010
IA	Regional Offices	12	-	-	12	-	-	12
BLM	Geographic Management Areas	134	-	-	134	-	-	134
BOR	Federal Water and Related Projects	142	1	2	141	-	1	140
FWS	National Wildlife Refuges	548	2	-	550	2	-	552
FWS	Coordination Areas	49	-	-	49	-	-	49
FWS	Wetland Management Districts	37	-	-	37	-	-	37
FWS	National Fish Hatcheries	67	-	1	66	1	-	67
FWS	Fish Health Centers	9	-	9	-	-	-	-
FWS	Fish Technology Centers	8	-	2	6	-	-	6
FWS	Associated Fish Facilities	19	-	-	19	-	3	16
NPS	Park Units	378	-	-	378	-	-	378
OS	Commissioned Land	1	-	-	1	-	-	1
Total Number of Units		1,404	3	14	1,393	3	4	1,392

For information on the condition of Stewardship Land, refer to the Required Supplementary Information section of the report.

Bureau of Stewardship Lands

Interior-administered stewardship lands encompass a wide range of activities, including recreation, conservation, resource extraction such as mining and oil and gas leasing; and, other functions vital to the health of the economy of the American people. These include National Parks, National Wildlife Refuges, Public Lands, and many other lands of national and historical significance.

Each bureau within Interior that administers stewardship lands serves to preserve, conserve, protect, and interpret how best to manage the Nation's natural, cultural, and recreational resources. Some of these stewardship lands have been designated as multiple-use.

In general, units of stewardship land are added or deleted through Presidential, Congressional, or Secretarial action; the same authorizations are required to remove units from Interior stewardship lands. IA is in a unique position in that the land managed is Tribal/Reservation land that has been administratively designated to IA for a specific purpose that will benefit the Tribe. The land or land rights could be withdrawn/returned to the Tribe based on the terms of the initial agreement or subsequent agreements. Although the structures constructed on these lands may be considered operational in nature, the lands on which these structures reside are managed in a stewardship manner to provide services to the Tribe/Reservation. However, boundaries of individual units may be expanded or altered by fee title purchase, transfer of jurisdiction, gift, or withdrawal from the public domain. The change in boundaries of individual units occurs to enhance the purpose for which the unit exists.

For information on the condition of Stewardship Land, refer to the Required Supplementary Information section of the report.

Indian Affairs

Regional Offices. Land owned by IA generally consists of parcels located within the boundaries of Indian reservations which have been temporarily withdrawn for administrative uses and are held for the welfare of the Nation to be preserved and protected. IA has stewardship responsibility for the multiple-use management of lands held for the benefit of American Indians and Alaska Natives. IA manages its stewardship land by 12 administrative regional offices whose boundaries largely follow one or more state lines. Two exceptions are the Navajo region, which includes parts of Arizona, Utah, and New Mexico; and, the Eastern Oklahoma region, which includes the eastern section of Oklahoma.

Bureau of Land Management

Geographic Management Areas. BLM reports its stewardship land by 12 "administrative" states whose boundaries largely follow one or more political state lines; the administrative states are further divided into 134 administrative management areas. Specific land use plans are developed and implemented for each of these administrative management areas to manage the land's resources for both present and future periods.

BLM is guided by principles of multiple use. Multiple uses includes: domestic livestock grazing; fish and wildlife development and utilization; mineral exploration and production; rights-of-way; outdoor recreation; and/or timber production.

Bureau of Reclamation

Federal Water and Related Projects.
BOR stewardship land is used for Federal water and related projects that have been authorized and funded by Congress. These projects include dams, reservoirs, canals, laterals, and various other types of water related properties. The lands for these projects were withdrawn from the public domain to construct, operate, and maintain the projects. Recreational activities such as fishing, boating, camping, etc., may be authorized on these withdrawn lands.

Fish and Wildlife Service

Lands are acquired through a variety of methods, including withdrawal from the public domain, fee title purchase, transfer of jurisdiction, donation, or gift. FWS purchases land through two primary sources of funding: the Migratory Bird Conservation Fund and the Land and Water Conservation Fund. FWS lands are managed and used in accordance with the explicit purpose of the statutes that authorize acquisition or designation and that direct use and management of the land.

National Wildlife Refuges (NWR). NWR land is used for the fish, wildlife, and plants that depend on these lands for habitat. These lands are protected in perpetuity for as long as they remain in the NWR System. NWR lands is managed to maintain their natural state, to mitigate adverse effects of actions previously conducted by others, or to enhance existing conditions to improve benefits to fish, wildlife, and plant resources.

Coordination Areas. Coordination Area land is used as a wildlife management area that is made available to a State by cooperative agreement between FWS and a State agency having control over wildlife resources.

Wetland Management Districts (WMD).
WMDs are important components of the NWR System. They differ from refuges, which frequently consist of a single contiguous parcel of land, in that they are generally scattered, small parcels of land. The primary use is to conserve waterfowl nesting and rearing habitats. WMDs consist of waterfowl production areas, wetland easements, or grassland easements.

National Fish Hatcheries. National Fish Hatchery land is used to rear various aquatic species in accordance with specific species management plans for the purpose of recovery, restoration, mitigation, or other special conservation effort and may include the release, transfer, or provision of refuge for the species propagated.

Fish Health Centers. This land is used, in cooperation with Federal, State, and Tribal fishery managers, to identify and control fish pathogens and diseases, particularly in wild stocks. These facilities focus on providing core diagnostic, monitoring, and technical assistance services that are essential for maintaining healthy fish populations and reducing impacts of fish disease.

Fish Technology Centers. This land is used to house applied research centers that provide leadership in science-based management of trust aquatic resources through the development of new concepts, strategies, and techniques to solve problems in hatchery operations and aquatic resource conservation.

Associated Fish Facilities. These land units are owned by the Federal Government, but operated by some other entity (state agency, tribal conservation unit, etc.). FWS usually has limited management or oversight responsibility for these land units.

National Park Service

Park Units. National Park units are used and managed in accordance with the statutes authorizing their establishment or directing their use and management. NPS conducts various activities to preserve and protect land resources and to mitigate the effects of activities previously conducted on or near parks that adversely affected the natural state of the land.

Office of the Secretary

Commission Land. This land is used for fish and wildlife habitat and recreation 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 BOR project assets such as dams, power plants, roads, pipelines, aqueducts, operation and maintenance of buildings, and visitor centers.

Heritage Assets

Interior is a steward of a large, varied, and scientifically important body of heritage assets, both non-collectible and collectible in nature.

Interior serves to preserve, conserve, protect, and interpret the Nation's natural, cultural, and recreational resources. Some of the heritage assets have been designated as multiple-use, which Congress defines as management of both the land and the use of the land in a combination that will best meet the present and future needs of the American people. The resources and uses embraced by the multiple-use concept include mineral development; natural, scenic, scientific, and historical values; outdoor recreation; livestock grazing; timber management; watersheds; and, wildlife and fish habitat.

Non-Collectible Heritage Assets

Non-collectible heritage assets include historic buildings, structures, and sites; prehistoric structures and sites (better known as archeological sites); cultural landscapes; and, other resources. Some stewardship land assets are also included in non-collectible heritage assets, such as national parks and fish and wildlife refuges. In addition, subsets of lands within the National Park System may have additional heritage asset designations, such as wilderness areas and national natural landmarks. Heritage assets are added or withdrawn through Presidential, Congressional, or Secretarial designation.

For information on the condition of non-collectible heritage assets, refer to the Required Supplementary Information section of the Report.

Descriptions of the types of non-collectible heritage assets are:

Cooperative Management and Protection Areas. BLM manages one congressionally designated cooperative management and protection area, the Steens Mountain Cooperative Management and Protection Area, located in southeastern Oregon. Cooperative and innovative management projects are maintained and enhanced by BLM, private landowners, tribes, and other public interest groups.

Headwaters Forest Reserve. The Headwaters Forest Reserve, located in central Humboldt County, California, was acquired from private owners by BLM and the State of California. While title is held by BLM, this area is co-managed by BLM and the State of California to protect the stands of old-growth redwoods that provide habitat for a threatened seabird, the marbled murrelet, as well as the headwaters that serve as a habitat for the threatened Coho salmon and other fisheries.

Lake Todatonten Special Management Areas. Congress authorized the creation of the Lake Todatonten Special Management Area located in the interior of Alaska. Lake Todatonten, the central feature of this special management area, is particularly important to waterfowl which use the area for migration, staging, molting, and nesting. The lake and its surrounding hills are also home to moose, bear, and other furbearers and are managed by BLM.

National Battlefields. A national battlefield is an area of land on which a single historic battle or multiple historic battles took place during varying lengths of time. This general title includes national battlefields, national battlefield parks, national battlefield sites, and national military parks.

National Conservation/Conservation Areas. Congress designates national conservation areas so that present and future generations of Americans can benefit from the conservation, protection, enhancement, use, and management of these areas and enjoy their natural, recreational, cultural, wildlife, aquatic, archeological, paleontological, historical, educational, and/or scientific resources and values. National conservation/conservation areas are managed by BLM.

National Historic Landmarks. The Historic Sites Act of 1935 authorizes the Secretary of the Interior to designate national historic landmarks as the Federal Government's official recognition of the national significance of historic properties. These landmarks possess exceptional value or quality in illustrating or interpreting the heritage of the United States in history, architecture, archeology, technology, and culture. They also possess a high degree of integrity of location, design, setting, materials, workmanship, feeling, and association. The National Historic Landmark program is administered by NPS. National historic landmarks are managed by IA, BOR, FWS, BLM, and NPS.

National Historic Sites. Usually, a national historic site contains a single historical feature that was directly associated with its subject. Derived from the Historic Sites Act of 1935, some historic sites were established by Secretaries of the Interior; but most have been authorized by acts of Congress.

National Historic Trails. Since the passage of the National Trails System Act in 1968, BLM, FWS and NPS have assumed responsibility over several national historic, recreation, or scenic trails designated by Congress. Designations include National Historic Trail, National Scenic Trail, and National Recreation Trail.

National Historical Parks. This designation generally applies to historic parks that extend beyond single properties or buildings.

National Lakeshores. A national lakeshore is a protected area of lakeshore that is maintained to preserve a significant portion of the diminishing shoreline for the benefit, inspiration, education, recreational use, and enjoyment of the public. Although national lakeshores can be established on any natural freshwater lake, the existing four are all located on the Great Lakes. National lakeshores closely parallel national seashores in character and use.

National Memorials. A national memorial is commemorative of a historic person or episode; it need not occupy a site historically connected with its subject.

National Monuments. National monuments are normally designated by Congress to protect historic landmarks, historic and prehistoric structures, or other objects of historic or scientific interest on the public lands. The Antiquities Act of 1906 authorized the President to declare by public proclamation landmarks, structures, and other objects of historic or scientific interest situated on lands owned or controlled by the government to be national monuments. National monuments are managed by BLM, FWS, and NPS.

National Natural Landmarks. National natural landmarks are designated by the Secretary of the Interior. To qualify as a national natural landmark, the area must contain an outstanding representative example of the Nation's natural heritage, including terrestrial communities, aquatic communities, landforms, geological features, habitats of native plant and animal species, or fossil evidence of the development of life on earth and must be located within the boundaries of the United States, its Territories, or on the Continental Shelf. The National Natural Landmark program is administered by the NPS. Within DOI, national natural landmarks are managed by BOR, FWS, NPS, and BLM.

National Parks. Generally, national parks are large natural places that encompass a wide variety of attributes, sometimes including significant historic assets. Hunting, mining, and consumptive activities are not authorized.

National Parkways. The title "parkway" refers to a roadway and the parkland paralleling the roadway. All were intended for scenic motoring along a protected corridor and often connect cultural sites.

National Preserves. National preserves are areas having characteristics associated with national parks but in which Congress has permitted continued public hunting, trapping, oil/gas exploration, and extraction.

National Recreation Areas. A national recreation area is an area designated by Congress to both assure the conservation and protection of natural, scenic, historic, pastoral, and fish and wildlife values and to provide for the enhancement of recreational values. National recreation areas are generally centered on large reservoirs and emphasize water-based recreation with some located near major population centers.

National Recreation Trails. See National Historic Trail section.

National Reserves. National reserves are similar to national preserves, except that management may be transferred to local or State authorities.

National Rivers. There are several variations to this category: national river and recreation area, national scenic river, wild river, etc. These rivers possess remarkable scenic, recreational, geologic, fish and wildlife, historic, cultural or other similar values and shall be preserved in a free-flowing condition – that they and their immediate environments shall be protected for the benefit and enjoyment of present and future generations.

National Scenic Trails. See National Historic Trail section.

National Seashores. A national seashore preserves shoreline areas as well as off-shore islands with natural and recreational significance with the dual goal of protecting precious, ecologically fragile land, while allowing the public to enjoy a unique resource. The national seashores are located on the Atlantic, Pacific, and Gulf coasts of the United States.

National Wild and Scenic Rivers. Rivers designated in the National Wild and Scenic Rivers System are classified in one of three categories (wild, scenic, and recreational), depending on the extent of development and accessibility along each section. In addition to being free flowing, these rivers and their immediate environments must possess at least one outstanding remarkable value—scenic, recreational, geologic, fish and wildlife, historic, cultural, or other similar values.

National Wildlife Refuges. NWR land is used for the benefit of fish, wildlife, and plants that depend on these lands for habitat benefit over both the short and long term. These lands are protected for as long as they remain in the NWR System.

Outstanding Natural Area. An outstanding natural area consists of protected lands to preserve exceptional, rare, or unusual natural characteristics and to provide for the protection or enhancement of natural, educational, or scientific values. These areas are protected by allowing physical and biological processes to operate, usually without direct human intervention. BLM manages three such areas.

International Historic Site. The international historic site, Saint Croix International Historic Site, is relevant to both U.S. and Canadian history and is managed by the NPS.

Wilderness Areas. Wilderness areas are defined as a place where the earth and its community of life are untrammaled by man, where man himself is a visitor and does not remain. These areas are open to the public for purposes of recreational, scenic, scientific, educational, conservatorial, and historical use. Generally a wilderness area is greater than 5,000 acres and appears to have been affected primarily by the forces of nature, with human development substantially unnoticeable. Wilderness areas provide outstanding opportunities for solitude or primitive and unconfined types of recreation. Wilderness areas are managed by BLM, NPS, and FWS.

Research Natural Area. The BLM manages Fossil Forest Research Natural Area (RNA), which was designated by Congress to conserve and protect natural values and to provide scientific knowledge, education, and interpretation for more than 2,000 acres of land and resources in New Mexico.

Donated Heritage Assets Interior received donated heritage assets with a fair value of $2,500 thousand and $250 thousand as of September 30, 2010 and 2009, respectively.

Other. This category includes those park units that cannot be readily included in any of the standard categories. Examples include Catoctin Mountain Park, Maryland; Constitution Gardens, District of Columbia; National Capital Parks in the District of Columbia, Maryland, and Virginia; the White House; the National Mall; and Wolf Trap National Park for the Performing Arts located in Virginia.

Non-Collectible Heritage Asset Categories	As of 10/1/2008	Increase	Decrease	As of 9/30/2009	Increase	Decrease	As of 9/30/2010
Cooperative Management and Protection Areas	1	-	-	1	-	-	1
Headwaters Forest Reserve	1	-	-	1	-	-	1
Lake Todatonten Special Management Area	1	-	-	1	-	-	1
National Battlefield Parks	3	-	-	3	-	-	3
National Battlefield Sites	1	-	-	1	-	-	1
National Battlefields	11	-	-	11	-	-	11
National Conservation/Conservation Areas	13	4	-	17	-	-	17
National Historic Landmarks (NHL)	202	2	-	204	-	-	204
National Historic Sites	80	-	3	77	-	-	77
National Historic Trails	10	-	-	10	1	-	11
National Historical Parks	42	3	-	45	-	-	45
National Lakeshores	4	-	-	4	-	-	4
National Memorials	28	-	1	27	1	-	28
National Military Parks	9	-	-	9	-	-	9
National Monuments	90	6	-	96	-	-	96
National Natural Landmarks (NNL)	108	-	1	107	-	-	107
National Parks	58	-	-	58	-	-	58
National Parkways	4	-	-	4	-	-	4
National Preserves	18	-	-	18	-	-	18
National Recreation Areas	19	-	-	19	1	-	20
National Recreation Trails	95	2	-	97	1	1	97
National Reserves	2	-	-	2	-	-	2
National Rivers	5	-	-	5	-	-	5
National Scenic Trails	6	2	-	8	-	-	8
National Seashores	10	-	-	10	-	-	10
National Wild and Scenic Rivers	60	32	-	92	-	-	92
National Wildlife Refuges	548	2	-	550	2	-	552
Outstanding Natural Area	3	-	-	3	-	-	3
International Historic Sites	1	-	-	1	-	-	1
Wilderness Areas	321	35	-	356	-	1	355
Research Natural Area	-	-	-	-	1	-	1
Other	11	-	-	11	-	-	11
Total	1,765	88	5	1,848	7	2	1,853

Collectible Heritage Assets

The Department is a steward of a large, unique, and diversified collection of library holdings and museum collections.

Library Collections

Library collections are added when designated by the Secretary, Congress, or the President. A library collection may be withdrawn if it is later managed as part of a museum collection, if legislation is amended, and/or if the park unit is withdrawn.

For information on the condition of library collections, refer to the Required Supplementary Information of the Report.

Departmental Offices. DO manages the Interior Library. This library was created by Secretarial Order and the collections represent a national resource in the disciplines vital to the missions of the Department. The collection covers Native American culture and history, American history, national parks, geology, nature, wildlife management, public lands management, and law. In addition, the library's collection of online databases and access to other electronic information sources enable Departmental personnel and other researchers to access needed information from their computers.

Departmental policy dictates that copies of all publications produced by or for its bureaus and offices will be deposited in the library collection.

U.S. Geological Survey. USGS library holdings, collected during more than a century of providing library services, are an invaluable legacy to the Nation. The Secretarial Order that founded the USGS decreed that copies of reports published by the USGS should be given to the library in exchange for publications of State and national geological surveys and societies. The USGS's four library collections provide scientific information needed by Interior researchers, as well as researchers of other government agencies, universities, and professional communities. Besides providing resources for USGS scientific investigations, the library collections provide access to geographical, technical, and historical literature in paper and electronic formats for the general public and the industry. These libraries are housed in Reston, Virginia; Menlo Park, California; Denver, Colorado; and, Flagstaff, Arizona.

National Park Service. NPS reports two libraries that are specifically designated as libraries in the NPS establishing legislation and are not managed as part of the park's museum collection.

Library Collections	As of 10/1/2008	Increase	Decrease	As of 9/30/2009	Increase	Decrease	As of 9/30/2010
Total	7	-	-	7	-	-	7

Museum Collections

The Department of the Interior's museum property is intimately associated with the lands and cultural and natural resources for which Interior bureaus share stewardship responsibilities. Museum collections are held in both Federal and non-Federal facilities. Disciplines represented include art, ethnography, archeology, documents, history, biology, paleontology, and geology.

For information on the condition of museum collections, refer to the Required Supplementary Information section of the Report.

Museum collections are organized by location for the purposes of physical accountability. Each bureau has the authority to add or remove an individual museum collection unit based on its own discretion.

Museum Collections	As of 10/1/2008	Increase	Decrease	As of 9/30/2009	Increase	Decrease	As of 9/30/2010
Held at Interior Bureau Facilities	595	2	8	589	4	6	587
Held at Non-Interior Bureau Facilities	480	6	2	484	2	4	482
Total	1,075	8	10	1,073	6	10	1,069

No further approval is required for accessioning and deaccessioning of a museum collection outside of the bureau.

Museum collections are housed in both Federal and non-Federal facilities in an effort to maximize awareness of and accessibility to the collections by the public and our bureaus' employees. Museum collections managed by Interior are important for both the intrinsic value and the usefulness in supporting Interior's mission of managing Federal land, cultural resources, and natural resources. Housing museum collections in non-Federal facilities also allows for cost effective care by professionals in those facilities.

NOTE 10. ASSETS ANALYSIS

Assets of Interior include entity assets and non entity assets. Nonentity assets are currently held by but not available to Interior and will be forwarded to Treasury or other agencies at a future date.

Entity restricted assets consist of the Land and Water Conservation Fund, the Historic Preservation Fund, the Environmental Improvement and Restoration fund, the Reclamation Fund, and other unavailable receipt funds. See Note 20, Earmarked Funds, for additional information on some of these funds.

Nonentity assets, restricted by nature, consist of BOEMRE custodial royalty activity, a portion of the Sport Fish Restoration and Boating Trust Fund that is held for others, amounts in deposit, miscellaneous receipts, special receipts, and budget clearing accounts held for others.

Interior's assets as of September 30, 2010, are summarized into the following categories:

(dollars in thousands)	Entity	Non Entity	FY 2010
Intragovernmental Assets:			
Fund Balance with Treasury	$ 42,060,878	$ 300,868	$ 42,361,746
Investments, Net	7,278,451	11,833	7,290,284
Accounts and Interest Receivable	1,012,554	851,578	1,864,132
Loans and Interest Receivable, Net	3,234,340	-	3,234,340
Advances and Prepayments	2,989	-	2,989
Total Intragovernmental Assets	53,589,212	1,164,279	54,753,491
Cash	457	-	457
Investments, Net	21	-	21
Accounts and Interest Receivable, Net	170,238	1,114,765	1,285,003
Loans and Interest Receivable, Net	101,860	-	101,860
Inventory and Related Property, Net	205,674	-	205,674
General Property, Plant and Equipment, Net	19,691,226	-	19,691,226
Advances and Prepayments	221,116	-	221,116
Net Power Rights	76,234	-	76,234
TOTAL ASSETS	$ 74,056,038	$ 2,279,044	$ 76,335,082

Interior's assets as of September 30, 2009, are summarized into the following categories:

(dollars in thousands)	Entity	Non Entity	FY 2009
Intragovernmental Assets:			
Fund Balance with Treasury	$ 41,466,189	$ 262,528	$ 41,728,717
Investments, Net	6,985,002	67,148	7,052,150
Accounts and Interest Receivable	933,080	3,043,407	3,976,487
Loans and Interest Receivable, Net	3,338,756	-	3,338,756
Advances and Prepayments	4,622	-	4,622
Total Intragovernmental Assets	52,727,649	3,373,083	56,100,732
Cash	456	-	456
Investments, Net	23	-	23
Accounts and Interest Receivable, Net	199,349	1,027,465	1,226,814
Loans and Interest Receivable, Net	109,056	-	109,056
Inventory and Related Property, Net	224,364	-	224,364
General Property, Plant and Equipment, Net	18,989,791	-	18,989,791
Advances and Prepayments	181,900	-	181,900
Net Power Rights	86,653	-	86,653
TOTAL ASSETS	$ 72,519,241	$ 4,400,548	$ 76,919,789

NOTE 11. DEBT

Intragovernmental debt to Treasury activity as of September 30, 2010 and 2009, is summarized as follows:

(dollars in thousands)	FY 2009 Beginning Balance	Borrowing / Repayments), Net	FY 2009 Ending Balance	Borrowing / Repayments), Net	FY 2010 Ending Balance
Helium Fund	$ 644,204	$ (65,000)	$ 579,204	$ (145,000)	$ 434,204
Credit Reform Borrowings	70,905	(6,837)	64,068	(7,862)	56,206
Total Debt Due to Treasury	$ 715,109	$ (71,837)	$ 643,272	$ (152,862)	$ 490,410

Debt related to the Helium Fund as of September 30, 2010 and 2009, is summarized as follows:

(dollars in thousands)	FY 2010	FY 2009
Principal	$ 251,650	$ 251,651
Interest		
Balance, Beginning of Year	327,554	392,553
Repayments	(145,000)	(65,000)
Balance, End of Year	182,554	327,553
Total Debt Due to Treasury (Helium Fund)	$ 434,204	$ 579,204

A. Helium Fund - Bureau of Land Management

The Helium Fund was established in the late 1950s and early 1960s to ensure that the Federal Government had access to a dependable supply of helium, which at that time was considered to be a critical defense commodity. Start-up capital was loaned to the helium program with the expectation that the capital would be repaid with the proceeds of sales to other Federal Government users of helium.

