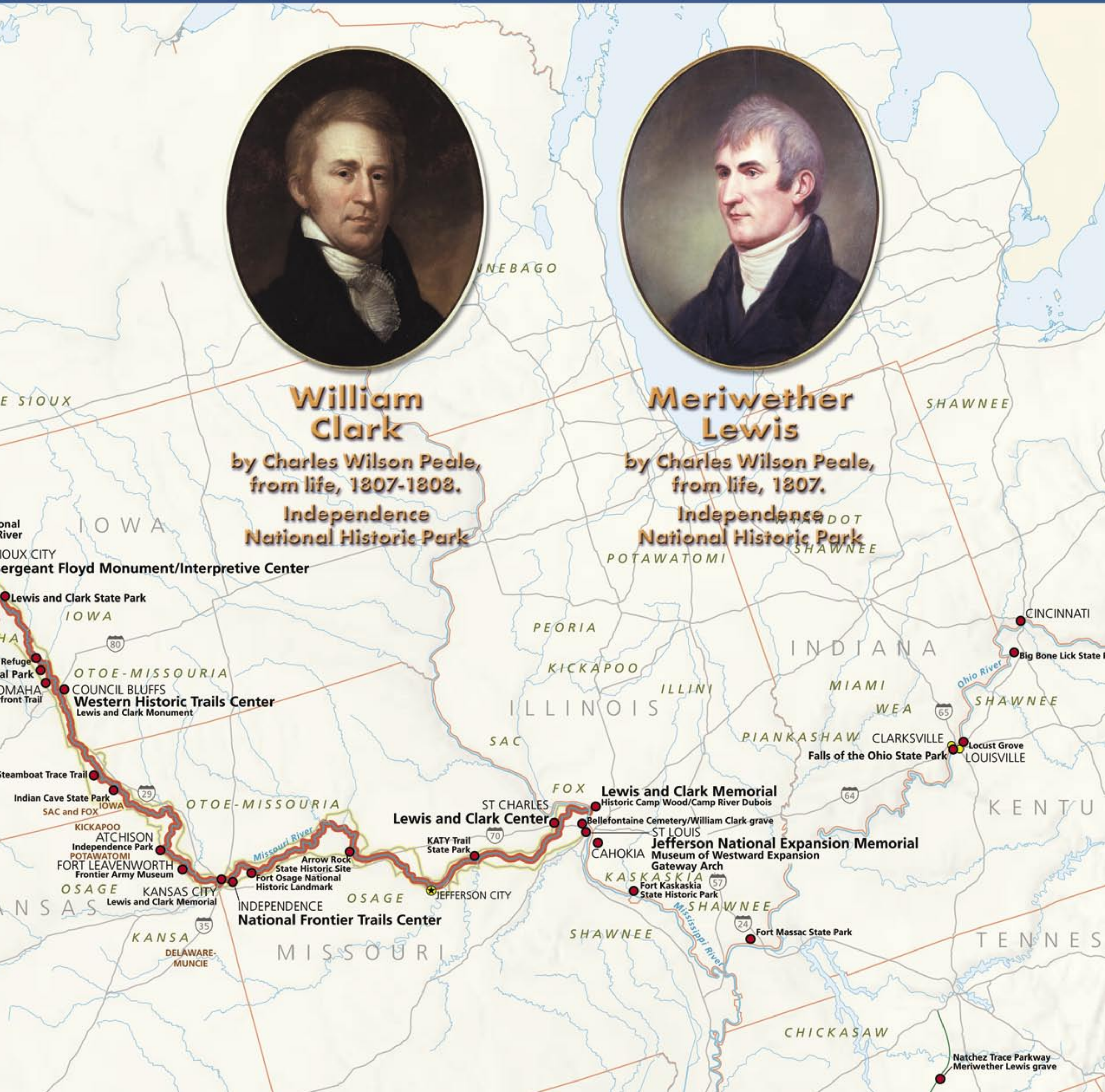
# U.S. DEPARTMENT OF THE INTERIOR
# Annual Report on Performance and Accountability
## FISCAL YEAR 2004




**William Clark**
by Charles Wilson Peale, from life, 1807-1808.
Independence National Historic Park

**Meriwether Lewis**
by Charles Wilson Peale, from life, 1807.
Independence National Historic Park

Pictured (clockwise, from left):

Elkskin bound field journal used by William Clark. Entry of 30 Sep 1805. William Clark Papers. Missouri Historical Society Archives.

Draught of the Falls and Portage of the Missouri River. Entry of ca. 2 July 1805. Voorhis #1. William Clark Papers. Clark Family Collection. Missouri Historical Society Archives.

Lewis and Clark compass negative #74-3510 (black and white). National Museum of American History. Smithsonian Institution. Behring Center.