The principal reported in the table above reflects the net worth capital and retained earnings of the Helium Fund and the acquisition and construction of helium plants and facilities and other related purposes, including the purchase of helium. These amounts were due 25 years from the date the funds were borrowed. However, as funding has not been received to repay the amounts due, the amounts could not be repaid.

Interest on borrowing is compound interest on the principal described above, at rates determined by the Secretary of the Treasury. The rates are determined at the time of each borrowing and are the current average market yields of outstanding marketable obligations of the United States having maturities comparable to investments authorized. With the passage of the Helium Privatization Act of 1996, no further interest is being accrued on this debt.

Until FY 2002, Interior had generally paid $10 million annually on its debt to Treasury. Due to increased revenue in the Helium Fund, as a result of the sale of stockpile crude helium, which began in March 2003 and will continue until January 1, 2015, Interior will repay Treasury amounts depending on annual revenues collected. The repayments will continue until the debt is repaid or until the stockpile crude helium sales cease. At that time the repayment plan will be revised.

B. Intragovernmental Debt to Treasury under Credit Reform

IA, BOR, and DO (Office of Insular Affairs), have borrowed funds from Treasury in accordance with the Federal Credit Reform Act of 1990 to fund loans under various loan programs.

Departmental Offices

Interest is accrued annually based on the prevailing market yield on Treasury securities of comparable maturity. The weighted average interest rate used to calculate interest owed to Treasury is 5.42 percent. The repayment date for this loan is September 30, 2027.

Indian Affairs

The Federal Credit Reform Act (FCRA) authorizes IA to borrow from Treasury the amount of a direct loan disbursement, less the subsidy. The FCRA provides that the present value of the subsidy costs (i.e., interest rate differentials, interest subsidies, estimated delinquencies and defaults, fee offsets, and other cash flows) associated with the direct loans and loan guarantees be recognized as a cost in the year the direct or guaranteed loan is disbursed.

Maturity dates for the amounts borrowed from Treasury range from 2022 to 2026. Interest rates for these securities range from 6.65 to 7.46 percent.

Bureau of Reclamation

As discussed in Note 6, Loans and Interest Receivable, BOR establishes loans that are subject to the provisions of FCRA. Under the FCRA, loans consist of two components—the portion borrowed from the Treasury and the appropriated portion to cover the estimated subsidy. The maturity dates for these loans range from 2012 to 2047. The weighted average interest rate used to calculate interest owed to Treasury ranges from 5.42 to 7.59 percent for FY 2010 and FY 2009.

NOTE 12. FEDERAL EMPLOYEE AND VETERAN BENEFITS

Federal Employee and Veteran Benefits as of September 30, 2010, and 2009, consisted of the following:

(dollars in thousands)	FY 2010	FY 2009
Federal Employee and Veteran Benefits		
U.S. Parks Police Pension Actuarial Liability	$ 706,344	$ 669,390
U.S. Parks Police Pension Current Liability	39,556	38,410
Federal Employees Compensation Actuarial Liability	717,723	686,646
Total Federal Employee and Veteran Benefits	$ 1,463,623	$ 1,394,446

U.S. Park Police Pension Plan. In estimating the U.S. Park Police (USPP) Pension Plan liability and associated expense, the NPS's actuary applies economic assumptions to historical cost information to estimate the government's future cost to provide benefits to current and future retirees. The estimate is adjusted by the time value of money and the probability of having to pay benefits due to assumed decrements for mortality, morbidity, and terminations. Effective October 1, 2009, Interior adopted SFFAS No. 33, *Pensions, other Retirement Benefits, and Other Post-employment Benefits: Reporting the Gains and Losses from Changes in Assumptions and Selecting Discount Rates and Valuation Dates.* In accordance with SFFAS No. 33, Interior completed an actuarial valuation using census data as of April 1, 2010, and adjusted for the effects of changes during the year in major

Economic Assumptions Used Expressed in Percentages	FY 2010	FY 2009
Interest Rate	4.90	6.25
Inflationary Rate	2.00	3.50
Projected Salary Increase	3.50	4.25

USPP Pension Plan Liability *(dollars in thousands)*	FY 2010	FY 2009
Beginning Balance	$ 707,800	$ 702,100
Pension Expenses		
Normal Costs	100	100
Interest on liability	43,000	42,600
Actuarial (gains) or losses from experience	(13,844)	(1,190)
Actuarial (gains) or losses from assumption changes	48,400	2,600
Total Pension Expenses	77,656	44,110
Less Benefit Payments	(39,556)	(38,410)
Ending Balance	$ 745,900	$ 707,800

factors such as projected salary increases and cost of living adjustments through September 30, 2010, selected discount rate assumptions for present value estimates of the USPP Pension Plan based on the standard, disclosed the components of the USPP Pension Plan expense, and disclosed the actuarial gains and losses from experience and from assumption changes; however, Interior did not present a separate line item for actuarial gains and losses from assumption changes on the Statement of Net Cost because these losses are immaterial.

The previous table presents the significant economic assumptions used to estimate the USPP Pension Plan liability, the components of the USPP Pension Plan expenses, the components of actuarial gains and losses, and the reconciliation of the beginning and the ending USPP Pension Plan Liability balances. Note that the U.S. Park Police Pension Plan discount rate of 4.90% in FY 2010 differed from the discount rates of 4.80% and 5.10% used by OPM for the CSRS and FERS plans, respectively, because NPS calculated its discount rate based on the demographics of the U.S. Park Police Pension Plan participants.

NOTE 13. CONTINGENT LIABILITIES AND ENVIRONMENTAL AND DISPOSAL LIABILITIES

Interior is party to various administrative proceedings, legal actions, and tort claims which may result in settlements or decisions adverse to the Federal Government and has responsibility to remediate sites with environmental contamination.

The accrued and potential Contingent Liabilities and Environmental and Disposal Liabilities as of September 30, 2010, and 2009, are summarized in the categories below.

FY 2010	Accrued Liabilities	Estimated Range of Loss	
(dollars in thousands)		Lower End of Range	Upper End of Range
Contingent Liabilities			
Probable	$ 333,297	$ 333,297	$ 719,028
Reasonably Possible	-	3,685,064	4,812,650
Environmental and Disposal Liabilities			
Probable	162,395	162,395	1,163,782
Reasonably Possible	-	65,705	185,248

FY 2009	Accrued Liabilities	Estimated Range of Loss	
(dollars in thousands)		Lower End of Range	Upper End of Range
Contingent Liabilities			
Probable	$ 126,931	$ 126,931	$ 268,643
Reasonably Possible	-	245,344	1,359,031
Environmental and Disposal Liabilities			
Probable	155,684	155,684	382,505
Reasonably Possible	-	58,651	188,485

General Contingent Liabilities

General Contingent Liabilities consist of numerous lawsuits and claims filed against Interior which are awaiting adjudication. These liabilities typically relate to Federal Tort Claims Act administrative and judicial claims, contract-related actions, Tribal and Indian trust-related matters, personnel and employment-related matters, and various land and resource related claims and adjudications. Most of the cash settlements are expected to be paid out of the Judgment Fund, which is maintained by Treasury, rather than the operating resources of Interior. In suits brought through the Contract Disputes Act of 1978 and awards under Federal

Antidiscrimination and Whistleblower Protection Acts, Interior is required to reimburse the Judgment Fund from future agency appropriations.

No amounts have been accrued in the financial records for claims where the amount of potential loss cannot be estimated or the likelihood of an unfavorable outcome is less than probable.

Matters for which the likelihood of an unfavorable outcome is less than probable but more than remote involve a wide variety of allegations and claims. These matters arise in the course of carrying out Interior programs and operations, including interaction with Tribes and individual Indians, interaction with trust territory in the Pacific Islands, operation of wildlife refuges, law enforcement of Interior-managed land, general management activities on Interior land, resource related claims, and operations of reclamation projects. The ultimate outcomes in these matters cannot be predicted at this time. Sufficient information is not currently available to determine if the ultimate resolution of the proceedings, actions, and claims will materially affect Interior's financial position or results of operations.

Additional pending litigation relates to Interior's management of the monies and lands held in trust by the Federal government for Indian Tribes and individuals. Certain parties for whom Interior holds funds in trust filed a class action lawsuit in 1996, seeking an accounting of their individual trust funds. Although plaintiffs had sought $58 billion from the District Court in lieu of the accounting, the District Court awarded $456 million. However, in July 2009, the Court of Appeals reversed and vacated that judgment. In December 2009, Attorney General Eric Holder and Interior Secretary Ken Salazar announced that a contingent $3.4 billion settlement had been reached. The settlement agreement includes the distribution of $1.4 billion directly to individual Indians, the creation of a $2 billion fund to purchase highly fractionated interest in trust lands that stymie and slow the government's management, and set aside up to $60 million for educational scholarships for Indian children. The settlement requires congressional approval and funding. The parties have extended the deadline for Congress to approve the settlement to January 7, 2011.

Environmental and Disposal Liability

Interior is subject to environmental laws and regulations regarding air, water, and land use, the storage and disposal of hazardous materials, and the operations and closure of facilities at which environmental contamination may be present. The major Federal laws covering environmental response, cleanup, and monitoring are the: Comprehensive Environmental Response, Compensation, and Liability Act; Resource Conservation and Recovery Act; Oil Pollution Act; Clean Water Act; Clean Air Act; Safe Drinking Water Act; and, Asbestos Hazard Emergency Response Act. Responsible parties, which may include Federal agencies under certain circumstances, are required to remove releases of hazardous substances from facilities they own, operate, or at which they arranged for the disposal of such substances. There are no material changes in total estimated cleanup costs that are due to changes in law and technology. Estimated environmental and disposal liabilities include expected future cleanup costs, and for those sites where future liability is unknown, the cost of studies necessary to evaluate response requirements.

Certain Departmental facilities may have regulated materials (e.g., asbestos) used in the construction or later renovation of the facility. These materials, while in an undisturbed or encapsulated state (e.g., nonfriable asbestos), are not subject to cleanup under applicable law. The current policy is that unless and until the materials become friable or otherwise capable of causing contamination, the costs for monitoring or other management of these materials are not to be accrued as environmental cleanup. Currently, any cost for remediation or abatement would only accrue if the material becomes friable or is otherwise released into the environment. Under normal circumstances, remediation or abatement is limited to situations such as the remodeling or demolition of a building containing such materials. Costs would then be reported in the same manner as any other environmental liability. Effective in Fiscal Year 2012, however, Interior and other Federal Government agencies will be required to accrue the costs and the associated liabilities for abatement of both friable and non-friable asbestos.

NOTE 14. LIABILITIES ANALYSIS

Liabilities covered by budgetary resources are funded liabilities to be paid with existing budgetary resources. Liabilities not covered by budgetary resources represent those unfunded liabilities for which Congressional action is needed before budgetary resources can be provided.

Interior's liabilities covered and not covered by budgetary resources as of September 30, 2010, are as follows:

	Covered by Budgetary Resources		Not Covered by Budgetary Resources		FY 2010
(dollars in thousands)	Current	Non-Current	Current	Non-Current	
Intragovernmental Liabilities:					
Accounts Payable	$ 68,916	-	-	$ 548,042	$ 616,958
Debt	50,000	440,410	-	-	490,410
Other					
Liability for Capital Transfers to the General Fund of the Treasury	-	-	45,269	2,054,132	2,099,401
Advances and Deferred Revenue	485,418	-	478	(17)	485,879
Custodial Liability	-	-	582,550	56,168	638,718
Other Liabilities					
Accrued Employee Benefits	63,543	-	19,503	14,771	97,817
Judgment Fund	-	-	-	198,400	198,400
Unfunded FECA Liability	-	-	58,164	78,284	136,448
Other Miscellaneous Liabilities	6,069	-	158,007	5,615	169,691
Total Other Liabilities	69,612	-	235,674	297,070	602,356
Total Other Intragovernmental Liabilities	555,030	-	863,971	2,407,353	3,826,354
Total Intragovernmental Liabilities	673,946	440,410	863,971	2,955,395	4,933,722
Public Liabilities:					
Accounts Payable	921,804	66,454	-	-	988,258
Loan Guarantee Liability	-	62,763	-	-	62,763
Federal Employee and Veteran Benefits					
U.S. Park Police Pension Actuarial Liability	-	-	-	706,344	706,344
U.S. Park Police Pension Current Liability	39,556	-	-	-	39,556
FECA Actuarial Liability	-	-	-	717,723	717,723
Total Federal Employee and Veteran Benefits	39,556	-	-	1,424,067	1,463,623
Environmental and Disposal Liabilities	-	-	-	162,395	162,395
Other					
Refunds Payable	-	-	10,008	-	10,008
Contingent Liabilities	-	-	-	333,297	333,297
Advances and Deferred Revenue	298,679	-	156,221	237,981	692,881
Payments Due to States	-	-	377,128	53,966	431,094
Grants Payable	326,640	-	-	-	326,640
Other Liabilities					
Accrued Payroll and Benefits	292,637	-	-	(777)	291,860
Unfunded Annual Leave	-	-	50,770	365,413	416,183
Capital Leases	10,442	10,107	-	19,680	40,229
Custodial Liability	-	-	51	-	51
Secure Rural Schools Act Payable	-	-	79,576	-	79,576
Storm Damage	20,778	38,587	-	-	59,365
Other Miscellaneous Liabilities	2,592	511	64,196	113,314	180,613
Total Other Liabilities	326,449	49,205	194,593	497,630	1,067,877
Total Other Public Liabilities	951,768	49,205	737,950	1,122,874	2,861,797
Total Public Liabilities	1,913,128	178,422	737,950	2,709,336	5,538,836
Total Liabilities	$ 2,587,074	$ 618,832	$ 1,601,921	$ 5,664,731	$ 10,472,558

Interior's liabilities covered and not covered by budgetary resources as of September 30, 2009, are as follows:

(dollars in thousands)	Covered by Budgetary Resources		Not Covered by Budgetary Resources		FY 2009
	Current	Non-Current	Current	Non-Current	
Intragovernmental Liabilities:					
Accounts Payable	$ 85,041	$ -	$ -	$ 593,927	$ 678,968
Debt	50,000	593,272	-	-	643,272
Other					
Liability for Capital Transfers to the General Fund of the Treasury	-	-	44,741	2,003,698	2,048,439
Advances and Deferred Revenue	626,345	-	501	219	627,065
Custodial Liability	-	-	386,277	109,231	495,508
Other Liabilities					
Accrued Employee Benefits	56,179	-	10,629	19,465	86,273
Judgment Fund	-	-	-	199,100	199,100
Unfunded FECA Liability	-	-	51,628	78,860	130,488
Other Miscellaneous Liabilities	79	-	150,358	4,753	155,190
Total Other Liabilities	56,258	-	212,615	302,178	571,051
Total Other Intragovernmental Liabilities	682,603	-	644,134	2,415,326	3,742,063
Total Intragovernmental Liabilities	817,644	593,272	644,134	3,009,253	5,064,303
Public Liabilities:					
Accounts Payable	821,824	68,597	-	-	890,421
Loan Guarantee Liability	-	50,779	-	-	50,779
Federal Employee and Veteran Benefits					
U.S. Park Police Pension Actuarial Liability	-	-	-	669,390	669,390
U.S. Park Police Pension Current Liability	38,410	-	-	-	38,410
FECA Actuarial Liability	-	-	-	686,646	686,646
Total Federal Employee and Veteran Benefits	38,410	-	-	1,356,036	1,394,446
Environmental and Disposal Liabilities	510	-	-	155,174	155,684
Other					
Refunds Payable	-	-	2,144,896	5,138	2,150,034
Contingent Liabilities	-	-	387	126,544	126,931
Advances and Deferred Revenue	318,690	-	222,986	252,212	793,888
Payments Due to States	-	-	371,925	104,948	476,873
Grants Payable	297,633	-	-	-	297,633
Other Liabilities					
Accrued Payroll and Benefits	254,806	-	-	-	254,806
Unfunded Annual Leave	-	-	50,552	324,215	374,767
Capital Leases	2,810	25,224	-	20,739	48,773
Custodial Liability	-	-	4,699	-	4,699
Secure Rural Schools Act Payable	-	-	81,605	-	81,605
Storm Damage	29,838	55,413	-	-	85,251
Other Miscellaneous Liabilities	5,567	765	35,759	63,985	106,076
Total Other Liabilities	293,021	81,402	172,615	408,939	955,977
Total Other Public Liabilities	909,344	81,402	2,912,809	897,781	4,801,336
Total Public Liabilities	1,770,088	200,778	2,912,809	2,408,991	7,292,666
Total Liabilities	$ 2,587,732	$ 794,050	$ 3,556,943	$ 5,418,244	$12,356,969

NOTE 15. LEASES

Capital Leases

Interior's capital leases are with the public and consist of a 20-year lease for the Western Archeological and Conservation Center in Tucson, Arizona, leases for copiers, and leases for information technology infrastructure. The aggregate of Interior's future minimum lease payments for capital leases are presented in the table below.

Capital leases as of September 30, 2010 and 2009, consist of the following:

Fiscal Year *(dollars in thousands)*	Real Property	Personal Property	Total
2011	$ 2,172	$ 8,625	$ 10,797
2012	2,172	5,241	7,413
2013	2,253	4,617	6,870
2014	2,333	1,024	3,357
2015	2,333	41	2,374
Thereafter	18,364	-	18,364
Total Future Capital Lease Payments	29,627	19,548	49,175
Less: Imputed Interest	7,775	1,171	8,946
FY 2010 Net Capital Lease Liability	21,852	18,377	40,229
FY 2009 Net Capital Lease Liability	$ 22,911	$ 25,862	$ 48,773

Summary of Assets Under Capital Leases: *(dollars in thousands)*	FY 2010	FY 2009
Real Property	$ 28,000	$ 28,000
Personal Property	26,287	48,740
Accumulated Amortization	(22,460)	(29,551)

Operating Leases

Most of Interior's facilities are obtained through the General Services Administration (GSA), which charges an amount that approximates commercial rental rates. The terms of Interior's agreements with GSA will vary according to whether the underlying assets are owned by GSA (or another Federal agency) or rented by GSA from the private sector. For Federally-owned property, Interior either periodically executes an agreement with GSA or enters into cancelable agreements, some of which do not have a formal expiration date. Interior can vacate these properties after giving 120 to 180 days notice of the intent to vacate. However, Interior normally occupies these properties for an extended period of time with little variation from year to year.

Interior also leases personal property from GSA and other entities. The terms for GSA personal property agreements frequently exceed one year, although a definite period is not always specified.

For real and personal property, future payments are calculated based on the terms of the agreement, or if the agreement is silent, an annual inflationary factor is applied; 1.4 percent for FY 2011 and 1.7 percent for FY 2012 and beyond. The inflationary factors are applied against the actual 2010 rental expense. For agreements that have an indefinite period of performance, future payments are calculated only for 5 years.

The aggregate of Interior's future minimum lease payments for operating leases are presented in the following table.

Operating leases as of September 30, 2010, consist of the following:

Fiscal Year (dollars in thousands)	Real Property		Personal Property		Total
	Federal	Public	Federal	Public	
2011	$ 280,432	$ 51,533	$ 67,804	$ 2,736	$ 402,505
2012	239,755	46,771	68,921	2,644	358,091
2013	210,349	38,355	70,056	2,635	321,395
2014	189,378	32,936	71,212	2,550	296,076
2015	167,095	29,312	72,385	2,566	271,358
Thereafter	80,089	375,100	-	-	455,189
Total Future Operating Lease Payments	$ 1,167,098	$ 574,007	$ 350,378	$ 13,131	$ 2,104,614

NOTE 16. COSTS

By law, Interior, as an agency of the Federal government, is dependent upon other government agencies for centralized services. Some of these services, such as tax collection and management of the public debt, are not directly identifiable to Interior and are not reflected in Interior's financial condition and results. However, in certain cases, other Federal agencies incur costs that are directly identifiable to Interior operations, including payment of claims and litigation by Treasury's Judgment Fund, and the partial funding of retirement benefits by OPM. In accordance with SFFAS 30, *Inter-Entity Cost Implementation Amending SFFAS 4, Managerial Cost Accounting Standards and Concepts,* Interior recognizes identified costs paid for Interior by other agencies as expenses of Interior. The funding for these costs is reflected as imputed financing sources on the Statement of Changes in Net Position. Costs paid by other agencies on behalf of Interior were $666,878 thousand and $1,632,943 thousand during FY 2010 and FY 2009, respectively. Interior's imputed costs that were recognized in the financial statements but eliminated for consolidation purposes were $90,884 thousand and $65,474 thousand during FY 2010 and FY 2009, respectively.

During FY 2010 and FY 2009, the costs associated with acquiring, constructing, and renovating heritage assets were $254,868 thousand and $165,783, respectively. The costs associated with acquiring and improving stewardship lands were $157,445 thousand and $106,764 thousand during FY 2010 and FY 2009, respectively.

NOTE 17. INTRAGOVERNMENTAL COSTS AND EXCHANGE REVENUE BY RESPONSIBILITY SEGMENT

The tables on the following pages present Interior's earned revenues for sales of goods and services to Federal agencies and the public, gross costs associated with Federal agencies and the public, and net cost of operations by program and by bureau.

Responsibility Segment Presentation. OMB Circular A-136, *Financial Reporting Requirements,* requires that the presentation of the Statement of Net Cost align directly with the goals and outcomes identified in the strategic plan. Accordingly, Interior presented the earned revenue and gross costs by Mission Goals from Interior's FY 2007-2012 Strategic Plan.

The primary Mission Goals are: Resource Protection, Resource Use, Recreation, and Serving Communities. Reimbursable costs are comprised of services provided to other Federal agencies not part of Interior's core mission. These Mission Goals are supported by 14 Department level end outcome goals identified in Interior's FY 2010 Strategic Plan.

Intragovernmental costs and exchange revenue by responsibility segment for the year ended September 30, 2010, consists of the following:

(dollars in thousands)	Indian Affairs	Bureau of Land Management	Bureau of Reclamation	Departmental Offices and Other	Bureau of Ocean Energy Management, Regulation and Enforcement
Resource Protection					
Intragovernmental Costs	$ 187	$ 86,444	$ 17,082	$ 15,056	$ 498
Public Costs	774	474,507	33,802	(148,618)	118,285
Total Costs	$ 961	$ 560,951	$ 50,884	$ (133,562)	$ 118,783
Intragovernmental Earned Revenue	-	39,966	1,808	12,500	-
Public Earned Revenue	-	38,203	16,092	7,457	-
Total Earned Revenue	-	78,169	17,900	19,957	-
Net Costs	$ 961	$ 482,782	$ 32,984	$ (153,519)	$ 118,783
Resource Use					
Intragovernmental Costs	-	$ 43,926	$ 774,172	$ 1,410	$ 185,606
Public Costs	-	332,233	1,309,830	14,845	1,898,357
Total Costs	-	$ 376,159	$ 2,084,002	$ 16,255	$ 2,083,963
Intragovernmental Earned Revenue	-	(2,052)	268,365	-	-
Public Earned Revenue	-	340,234	811,206	-	187,086
Total Earned Revenue	-	338,182	1,079,571	-	187,086
Net Costs	-	$ 37,977	$ 1,004,431	$ 16,255	$ 1,896,877
Recreation					
Intragovernmental Costs	-	$ 20,484	$ 19,689	-	-
Public Costs	-	234,646	26,828	-	-
Total Costs	-	$ 255,130	$ 46,517	-	-
Intragovernmental Earned Revenue	-	279	2,786	-	-
Public Earned Revenue	-	25,571	18,024	-	-
Total Earned Revenue	-	25,850	20,810	-	-
Net Costs	-	$ 229,280	$ 25,707	-	-
Serving Communities					
Intragovernmental Costs	$ 398,631	$ 220,408	$ 2,673	$ 99,222	-
Public Costs	3,249,027	980,491	6,738	946,959	-
Total Costs	$ 3,647,658	$ 1,200,899	$ 9,411	$ 1,046,181	-
Intragovernmental Earned Revenue	300,063	67,343	52	21,119	-
Public Earned Revenue	127,499	58,726	7,326	16,255	-
Total Earned Revenue	427,562	126,069	7,378	37,374	-
Net Costs	$ 3,220,096	$ 1,074,830	$ 2,033	$ 1,008,807	-
Reimbursable Activity and Other					
Intragovernmental Costs	-	$ 198,483	$ 244,693	$ 690,001	$ 1,186
Public Costs	-	(198,483)	294,716	2,105,452	7,326
Total Costs	-	-	$ 539,409	$ 2,795,453	$ 8,512
Intragovernmental Earned Revenue	-	-	427,187	2,446,071	8,349
Public Earned Revenue	-	-	87,206	3,203	527
Total Earned Revenue	-	-	514,393	2,449,274	8,876
Net Costs of Operations	-	-	$ 25,016	$ 346,179	$ (364)
Total					
Intragovernmental Costs	$ 398,818	$ 569,745	$ 1,058,309	$ 805,689	$ 187,290
Public Costs	3,249,801	1,823,394	1,671,914	2,918,638	2,023,968
Total Costs	$ 3,648,619	$ 2,393,139	$ 2,730,223	$ 3,724,327	$ 2,211,258
Intragovernmental Earned Revenue	300,063	105,536	700,198	2,479,690	8,349
Public Earned Revenue	127,499	462,734	939,854	26,915	187,613
Total Earned Revenue	427,562	568,270	1,640,052	2,506,605	195,962
Net Cost of Operations	$ 3,221,057	$ 1,824,869	$ 1,090,171	$ 1,217,722	$ 2,015,296

(dollars in thousands)	National Park Service	Office of Surface Mining	U.S. Fish and Wildlife Service	U.S. Geological Survey	Elimination of Intra-Department Activity	FY 2010
Resource Protection						
Intragovernmental Costs	$ 295,860	$ 9,290	$ 346,823	$ 379,769	$ (268,111)	$ 882,898
Public Costs	986,957	191,749	1,461,023	1,044,259	-	4,162,738
Total Costs	$ 1,282,817	$ 201,039	$ 1,807,846	$ 1,424,028	$ (268,111)	$ 5,045,636
Intragovernmental Earned Revenue	20,963	-	118,806	300,640	(213,454)	281,229
Public Earned Revenue	119,032	-	79,726	200,826	-	461,336
Total Earned Revenue	139,995	-	198,532	501,466	(213,454)	742,565
Net Costs	$ 1,142,822	$ 201,039	$ 1,609,314	$ 922,562	$ (54,657)	$ 4,303,071
Resource Use						
Intragovernmental Costs	-	$ 19,567	$ 6,269	$ 43,496	$ (344,547)	$ 729,899
Public Costs	-	103,328	16,991	88,795	-	3,764,379
Total Costs	-	$ 122,895	$ 23,260	$ 132,291	$ (344,547)	$ 4,494,278
Intragovernmental Earned Revenue	-	5	1,308	18,348	(10,858)	275,116
Public Earned Revenue	-	108	496	1,453	-	1,340,583
Total Earned Revenue	-	113	1,804	19,801	(10,858)	1,615,699
Net Costs	-	$ 122,782	$ 21,456	$ 112,490	$ (333,689)	$ 2,878,579
Recreation						
Intragovernmental Costs	$ 585,716	-	$ 35,445	-	$ (134,434)	$ 526,900
Public Costs	1,897,139	-	906,907	-	-	3,065,520
Total Costs	$ 2,482,855	-	$ 942,352	-	$ (134,434)	$ 3,592,420
Intragovernmental Earned Revenue	41,494	-	10,535	-	(15,529)	39,565
Public Earned Revenue	235,609	-	6,380	-	-	285,584
Total Earned Revenue	277,103	-	16,915	-	(15,529)	325,149
Net Costs	$ 2,205,752	-	$ 925,437	-	$ (118,905)	$ 3,267,271
Serving Communities						
Intragovernmental Costs	-	$ 382	$ 42,416	$ 35,069	$ (350,873)	$ 447,928
Public Costs	-	11,224	135,277	132,800	-	5,462,516
Total Costs	-	$ 11,606	$ 177,693	$ 167,869	$ (350,873)	$ 5,910,444
Intragovernmental Earned Revenue	-	-	3,733	11,759	(73,368)	330,701
Public Earned Revenue	-	-	8,081	2,231	-	220,118
Total Earned Revenue	-	-	11,814	13,990	(73,368)	550,819
Net Costs	-	$ 11,606	$ 165,879	$ 153,879	$ (277,505)	$ 5,359,625
Reimbursable Activity and Other						
Intragovernmental Costs	-	$ 49	-	-	$ (665,955)	$ 468,457
Public Costs	-	273,390	-	-	-	2,482,401
Total Costs	-	$ 273,439	-	-	$ (665,955)	$ 2,950,858
Intragovernmental Earned Revenue	-	618	-	-	(1,359,827)	1,522,398
Public Earned Revenue	-	4	-	-	-	90,940
Total Earned Revenue	-	622	-	-	(1,359,827)	1,613,338
Net Costs of Operations	-	$ 272,817	-	-	$ 693,872	$ 1,337,520
Total						
Intragovernmental Costs	$ 881,576	$ 29,288	$ 430,953	$ 458,334	$ (1,763,920)	$ 3,056,082
Public Costs	2,884,096	579,691	2,520,198	1,265,854	-	18,937,554
Total Costs	$ 3,765,672	$ 608,979	$ 2,951,151	$ 1,724,188	$ (1,763,920)	$ 21,993,636
Intragovernmental Earned Revenue	62,457	623	134,382	330,747	(1,673,036)	2,449,009
Public Earned Revenue	354,641	112	94,683	204,510	-	2,398,561
Total Earned Revenue	417,098	735	229,065	535,257	(1,673,036)	4,847,570
Net Cost of Operations	$ 3,348,574	$ 608,244	$ 2,722,086	$ 1,188,931	$ (90,884)	$ 17,146,066

Intragovernmental costs and exchange revenue by responsibility segment for the year ended September 30, 2009, consists of the following:

(dollars in thousands)	Indian Affairs	Bureau of Land Management	Bureau of Reclamation	Departmental Offices and Other	Bureau of Ocean Energy Management, Regulation and Enforcement
Resource Protection					
Intragovernmental Costs	$ 333	$ 84,962	$ 12,389	$ 40,261	$ 4,506
Public Costs	770	417,454	24,178	187,817	50,349
Total Costs	$ 1,103	$ 502,416	$ 36,567	$ 228,078	$ 54,855
Intragovernmental Earned Revenue	-	82,280	2,402	11,778	-
Public Earned Revenue	-	23,688	22,872	21,152	-
Total Earned Revenue	-	105,968	25,274	32,930	-
Net Costs	$ 1,103	$ 396,448	$ 11,293	$ 195,148	$ 54,855
Resource Use					
Intragovernmental Costs	-	$ 45,465	$ 490,867	$ 1,170	$ 1,106,772
Public Costs	-	281,808	950,120	5,497	1,009,761
Total Costs	-	$ 327,273	$ 1,440,987	$ 6,667	$ 2,116,533
Intragovernmental Earned Revenue	-	16	256,693	-	-
Public Earned Revenue	-	256,266	726,738	2	177,534
Total Earned Revenue	-	256,282	983,431	2	177,534
Net Costs	-	$ 70,991	$ 457,556	$ 6,665	$ 1,938,999
Recreation					
Intragovernmental Costs	-	$ 43,677	$ 12,555	-	-
Public Costs	-	229,899	22,192	-	-
Total Costs	-	$ 273,576	$ 34,747	-	-
Intragovernmental Earned Revenue	-	363	6,547	-	-
Public Earned Revenue	-	20,191	18,625	-	-
Total Earned Revenue	-	20,554	25,172	-	-
Net Costs	-	$ 253,022	$ 9,575	-	-
Serving Communities					
Intragovernmental Costs	$ 472,399	$ 76,822	$ 2,824	$ 229,641	-
Public Costs	2,370,492	594,761	6,125	1,517,268	-
Total Costs	$ 2,842,891	$ 671,583	$ 8,949	$ 1,816,909	-
Intragovernmental Earned Revenue	245,761	58,157	834	16,845	-
Public Earned Revenue	119,488	30,732	7,511	19,404	-
Total Earned Revenue	365,249	88,889	8,345	36,249	-
Net Costs	$ 2,477,642	$ 582,694	$ 604	$ 1,780,660	-
Reimbursable Activity and Other					
Intragovernmental Costs	-	$ 166,056	$ 215,851	$ 613,838	$ 1,264
Public Costs	-	(166,056)	284,943	1,816,720	7,155
Total Costs	-	-	$ 500,794	$ 2,430,558	$8,419
Intragovernmental Earned Revenue	-	-	411,936	2,253,857	8,160
Public Earned Revenue	-	-	149,352	12,113	624
Total Earned Revenue	-	-	561,288	2,265,970	8,784
Net Costs of Operations	-	-	$ (60,494)	$ 164,588	$ (365)
Total					
Intragovernmental Costs	$ 472,732	$ 416,982	$ 734,486	$ 954,910	$ 1,112,542
Public Costs	2,371,262	1,357,866	1,287,558	3,527,302	1,067,265
Total Costs	$ 2,843,994	$ 1,774,848	$ 2,022,044	$ 4,482,212	$ 2,179,807
Intragovernmental Earned Revenue	245,761	140,816	678,412	2,282,480	8,160
Public Earned Revenue	119,488	330,877	925,098	52,671	178,158
Total Earned Revenue	365,249	471,693	1,603,510	2,335,151	186,318
Net Cost of Operations	$ 2,478,745	$ 1,303,155	$ 418,534	$ 2,147,061	$ 1,993,489

(dollars in thousands)	National Park Service	Office of Surface Mining	U.S. Fish and Wildlife Service	U.S. Geological Survey	Elimination of Intra-Department Activity	FY 2009
Resource Protection						
Intragovernmental Costs	$ 252,632	$ 8,900	$ 306,021	$ 354,389	$ (332,521)	$ 731,872
Public Costs	868,095	174,114	1,236,927	1,008,414	-	3,968,118
Total Costs	$ 1,120,727	$ 183,014	$ 1,542,948	$ 1,362,803	$ (332,521)	$ 4,699,990
Intragovernmental Earned Revenue	23,902	433	82,829	275,848	(233,970)	245,502
Public Earned Revenue	114,215	112	79,178	203,556	-	464,773
Total Earned Revenue	138,117	545	162,007	479,404	(233,970)	710,275
Net Costs	$ 982,610	$ 182,469	$ 1,380,941	$ 883,399	$ (98,551)	$ 3.989,715
Resource Use						
Intragovernmental Costs	-	$ 18,524	$ 5,794	$ 36,110	$ (328,037)	$ 1,376,665
Public Costs	-	95,162	16,453	79,790	-	2,438,591
Total Costs	-	$ 113,686	$ 22,247	$ 115,900	$ (328,037)	$ 3,815,256
Intragovernmental Earned Revenue	-	18	1,789	11,541	(8,272)	261,785
Public Earned Revenue	-	74	790	1,362	-	1,162,766
Total Earned Revenue	-	92	2,579	12,903	(8,272)	1,424,551
Net Costs	-	$ 113,594	$ 19,668	$ 102,997	$ (319,765)	$ 2,390,705
Recreation						
Intragovernmental Costs	$ 500,055	-	$ 34,889	-	$ (119,726)	$ 471,450
Public Costs	1,606,010	-	856,414	-	-	2,714,515
Total Costs	$ 2,106,065	-	$ 891,303	-	$ (119,726)	$ 3,185,965
Intragovernmental Earned Revenue	47,348	-	10,019	-	(12,538)	51,739
Public Earned Revenue	226,075	-	4,071	-	-	268,962
Total Earned Revenue	273,423	-	14,090	-	(12,538)	320,701
Net Costs	$ 1,832,642	-	$ 877,213	-	$ (107,188)	$ 2,865,264
Serving Communities						
Intragovernmental Costs	-	$ 383	$ 33,973	$ 30,522	$ (271,518)	$ 645,046
Public Costs	-	8,714	99,191	108,687	-	4,705,238
Total Costs	-	$ 9,097	$ 133,164	$ 139,209	$ (271,518)	$ 5,350,284
Intragovernmental Earned Revenue	-	15	4,390	13,756	(62,644)	277,114
Public Earned Revenue	-	-	2,518	1,183	-	180,836
Total Earned Revenue	-	15	6,908	14,939	(62,644)	457,950
Net Costs	-	$ 9,082	$ 126,256	$ 124,270	$ (208,874)	$ 4,892,334
Reimbursable Activity and Other						
Intragovernmental Costs	-	-	-	-	$ (653,294)	$ 343,715
Public Costs	-	181,166	-	-	-	2,123,928
Total Costs	-	$ 181,166	-	-	$ (653,294)	$ 2,467,643
Intragovernmental Earned Revenue	-	-	-	-	(1,322,198)	1,351,755
Public Earned Revenue	-	-	-	-	-	162,089
Total Earned Revenue	-	-	-	-	(1,322,198)	1,513,844
Net Costs of Operations	-	$ 181,166	-	-	$ 668,904	$ 953,799
Total						
Intragovernmental Costs	$ 752,687	$ 27,807	$ 380,677	$ 421,021	$ (1,705,096)	$ 3,568,748
Public Costs	2,474,105	459,156	2,208,985	1,196,891	-	15,950,390
Total Costs	$ 3,226,792	$ 486,963	$ 2,589,662	$ 1,617,912	$ (1,705,096)	$ 19,519,138
Intragovernmental Earned Revenue	71,250	466	99,027	301,145	(1,639,622)	2,187,895
Public Earned Revenue	340,290	186	86,557	206,101	-	2,239,426
Total Earned Revenue	411,540	652	185,584	507,246	(1,639,622)	4,427,321
Net Cost of Operations	$ 2,815,252	$ 486,311	$ 2,404,078	$ 1,110,666	$ (65,474)	$ 15,091,817

NOTE 18. STATEMENT OF BUDGETARY RESOURCES

The Statement of Budgetary Resources provides information about how budgetary resources were made available as well as their status at the end of the period. It is the only financial statement exclusively derived from the entity's budgetary general ledger in accordance with budgetary accounting rules that are incorporated into GAAP for the Federal Government. Interior's undelivered orders as of September 30, 2010, and 2009, were $10,395,777 thousand and $8,286,988 thousand, respectively.

Apportionment of Obligations Incurred

The following table contains only Category B apportionments since Interior does not receive Category A. Category B apportionments typically distribute budgetary resources by activities, projects, objects, or a combination of these categories. Interior's obligations incurred for the year ended September 30, 2010, and 2009, are as follows:

FY 2010 (dollars in thousands)	Apportioned	Exempt from Apportionment	Total
Obligations Incurred:			
Direct	$ 19,975,034	$ 82,801	$ 20,057,835
Reimbursable	5,911,052	-	5,911,052
Total Obligations Incurred	$ 25,886,086	$ 82,801	$ 25,968,887

FY 2009 (dollars in thousands)	Apportioned	Exempt from Apportionment	Total
Obligations Incurred:			
Direct	$ 17,330,668	$ 83,291	$ 17,413,959
Reimbursable	5,154,261	-	5,154,261
Total Obligations Incurred	$ 22,484,929	$ 83,291	$ 22,568,220

Repayment Requirements, Financing Sources for Repayment, and other Terms of Borrowing Authority Used. BOR's borrowing authority is provided under the Federal Credit Reform Act of 1990 (see Note 6, Loans and Interest Receivable). The repayment terms and provisions of these loans are not more than 40 years from the date when the principal benefits of the projects first became available. Interest on the debt is determined by the Treasury as of the beginning of the fiscal year in which the contract is executed, on the basis of the average market yields on outstanding marketable obligations of the United States. Collections in excess of the interest due to the Treasury is applied to the outstanding principal owed to the Treasury.

The Reclamation Fund is an unavailable receipt fund into which revenues for the reimbursement of power capital investment costs, associated interest, and operations and maintenance reimbursements, collected by Western Area Power Administration and Bonneville Power Administration (Department of Energy Power Marketing Agencies), are recorded. Interior has historically reported these revenues as Distributed Offsetting Receipts on its financial statements.

In July of 2010, OMB issued guidance stating that the revenues as collected by the Department of Energy Power Marketing Agencies and deposited to the Reclamation Fund, are to be reported as Distributed Offsetting Receipts by the Department of Energy and should no longer be reported by Interior on its financial statements. Interior has adopted this change prospectively, and as such, has removed these deposits from the FY 2010 Distributed Offsetting Receipts line on the Statement of Budgetary Resources. The FY 2009 Distributed Offsetting Receipts line includes $204 million in power revenues as collected by the Department of Energy Power Marketing Agencies.

IA receives borrowing authority from Treasury for its loan programs in accordance with the Credit Reform Act of 1990 and related legislation. The guaranteed loan financing fund can borrow funds when the cash balance in a financing fund cohort is insufficient to pay default claims, interest subsidy payments, downward subsidy re-estimates, or the interest on prior Treasury borrowings. IA did not exercise any new borrowing authority as of September 30, 2010, and September 30, 2009. IA's direct loan program ended in 1995. However, borrowings arising from direct loans made between 1992 and 1995 are still outstanding. These borrowings are being repaid as scheduled and as of September 30, 2010 and September 30, 2009, were $6,738 thousand and $7,844 thousand, respectively.

In 2001, the Bureau of the Public Debt extended a loan to the Departmental Offices for the purpose of making a direct loan to the ASG. 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.

Permanent Indefinite Appropriations. Permanent indefinite appropriations are appropriations given to Interior through public laws which authorize the retention of certain receipts. These appropriations do not specify amounts, but are dependent upon the amount of receipts collected. All Interior bureaus use one or more permanent no-year appropriations to finance operating costs and purchase Property, Plant, and Equipment (PPE). Interior has 100 permanent indefinite appropriations. Most of these appropriations are used for special environmental programs and to carry out obligations of the Secretary of the Interior.

Appropriations Received. Appropriations Received on the Statement of Changes in Net Position differs from that reported on the Statement of Budgetary Resources because Appropriations Received on the Statement of Changes in Net Position do not include appropriated dedicated and earmarked receipts. Dedicated and earmarked receipts are accounted for as either exchange or nonexchange revenue.

Legal Arrangements Affecting Use of Unobligated Balances. Interior's unobligated unavailable balances as of September 30, 2010, and 2009, are disclosed in the table below.

Unobligated balances, whose period of availability has expired (i.e., expired authority), are not available to fund new obligations, but are available to pay for adjustments to obligations incurred prior to expiration.

Available Borrowing/Contract Authority, End of the Period The amount of available borrowing authority is $9,452 thousand and $7,616 thousand as of September 30, 2010 and 2009, respectively. Interior did not have any available contract authority at September 30, 2010 and 2009 respectively.

Explanation of Differences between the Combined Statement of Budgetary Resources and the Budget of the United States Government. The Statement of Budgetary Resources has been prepared to coincide with the amounts shown in the President's Budget (Budget of the United States Government). The President's Budget with the actual FY 2009 amounts was released in February 2010, and the President's Budget with the actual FY 2010 amounts is estimated to be released in February 2011. Bothcan be located at the OMB website ***www.whitehouse.gov/omb***. As such, the actual amounts for FY 2010 in the President's Budget have not been published at the time these financial statements were prepared.

Budgetary resources and the status of those resources presented in the Statement of Budgetary Resources for the period ended September 30, 2009, differ from the amounts presented as 2009 Actuals in the President's FY 2011 Budget. Differences are presented and labeled on the next page.

(dollars in thousands)	FY 2010	FY 2009
Unapportioned amounts unavailable for future apportionments	$ 14,824	$ 1,554
Expired Authority	170,065	181,484
Total Budgetary Accounts	184,889	183,038
Non-Budgetary Credit Program Financing Accounts	3,732	-
Unobligated Balance Unavailable	$ 188,621	$ 183,038

Reconciliation of the Statement of Budgetary Resources to the President's Budget				
(dollars in thousands)	**Budgetary Resources**	**Obligations Incurred**	**Distributed Offsetting Receipts**	**Net Outlays**
FY 2009 Combined Statement of Budgetary Resources	$ 32,271,636	$ 22,568,220	$ (5,257,387)	$ 11,285,894
Expired balances reported in the SBR, but not in the Budget of the US Government	(123,990)	(32,277)	-	-
Reported budgetary available for obligation from Mineral leasing, National Forest Fund, Leases of Land Acquired for Flood Control Navigation, Allied Purposes, and Oil Spill Research in the SBR but not in the Budget of the US Government	(1,943,891)	-	-	-
Distributed offsetting receipts (DOR) difference between the SBR and the Budget of the US Government include scenarios like WAPA where Interior and Energy report various components, in FY2009 Interior included certain offsetting receipts on the SBR for WAPA, but not in the Budget. Another example is the DOR for the Office of the Special Trustee, which are included in the Budget of the U.S. Government but not in the SBR, as they are now accounted for as fiduciary transactions.	-	-	122,762	122,762
Offsetting Collections and Outlay differences between the SBR and Budget of the US Government include "child" accounts reported on non-Interior Parent allocation transfers, expired accounts and accounts related to concessions not reported on the SBR.	-	-	-	55,000
Subtotal	(2,067,881)	(32,277)	122,762	177,762
Budget of the U.S. Government	**$ 30,203,755**	**$ 22,535,943**	**(5,134,625)**	**$ 11,463,656**

NOTE 19. RECONCILIATION OF NET COST OF OPERATIONS TO BUDGET

As required by SFFAS No. 7, *Accounting for Revenue and Other Financial Sources*, Interior has reconciled the Net Cost of Operations (reported in the Statement of Net Cost), to the current year obligations, reported on the Statement of Budgetary Resources.

The schedule below illustrates this reconciliation by listing the inherent differences in timing and recognition between the accrual proprietary accounting method used to calculate net cost, and the budgetary accounting method used to calculate budgetary resources and obligations. Note the amount reported under Deferred Revenue in FY 2009 were Capital Lease obligations.

Also note that the large variances between FY 2010 and FY 2009 are mainly due to the following: in "Imputed Financing Sources" and "Imputed Costs" the variances are mainly due to the payments of approximately $1 billion that the Department of Justice made out of the judgement fund on behalf of Interior for the loss of the Amber Resources case in FY 2009; and the variances in "Revenues, Gains and Losses that do not affect Net Cost of Operations" and "Change in Receivables Not in the Budget" are mainly due to $603 million of revenues reported under "Change in Receivables Not in the Budget" in FY 2009 that is reported in "Revenues, Gains and Losses that do not affect Net Cost of Operations" in FY 2010.

The reconciliation of net cost of operations to budgetary accounts for the years ended September 30, 2010 and 2009, is as follows:

(dollars in thousands)	FY 2010	FY 2009
Resources Used to Finance Activities		
Current Year Gross Obligations	$ 25,968,887	$ 22,568,220
Budgetary Resources from Offsetting Collections		
Spending Authority from Offsetting Collections		
Earned		
Collected	(5,362,530)	(4,902,631)
Change in Receivable from Federal Sources	(30,775)	(54,298)
Change in Unfilled Customer Orders	(537,721)	(257,340)
Recoveries of Prior Year Unpaid Obligations	(459,239)	(466,065)
Offsetting Receipts	(5,007,103)	(5,257,387)
Other Financing Resources		
Transfers In (Out) without Reimbursement	15,520	18,671
Donations (Forfeitures) of Property	18,176	24,796
Imputed Financing Sources	666,878	1,632,943
Other	(145,717)	(128,427)
Total Resources Used to Finance Activity	15,126,376	13,178,482
Resources Used to Finance Items Not Part of the Net Cost of Operations		
Budgetary Obligations and Resources Not in the Net Cost of Operations		
Change in Unfilled Customer Orders	537,721	257,340
Change in Undelivered Orders	(2,108,789)	(709,786)
Current Year Capitalized Purchases	(1,270,429)	(1,135,632)
Deferred Revenue	-	(30,680)
Capital Lease Obligations	13,528	-
Change in Expended Authority in Loan Funds	(14,435)	(27,166)
Change in Budgetary Collections in Loan Funds	65,583	25,527
Offsetting Receipts that do not Affect Net Cost of Operations	5,007,103	5,257,387
Imputed Financing Sources	(666,878)	(1,632,943)
Revenues, Gains, and Losses that do not affect Net Cost Operations	(1,137,075)	(203,141)
Components of the Net Cost of Operations Which Do Not Generate or Use Resources in the Reporting Period		
Revenues Without Current Year Budgetary Effect		
Change in Receivables Not in the Budget	(4,015)	(888,225)
Costs without Current Year Budgetary Effect		
Depreciation and Amortization	563,615	528,283
Disposition of Assets	35,690	8,014
Re-evaluation of liabilities	256,372	(1,168,484)
Imputed costs	649,635	1,617,066
Bad Debt Expense	164,013	72,894
Change in Other Expenses Not Requiring Budgetary Resources	(71,949)	(57,119)
Net Cost of Operations	$ 17,146,066	$ 15,091,817

NOTE 20. EARMARKED FUNDS

Earmarked funds are specifically identified revenues and other financing sources required by statute to be used for designated activities, benefits, or purposes that must be accounted for separately from the Government's general revenues.

Interior's significant earmarked funds are:

The Land and Water Conservation Fund (LWCF). The LWCF was enacted in 1964 (Public Law 88-578) to create and maintain a nationwide legacy of high quality recreation areas and facilities. The LWCF Act established a funding source for both Federal acquisition of authorized national park, conservation, and recreation areas, as well as grants to state and local governments to help them acquire, develop, and improve outdoor recreation areas.

Each year, amounts from the LWCF are warranted to some of the bureaus within Interior and the rest to the Department of Agriculture's Forest Service. These funds are considered inflows of resources to the government and are reported as a restricted asset.

The Historic Preservation Fund (HPF). The HPF provides matching grants to encourage private and non-Federal investment in historic preservation efforts nationwide, and assists State and local governments and Indian Tribes with expanding and accelerating historic preservation activities nationwide. HPF grants serve as a catalyst and "seed money" to preserve and protect the Nation's irreplaceable heritage for current and future generations.

Annually, under National Historic Preservation Act (NHPA), royalties from OCS oil deposits are transferred from BOEMRE to NPS. Each year, amounts from the HPF are transferred via warrants to bureaus within Interior and to the Department of Agriculture's Forest Service. These funds are considered inflows of resources to the government.

Reclamation Fund. The Reclamation Fund was established by the National Reclamation Act of 1902 (32 Statute [Stat.] 388). It is a restricted, unavailable receipt fund into which a portion of BOR's revenues (mostly repayment of capital investment costs, associated interest, and operation and maintenance reimbursements from water and power users) and receipts from other Federal agencies (primarily revenues from certain Federal mineral royalties from BOEMRE and hydropower transmission collected by Western Area Power Administration) are deposited. No expenditures are made directly from the Reclamation Fund; however, funds are transferred from the Reclamation Fund into BOR's appropriated expenditure funds or to other Federal agencies pursuant to Congressional appropriation acts to invest and reinvest in the reclamation of arid lands in the Western States. The funds are considered inflows of resources to the government.

Water and Related Resources Fund. The Water and Related Resources Fund receives most of its funding from appropriations derived from the Reclamation Fund. These funds are used for BOR's central mission of delivering water and generating hydropower in the Western United States.

Costs associated with multipurpose plants are allocated to the various purposes, principally: power, irrigation, municipal and industrial (M&I) water, fish and wildlife enhancement, recreation, and flood control. Generally, only those costs associated with power, irrigation, and M&I water are reimbursable. Costs associated with purposes such as fish and wildlife enhancement, recreation, and flood control generally are nonreimbursable. Capital investment costs are recovered over a 40-year period, but may extend to 50 years or more, if authorized by the Congress. The funds are considered inflows of resources to the government.

Lower Colorado River Basin Fund (LCRBDF). The LCRBDF receives funding from multiple sources for specific purposes as provided under the Lower Colorado River Basin Development Fund (LCRBDF). Funding sources include: appropriations, and Federal revenue from the Central Arizona Project; Federal revenues from the Boulder Canyon Project and the Parker-Davis Project; the Western Area Power Administration; Federal revenue from the Northwest-Pacific Southwest intertie in the States of Nevada and Arizona; and, revenues earned from investing in Treasury securities. Funding sources may be retained and are available without further appropriation. The LCRBDF provides for irrigation development and management activities within the Lower Colorado River Basin including operation, maintenance, replacements, and emergency expenditures for facilities of the Colorado River storage project and participating projects. The funds are considered inflows of resources to the government.

Upper Colorado River Basin Fund. The Upper Colorado River Basin Fund receives funding from appropriations, water users, and the Western

Area Power Administration. Funding sources may be retained and are available without further appropriation. The Colorado River Basin Project Act provides that appropriations and revenues collected in connection with the operation of the Colorado River storage project shall be available for operations, maintenance, replacements, and emergency expenditures for facilities of the Colorado River storage project and participating projects. The funds are considered inflows of resources to the government.

Water and Related Resources Recovery Act. The American Recovery and Reinvestment Act (ARRA) provided funding to BOR for activities that would normally be financed under the Water and Related Resources Fund. The majority of these funds were provided by appropriations derived from the Reclamation Fund in accordance with Public Law 111-5. This fund is used to meet the criteria set out in ARRA that includes preserving and creating jobs, investing in infrastructure. BOR programs under ARRA provide for meeting future water supply needs, infrastructure reliability and safety, environmental and ecosystem restoration, the Secretary's Water Conservation initiative, emergency drought relief, and green buildings. These efforts will contribute to the long-term sustainability of water and natural resources.

Abandoned Mine Land Fund (AML). Public Law 95-87 requires that all operators of coal mining operations pay a reclamation fee on every ton of coal produced. The fees through September 30, 2012, are 31.5 cents per ton of surface mined coal, 13.5 cents per ton of coal mined underground, and 9 cents per ton on lignite. On December 20, 2006, the Surface Mining Control and Reclamation Act (SMCRA) Amendments of 2006 became law as part of the Tax Relief and Health Care Act of 2006 (Public Law 109-432). This law extends the statutory fee rates through September 30, 2021, and eliminates the requirement that Interior establish fee rates thereafter based upon amounts transferred to the United Mine Workers of America Combined Benefit Fund. The new law reduces existing fee rates to 28 cents per ton of surface mined coal, 12 cents per ton of coal mined underground, and 8 cents per ton on lignite for FY 2013 through 2021.

The fees are deposited in the AML Reclamation Fund, which is used primarily to fund abandoned mine land reclamation projects. Under authority of Public Law 95-87, Interior invests AML funds in U.S. Treasury Securities. The funds are considered inflows of resources to the government.

Southern Nevada Public Land Management Fund (SNPLMF). The Southern Nevada Public Land Management Act, enacted in October 1998, authorizes BLM to sell public land tracts that are interspersed with or adjacent to private land in the Las Vegas Valley. BLM is authorized to deposit the proceeds as follows: 85 percent in the SNPLMF, 10 percent to the Southern Nevada Water Authority, and 5 percent to the State of Nevada's Education Fund. The revenues generated from the land sales are required to be used by BLM and other government entities to acquire environmentally sensitive lands and build or maintain trails, day-use areas, campgrounds, etc., to benefit public land visitors. The funds are considered inflows of resources to the government.

Environmental Improvement and Restoration Fund (EIRF). The EIRF was created from a distribution of the Alaska Escrow Fund in which half of the principal is invested in Treasury Securities. Monies from the EIRF are invested and earn interest until further Congressional action is taken. Congress permanently appropriates and MRM transfers 20 percent of prior fiscal year interest earned by the EIRF to the Department of Commerce for marine research activities. The remaining 80 percent earns interest and can be appropriated by Congress to other agencies, as provided by the law. Assets are not available to Interior unless appropriated by Congress. The funds are considered inflows of resources to the government.

The Federal Aid in Wildlife Restoration Fund (the Pittman-Robertson Wildlife Restoration Act). Federal Aid in Wildlife Restoration received funding from excise taxes on sporting firearms, handguns, ammunition, and archery equipment. It provides Federal assistance to the 50 States, Puerto Rico, Guam, and the U.S. Virgin Islands, the Northern Mariana Islands, and American Samoa for projects to restore, enhance, and manage wildlife resources, and to conduct State hunter education programs. The Act authorizes receipts for permanent indefinite appropriations to the Service for use in the fiscal year following collection. Funds not used by the States after two years revert to the Service for carrying out the provisions of the Migratory Bird Conservation Act.

The Sport Fish Restoration and Boating Trust Fund (SFRBTF). The Service's component of the SFRBTF (previously referred to as ARTF) receives funding from excise tax receipts collected from manufacturers of equipment used in fishing, hunting, and sport shooting, and on motorboat fuels. SFRBTF provides funding to three components: the Service's Sport Fish Restoration Account (SFRA), the U.S. Coast Guard's Boat Safety Program and the U.S. Army Corps of Engineers' Coastal Wetlands Program. SFRBTF encompasses the programs of these three components.

Other Earmarked Funds. Interior is responsible for the management of numerous earmarked funds with a variety of purposes. Funds presented on an individual basis represent the majority of Interior's net position attributable to earmarked funds. All other earmarked funds have been aggregated in accordance with SFFAS 27, *Identifying and Reporting Earmarked Funds*, and are presented in the following tables.

FWS has several appropriations that have a combination of earmarked funding and regular funding. Interior determines earmarked status by appropriation and the policy is to report "mixed" appropriation as earmarked dependent upon the preponderance of funds within the appropriation.

Indian Affairs

- Power Systems - Indian Irrigation Projects
- Operation & Maintenance, Indian Irrigation Systems
- Operation and Maintenance of Quarters
- Alaska Resupply Program
- Indian Water Rights and Habitat Acquisition Program
- Gifts and Donations

Bureau of Land Management

- Helium Fund
- Federal Land Transaction Facilitation Act
- Naval Oil Shale Petroleum Restoration
- Lincoln County Land Act
- Mineral Leasing Act, Oil and Gas Pipeline Rights-of-Way
- Service Charges, Deposits, Forfeitures
- Expenses – Road Maintenance Deposits
- Land Acquisition
- Operation and Maintenance of Quarters
- Fee Collection Support, Public Lands
- Payments to Nevada, Clark County Lands
- Range Improvements
- Ecosystem Health and Recovery
- National Resource Damage Assessment and Restoration Fund Third Party Collections
- Timber Pipeline Restoration Fund
- Recreation Fees Demonstration Site
- Deschutes County Land Transaction
- Secure Rural Schools and Community Self-Determination Act
- Stewardship Contract Product Sale
- Permit Processing Fund Mineral Lease
- Geothermal Steam Act Impress Fund
- Naval Petroleum Reserve #2 Lease
- Payment Proceeds, Water, MLA 1920
- Payments to Counties, Oregon and California Grant Lands
- Payments to Coos Bay and Douglas Counties
- Land and Resources Management Trust Fund
- Highway Trust Fund
- Trustee Fund, Alaska Town sites
- Land and Water Conservation Fund, Federal Land Sales

Bureau of Reclamation

- Colorado River Dam Fund – Boulder Canyon Project
- San Gabriel Restoration Fund
- Central Valley Project Restoration Fund
- Reclamation Trust Funds
- Klamath – Water and Energy
- North Platte Project – Facility Operations
- North Platte – Farmers Irrigation District – Facility Operations
- Reclamation Recreation, Entrance and Use Fees
- Reclamation Fund General
- Administration Expenses
- Quarters Operation and Maintenance
- San Joaquin River Restoration Fund

U. S. Geological Survey

- Operation and Maintenance of Quarters
- Contributed Fund

Office of Surface Mining Reclamation and Enforcement

- Regulation and Technology, Civil Penalties
- Bond Forfeitures

Bureau of Ocean Energy Management, Regulation and Enforcement

- Payments to States from receipts under Mineral Leasing, Public and Acquired Military Lands
- Payments to Alaska from Oil and Gas Leases, National Petroleum Reserve
- Payment to Oklahoma, Royalties
- Payments to States, National Forest Fund
- Payments to States, Flood Control Act of 1954
- Coastal Impact Assistance Program
- Geothermal Lease Revenues, Payments to Counties
- Oil Spill Research
- State's Share from Certain Gulf of Mexico Leases

Departmental Offices

- National Resource Damage Assessment and Restoration Fund
- Utah Reclamation Mitigation and Conservation Account
- Indian Arts and Crafts Receipts
- Hazardous Substance Response Trust Fund
- National Indian Gaming Commission
- Everglades Restoration
- Take Pride in America Gifts and Bequests
- Departmental Management Land and Water Conservation
- Central Utah Project Completion Act

Fish & Wildlife Service

- Cooperative Endangered Species Conservation Fund
- Land Acquisition
- Federal Aid in Wildlife Restoration
- Operation and Maintenance of Quarters
- National Wildlife Refuge Fund
- Proceeds from Sales, Water Resource Development Projects
- Migratory Bird Conservation Account
- Lahontan Valley and Pyramid Lake Fish and Wildlife Fund
- Recreational Fee Enhancement Program
- Federal Infrastructure Improvement, from Land and Water Conservation Fund
- Private Stewardship Grants
- Landowner Incentive Program
- Community Partnership Enhancement
- Sport Fish Restoration Account
- Contributed Funds

National Park Service

- Gulf of Mexico Energy Security Act (GOMESA)
- Centennial Challenge
- Land Acquisitions and State Assistance
- Operation and Maintenance of Quarters
- Fee Demonstration Program
- National Park Passport Program
- Park Concessioner's Franchise Fees
- Donations
- Federal Highways Administration
- National Law Enforcement Memorial
- Delaware Water Gap Route 209 Operations
- Park Buildings and Maintenance
- National Park Service Transportation Systems
- Natural Resource Damage and Restoration
- National Maritime Heritage
- Filming and Photos Public Lands
- Glacier Bay Cruise and Boat Fees
- Educational Expenses for the Children of Employees of Yellowstone National Park
- Tax Losses on Lands Surrounding
- Grand Teton National Park
- Birthplace of Abraham Lincoln
- Federal Highways Construction
- Historic Black Colleges
- Southern Nevada Public Land Management Fund

Interior's earmarked funds as of and for the year ended September 30, 2010, consist of the following:

(dollars in thousands)	Land and Water Conservation Fund	Historic Preservation Fund	Reclamation Fund	Water and Related Resources	Lower Colorado River Basin Fund	Upper Colorado River Basin Fund
ASSETS						
Fund Balance with Treasury	$ 17,092,075	$ 2,918,841	$ 8,525,587	$ 988,950	$ 1,849	$ 167,455
Investments, Net	-	-	-	-	460,338	-
Accounts Receivable, Net	-	-	338,259	15,147	11,754	162
Loans Receivable, Net	-	-	3,234,340	-	-	-
General Property, Plant, & Equipment, Net	-	-	-	7,647,344	2,915,461	2,442,316
Other Assets	-	1,321	-	96,738	118,163	3,333
TOTAL ASSETS	$ 17,092,075	$ 2,920,162	$ 12,098,186	$ 8,748,179	$ 3,507,565	$ 2,613,266
LIABILITIES						
Accounts Payable	-	28	-	77,083	15,145	71,080
Debt	-	-	-	-	-	-
Other Liabilities	-	-	41	2,226,585	1,754	194,093
TOTAL LIABILITIES	$ -	$ 28	$ 41	$ 2,303,668	$ 16,899	$ 265,173
NET POSITION						
Unexpended Appropriations	-	-	-	206,762	19,239	46,307
Cumulative Results of Operations	17,092,075	2,920,134	12,098,145	6,237,749	3,471,427	2,301,786
TOTAL NET POSITION	17,092,075	2,920,134	12,098,145	6,444,511	3,490,666	2,348,093
TOTAL LIABILITIES AND NET POSITION	$ 17,092,075	$ 2,920,162	$ 12,098,186	$ 8,748,179	$ 3,507,565	$ 2,613,266
COST/REVENUE						
Gross Costs	-	71,556	306,832	1,230,108	284,722	107,283
Earned Revenue	(4)	-	(485,797)	(286,746)	(204,565)	(87,493)
NET COST OF OPERATIONS	$ (4)	$ 71,556	$ (178,965)	$ 943,362	$ 80,157	$ 19,790
NET POSITION						
Net Position, Beginning Balance	16,641,200	2,844,083	11,481,734	6,366,096	3,555,774	2,308,621
Appropriations Received/Transferred	-	-	-	97,763	16,046	45,351
Royalties Retained	901,869	152,453	1,327,695	-	-	-
Non-Exchange Revenue and donation and forfeitures	289	-	5,341	18	-	55
Other Financing sources						
Transfers In/(Out) without Reimbursement	(451,287)	(4,846)	(881,260)	818,163	(997)	(7,021)
Imputed Financing from Costs Absorbed by Others	-	-	53	105,833	-	20,877
Other	-	-	(14,383)	-	-	-
Net Cost of Operations	4	(71,556)	178,965	(943,362)	(80,157)	(19,790)
Change in Net Position	450,875	76,051	616,411	78,415	(65,108)	39,472
NET POSITION, ENDING BALANCE	$ 17,092,075	$ 2,920,134	$ 12,098,145	$ 6,444,511	$ 3,490,666	$ 2,348,093

Water and Related Resources Recovery Act	Abandoned Mine Land Fund	Southern Nevada Public Land Mgmt Fund	Federal Aid / Wildlife Restoration	Sport Fish Restoration	Environmental Improvement & Restoration Fund	Other Earmarked Funds	FY 2010
$ 678,422	$ 11,292	$ 162,388	$ 80,686	$ 11,589	$ 1	$ 3,054,785	$ 33,693,920
-	2,630,837	1,373,179	860,505	-	1,213,642	739,970	7,278,471
-	708	39	1	1,280,737	-	457,776	2,104,583
-	-	-	-	-	-	-	3,234,340
65,055	3,671	76,850	-	-	-	793,860	13,944,557
33,490	-	-	23	-	-	206,340	459,408
$ 776,967	$ 2,646,508	$ 1,612,456	941,215	1,292,326	$ 1,213,643	$ 5,252,731	$ 60,715,279
15,295	381	49,531	-	548,046	-	23,305	799,894
-	-	-	-	-	-	434,204	434,204
26,000	58,631	36,544	32,498	36,555	-	808,749	3,421,450
$ 41,295	$ 59,012	$ 86,075	$ 32,498	$ 584,601	-	$ 1,266,258	$ 4,655,548
73,794	-	-	-	-	-	39,001	385,103
661,878	2,587,496	1,526,381	908,717	707,725	1,213,643	3,947,472	55,674,628
735,672	2,587,496	1,526,381	908,717	707,725	1,213,643	3,986,473	56,059,731
$ 776,967	$ 2,646,508	$ 1,612,456	$ 941,215	$ 1,292,326	$ 1,213,643	$ 5,252,731	$ 60,715,279
185,446	241,561	235,558	388,549	436,428	-	2,978,920	6,466,963
(21)	(468)	(13,377)	-	-	-	(868,630)	(1,947,101)
$ 185,425	$ 241,093	$ 222,181	388,549	436,428	-	$ 2,110,290	$ 4,519,862
920,959	2,521,307	1,774,476	886,886	666,916	1,174,093	3,431,624	54,573,769
(12,128)	-	-	-	-	-	151,688	298,720
-	-	-	-	-	-	2,015,235	4,397,252
-	307,186	-	408,796	-	39,550	179,122	940,357
12,128	96	(26,083)	(1,092)	476,771	-	315,639	250,211
138	-	169	2,676	466	-	3,455	133,667
-	-	-	-	-	-	-	(14,383)
(185,425)	(241,093)	(222,181)	(388,549)	(436,428)	-	(2,110,290)	(4,519,862)
(185,287)	66,189	(248,095)	21,831	40,809	39,550	554,849	1,485,962
$ 735,672	$ 2,587,496	$ 1,526,381	$ 908,717	$ 707,725	$ 1,213,643	$ 3,986,473	$ 56,059,731

Interior's earmarked funds as of and for the year ended September 30, 2009, consist of the following:

(dollars in thousands)	Land and Water Conservation Fund	Historic Preservation Fund	Reclamation Fund	Water and Related Resources	Lower Colorado River Basin Fund
ASSETS					
Fund Balance with Treasury	$ 16,641,200	$ 2,842,749	$ 7,769,024	$ 1,108,250	$ 1,298
Investments, Net	-	-	-	-	524,976
Accounts Receivable, Net	-	-	374,043	28,796	11,473
Loans Receivable, Net	-	-	3,338,755	-	-
General Property, Plant, and Equipment, Net	-	-	-	7,516,695	2,942,277
Other Assets	-	1,339	-	57,145	93,975
TOTAL ASSETS	$ 16,641,200	$ 2,844,088	$ 11,481,822	$ 8,710,886	$ 3,573,999
LIABILITIES					
Accounts Payable	-	-	-	118,621	3,884
Debt	-	-	-	-	-
Other Liabilities	-	5	88	2,226,169	14,341
TOTAL LIABILITIES	-	5	88	2,344,790	18,225
NET POSITION					
Unexpended Appropriations	-	-	-	195,998	14,829
Cumulative Results of Operations	16,641,200	2,844,083	11,481,734	6,170,098	3,540,945
TOTAL NET POSITION	16,641,200	2,844,083	11,481,734	6,366,096	3,555,774
TOTAL LIABILITIES AND NET POSITION	$ 16,641,200	$ 2,844,088	$ 11,481,822	$ 8,710,886	$ 3,573,999
COST/REVENUE					
Gross Costs	-	70,554	1,003	1,108,434	189,224
Earned Revenue	-	-	(423,138)	(333,702)	(205,410)
NET COST OF OPERATIONS	$ -	$ 70,554	$ (422,135)	$ 774,732	$ (16,186)
NET POSITION					
Net Position, Beginning Balance	16,023,784	2,767,352	11,381,209	6,163,422	3,517,456
Appropriations Received/Transferred	-	-	-	79,673	23,130
Royalties Retained	901,084	150,000	1,335,300	-	-
Non-Exchange Revenue and donation and forefeitures	586	-	5,402	842	-
Other Financing sources					
Transfers In/(Out) without Reimbursement	(284,254)	(262)	(1,651,596)	789,788	(998)
Imputed Financing from Costs Absorbed by Others	-	-	56	107,103	-
Other	-	(2,453)	(10,772)	-	-
Net Cost of Operations	-	(70,554)	422,135	(774,732)	16,186
Change in Net Position	617,416	76,731	100,525	202,674	38,318
NET POSITION, ENDING BALANCE	$ 16,641,200	$ 2,844,083	$ 11,481,734	$ 6,366,096	$ 3,555,774

Upper Colorado River Basin Fund	Water and Related Resources Recovery Act	Abandoned Mine Land Fund	Southern Nevada Public Land Mgmt Fund	Environmental Improvement & Restoration Fund	Other Earmarked Funds	FY 2009
$ 162,709	$ 877,790	$ 14,175	$ 168,105	$ 1	$ 3,222,276	$ 32,807,577
-	-	2,538,989	1,612,475	1,174,092	1,134,493	6,985,025
184	-	747	2	-	1,791,959	2,207,204
-	-	-	-	-	-	3,338,755
2,421,841	8,138	3,884	59,363	-	705,317	13,657,515
827	36,236	-	25	-	264,302	453,849
$ 2,585,561	$ 922,164	$ 2,557,795	$ 1,839,970	$ 1,174,093	$ 7,118,347	$ 59,449,925
76,608	567	450	51,635	-	612,872	864,637
-	-	-	-	-	579,204	579,204
200,332	638	36,037	13,858	-	940,847	3,432,315
276,940	1,205	36,487	65,493	-	2,132,923	4,876,156
33,866	110,971	-	-	-	92,553	448,217
2,274,755	809,988	2,521,308	1,774,477	1,174,093	4,892,871	54,125,552
2,308,621	920,959	2,521,308	1,774,477	1,174,093	4,985,424	54,573,769
$ 2,585,561	$ 922,164	$ 2,557,795	$ 1,839,970	$ 1,174,093	$ 7,118,347	$ 59,449,925
106,599	29,045	266,590	257,032	-	4,010,274	6,038,755
(76,398)	-	(450)	(24,543)	-	(752,474)	(1,816,115)
$ 30,201	$ 29,045	$ 266,140	$ 232,489	$ -	$ 3,257,800	$ 4,222,640
2,265,516	-	2,464,261	2,026,237	1,135,342	4,513,734	52,258,313
47,682	111,503	-	-	-	223,907	485,895
-	-	-	-	-	2,072,415	4,458,799
10,138	-	328,061	-	38,751	670,175	1,053,955
(3,748)	838,497	(4,874)	(19,500)	-	766,778	429,831
19,234	4	-	228	-	6,786	133,411
-	-	-	1	-	(10,571)	(23,795)
(30,201)	(29,045)	(266,140)	(232,489)	-	(3,257,800)	(4,222,640)
43,105	920,959	57,047	(251,760)	38,751	471,690	2,315,456
$ 2,308,621	$ 920,959	$ 2,521,308	$ 1,774,477	$ 1,174,093	$ 4,985,424	$ 54,573,769

NOTE 21. LIABILITY FOR CAPITAL TRANSFER TO THE GENERAL FUND OF THE TREASURY

Interior records an intragovernmental liability for DO and BOR appropriations determined to be recoverable from project beneficiaries when funds are received and meet the requirement for repayment. Interior decreases the liability when payments are received from these beneficiaries and, subsequently, transferred to Treasury's General Fund. Interest is accumulated on this liability pursuant to authorizing project legislation or administrative policy. Interest rates used during FY 2010 ranged from 2.59 to 9.84 percent and in FY 2009 ranged from 2.63 to 9.84. Repayment is generally over a period not to exceed 50 years from the time revenue producing assets are placed in service. Repayment to Treasury's General Fund is dependent upon actual water and power delivered to customers (through Western Area Power Administration); as such, there is no structured repayment schedule.

For IA and BOR resources payable to Treasury represents liquidating fund assets (cash and loans receivable, net of allowance) less any liabilities. Loans made in 1991 and before (pre-credit reform direct loans and assigned loan guarantees) are accounted for in liquidating funds. These funds collect loan payments and pay any related expenses or default claims. At the end of each year, any unobligated cash on hand is transferred to Treasury.

(dollars in thousands)	FY 2010	FY 2009
Beginning Balance	$ 2,048,439	$ 2,050,466
Costs Incurred	112,578	26,431
Collections	(42,288)	(16,620)
Repayments to Treasury	(19,328)	(11,838)
Ending Balance	$ 2,099,401	$ 2,048,439

NOTE 22. FIDUCIARY ACTIVITIES

Fiduciary activities are the collection or receipt, and the subsequent management, protection, accounting, investment and disposition by the Federal Government of cash or other assets in which non-Federal individuals or entities have an ownership interest that the Federal Government must uphold. Fiduciary cash and other assets are not assets of the Federal Government and are not recognized on the balance sheet. Fiduciary activities are no longer recognized on the proprietary financial statements (see SFFAS 31, *Accounting for Fiduciary Activities*).

The Department of the Interior maintains accounts for Tribal and Other Trust Funds (including the Alaska Native Escrow Fund) and IIM Trust Fund in accordance with the American Indian Trust Fund Management Reform Act of 1994. The fiduciary balances that have accumulated in these funds have resulted from land use agreements, royalties on natural resource depletion, other proceeds derived directly from trust resources, judgment awards, settlements of claims, and investment income. These funds are maintained for the benefit of individual Native Americans as well as for designated Indian tribes.

Separately Issued Financial Statements

Interior issues separately available financial statements for (1) Tribal and Other Trust Funds, and (2) Individual Indian Monies (IIM) Trust Funds.

The Tribal and Other Trust Fund Statement of Assets and Trust Fund Balances and Statement of Changes in Trust Fund Balances were prepared using a cash basis of accounting, which is a comprehensive basis of accounting other than 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 Funds Statement of Assets and Trust Fund Balances and Statement 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 September 30, 2010, and 2009. 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:

- Regarding the Tribal and Other Trust Funds, it was not practicable for the independent auditors to extend audit procedures sufficiently to satisfy themselves as to the fairness of the trust fund balances due to the effects of certain parties for whom Interior holds assets in trust do not agree with balances recorded by Interior and/or have requested an accounting of their trust funds. Some of these parties have filed claims against the U.S. Government.
- Regarding the Individual Indian Monies Trust Funds, it was not practicable for the independent auditors to extend audit procedures sufficiently to satisfy themselves as to the fairness of the trust fund balances due to the effects of certain parties for whom Interior holds assets in trust having filed a class action lawsuit for an accounting of the individuals' trust funds.

For more information, see separately issued auditors' report and OST financial statements.

A copy of the OST financial statements and audit opinion is available at ***<http://www.doi.gov/ost/documents/>***.

Schedule of Fiduciary Activity	Fiduciary Funds	
(dollars in thousands)	FY 2010	FY 2009
Fiduciary Net Assets, Beginning	$ 3,615,216	$ 3,524,545
Contributions	811,892	761,628
Investment Earnings	131,664	151,144
Gain (Loss) on Disposition of Investments, Net	1,834	5,232
Less Beneficiary Disbursements	(886,193)	(827,333)
Increases/(Decrease) Net Assets	59,197	90,671
Fiduciary Net Assets, End	$ 3,674,413	$ 3,615,216

Fiduciary Net Assets	Fiduciary Funds	
(dollars in thousands)	FY 2010	FY 2009
Cash and Cash Equivalents	$ 611,155	$ 420,207
Investments	2,995,074	3,148,056
Accrued Interest Receivable	$24,351	30,010
Other Income Receivable	$43,834	16,946
Less: Accounts Payable	(1)	(3)
Total Fiduciary Net Assets	$ 3,674,413	$ 3,615,216

Schedule of Changes in Non-Valued Fiduciary Assets	Fiduciary Assets	
Regions	FY 2010	FY 2009
Beginning Quantity	12	12
Additions	-	-
Dispositions	-	-
Net Increase/Decrease	-	-
Ending Quantity	12	12

Non-valued fiduciary assets are reported in terms of units. The unit is defined as the number of regions in this context similar to how the units were defined for stewardship land. Interior manages its land held in trust through 12 administrative regions.

REQUIRED SUPPLEMENTARY INFORMATION

Unaudited, see accompanying Auditors' Report

This section includes the Combining Statement of Budgetary Resources by major budget account (Budgetary Accounts), deferred maintenance information, and heritage asset and stewardship land condition information.

Combining Statement of Budgetary Resources for the Fiscal Year ended September 30, 2010 *(dollars in thousands)*	**Interior Franchise Fund**	**Working Capital Fund**	**Water and Related Resources**	**National Park Service Operations**	**Management of Land and Resources**
Budgetary Resources:					
Unobligated balance, beginning of Fiscal Year	**$ 144,869**	**$ 163,431**	**$ 526,421**	**$ 113,254**	**$ 187,076**
Adjustment IA Recovery Act Reclassification	-	-	-	-	-
Adjustment - Change in Presentation for Interior Child Accounts	-	-	-	-	-
Unobligated balance, beginning of Fiscal Year, Adjusted	**$ 144,869**	**$ 163,431**	**$ 526,421**	**$ 113,254**	**$ 187,076**
Recoveries of prior year unpaid obligations	1	799	81,662	19,180	13,452
Budget Authority					
Appropriation	-	85,823	974,253	2,261,559	977,929
Spending authority from offsetting collections					
Earned					
Collected	959,550	1,426,476	341,932	26,511	127,167
Change in receivables from Federal sources	19,287	(14,686)	(11,512)	(92)	(6,629)
Change in unfilled customer orders					
Advance received	(63,601)	(59,173)	(27,750)	-	(156)
Without advance from Federal sources	213,245	333,638	16,097	-	(22,929)
Total Budget Authority	**1,128,481**	**1,772,078**	**1,293,020**	**2,287,978**	**1,075,382**
Nonexpenditure transfers, net, anticipated and actual	-	-	(77,167)	220	(53)
Permanently not available	-	-	-	(11,330)	(1,000)
Total Budgetary Resources	$ 1,273,351	$ 1,936,308	$ 1,823,936	$ 2,409,302	$ 1,274,857
Status of Budgetary Resources:					
Obligations incurred:					
Direct	-	$ 82,399	$ 1,071,639	$ 2,270,333	$ 975,329
Reimbursable	1,110,038	1,679,720	344,799	26,123	134,870
Total Obligations incurred	**1,110,038**	**1,762,119**	**1,416,438**	**2,296,456**	**1,110,199**
Unobligated balance available:					
Apportioned	163,313	174,189	407,440	61,651	164,658
Exempt from apportionment	-	-	58	-	-
Total Unobligated balance available	**163,313**	**174,189**	**407,498**	**61,651**	**164,658**
Unobligated balance not available	-	-	-	51,195	-
Total Status of Budgetary Resources	$ 1,273,351	$ 1,936,308	$ 1,823,936	$ 2,409,302	$ 1,274,857
Change in Obligated Balance:					
Obligated balance, net					
Unpaid obligations, brought forward, beginning of Fiscal Year	$ 812,297	$ 476,242	$ 730,471	$ 499,429	$ 292,175
Adjustment IA Recovery Act Reclassification	-	-	-	-	-
Adjustment - Change in Presentation for Interior Child Accounts	(1)	4	2	(1)	-
Less: Uncollected customer payments from Federal sources, brought forward, beginning of Fiscal Year	(482,590)	(289,409)	(148,128)	(370)	(149,261)
Adjustment - Change in Presentation for Interior Child Accounts	-	-	-	-	-
Total unpaid obligated balances, net, beginning of Fiscal Year, Adjusted	**329,706**	**186,837**	**582,345**	**499,058**	**142,914**
Obligations incurred, net	1,110,038	1,762,119	1,416,438	2,296,456	1,110,199
Less: Gross outlays	(953,062)	(1,485,066)	(1,330,281)	(2,235,922)	(1,037,924)
Less: Recoveries of prior year unpaid obligations, actual	(1)	(799)	(81,662)	(19,180)	(13,452)
Change in uncollected customer payments from Federal sources	(232,532)	(318,952)	(4,585)	92	29,558
Total unpaid obligated balance, net, end of period	**$ 254,149**	**$ 144,139**	**$ 582,255**	**$ 540,504**	**$ 231,295**
Obligated balance, net, end of period - by component:					
Unpaid obligations	969,271	752,500	734,967	540,782	350,998
Less: Uncollected customer payments from Federal sources,	(715,122)	(608,361)	(152,712)	(278)	(119,703)
Total unpaid obligated balance, net, end of period	**$ 254,149**	**$ 144,139**	**$ 582,255**	**$ 540,504**	**$ 231,295**
Net Outlays:					
Net Outlays					
Gross outlays	953,062	1,485,066	1,330,281	2,235,922	1,037,924
Less: Offsetting collections	(895,949)	(1,367,303)	(314,182)	(26,511)	(127,011)
Less: Distributed Offsetting receipts	-	-	(567)	-	-
Net Outlays (Receipts)	**$ 57,113**	**$ 117,763**	**$ 1,015,532**	**$ 2,209,411**	**$ 910,913**

Wildland Fire Management	BLM Permanent Operations Funds	Fish and Wildlife Resource Management	Minerals Leasing and Associated Payments	Operation of Indian Programs	Survey, Investigation and Research	American Recovery Act	Other Budgetary Accounts	Total Budgetary Accounts
$ 381,080	**$ 889,107**	**$ 186,712**	**-**	**$ 572,308**	**$ 368,933**	**$ 1,767,941**	**$ 4,366,817**	**$ 9,667,949**
-	-	-	-	-	-	409,408	(409,408)	-
-	(29,981)	-	-	-	-	7,629	22,352	-
$ 381,080	**$ 859,126**	**$ 186,712**	**-**	**$ 572,308**	**$ 368,933**	**$ 2,184,978**	**$ 3,979,761**	**$ 9,667,949**
18,195	18,710	34,648	-	19,999	6,260	10,850	235,483	459,239
794,897	64,541	1,269,406	1,712,865	2,335,965	1,111,740	(12,128)	6,466,015	18,042,865
16,308	-	177,277	-	226,596	471,464	71,431	1,452,667	5,297,379
(1,365)	-	34,083	-	10,945	(9,650)	1,801	8,593	30,775
296	-	889	-	(39,757)	1,183	24,879	14,802	(148,388)
5,255	-	99,772	-	(23,903)	31,831	48,841	(15,738)	686,109
815,391	**64,541**	**1,581,427**	**1,712,865**	**2,509,846**	**1,606,568**	**134,824**	**7,926,339**	**23,908,740**
1,451	(30,151)	4,000	-	1,122	800	12,600	(110,741)	(197,919)
-	(49,922)	(11)	-	-	(3,802)	(6,820)	(45,137)	(118,022)
$ 1,216,117	**$ 862,304**	**$ 1,806,776**	**$ 1,712,865**	**$ 3,103,275**	**$ 1,978,759**	**$ 2,336,432**	**$ 11,985,705**	**$ 33,719,987**
$ 781,552	$ 155,363	$ 1,315,094	$ 1,712,865	$ 2,335,131	$ 1,102,604	$ 2,138,042	$ 6,093,206	$ 20,033,557
25,209	-	236,809	-	238,798	465,694	106,630	1,542,362	5,911,052
806,761	**155,363**	**1,551,903**	**1,712,865**	**2,573,929**	**1,568,298**	**2,244,672**	**7,635,568**	**25,944,609**
409,356	706,941	242,973	-	472,248	398,553	87,379	4,261,550	7,550,251
-	-	-	-	-	-	-	40,180	40,238
409,356	**706,941**	**242,973**	**-**	**472,248**	**398,553**	**87,379**	**4,301,730**	**7,590,489**
-	-	11,900	-	57,098	11,908	4,381	48,407	184,889
$ 1,216,117	**$ 862,304**	**$ 1,806,776**	**$ 1,712,865**	**$ 3,103,275**	**$ 1,978,759**	**$ 2,336,432**	**$ 11,985,705**	**$ 33,719,987**
$ 237,717	$ 1,103,520	$ 377,606	-	$ 332,083	$ 290,501	$ 551,359	$ 4,133,365	$ 9,836,765
-	-	-	-	-	-	115,688	(115,688)	-
1	(37,455)	(1)	-	2	-	952	36,497	-
(8,305)	-	(116,863)	-	(110,765)	(423,159)	(2,508)	(284,108)	(2,015,466)
-	-	-	-	-	-	-	-	-
229,413	**1,066,065**	**260,742**	**-**	**221,320**	**(132,658)**	**665,491**	**3,770,066**	**7,821,299**
806,761	155,363	1,551,903	1,712,865	2,573,929	1,568,298	2,244,672	7,635,568	25,944,609
(803,319)	(303,282)	(1,382,050)	(1,712,865)	(2,518,516)	(1,516,336)	(1,072,653)	(6,961,302)	(23,312,578)
(18,195)	(18,710)	(34,648)	-	(19,999)	(6,260)	(10,850)	(235,483)	(459,239)
(3,890)	-	(133,855)	-	12,958	(22,181)	(50,642)	7,145	(716,884)
$ 210,770	**$ 899,436**	**$ 262,092**	**-**	**$ 269,692**	**(109,137)**	**$ 1,776,018**	**$ 4,215,994**	**$ 9,277,207**
222,964	899,436	512,811	-	367,499	336,203	1,829,168	4,492,958	12,009,557
(12,194)	-	(250,719)	-	(97,807)	(445,340)	(53,150)	(276,964)	(2,732,350)
$ 210,770	**$ 899,436**	**$ 262,092**	**-**	**$ 269,692**	**(109,137)**	**$ 1,776,018**	**$ 4,215,994**	**$ 9,277,207**
803,319	303,282	1,382,050	1,712,865	2,518,516	1,516,336	1,072,653	6,961,302	23,312,578
(16,605)	-	(178,166)	-	(186,839)	(472,646)	(96,310)	(1,467,469)	(5,148,991)
-	(64,540)	-	(1,712,865)	-	-	-	(3,229,131)	(5,007,103)
$ 786,714	**$ 238,742**	**$ 1,203,884**	**-**	**$ 2,331,677**	**$ 1,043,690**	**$ 976,343**	**$ 2,264,702**	**$ 13,156,484**

Deferred Maintenance

Interior owns, builds, purchases, and contracts services for assets such as schools, office buildings, roads, bridges, dams, irrigation systems, and reservoirs. These assets are utilized and maintained in support of Interior's mission and the missions of its bureaus. When maintenance is not completed on assets as needed or scheduled and is delayed into the future, it is defined as deferred maintenance.

Deferred maintenance can have an adverse affect on Interior's ability to carry out its mission. For example, a lack of maintenance on windows, heating, ventilation, and air conditioning (HVAC) systems, or other components of a constructed asset, typically results in increased energy costs. Excess energy usage needlessly expends limited resources that could otherwise be focused towards mission delivery. If the deferred maintenance is on windows or a HVAC system in a visitor center, for example, this can lead to a less than optimal visitor experience, which has a direct effect on a bureau's mission.

Similarly, deteriorated offices, laboratories, and schools result in an inefficient and potentially unsafe working environment and a poor learning environment that negatively impacts morale, the ability to attract and retain talented employees, educate Native American students, and satisfy visitors to Interior's facilities. In addition, since one mission of Interior bureaus is to maintain facilities for recreational use by the public, assets that pose a health and safety threat cannot be made available for public use until repairs can be made. Undue wear on facilities may not be immediately noticeable to users, but over time inadequate maintenance can require that a facility be replaced or undergo major reconstruction before reaching the end of its expected useful life.

Planning to Reduce Deferred Maintenance

Interior has a 5-year planning process that provides a framework for improved planning and management of maintenance and construction programs. Interior's 5-year plan is updated annually to reflect a 5-year picture of the Interior's deferred maintenance and capital improvement needs. The annual update presents the opportunity for Interior to adjust project priorities based on newly identified needs or previously identified needs that have become more critical during the past year. The 5-year planning process emphasizes projects that eliminate deferred maintenance by addressing health and safety issues, ensuring resource protection, and addressing mission critical assets.

In preparing the plan, Interior follows uniform criteria including health and safety, resource protection, mission criticality, and energy efficiency/building sustainability. These criteria are reviewed annually for alignment with strategic plans, OMB guidance, recent laws, and Executive Orders.

The 5-year planning process is a critical element in the implementation of the Interior Asset Management Plan, bureau asset management plans, and site-specific asset business plans.

Condition Assessment Surveys

Interior uses performance measures to help managers improve the condition of assets. The maintenance needs of Interior's real property assets are identified primarily through the annual and comprehensive condition assessment processes required of all bureaus. Interior maintains a cyclic/recurring condition assessment process to monitor the condition of buildings and other facilities at least once every 5 years.

Interior uses condition assessment surveys to determine deferred maintenance for each class of assets. A condition assessment survey is the periodic inspection of real property to determine its current condition and to provide a cost estimate for necessary repairs. Annual condition assessments are performed on all standard constructed assets with a current replacement value of $5,000 or more and are performed by field operating unit staff.

Comprehensive condition assessments are performed on all constructed assets with a current replacement value of $50,000 or more once every 5 years. Comprehensive assessments are usually performed under contract; the contract includes an inspection of the facility and all component systems, a summary of deficiencies found, cost estimates for the deficiencies, and a recalculation of the Facility Condition Index.

Interior's current estimate for deferred maintenance includes the following real property categories: nonheritage and heritage buildings and structures including multiuse assets, road assets, dams, water distribution systems, and power assets, etc. Due to the scope, nature, and variety of the assets entrusted to Interior, as well as the nature of deferred maintenance itself, exact estimates are very difficult to determine. Therefore, estimates are reported as a range to an accuracy level of minus 15 percent to plus 25 percent of initial estimate.

FY 2010 Deferred Maintenance Estimates						
Type of Deferred Maintenance *(dollars in thousands)*	General PP&E		Stewardship PP&E		Total	
	Low End of Range	High End of Range	Low End of Range	High End of Range	Low End of Range	High End of Range
Roads Bridges and Trails	$ 5,373,130	$ 7,903,961	$ 1,158,566	$ 1,642,478	$ 6,531,696	$ 9,546,439
Irrigation, Dams, and Other Water Structures	1,205,688	1,840,271	741,412	1,087,356	1,947,100	2,927,627
Buildings (e.g. Administration, Education, Housing, Historic Buildings, etc.)	1,797,872	2,631,207	1,159,638	1,705,351	2,957,510	4,336,558
Other Structures (e.g. Recreation sites, Hatcheries, etc.)	1,589,700	2,327,732	495,060	728,029	2,084,760	3,055,761
Total	$ 9,966,390	$ 14,703,171	$ 3,554,676	$ 5,163,214	$ 13,521,066	$ 19,866,385

BOEMRE Compliance Assessments and Pre-assessment Work in Process

Management's best estimate of additional revenues that may potentially be collected from compliance assessments and pre-assessment work in process as of September 30, 2010, is $26,391 thousand. This estimate is comprised of approximately $5,186 thousand in Royalty In Kind (RIK) imbalance pre-assessment work in process, approximately $6,467 thousand in Audit and Compliance Management (ACM), and approximately $14,738 in State and Tribal Audit compliance assessments and pre-assessment work in process.

The amounts disclosed are subject to significant variability upon final resolution of the compliance work, due to numerous factors such as the receipt of additional third party documentation including volume revisions from pipeline or gas plant statements, pricing changes from purchaser statements, revised transportation invoices, interim imbalance statements with retroactive adjustments, ongoing reconciliations, and other information subsequently received.

Condition of Stewardship Lands and Heritage Assets

Condition of Stewardship Lands

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

Information regarding the financial liabilities identified as probable or reasonably possible and that potentially affect the condition of Stewardship Land are located in Note 13, *Contingent Liabilities and Environmental and Disposal Liabilities.*

Primary Land Management Categories	As of 9/30/2010	Condition	
		Acceptable	Needs Intervention
IA - Regional Offices	12	100%	
BLM - Geographic Management Areas	134	100%	
BOR - Federal Water and Related Projects	140	98%	2%
FWS - National Wildlife Refuges	552	99%	1%
FWS - Coordination Areas	49	100%	
FWS - Wetland Management Districts	37	100%	
FWS - National Fish Hatcheries	67	100%	
FWS - Fish Technology Centers	6	100%	
FWS - Associated Fish Facilities	16	100%	
NPS - Park Units	378	100%	
OS - Commision Land	1	100%	
Total Number of Units	1,392	99%	1%

Condition of Heritage Assets

Non-Collectible Heritage Assets

The condition of land based noncollectible heritage assets is based on the condition of the land, as described above. The condition of structure based noncollectible heritage assets is based on the requirements described in the deferred maintenance section. The condition of Interior's noncollectible heritage assets are shown in the following table.

		Land Based		Structurally Based		
Primary Non-Collectible Heritage Asset Categories	As of 9/30/10	Acceptable	Needs Intervention	Acceptable	Unacceptable	Unknown
Cooperative Management and Protection Area	1	100%				
Headwaters Forest Reserve	1	100%				
Lake Todatonten Special Management Area	1	100%				
National Battlefield Parks	3			100%		
National Battlefield Site	1	100%				
National Battlefields	11	100%		100%		
National Conservation/Conservation Areas	17	100%				
National Historic Landmarks (NHL)	204	100%		86%	9%	5%
National Historic Sites	77	100%		98%	2%	
National Historic Trails	11	100%				
National Historical Parks	45	100%		100%		
National Lakeshores	4			100%		
National Memorials	28	100%		100%		
National Military Parks	9	100%		100%		
National Monuments	96	100%		94%	6%	
National Natural Landmarks (NNL)	107	100%				
National Parks	58	100%		98%	2%	
National Parkways	4	100%		100%		
National Preserves	18	100%		94%	6%	
National Recreation Areas	20	100%		100%		
National Recreation Trails	97	100%		100%		
National Reserves	2	100%		100%		
National Rivers	5	100%		100%		
National Scenic Trails	8	100%				
National Seashores	10			100%		
National Wild and Scenic Rivers	92	100%		100%		
National Wildlife Refuges	552	99%	1%			
Outstanding Natural Area	3	100%				
International Historic Site	1			100%		

Primary Non-Collectible Heritage Asset Categories	As of 9/30/10	Land Based		Structurally Based		
		Acceptable	Needs Intervention	Acceptable	Unacceptable	Unknown
Research Natural Area	1	100%				
Wilderness Areas	355	100%				
Other	11	100%		100%		
Total	1,853	100%	0%	94%	4%	2%

Collectible Heritage Assets

Interior Library Collections	As of 9/30/10	Condition of Library Collections		
		Good	Fair	Poor
Library Collections	7	14%	72%	14%

Library Collections

Condition assessment standards are in agreement with national standards (The National Information Standards Organization publication on the Environmental Guidelines for the Storage of Paper Records) and are based on temperature and humidity, exposure to light, gaseous contaminants, and particulates. Library collection ratings of Good, Fair, Poor, and/or Unknown are based on the following:

Good – Achieves a good or fair rating for all four criteria.

Fair – Achieves a good or fair rating for at least two criteria.

Poor – Achieves a good or fair rating for less than two criteria.

Unknown – Assessment not conducted.

As with the museum collections, the goal of safeguarding is to preserve the items in library collections for as long as possible and to manage their condition in accordance with the intended use and to not unduly hasten their deterioration.

Museum Collections

Facilities housing Department museum collections must meet specific environmental, security, fire protection, housekeeping, physical examination, and conservation treatment, storage, and exhibit space standards, as described in Chapter 3 of Departmental Manual Section 411. These standards require facilities that house collections to maintain their stewardship responsibilities by adhering to best practices as defined by industry standards. Facilities that meet at least 70 percent of the Department's standards for managing museum collections are judged to be in "good" condition, those that meet between 50 percent and 70 percent of the standards are in "fair" condition and those that meet less than 50 percent of applicable standards are in "poor" condition.

The primary focus within museum collections is preservation. Great attention is given to stabilizing objects in the condition in which they were received and preventing further deterioration. Museum objects are generally expected to be preserved indefinitely. The goal of safeguarding is to preserve the heritage asset for as long as possible and to manage the condition in accordance with the intended use and not to unduly hasten their deterioration.

Interior Museum Collections	As of 9/30/10	Condition of Museum Collections			
		Good	Fair	Poor	Unknown
Held at Interior Bureau Facilities	587	49%	31%	19%	1%
Held at Non-Interior Bureau Facilities	482	51%	26%	16%	7%
Total	1,069	50%	29%	17%	4%

Investment in Research and Development

Investment in Research and Development provides reliable, credible, objective, and unbiased scientific results to improve the basic understanding of natural resources and to inform land and resource management decisions across the Nation. These research and development activities encompass examinations of geological structures, mineral resources, and products within and outside the national domain. Earth science research and information are used to save lives and property, safeguard human health, enhance the economic vitality of the Nation and its people, assess resources, characterize environments, and predict the impact of contamination. This information aids in solving critical societal problems through research, investigation, and the application of state-of-the-art geographic and cartographic methods.

Interior's research and development activities are presented in the following three major categories.

Basic research. A study to gain knowledge or understanding of the fundamental aspects of specific phenomena or observable facts without specific applications and products in mind.

Applied research. A systemic study to gain knowledge or understanding necessary for determining the means by which a recognized and specific need may be met.

Developmental Research. The systematic use of knowledge and understanding gained from research for the production of useful materials, devices, systems, or methods, including the design and development of prototypes and processes.

The Mass Balance Team of the Deepwater Horizon Flow Rate Technical Group led by USGS used data from the NASA AVIRIS airborne sensor flown over the Gulf of Mexico on May 17, 2010 to determine a minimum discharge rate of the Deepwater Horizon oil spill. The sensor can map both the aerial extent and thickness of oil by observing changes in reflectance that occur in the near infrared because oil absorption is less in that waveband. The Mass Balance Team approach combined remote-sensing-based estimates of oil volumes at the sea surface with estimates provided to the group by NOAA (National Oceanic and Atmospheric Administration), NASA (National Aeronautics and Space Administration), and USCG on volume of oil skimmed, volume of oil burned, and percentage of oil evaporated or dissolved in seawater.

The Panther Creek Watershed study is a broad cooperative including the US Environmental Protection Agency and other Federal agencies, Oregon Department of Geology and Mineral Industries, forest products companies, utilities, universities, the city of Carlton, and has several objectives. A primary objective is to develop methods and procedures to use LiDAR, an optical remote sensing technology that measures properties of scattered light to find range and/or other information of a distant target, as a tool in stand level inventories of above ground stand characteristics and biomass. Others include characterizing the hydrogeomorphology of the watershed, characterizing the soil chemistry, developing a soil sampling strategy, establishing monitoring stations to quantify precipitation inputs, assess effects of forest and land use management on above and below ground carbon storage. A long term goal is to develop a soil-landscape climate model for predicting the distribution of soil carbon in watersheds.

At the Charlestown Navy Yard unit of the Boston National Historical Park an Archeological Overview and Assessment will be prepared. The Navy Yard was the location of the landing of British troops involved in the Battle of Bunker Hill, the first large battle of the American Revolution in June 1775, as well as a naval shipyard for a period of 175 years (1800-1974). Completing this study for the Navy Yard is important for two reasons: 1) accurate baseline information about the Navy Yard is essential for the park's interpretive program, and 2) archeologically sensitive areas of the site must be identified and protected.

Investment in Research and Development *(dollars in millions)*

Category	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	Total
Basic Research	$ 72	$ 63	$ 65	$ 69	$ 73	$ 342
Applied Research	699	728	746	755	967	3,895
Developmental Research	82	76	74	77	83	392
Total	**$ 853**	**$ 867**	**$ 885**	**$ 901**	**$ 1,123**	**$ 4,629**

Investment in Human Capital

Investment in human capital refers to education and training programs financed by the Federal Government for the benefit of the public; investment in human capital does not include education and training expenses for Federal employees. The Department plays a vital role in providing quality educational opportunities from early childhood throughout life, with consideration given to the mental, physical, emotional, spiritual and cultural aspects of the people served.

Due to the changes parent/child reporting requirements in OMB Circular A-136, *Financial Reporting Requirements*, as revised, Interior no longer reports on the Job Corps programs and "Other" programs.

Investment in Human Capital *(dollars in millions)*

Category	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	Total
Educational Programs	$ 542	$ 565	$ 589	$ 615	$ 688	$ 2,999
Job Corps Program	52	-	-	-	-	$ 52
Other	11	-	-	-	-	$ 11
Total	**$ 605**	**$ 565**	**$ 589**	**$ 615**	**$ 688**	**$ 3,062**

Education Programs

The School Operations Program provides basic education for Indian children in grades K through 12 including funding for school staff, textbooks and general supplies at IA schools. The Adult Education Program provides opportunities for adult Indians and Alaska Natives to obtain the General Equivalency Diploma or improve their employment skills and abilities. The Post-Secondary Education Programs support grants and supplemental funds for Tribal Colleges and Universities.

The vision and long-range goal is to unite and promote healthy Indian communities through lifelong learning. This goal is implemented through the commitment to provide quality educational opportunities throughout life.

Investment in Non-Federal Physical Property

The Department of the Interior provides a long term benefit to the public by maintaining its commitment to investing in non-Federal physical property. Non-Federal physical property refers to expenses incurred by the Federal government for the purchase, construction, or major renovation of physical property owned by State and local

Investment in Non-Federal Physical Property *(dollars in millions)*

Category	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	Total
Dams and Other Water Structures	$ 342	$ 281	$ 446	$ 329	$ 399	$ 1,797
Land	115	165	128	170	191	769
Road and Bridges	111	4	2	2	2	121
Schools and Public Buildings	94	114	66	106	125	505
Ranges	1	2	2	2	1	8
Not Classified	19	10	23	14	47	113
Total	**$ 682**	**$ 576**	**$ 667**	**$ 623**	**$ 765**	**$ 3,313**

governments and Insular Areas, including major additions, alterations, and replacements; the purchase of major equipment; and the purchase or improvement of other physical assets.

Interior's investment in non-Federal physical property is multifaceted and includes a varied assortment of structures, facilities, and equipment. Investment in these assets results in improved tribal roads and educational facilities; irrigation infrastructure and water quality improvement projects; species protection and habitat loss prevention programs; recreational activities; and wildlife management.

The Office of Facility Management and Construction provides funds for buildings with historic and architectural significance. The Utah Reclamation Mitigation & Conservation Commission invests in habitat improvements for fish and wildlife on non-Federal properties to mitigate the impact of reclamation projects in Utah on wildlife resources beyond the boundaries of those projects.

OFFICE OF
INSPECTOR GENERAL
U.S.DEPARTMENT OF THE INTERIOR

Inspector General's Statement Summarizing the Major Management and Performance Challenges Facing the Department of the Interior

Report No.: X-SP-MOI-0008-2010 October 2010

OFFICE OF
INSPECTOR GENERAL
U.S.DEPARTMENT OF THE INTERIOR

OCT 15 2010

Memorandum

To: Secretary Salazar

From: Mary L. Kendall
Acting Inspector General

Subject: Inspector General's Statement Summarizing the Major Management and Performance Challenges Facing the Department of the Interior (Assignment No. X-SP-MOI-0008-2010)

In accordance with the Reports Consolidation Act of 2000, we are submitting what we have determined to be the most significant management and performance challenges facing the Department of the Interior (Department). The challenges listed are for inclusion in the Department's Performance and Accountability Report for fiscal year 2010. They reflect what the Office of Inspector General considers significant impediments to the Department's efforts to promote economy, efficiency, and effectiveness in its bureaus' management and operations.

The top management and performance challenges are:

- Outer Continental Shelf Energy Oversight
- Financial Management
- Information Technology Security
- Health, Safety, and Maintenance
- Responsibility to Indians and Insular Areas
- Resource Protection and Restoration
- Revenue Collections
- Acquisition Management

These issues are important to the Department's mission, involve large expenditures, require significant management improvements, or involve significant fiduciary relationships. We believe the Department could enhance and improve its overall operational effectiveness and efficiency by developing strategies to identify and correct deficiencies, especially in activities that cut across bureau and program lines.

Attachment

Attachment (Revised)

Office of Inspector General Update Regarding the Top Management Challenges for the Department of the Interior

1. Outer Continental Shelf Energy Oversight

The *Deepwater Horizon* tragedy of April 20, 2010, took 11 lives, caused the destruction of an offshore drilling rig, led to the release of approximately 4.9 million barrels of oil, and significantly disrupted the Gulf of Mexico (GOM) region's economy and environment. Recognizing that oil and gas remain an important part of the Nation's energy economy, the Government is changing laws, regulations, and organizational structures in an effort to prevent such catastrophic occurrences in the future. The accident and ensuing spill challenged 40 years of the generally accepted belief that offshore operations could occur safely under existing regulation and oversight.

Offshore oil and gas development constitutes approximately 30 percent of domestically produced oil and 11 percent of the domestic natural gas supply. The vast majority of this production occurs in the central and western GOM. In achieving such levels of production, the GOM offshore oil and gas industry has, in recent decades, reached farther offshore and deeper undersea. Many of the facilities are larger, more complex, more technologically sophisticated, and more distant than ever. Simultaneously, Government oversight of the prolific energy resources of the GOM has become more complex and challenging.

In view of the many lessons that can and should be learned from the *Deepwater Horizon* accident, the Bureau of Ocean Energy Management, Regulation and Enforcement (BOEMRE) has the opportunity to make systemic changes that will help create a better and more effective regulatory and oversight program. The Department of the Interior (Department) continues to perform reviews of the responsibilities of BOEMRE including leasing, lease monitoring, and royalty oversight. Reviews should assess whether some of the duties should be restructured.

The review of Federal offshore oil and gas operations was conducted by the Outer Continental Shelf Safety Oversight Board. The Office of Inspector General (OIG) participated in the review. The Board's September 1, 2010 report detailed 59 recommendations to improve operations. BOEMRE subsequently developed an implementation plan for the recommendations. In addition, the OIG will issue a separate report which will make additional recommendations.

2. Financial Management

The Department manages an annual appropriation of about $20 billion[1], revenues of $9 to $25 billion annually from onshore and offshore mineral leases, and $3.7 billion in funds held in trust. By contract, the independent public accounting firm KPMG LLP completes the annual financial audit of the Department. KPMG LLP rendered an unqualified opinion on the consolidated financial statements of the Department for fiscal year (FY) 2009, although the Department still

[1] Revised to reflect the enacted FY 2010 budget.

had six significant deficiencies in internal controls over financial reporting, of which none were considered a material weakness and five were repeated from FY 2008. In addition, KPMG LLP identified two instances in which the Department did not comply with laws and regulations in FY 2009, specifically the Single Audit Act Amendments of 1996 and the Prompt Payment Act. However, the number of control deficiencies identified for the FY 2010 review to date has significantly decreased.

The implementation of the Financial and Business Management System (FBMS) continues to be a management challenge for the Department. FBMS has been under consideration and implementation for at least 10 years. FBMS was supposed to be fully implemented by 2010, but to date only three bureaus/offices have transitioned. Complete implementation is currently estimated for 2013. The number and variety of programs across the Department make budget and performance integration particularly difficult.

On June 28, 2010, the Office of Management and Budget (OMB) issued memorandum M-10-26, titled "Immediate Review of Financial Systems IT Projects," which stated that "Federal Information Technology (IT) projects too often cost more than they should, take longer than necessary to deploy, and deliver solutions that do not meet our business needs. Although these problems exist across our IT portfolio, financial systems modernization projects in particular have consistently underperformed in terms of cost, schedule, and performance." To address these problems, OMB launched an IT project management reform effort that required "all CFO Act agencies to immediately halt the issuance of new task orders or new procurements for all financial system projects pending review and approval from OMB." OMB's assessment of FBMS is ongoing. The Department recently proposed revisions to the FBMS implementation plan to address OMB's concerns.

3. Information Technology Security

The Department's FY 2010 budget for IT is $995 million. That budget funds the network infrastructure, IT security, and various IT investments, which are intended to align with Departmental mission objectives. IT supports the Department's diverse programs meant to protect and manage our Nation's natural resources and cultural heritage; provides scientific and other information about those resources; and honors its trust responsibilities or special commitments to American Indians, Alaska Natives, and affiliated Island communities. IT security strives to assure the confidentiality, integrity and availability of information assets.

The Department continues to employ a decentralized and fragmented IT governance framework, which does not optimally operate or fully comply with legislation and Federal policy. Despite some improvements and progress, decentralized management, resource gaps, disconnection from the internet related to the *Cobell v. Salazar* case, a lack of centralized asset management capability and other factors have left the Department struggling to meet information security and privacy mandates. A lack of strategic direction in implementation of information technology resulted in inadequate oversight even when appropriate technology exists.

The Federal Information Security Management Act of 2002 requires the Secretary of the Interior to delegate to the Department's Chief Information Officer (CIO) "the authority to ensure compliance with the requirements imposed on the agency under this subchapter." We routinely found that guidance issued by the CIO was not implemented.

- In August 2006, the CIO directed all bureaus and offices to transition to the Department's remote access system by January 31, 2007. In FY 2010, we found that many bureaus still operate their own separate, remote access systems.

- In June 2006, OMB Memorandum 06-16 "recommends allowing remote access only with two-factor authentication where one of the factors is provided by a device separate from the computer." Of the users who utilize the Department's Remote Access Solution, 78 percent did not use the two-factor authentication.

- In December 2009, the CIO directed all bureaus and offices to utilize the Departmental Access System for on-boarding employees and contractors prior to initiating IT user access accounts. We found in FY 2010, not all bureaus were following this guidance.

  During 2010, our evaluations revealed:

- Inaccuracies in IT asset inventory
- Duplicative IT functions
- Resistance to consolidated IT operations and management
- A fragmented continuous monitoring program
- Inadequate departmental oversight
- Incomplete assessments of privacy risk

The Department launched an initiative in June 2010 called the DOI Innovation and Efficiency Team (DIET) which currently is in the planning phase. Per the DIET charter, "this initiative was created to identify and implement immediate and long-term solutions to realize cost savings, cost avoidance, cost efficiencies and/or innovations across the DOI IT environment." That initiative includes objectives directly related to its IT Security Program. As the Department moves forward in implementing various facets of the initiative, they have the potential to address a number of IT security challenges.

4. Health, Safety, and Maintenance

Each year, more than 500 million people visit the Department's National parks and monuments, wildlife refuges, and recreational sites. The Department is responsible for serving these visitors and maintaining and protecting thousands of facilities and millions of acres of property. In some cases, the isolation of Department lands and facilities presents vulnerabilities and makes safety and maintenance challenging. Our work has documented decades of maintenance, health, and safety issues that place the Department's employees and the public at risk.

Aircraft

In February 2009, we issued a flash report discussing U.S. Fish and Wildlife Service (FWS) use of eight Department-owned aircraft. For more than a decade, the Department has allowed these aircraft to be flown over maximum takeoff gross weight according to Federal Aviation Administration regulations and manufacturer specifications. FWS acknowledged the risks, and has taken steps to purchase replacement aircraft.

Deferred Maintenance

The Department is responsible for roads, bridges, schools, office buildings, irrigation systems, and reservoirs for which repair and maintenance have been postponed because of budgetary constraints. The Department's FY 2010 estimate to correct deferred maintenance, the Department's term for unfunded repair and maintenance needs, ranges from $13.0 billion to $19.2 billion. Deterioration of assets because of uncorrected deferred maintenance poses health and safety hazards.

Abandoned Mines

Land managed by the Department has posed hazards to the public. Many abandoned mines, primarily in western states, pose dangerous safety and environmental hazards. In a July 2008 report, the OIG reported grave concerns to the Department regarding its failure to mitigate the hazards posed by abandoned mines on Federal lands. As stated in our report, "Mines located primarily in the Western States of California, Arizona, and Nevada have dangerously dilapidated structures, serious environmental hazards, and gaping cavities — some capable of swallowing an entire vehicle." The Department concurred and has implemented two of the report's three recommendations.

Our May 2009 report on Mining Claimant Administration addressed how the Bureau of Land Management (BLM) might be more effective in working with claim holders or claimants to mitigate the most serious physical safety hazards. BLM is missing opportunities to enhance public safety by neither coordinating with claimants nor actively seeking claimant assistance in mitigating the hazards. Six of the ten report recommendations have been implemented, and the Department is continuing to address the remaining issues.

5. Responsibility to Indians and Insular Areas

Management problems persist in programs for Indians and island communities. The Department manages relationships with 564 Federally recognized Indian tribes, has trust responsibilities for 112 million surface and subsurface acres of land belonging to Indian tribes and individuals, and provides education services to approximately 42,000 Indian children in 184 schools and dormitories. The Department also has various responsibilities to seven island communities to include four territories and three sovereign island nations. The Department provides general administrative supervision of the relations between the U.S. government and the territories of American Samoa, the Commonwealth of the Northern Marianna Islands, Guam, and the U.S. Virgin Islands. For the three sovereign nations, the Department is responsible for administering and overseeing U.S. Federal assistance provided under Compacts of Free Association. In carrying out these responsibilities, the Department is required to coordinate with the State Department and other Federal agencies to promote economic development and budgetary self-reliance in these countries.

Indian Affairs

Responsibility to American Indians has consistently been a top management challenge for the Department. Indian Country programs managed by the Department include Indian Trust for Lands and Funds, Indian Education, Self-Determination, Energy and Economic Development, Indian Gaming, and Justice Services. Approximately 25 percent of OIG investigations involve Indian Country issues.

Recent OIG reviews disclosed needed improvements in preventing school violence and fractionalization of land. Our February 2010 review to evaluate the quality of school safety measures in place to prevent violence at Bureau of Indian Education (BIE) funded schools revealed many indicators of potential violence, deficiencies in school policies aimed at preventing violence, and substantial deficiencies in preventative and emergency safety procedures resulting in schools being dangerously unprepared to prevent violence and ensure the safety of students and staff. Indian Affairs (IA) concurred with the report's four recommendations which, if implemented, will improve safety measures in place at BIE funded schools.

The Federal Government has long acknowledged the resulting complexity from fractionation on Indian Trust operations. Fractionation is the result of dividing Tribal land into parcels and allotting the parcels to individual Indians. The allotments are subsequently divided among heirs through probate. With each generation, the amount of fractionation increases. To date, the Department has not developed a comprehensive plan that will guide its efforts to reduce fractionation.

The myriad problems we have uncovered portray programs that are sorely understaffed, underfunded, and poorly managed. The OIG has identified gross program inefficiencies along with criminal conduct at many levels of IA. The greatest obstacle to reform, however, is the leadership vacuum that has existed for almost a decade. Assistant Secretaries have typically served for only 6 to 18 months, which has resulted in constantly shifting priorities and messages to Bureau employees and American Indians. The current Assistant Secretary – IA stated in his confirmation hearing that he would consent to a 4-year commitment. This commitment should eliminate the past leadership vacuum and ensure continuity, which will promote the establishment of consistent priorities within Indian Affairs.

Insular Areas

The Department seeks to increase Federal responsiveness to the needs of the Insular Areas through the Office of Insular Affairs (OIA). OIA works to improve the financial management practices of Insular Area governments and to increase economic development opportunities through financial and technical assistance. The FY 2010 budget for Insular Areas includes $85 million for capital improvements, operation, and technical assistance to the four U.S. territories, $218 million for the programs of the three nations under the Compacts of Free Association, and $177 million in tax-related payments to the U.S. Virgin Islands and Guam.[2] Overall, OIA

[2] Revised to reflect the enacted FY 2010 budget.

annually funds Insular Area government programs focusing on education, health care, infrastructure improvement, public sector capacity building, private sector development, and the environment.

Unfortunately, the people of the Insular Areas are ill-served by their local governments and the OIA. For example, our review of the funds used for security improvements at the Virgin Islands Governor's private residence concluded that approximately $500,000 of public funds, earmarked by the Legislature for road repair in the Virgin Islands, were misspent. Our September 2010 report on the Virgin Islands Port Authority concluded that the Authority regularly circumvented or inadequately documented the procurement process in the issuance of its capital improvement projects. The problems we observed are not new, having been identified and reported on 5 years ago.

Our reviews have consistently pointed to problems that might have been mitigated had OIA provided adequate oversight or taken a more active approach in assisting Insular Area governments. Numerous reviews have pointed to ongoing management and financial problems in the Insular Areas and OIA. We identified problems in the areas of grants management, water and wastewater systems, noncompetitive procurements, tax collection, and property accountability and management.

We evaluated the OIA program management to determine if OIA is able to effectively assist the Insular Area governments in gaining economic self-sufficiency and improve the quality of life for their people. Our May 2010 report concluded that OIA's ability to accomplish major policy objectives in the Insular Areas is hindered by a lack of technical expertise and authority to directly assist the Insular Areas. OIA can improve fulfilling its responsibilities in three areas: grants management, advocacy, and performance management. The OIG is concerned that OIA, as it is currently structured, may not be able to successfully assist the Insular Areas to improve services in critical areas such as education, health care, and utilities. OIA concurred with the report and cited planned corrective actions that, if implemented, should address the report's three recommendations. OIA received a $200,000 program increase in 2010 to hire additional personnel to address audit concerns and expand technical assistance, training, and oversight activities, but has yet to fill the positions.

6. Resource Protection and Restoration

The Department's resource managers face the challenging task of balancing competing interests for the use and protection of the Nation's natural resources. The Department manages one-fifth of U.S. land, including 391 National park units and 548 wildlife refuges. BLM is the Nation's largest land manager with responsibility for 258 million acres of land across the West, as well as a 700 million acre onshore, subsurface mineral estate.

Wildland Fire Management

Interior's ability to mitigate the threat of wildfire and its associated cost is of concern. The Department recently transferred wildland fire management from BLM to the Office of Wildland Fire Coordination in an effort to focus attention on controlling the threat of wildland fires and its escalating costs. Congressional interest in wildland fire is at an all-time high. As recently as March 2009, the GAO stated that wildfire problems facing the Nation continue to grow and identified findings in funding and cost control. To address these concerns, the Department completed a number of corrective actions and stated that it was developing a comprehensive fire management "Cohesive Strategy," consistent with recent GAO recommendations. This strategy is expected to be completed by the end of 2011.

In response to concerns express by the Congress and OMB, the OIG assessed the Department's accountability through its wildland fire management programs to determine whether or not adequate funding guidance and oversight had been provided to help wildland urban interface areas take advantage of existing federal resources, specifically National Fire Plan grants, to reduce fire risks. The Department's four fire agencies – BLM, NPS, FWS, and the BIA – spend approximately one billion dollars annually to reduce wildland fire damages. Even so, the Department's wildland fire management programs received the lowest rating possible from OMB's Performance Assessment Rating Tool: "Results Not Demonstrated." The Assistant Secretary for Policy, Management and Budget concurred with the report's four recommendations.

Roads Program

At the request of the Congress, OIG evaluated the Department's roads programs at BIA, NPS, FWS, BLM, and the Bureau of Reclamation. These five bureaus manage approximately 186,713 miles of roads that are designated for either public or administrative use. The Department of the Interior and the Department of Transportation jointly manage three programs through the use of memoranda of agreement. Our February 2010 report concluded that each bureau was responsible for framing its own roads programs and that Interior exercises no centralized oversight of roads program activities within the bureaus. For example, BIA and BLM have the two largest road programs with respect to mileage, but do not have adequate inventories. Further, neither BIA nor BLM exercise sufficient oversight to ensure that roads funds are being properly managed and used for intended purposes. The resulting decentralization has led to a number of inconsistencies and has adversely affected program transparency and efficiency, funds accountability, and, most importantly, public safety. The Department subsequently agreed to establish a position to provide oversight of the different roads programs.

Museum Collections

Our December 2009 report on the museum collections found that the Department is failing to fulfill its stewardship responsibilities over museum collections second in size only to the Smithsonian Institution. The Department manages collections that are estimated to include over 146 million items of artwork, artifacts, and other museum objects at 625 Department facilities and at least 1,020 non-Departmental facilities. Specifically, we found widespread failure to properly execute the three key processes required to maintain accountability over museum collections: accessioning, cataloging, and inventorying.

These widespread accountability issues are largely due to poor program management, ineffective oversight, poor reporting, and an insufficient allocation of resources. Many of these problems have been documented since 1990. Although the Department developed agency-wide standards for managing museum collections, bureaus are not following that guidance. Establishing accountability over these museum collections has not been a priority for the Department. As a result, collections are unavailable for research, education, or display and are subject to theft, deterioration, and damage. We also found that the Department needs to take additional steps to improve preservation practices over its museum collection. Because preservation of collections has been neglected, countless artwork, artifacts, and other museum objects are in jeopardy. The Department is in the process of implementing the report's 13 recommendations for corrective action.

7. Revenue Collections

The Department has jurisdiction over 1.76 billion acres of the Outer Continental Shelf, manages about one-fifth of the land area of the United States, and administers 700 million acres of subsurface minerals throughout the Nation. Almost one-third of the Nation's domestic energy production is generated from Department lands and waters. The Department collected royalties of approximately \$9.9 billion in 2009 and \$23.4 billion in 2008. Royalties include monetary (Royalty-in-Value (RIV)) and product (Royalty-in-Kind (RIK)). The RIK program is in the process of being phased out. After the *Deepwater Horizon* tragedy, the Department began assessment of the duties of the Minerals Management Service which had the royalty responsibilities. The Bureau of Ocean Energy Management, Regulation and Enforcement (BOEMRE) was established and became responsible for most of the Service's responsibilities. In October 2010, the responsibilities for royalty collection and oversight, specifically the Mineral Revenue Management directorate, were transferred to the new Office of Natural Resources Revenue (ONRR).

Our work has revealed weaknesses in the oversight and collection and management of royalties. BOEMRE has begun to correct its Royalty Program weaknesses, but more needs to be done. For example, our February 2009 report on nonproducing oil and gas leases concluded that a system needs to be established allowing BOEMRE, ONRR, BLM, and BIA to communicate efficiently and effectively regarding oil and gas leases and royalty collections. Further, improvements are needed in the administration of non-producing oil and gas leases regarding establishing one system for monitoring leases and working with Congress to determine the extent of monitoring of lease development and development of a clear policy on the production of oil and gas from Federal leases. In a March 2010 report, we concluded that BLM, BOEMRE, and ONRR need to carry out effective oversight and management of the beneficial use gas. No royalties are assessed on this gas and the potential royalty value of the gas was \$145 million in 2008. Finally, our March 2010 report on geothermal royalties concluded that ONRR should increase monitoring of geothermal lessees and reevaluate the appropriateness of a 99 percent deduction allowance. The Department generally concurred with the reports' recommendations and is in the process of taking corrective actions.

The Department must identify growth opportunities as it manages the public's vast royalty and energy resources. In February 2009, Congress passed a \$787 billion spending bill, the American Recovery and Reinvestment Act (Recovery Act), to stimulate the economy by providing jobs and investing in the Nation's infrastructure. The vision behind the Recovery Act is to double the Nation's supply of renewable energy over the next 3 years, and make an enormous investment in basic research funding for new energy source discoveries. To advance the vision of a clean energy economy, the Secretary issued Secretarial Order 3285 to establish the production, development, and delivery of renewable energy as a top priority for the Department. The order establishes an Energy and Climate Change Task Force to lead this new agenda and to identify specific zones of public land where Interior efforts can facilitate a rapid and responsible move to large-scale production of solar, wind, geothermal, and biomass energy. The Department has seen some success in its Renewable Energy Program since the Energy Policy Act of 2005, including issuing a final rule for renewable energy on the Outer Continental Shelf and establishing Federal/state task forces to work with individual states on proposed offshore wind activities.

8. Acquisition Management

Procurement, contracts, and grants historically have been areas subject to fraud and waste Government-wide; managing them continues to pose a challenge. The Department procurement and financial assistance awards in FY 2010 exceeded $5 billion, which represented over one-third of the Department's total budget. These awards included $4.7 billion in contracts with over 70,000 transactions, and more than $1.7 billion in Federal assistance to over 2,300 recipients.

The Recovery Act provided nearly $3 billion to the Department. The funds, received by six bureaus, are being awarded under contracts and financial assistance agreements and are being spent on habitat restoration, facilities and roads improvements and construction, scientific equipment, water infrastructure in western states, and improving conditions in Indian country.

To ensure compliance with the stringent requirements of the Recovery Act, the Department issued over ten new policies for acquisition and financial assistance, including new review requirements for actions that were not competitive or fixed price. Bureaus increased their review programs, and the Office of Acquisition and Property Management (PAM) conducted reviews of actions that were non-competitive or not fixed-price. These reviews uncovered opportunities for improved policy and guidance in a number of areas. One key area of focus for financial assistance was on workforce training and professionalism. PAM staff worked closely with OMB and the Office of Personnel Management on the development of a new career series for financial assistance managers and awarding officials.

The Department's acquisition workforce obligated the vast majority of stimulus funds in accordance with the schedule established in the Recovery Act. This significant effort of obligating almost $3 billion in about 19 months, in addition to executing actions to obligate appropriated funds, placed a severe burden on the acquisition workforce. Most contract awards involved competition and were made as fixed-price awards to minimize risk to the Government.

The Department now faces new Recovery Act challenges and must focus on the execution of the contracts, grants and cooperative agreement to ensure that the awarded funds are used for their intended purposes with minimal waste, fraud, or mismanagement. The acquisition workforce must ensure proper identification of Recovery Act awards and, in coordination with the OMB, diligently update outdated project lists to ensure transparency. The workforce must continue to monitor whether applicable recipients of funds are reporting on FederalReporting.gov, and bureaus must take aggressive action regarding those who fail to report. Such actions may include termination of contracts or withholding of payments, as well as suspension and debarment proceedings.

Training for contracting officers and grant managers is critical to develop the skills necessary to effectively manage pre-solicitation planning, competition, proper selection of the contracting method, and administration. The Department continues to make progress toward establishing a strong suspension and debarment program to protect against fraud, waste, abuse, and the misuse of Federal funds. In response to our recommendations, the Department committed necessary resources to fund, establish, and staff an effective suspension and debarment program. The Department's Debarment Program Manager and OIG's Compliance Specialist have provided suspension and debarment training to over 300 contract and financial assistance award personnel and other Department officials. In FY 2010, the Suspending and Debarring Official has taken 25 debarment referrals resulting in 23 debarment actions to date.

Another challenge confronting the Department is the identification and application of funds required for justified contract change orders, especially on large construction projects, and efforts to ensure compliance with the Davis-Bacon Act wage requirements. The Department needs to ensure that Small Business Administration set-aside contracts are not awarded to, or performed by, unqualified contractors.

THE SECRETARY OF THE INTERIOR
WASHINGTON

NOV 12 2010

Memorandum

To: Mary Kendall
Acting Inspector General

From: Secretary Ken Salazar

Subject: 2010 Top Management and Performance Challenges

This responds to your October 15, 2010, memorandum describing your perspective on the major management and performance challenges facing the Department of the Interior. I appreciate your independent assessment of progress in addressing these challenges and your recognition of our accomplishments in these areas. I remain committed to improving the management of the Department's programs and addressing these particular challenges. We generally concur with your recommendations and in the following summaries we provide additional information and outline some of the actions we have underway. I look forward to working with you to address these challenges.

1. Outer Continental Shelf Energy Oversight

In light of the Deepwater Horizon oil spill event, BOEMRE is implementing broad reforms including a major reorganization and improving its policies and procedures, especially those relating to the safety of offshore oil and gas drilling operations. As described in the September 4, 2010, Implementation Plan, BOEMRE's broad reform agenda includes addressing the recommendations contained in the September 1, 2010, Outer Continental Shelf Safety Oversight Board report, many of which flow directly from insights and information provided by BOEMRE personnel. These reforms are intended to strengthen BOEMRE's permitting, inspections, enforcement, accident investigation, and environmental stewardship programs, in particular.

BOEMRE's ongoing reform agenda includes:

- Removing potential conflicts in mission by reorganizing the former MMS into three independent entities, that when fully implemented, will improve the management, oversight, and accountability of activities on the Outer Continental Shelf (OCS); ensure a fair return to the taxpayer from royalty and revenue collection and disbursement activities; and provide independent safety and environmental oversight and enforcement of offshore activities. The revenue collection function has already been transitioned as a separate office—the Office of Natural Resources Revenue—under the Assistant Secretary for Policy, Management and Budget.

- Following the April 20, 2010, Deepwater Horizon incident, BOEMRE inspected all deepwater subsea blowout preventer (BOP) stacks used by 29 floating deepwater drilling rigs in the Gulf of Mexico (GOM). The BOEMRE issued one incident of non-compliance based on the inspections.
- A team of BOEMRE technical experts helped conduct a thorough review of the incident under my direction to develop the recommendations to enhance the safety of OCS operations contained in the May 27, 2010, Safety Report.
- Continued implementation of the BOEMRE Director's road map for ongoing reforms in response to the Report of the Outer Continental Shelf Safety Oversight Board, which was developed by top officials within the Department to strengthen OCS safety and improve overall management, regulation, and oversight of OCS operations.
- Conducting a joint investigation of the incident with the U.S. Coast Guard to determine what happened and hold those responsible to account.
- To address offshore safety, BOEMRE issued Notice to Lessee (NTL) No. 2010-N05, *Increased Safety Measures for Energy Development on the OCS*, which became effective on June 28, 2010.
- BOEMRE also issued NTL No. 2010-N06, *Information Requirements for Exploration Plans, Development and Production Plans, and Development Operations Coordination Documents on the OCS*. NTL-N06 (known as the Environmental NTL) requires operators to submit additional information on blowouts (and measures to prevent, reduce the likelihood, and conduct intervention in the case of a blowout) and worst-case discharge scenarios.
- Two new final rules—the Drilling Safety Rule and the Workplace Safety Rule—were published in October 2010. These rules will help improve drilling safety and environmental protection by strengthening requirements for safety equipment, well control systems, and blowout prevention practices on offshore oil and gas operations, and improve workplace safety by requiring the development of safety and environmental management systems. These new regulations substantially raise the standards for operations and accountability for all offshore operators.
- Establishment of a new recusal policy that will reduce the potential for real or perceived conflicts of interest. Employees must now notify their supervisor of any potential conflict of interest and recuse themselves from performing any official duty in which such a conflict exists. BOEMRE inspectors will be required to recuse themselves from performing inspections of former employers. Also, every BOEMRE employee must report any attempt to influence, pressure, or interfere with his or her official duties.
- Creation of a new Investigations and Review Unit within BOEMRE that will investigate allegations of misconduct by BOEMRE employees as well as by industry, and assist in responding to major issues, including significant accidents and other events.
- BOEMRE is in the process of strengthening its inspections program by adding new inspectors, engineers, environmental scientists, and other key staff to support the agency in carrying out its important oversight functions. The Bureau is also strengthening standards for equipment, safety, and environmental safeguards, and we are going to dramatically strengthen oversight.
- Collaboration with other Federal agencies in conducting comprehensive new environmental analyses of the Gulf of Mexico and the Arctic. These analyses will help inform future leasing and development decisions.

Moving forward BOEMRE will continue to incorporate reforms based on information that becomes available, including the findings and recommendations of the President's Commission and ongoing investigations into the causes of the BP Deepwater Horizon explosion and resulting oil spill. In the coming months, BOEMRE will proceed with the rulemaking process for additional safety measures, including additional requirements for blowout preventers and remotely operated vehicles, and additional workplace safety reforms, strengthening oversight requirements for operators' Safety and Environmental Management System programs. All of these measures will help ensure the rigorous oversight of offshore drilling. BOEMRE will implement the reforms necessary to make offshore oil and gas production safer with stronger protections for workers and the environment.

2. Financial Management

The Department is committed to enhanced financial management and is focusing on resolution of internal control deficiencies and repeat audit findings.

The Department uses a risk-based method to rate audit recommendations for significance, materiality, or severity in order to direct attention and resources first to those with greatest need. For FY 2010, the Department as a whole closed 90 percent of the actions assigned to bureaus and offices from OIG and GAO reports, exceeding the annual goal of 85 percent. To continue to improve on this success, we plan to pilot an Association of Government Accountants program in FY 2011 called "Cooperative Audit Resolution and Oversight Initiative". This program provides tools in preventing and resolving audit findings and oversight.

The Department has viewed the movement toward a single, integrated financial system as vitally important to realize business process improvements and financial integrity. The Department's current, major financial management system improvement efforts center on the Financial and Business Management System (FBMS). Three DOI bureaus currently use an extensive set of FBMS provided business functionality and additional deployments are planned for 2011, 2012, and 2013.

We share your view that full system deployment is critically important and that current operations are challenged by the use of legacy systems. We continue to move forward with the FBMS deployment, but we have revised the schedule to ensure that we are optimizing functionality while limiting the risk associated with a project of this size. In addition, we will conduct an independent third party review of the project scope and revised deployment schedule, which will be the basis for validation of or further refinement of the plan. The Department plans to work closely with the OIG on this review and a post deployment analysis.

3. Information Technology Security

The Department appreciates the Inspector General's thorough review of information technology security and is committed to information security and compliance with FISMA and is strengthening efforts to improve information security by addressing known weaknesses and a close examination of policies and practices. The DOI Innovations and Efficiencies Team initiatives, which were initiated in June 2010, are driving changes such as data center consolidation and are expected to improve the efficiency and effectiveness of IT services throughout the Department. These projects as are also expected to have positive benefits for IT security. The Department has just launched an IT transformation project that will take bold steps to consolidate infrastructure, improve the strategic application of technology to mission requirements, improve compliance, and promote sharing of resources.

4. Health, Safety, and Maintenance

Each year about 480 million people recreate, learn, and appreciate parks, refuges, and other Department lands. The Department is responsible for ensuring that these visitors and employees are safe and secure.

Aircraft. Interior's land management agencies utilize aviation services for a wide variety of responsibilities. The Fish and Wildlife Service has been reliant on using existing aircraft, which were cited in the February 2009 IG Flash Report for being flown over maximum takeoff gross weight, while awaiting the design and construction of replacement aircraft. FWS has purchased and is deploying nine new Kodiak 100 amphibious aircraft and is working in partnership with the National Business Center to finalize a disposition plan that is responsive to the OIG's recommendations.

Deferred Maintenance. The Department is continuing to work closely with bureaus to improve the management of facilities in order to proactively optimize resources to address deferred maintenance needs. All Department bureaus develop multi-year plans that guide budgets and investments that are responsive to deferred maintenance needs. Using uniform criteria and ranking processes based on consistent direction that is updated annually in concert with bureaus, projects are prioritized to ensure that health and safety needs are addressed first. The bureaus are using condition assessment metrics to gage the status of facilities—detailed assessments are updated every 4 to 5-years and are used to inform the prioritization of work and the allocation of resources. The Department budgets $1.5 billion annually in maintenance and construction programs. The infusion of $3 billion appropriated in the American Recovery and Reinvestment Act of 2009 allowed the Department to expedite resolution of deferred maintenance issues and greatly facilitated completion of many projects and assisted in addressing priority needs. Additional funding was made available to the bureaus by the Department of Transportation, who also received Recovery Act funding, to accelerate road improvements and repairs.

Abandoned Mines. In recent years, the Department has expanded its efforts to protect the public from the dangers of abandoned mines. The Department has maintained annual funding for programs in Bureau of Land Management and the National Park Service and these Bureaus utilized $52.5 million in Recovery Act funding for abandoned mine projects. BLM funded 77 projects and 55 of those projects were directly related to the mitigation of physical safety hazards. Approximately 24 of these projects were completed as of September 30, 2010, and the remaining projects will be completed by September 30, 2012. However, there is a significant inventory of sites that remain from historical mining activities. BLM currently estimates an inventory of over 65,000 features associated with 25,000 sites. BLM is conducting field validation of its inventory and will continue its efforts to close mines, remediate hazards, and improve water quality.

On September 24, 2010, the BLM issued guidance on the procedures for identifying and notifying claimants when mitigating abandoned mine hazards on active mining claims. A "General Notice" was sent to mining claimants of record whose mining claims were identified as containing an abandoned mine hazard. The notice requires that if a claimant maintains an abandoned mine hazard solely for the purpose of preserving access for future mining or exploration activities, then the claimant's use of the site exceeds casual use; such use requires compliance with 43 CFR 3809.10, including the submittal of a financial guarantee. The notice also reminds claimants of BLM's commitment to the mitigation of abandoned mine hazards on public lands through the Fix A Shaft Today! Program, also known as *FAST!* On October 18, 2010, the BLM presented a BLM Reclamation and Sustainability Award to a group of Nevada partners who have been instrumental in moving this program forward.

5. Responsibility to Indians and Insular Areas

The Department is demonstrating its long-standing commitment to fulfilling its responsibilities to American Indians and island communities. The commitment includes an acknowledgement that improvements have been made with the confirmation of the Assistant Secretary for Indian Affairs Echo Hawk and that more improvements are necessary.

Indian Affairs. Assistant Secretary Echo Hawk stated in his confirmation hearing that he would consent to a 4-year commitment. This commitment has eliminated the past leadership vacuum and ensured continuity, which has resulted in consistent priorities within Indian Affairs. In November 2009, the White House held a Tribal Nations Conference, which was attended by over 400 tribal leaders. At the conference, the President pledged to strengthen Nation-to-Nation relationships, improve the tribal consultation process, and empower strong and stable Indian communities.

Assistant Secretary Echo Hawk is leading an effort to strengthen interagency consultation and collaboration for Indian education programs with the Secretary of Education and public safety programs with the Department of Justice. Assistant Secretary Echo Hawk and I have met with Secretary Duncan and Attorney General Holder in the spirit of this new relationship. Assistant Secretary Echo Hawk continues this commitment to advancing Nation-to-Nation relationships, improving Indian education for students in BIE funded schools, improving the safety of Indian communities, and reforming trust land management with an ultimate goal of greater self-determination. While maintaining previous key increases for law enforcement and education programs, the 2011 budget supports the Empowering Tribal Nations initiative, which includes increases to address environmental and safety concerns at Bureau of Indian Education schools, promote renewable and conventional energy development on tribal lands, assist tribes with dam safety concerns, and provides additional self-determination contract support funding. The improvement of community safety in Indian Country is a High Priority Performance Goal to ensure it receives executive level attention, including the pilot of expanded law enforcement in four communities.

The American Reinvestment and Recovery Act included $493 million for Indian Affairs to improve health and safety of facilities, including school construction and for on-the-job workforce training programs. These funds were used for school replacement, housing improvement, road maintenance, and detention center maintenance and repair.

Fractionation is a hindrance to economic development and effective use of lands and resources. The Department is refocusing the fractional interest acquisition program in hopeful anticipation of an unprecedented consolidation effort under the *Cobell v Salazar* settlement. A strategic plan has been drafted to guide this effort. P.L. 108-374, the American Indian Probate Reform Act, lays groundwork for reducing fractionation. The Department is also considering re-establishment of drafting wills for fractional interest owners.

Insular Affairs. The Department acknowledges that there are needed improvements in insular areas and that efforts to implement improvements have been challenged. The economic development of insular areas and the Office of Insular Affair's efforts to assist the areas are challenged by remote locations and limited natural and human resources compounded by external forces such as global economic trends, statutory, and regulatory impediments. While OIA and other Federal agencies work with the islands to improve the infrastructure needed to attract industry, global economic and regulatory trends have negatively impacted the economies of the insular areas. For example, the imposition of the World Trade Organization rules in January 2005 contributed to the closure of the garment industry in the Northern Mariana Islands leading to the loss of approximately 40 percent of local revenues. Trade agreements and the Federal minimum wage laws have had similar impacts on the tuna processing industry in American Samoa. One of the two canneries in American Samoa closed in September 2009, resulting in a loss of more than 2,000 jobs and substantially diminishing local direct and indirect revenues.

The Department does not concur with the statement that the people are ill-served by their local governments and OIA. With a modest budget, OIA assists the insular governments to improve critical services, encourages private sector development, and assists governments to improve financial management and accountability related to the use of public funds and the administration of Federal grant programs. OIA has also increased efforts to coordinate with other Federal agencies to help ensure the best use of resources and positive Federal impacts on the quality of life for the residents of the insular areas. These efforts are challenging as funding provided to the insular areas from other Federal agencies and sources are not executed under the authority of OIA. OIA is developing processes to better evaluate the impact of OIA's grant programs and the results of coordinating with other Federal agencies.

The Administration and the Republic of Palau have agreed on a new 15-year compact that will support Palau's efforts in economic development and improved quality of life. We are working with the Congress to advance enactment of the compact which would take effect in 2011. In recent years, OIA staff has worked more closely with insular government officials to assist in identifying and developing priorities that are more consistent with improving quality of life issues. An example is OIA's technical assistance to the Internal Revenue Service (IRS), which helped the insular tax administrators to address revenue and tax issues and to resolve issues identified in OIG audits. OIA has also increased its coordination with other Federal agencies, promoting increased engagement of multi-Federal agency organizations such as the Interagency Group on Insular Areas (IGIA). The IGIA is comprised of senior leadership of Federal agencies and functions and serves as an advisory group to the President to help develop policies for the insular areas. Coordination through the IGIA was enhanced by Executive Order 13537, signed by President Obama on April 14, 2010. The Executive Order reorganized the IGIA to be co-chaired by the White House Office of Intergovernmental Affairs and the Department and it builds on the action the Department took in 2009 to reestablish the position of Assistant Secretary for Insular Areas. The elevation of leadership to Assistant Secretary and the increased coordination through the IGIA and other multi-Federal groups such as the Region IX's Federal Regional Council and its Outer Pacific Committee has helped to mobilize and coordinate efforts to address many of the problems in the insular areas. Additionally, greater attention from more Federal agencies has helped to increase enforcement of Federal requirements and facilitated the detection of fraud, waste, and abuse, including increased indictments and convictions that have occurred in the past several years.

6. Resource Protection and Restoration

The Department appreciates recognition of the challenges faced by the Department's resource managers who have a daunting task—balancing natural resources use and protection across an extensive landscape while contending with climate change and other impacts.

Wildland Fire. Consistent with recent GAO recommendations, the Department is using a partnership approach with the U.S. Forest Service and others to mitigate the threat of wildfire and to balance cost with the associated risk to develop a comprehensive fire management "Cohesive Strategy." The Cohesive Strategy is a national collaborative effort bringing together wildland fire organizations, land managers, and policy officials representing Federal, state, and local governments, tribes, and non-governmental organizations to establish consistent national objectives and performance metrics. The Strategy will provide the basis for future uniform program policies and will be completed by the end of 2011.

In FY 2009, the Wildland Fire Management account was transferred from the Bureau of Land Management to the Department, which has allowed greater collaboration and oversight in our wildland fire management programs and initiatives. The Department has also increased its use of decision support tools, such as LANDFIRE, Fire Program Analysis, and Ecosystem Management Decision Support to improve management and accountability. The use of existing collaborative teams, including national, state, and tribal groups, has strengthened outreach strategies and methods.

The Department agrees and is implementing centralized oversight at the national level to guide the development and implementation of a Department-wide community assistance function. National leadership is strengthened with oversight, direction, and coordination by the Office of Wildland Fire Coordination Fuels Program Lead and bureau engagement. The OWFC has expanded its use of the "My Fire Community" sharepoint website as a central repository for sharing community assistance educational and outreach materials.

Roads Program. The OIG's recommendations to improve coordination and leadership in management of the Department's roads programs led to departmental consensus on a way forward. The Department has committed to improve coordination and oversight of bureau road programs while allowing bureaus to continue decentralized execution of these programs. The Department is making plans to create a new senior program manager for the Roads Program. The Department will share information from lessons learned with the expansive roads programs funded through the Recovery Act and engage with the Department of Transportation and the Office of Management and Budget in the reauthorization of the Transportation Bill.

Museum Collections. The Department faces extraordinary challenges in the management of extensive collections that represent the Nation's history and preserve important cultural artifacts. These collections are geographically dispersed and require extensive inventory, cataloging, curation, and accession. Staffing vacancies and constrained resources have delayed efforts to address the need for updated policies, procedures, and enhanced accountability. Subsequent to the issuance of the OIG's recommendations on this topic, the Department developed a plan that establishes a set of actionable items for all entities with museum collections. The Department is beginning implementation actions including reconvening the Museum Property Executive Program Committee and developing a charter. The Department issued new annual reporting requirements for Scope of Collections Statements, inventory, and non-Federal facilities, and conducted training workshops on writing collection management documents. The Department is planning a pilot project to conduct contracted physical inventories of museum collections housed in non-Federal facilities in California, Colorado, and Missouri, developing guidance to bureaus and offices to increase curation expertise, and working on revisions of departmental manual and handbook materials.

7. Revenue Collections

I am committed to working closely with Congress on reforms to improve the Department's fulfillment of stewardship responsibilities, including efficient and effective revenue collections and responsible development of renewable energy.

A major step in the Department's plan to fundamentally restructure its mineral leasing, regulatory, and revenue collection agencies occurred October 1, 2010, with the official move of significant revenue collection functions to the Office of Natural Resources Revenue within the Office of the Assistant Secretary for Policy, Management and Budget. With this reorganization, we have also begun an intense strategic review of the organization and have identified six key areas to focus improvements and systems reform efforts on moving forward. ONRR has formed three working groups to begin work on three of the six key areas identified through the strategic planning process. The groups are creating an integrated strategy to encourage payor compliance; improving talent, knowledge management, and organizational health; and improving collaboration with partners to overcome challenges. The Department would also like to recognize the help of the OIG on a review of our enforcement program. We are in the process of focusing on refining our enforcement procedures to provide additional incentives to ensure the collection of every dollar due. The Department is taking significant action to address the revenue collection challenges including improving collaboration, Royalty in Kind phase out by the end of FY 2011, monitoring lease status using the Technical Information Management System, improving oversight and management of beneficial use oil and gas, and developing potential legislative and administrative reforms to improve the ONRR revenue collection program and ensure that industry complies with the rules.

Significant progress is being made to advance the new energy frontier with significant efforts underway in the onshore and offshore renewable energy programs in BOEMRE and BLM. I recently announced the commercial lease for the first OCS renewable project – the Cape Wind Energy Project. BOEMRE has issued limited leases with four developers which allow construction of meteorological towers for wind resource assessment offshore Delaware and New Jersey, and published a Request for Interest for wind energy development in the Federal Register for an area of the OCS offshore Delaware. BOEMRE established Federal/State Renewable Energy Task Forces in seven states—Delaware, New Jersey, Rhode Island, Massachusetts, Virginia, Maryland, and Maine; created an Atlantic Renewable Energy Office; and awarded 30 environmental and technical studies.

The BLM continues its efforts to accelerate access for renewable energy development including a 2010-2011 High Priority Performance Goal to increase approved capacity for production of renewable energy by at least 9,000 megawatts. BLM is on track to meet this goal and is fast tracking 43 solar, wind, and geothermal projects. BLM released a solar energy programmatic EIS that addresses the development of solar energy on public lands in California, Arizona, Nevada, Utah, Colorado, and New Mexico and identified 23 million acres of public land with solar energy development potential and 700,000 acres in Solar Energy Study Areas. BLM's five renewable energy coordination offices and energy coordination teams are facilitating permitting; assisting in the implementation of energy policies and procedures to ensure environmental protections are in place. Renewable energy efforts are also underway in the BIA in coordination with the Tribes, FWS is assisting in the protection of natural resources, and USGS is providing science support for these efforts.

8. Acquisition Management

Oversight, tracking, and management of the Department's procurement, contracts, and grants activities is a challenge with operating programs in many locations across the Nation, decentralized management in nine bureaus and multiple offices, and antiquated systems. However, efforts are underway throughout the Department to address these challenges.

The Department's acquisition professionals work together through the Acquisition Managers Partnership to build more consistent approaches, implement the Acquisition Improvement Plan, and develop and implement new acquisition tools such as PRISM. The community also shares best practices and works in collaboration with the OIG, including implementing the unique requirements of the Recovery Act (ARRA), such as expedited timeframes, large dollar values, and extensive reporting requirements. The challenges of implementing ARRA provided many opportunities for improvement and the Department issued policies to communicate specific ARRA-mandated procedures, standardized methods for carrying out ARRA contract and financial assistance actions, improved procurement operations by maximizing competition, ensured the use of appropriate acquisition vehicles, improved the transparency of reporting, and streamlined contracting.

The Department continues its focus on building and retaining a skilled acquisition workforce and provided detailed training for acquisition and financial assistance professionals, including pre-award/ award/ post-award activities, acquisition review planning, risk management and reporting. The Department updated and reissued the *Department of the Interior Acquisition Regulation* to streamline acquisition procedures.

The Department has established a strong suspension and debarment program to protect against fraud, waste, abuse, and the misuse of Federal funds. Two full time employees have been hired to process referrals for suspension and debarment actions. The Department created an electronic case management system and has processed over 60 suspension and debarment actions from February 2009 to the present. The Department has developed and implemented enhanced program practices and procedures and revised the DOI FAR debarment rule. The Department has implemented a policy requiring Contracting Officers to refer all Termination for Default actions for debarment consideration. The Department has created a collaborative case referral process based on a working relationship with OIG's Acquisition Integrity Unit. OIG and debarment personnel have provided suspension and debarment training to over 300 procurement award officials. The Department actively participates on the Interagency Suspension and Debarment Committee (ISDC) and now holds the Vice Chair position.

The Department is meeting the goals of OMB Memorandum M-09-25, *Improving Government Acquisition*, by reviewing existing contracts and acquisition practices; implementing an acquisition savings plan; and reducing the share of dollars obligated under new contract actions that are awarded with high-risk contracting authorities. The Department is addressing the President's management challenge in three target areas: eliminating waste and redundancy, reforming Federal contracting and acquisition to ensure taxpayers get the best value possible, and putting performance first by setting aggressive performance targets. In conjunction with these priorities, the Department has identified four overarching priorities for its acquisition functions: transparency, competition, integrity, and a skilled acquisition workforce.

Results of Financial Statement Audit

As required by the GMRA, Interior prepares consolidated financial statements. These financial statements have been audited by KPMG LLP, an independent public accounting firm, since FY 2001 (the OIG audited the financial statements prior to FY 2001). The preparation and audit of financial statements form an integral part of Interior's centralized process to ensure the integrity of financial information.

The results of the FY 2010 financial statement audit are summarized in Figure 3-1. As shown in the table, Interior again achieved an unqualified audit opinion, the 14th consecutive one, for Interior's consolidated financial statements.

FIGURE 3-1

Summary of Financial Statement Audit					
FY 2010					
Audit Opinion	Unqualified				
Restatement	No				
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Reassessed
Total Material Weaknesses	0	0	0	0	0

Management Assurances

FMFIA requires agencies to provide an annual statement of assurance regarding internal accounting and administrative controls, including program, operational, and administrative areas as well as accounting and financial management and reporting. During Fiscal Year (FY) 2010, the Office of Financial Management (PFM) conducted comprehensive site visits and otherwise provided oversight with regard to risk assessments, internal control reviews, and progress in implementing audit recommendations.

FIGURE 3-2

Summary of Management Assurances						
Effectiveness of Internal Control over Financial Reporting (FMFIA § 2)						
Statement of Assurance	Unqualified					
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Total Material Weaknesses	0	0	0	0	0	0

Effectiveness of Internal Control over Operations (FMFIA § 2)						
Statement of Assurance	Qualified					
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Radio Communications Program	1	0	0	0	0	1
Total Material Weaknesses	1	0	0	0	0	1

Conformance with Financial Management System Requirements (FMFIA § 4)						
Statement of Assurance	Systems Conform to Financial Management System Requirements					
Non-Conformances	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Total of Non-Conformances	0	0	0	0	0	0

Compliance with Federal Financial Management Improvement Act (FFMIA)		
	Agency	**Auditor**
Overall Substantial Compliance	Yes	Yes
1. System Requirements	Yes	
2. Accounting Standards	Yes	
3. U.S. Standard General Ledger at the Transaction Level	Yes	

SUMMARY OF IMPROPER PAYMENTS

On July 22nd, 2010 the President signed the Improper Payments Elimination and Recovery Act (IPERA) of 2010 into law. IPERA amends the Improper Payments Information Act (IPIA) of 2002 and repeals the Recovery Auditing Act (Section 831 of the FY 2002 Defense Authorization Act). IPERA expands the requirements of all agencies to periodically perform risk assessments of its programs and activities and identify those programs and activities that are susceptible to significant improper payments. Significant improper payments are defined by OMB Circular A-123 Appendix C, *Requirements for Effective Management and Remediation of Improper Payments*, as improper payments exceeding both 2.5% of annual program or activity payments and $10 million.

Risk Assessments

OMB requires agencies to review all programs to determine the risk susceptibility of making significant improper payments and to perform more in-depth assessments for those programs meeting OMB's criteria for "significant erroneous payments." Interior conducts its own risk assessments utilizing a four step process consisting of reviewing all programs exceeding $100 million in annual outlays to identify those that are susceptible to significant improper payments, performing statistical estimates of the annual amount of improper payments within those programs determined to be at risk of significant improper payments, implementing processes to reduce the level of improper payments, and reporting in the annual financial report estimates of annual improper payments and the progress in reducing them for each of the programs susceptible to significant improper payments.

Based upon its risk assessment process Interior determined that that none of its programs are risk susceptible for making significant improper payments at or above the thresholds set by OMB. In addition to the risk assessment process, Interior also considered the results of audits under the Single Audit Act Amendments of 1996, the CFO Act of 1990, GAO reviews, and reviews by Interior's OIG when making its assessment.

Payment Recapture Audits

As noted above, IPERA repeals the Recovery Auditing Act and greatly expands, beginning in 2011, the types of payments that can be reviewed. IPERA also lowers the threshold for conducting repayment audits from $500 million in annual outlays to $1 million in annual outlays if conducting such audits would be cost effective. Interior is developing plans for implementing the IPERA requirements for conducting recapture audits.

Interior has historically utilized a recovery audit firm to conduct the predominance of its recovery audit effort. The firm was paid on a contingency fee structure based on the amount of recovered payments. Due to the unexpected cancellation of the government-wide payment recapture audit contract/program, Interior did not have a payment recapture audit contract for FY 2010. Interior is actively working to obtain a new contractor and plans to have the recovery audit firm in place

FIGURE 3-3

FY 2010 Recovery Auditing Report
(dollars in thousands)

Interior	Amount Subject to Review for FY 2010 Reporting	Actual Amount Reviewed and Reported CY	Amount Identified for Recovery CY	Amount Recovered CY	Amount Identified for Recovery PYs	Amount Recovered PYs	Cumulative Amount Identified for Recovery (CY+PYs)	Cumulative Amount Recovered (CY+PYs)
TOTAL	$4,143,844	$0	$0	$0	$1,944	$1,830	$1,944	$1,830

KEY: CY Current Fiscal Year 2010 PYs Prior Fiscal Years 2005 - 2009

in FY 2011. Figure 3-3 reflects the results of the Departments recovery audit efforts prior to FY 2010

Other Efforts

Prepayment Audit of Government Bills of Lading - Interior has conducted prepayment audits of freight bills via GBL for a number of years. This effort is required by the Travel and Transportation Reform Act of 1998. Efforts continue with Interior's bureaus to ensure that all freight bills receive prepayment audits.

Invoice Payment Reviews – Interior conducts various pre and post payment reviews across the bureaus. The reviews are the responsibility of the Bureau and are used to not only identify inaccurate payments but also determine the effectiveness of internal controls over the payment process.

Travel Voucher Audits – Interior conducts a number of pre and post travel voucher audits. The audits are designed to identify incorrect payment amounts, unauthorized claims, and fraudulent activity.

Going Forward

To meet the President's challenge to reduce government wide improper payments by $50 billon and recapturing at least $2 billion in improper payments government wide by FY 2012, Interior will take several important steps in FY 2011 to ensure that its managers are held accountable for reducing and recovering improper payments. The planned activities and timelines are:

To ensure a robust process for reducing improper payments the Department will:

- Review all programs and activities to identify those programs that are susceptible to significant improper payments.
- Develop statistical evaluation tools that will be used by the bureaus in estimating the level of potential improper payments by program.
- Review and update Annual Risk Assessment guidance to incorporate improvements in conducting, reporting, and documenting the program.
- Review and update Annual Risk Assessment guidance to incorporate improvements in conducting, reporting, and documenting the program to ensure compliance with OMB Circular A-123, Appendix C.

To recover those improper payments that are made the Department will:

- Develop an action plan that will describe how the Department is prioritizing its payment recapture activities and establish a framework for establishing recapture goals.
- Inventory and review all programs with outlays of $1 million dollars or more and determine if recapture audits would be cost effective by defining the task associated with the audit and estimating costs. Program review will be expanded to include programs outside of normal contract payments.
- Re-establish the Departments recapture audit program and re-assess the cost effectiveness of the program.
- Begin reporting on other types of recovered improper payments such as those identified by payment recipients, separate agency post payment reviews and contract closeout.

GLOSSARY OF ACRONYMS

AFR	Agency Financial Report
AML	Abandoned Mine Land
APD	Application for Permit to Drill
ARRA	American Reinvestment and Recovery Act of 2009
ASG	American Samoa Government
BOEMRE	Bureau of Ocean Energy Management, Regulation and Enforcement
BIE	Bureau of Indian Education
BLM	Bureau of Land Management
BOM	Bureau of Mines
BOR	Bureau of Reclamation
BPA	Bonneville Power Administration
C&A	Certification and Accreditation
CAM	Compliance Asset Management
CFO	Chief Financial Officer
COTS	Commercial Off-the-Shelf Software
CIP	Construction in Progress
CR	Continuing Resolution
CSRS	Civil Service Retirement System
DCIA	Debt Collection Improvement Act
DGoMB	Deep Gulf of Mexico Benthos
DO	Departmental Offices
DOE	Department of Energy
DOI	Department of the Interior
DOL	Department of Labor
EFT	Electronic Funds Transfer
EIRF	Environmental Improvement and Restoration Fund
ERAC	Executive Radio Advisory Committee
FACTS II	Federal Agencies Centralized Trial Balance System II
FASAB	Federal Accounting Standards Advisory Board
FBMS	Financial and Business Management System
FCRA	Federal Credit Reform Act
FECA	Federal Employees Compensation Act
FEGLI	Federal Employees Group Life Insurance
FERS	Federal Employees Retirement System
FFMIA	Federal Financial Management Improvement Act
FISMA	Federal Information Security Management Act of 2002
FLPMA	Federal Land Policy and Management Act
FMFIA	Federal Managers' Financial Integrity Act
FWS	U.S. Fish and Wildlife Service
FY	Fiscal Year
GAAP	Generally Accepted Accounting Principles
GAO	Government Accountability Office
GMRA	Government Management Reform Act
GPRA	Government Performance and Results Act
GSA	General Services Administration
HHS	Department of Health and Human Services
HPF	Historic Preservation Fund
HVAC	Heating, Ventilation and Air Conditioning
IA	Indian Affairs
IIM	Individual Indian Monies
IT	Information Technology
KPI	Key Performance Indicator
LCRBF	Lower Colorado River Basin Fund

LCRBD	Lower Colorado River Basin Development Fund
LWCF	Land and Water Conservation Fund
M&I	Municipal and Industrial
MD&A	Management's Discussion and Analysis
MMS	Minerals Management Service
MRM	Minerals Revenue Management
NAWCF	North American Wetlands Conservation Fund
NBC	National Business Center
NHPA	National Historic Preservation Act of 1966
NPS	National Park Service
NWR	National Wildlife Refuge
OCIO	Office of the Chief Information Officer
OCS	Outer Continental Shelf
OIA	Office of Insular Affairs
OIG	Office of Inspector General
ONRR	Office of Natural Resources Revenue
OMB	Office of Management and Budget
OPM	Office of Personnel Management
OS	Office of the Secretary
OSM	Office of Surface Mining Reclamation and Enforcement
OST	Office of the Special Trustee for American Indians
PFM	Office of Financial Management
PI/LSI	Possessory Interest or Leasehold Surrender Interest
PMO	Project Management Office
POA&M	Plan of Actions and Milestones
PPA	Prompt Payment Act of 2002
PP&E	Property, Plant, and Equipment
RIK	Royalty-in-Kind
SAA	Single Audit Act of 1996
SBR	Statement of Budgetary Resources
SFFAS	Statement of Federal Financial Accounting Standard
SMCRA	Surface Mining Control and Reclamation Act
SNPLMF	Southern Nevada Public Land Management Fund
SPR	Strategic Petroleum Reserve
USFS	U.S. Forest Service
USGS	U.S. Geological Survey
USSGL	U.S. Standard General Ledger
USPP	United States Park Police
WMD	Wetland Management District

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You can send written comments to:

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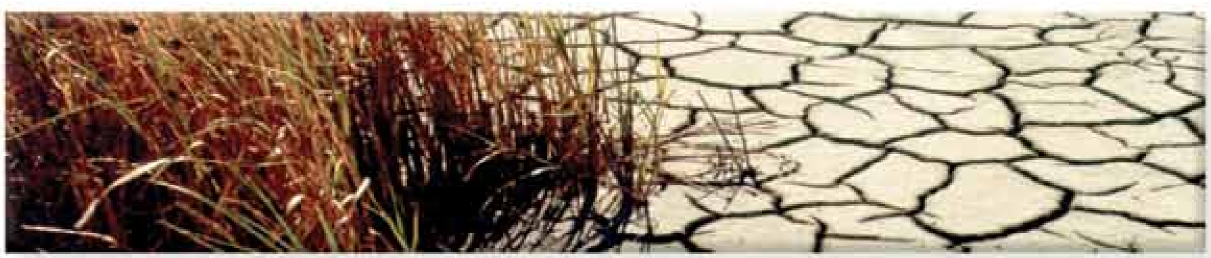

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