On the Covers:
Map of the historic Lewis and Clark Trail as it appears today.
Lewis and Clark National Historic Trail (Park Map). Nov 2002. Harpers Ferry Center. National Park Service.

Back Cover:
Lewis and Clark at Three Forks (black and white photo). Harpers Ferry Center. National Park Service.
Lewis' drawing of an Indian canoe - Lewis and Clark Codex J:53 (canoe). American Philosophical Society.

# U.S. Department of the Interior

# Fiscal Year 2004 Annual Report on Performance and Accountability

*November 15, 2004*

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*An electronic version of this document is available on the Internet at **www.doi.gov/pfm/par2004**. The Department of the Interior's strategic and performance plans are available at **www.doi.gov/ppp/gpra**.*

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# Message from the Secretary

This is the second year of our four-year commemoration of the Lewis and Clark Journey—a journey that began in 1803 when President Thomas Jefferson instructed the two intrepid explorers to search out native cultures and natural features of the West. Much of the legacy of that great expedition was passed on to the Department of the Interior, and the continuation of that heritage is manifested in our mission. We remain the Nation's chief protector of unique natural, cultural, and historic resources. We offer millions of people access to exceptional recreational opportunities. We have overseen the mapping and surveying of our lands. The data collected are used to balance the use of critical resources in every facet of our domestic economy while we continue to protect our environment. We honor special trust commitments to American Indians and Alaska Natives, and provide guidance and assistance to affiliated Island Communities.

Throughout their courageous journey, Lewis and Clark used tools–sextants, octants, compasses, chronographs and telescopes–to guide them across an unexplored country and carry out President Jefferson's instructions. They carefully recorded their journey, discoveries, and map data–documenting their performance in fulfilling their mission. Today, at Interior we use very different tools to fulfill our mission; but, just like Lewis and Clark, we too document our performance. The publication of our Annual Performance and Accountability Report marks an opportunity to tell those we serve how well we have discharged our responsibilities to the American people, and how well we have embraced our Lewis and Clark legacy. In the course of compiling this report, we have reviewed our successes and shortcomings over the past year and gauged our performance against the targets set in our new FY 2003 - 2008 Strategic Plan. The results we have documented here will help us steer our course into the future.

Fulfilling our mission is an increasingly complex challenge, as this report illustrates. The financial and performance data we present are fundamentally complete and reliable as outlined in Office of Management and Budget guidance. This report also presents the status of the Department's compliance with certain legal and regulatory requirements. The annual assurance statement required by the Federal Managers' Financial Integrity Act (FMFIA) concludes that with the exception of the four pending FMFIA material weaknesses reported herein, the Department can provide reasonable assurance that its systems of management, accounting, and administrative controls, taken as a whole, meet the objectives specified in Section 2 of the FMFIA. These objectives are intended to ensure that (1) programs achieve their intended results; (2) resources are used consistent with agency mission; (3) programs and resources are protected from waste, fraud, and mismanagement; (4) laws and regulations are followed; and, (5) reliable and timely information is obtained, maintained, reported, and used for decision making. With regard to the ten FMFIA material weaknesses carried forward from FY 2003, seven of the ten (70%) were corrected or downgraded, resulting in the fewest pending material weaknesses reported for the Department since the inception of the FMFIA. The assurance statement also reports that the Department's Information Technology Security Program was significantly improved and it now substantially complies with the requirements of the Federal Information Security Management Act (FISMA). The Department, however, does not fully comply with certain other Federal financial management system requirements as specified in Section 4 of the FMFIA. Due to certain bureau-level deficiencies, which Interior is aggressively addressing, the Department as a whole does not fully comply.

FY 2004 was marked by significant accomplishments of the Department's 70,000 men and women who support our four areas of mission responsibility: resource protection, resource use, recreation, and serving communities.

- We welcomed 464 million visits from U.S. citizens and international visitors to our parks, refuges, hatcheries, and public lands, and celebrated the 100th anniversary of the National Wildlife Refuge System. Buoyed by the early success of our Take Pride in America partnership, volunteer efforts at our refuges, parks, recreation areas, and cultural and historic sites continued to grow, with some 200,000 men and women contributing about 8.9 million hours of their time.

- We restored 3,611,708 acres of land to achieve habitat conditions to support species conservation.

- We worked closely with partners, States, Tribes, and other Federal agencies so that 37.9% of species listed a decade or so ago as threatened or endangered are stabilizing or improving.

- We advanced the President's Energy Agenda, balancing our resource protection and recreation mandates with our economy's need for energy, minerals, water, forage, and forest resources. Interior facilities and lands provide 30% of the Nation's energy, including 50% of geothermal power, almost 35% of domestic oil, about 35% of natural gas, 43% of domestic coal, 17% of hydropower, and 12% of America's wind power in an environmentally sensitive manner.

- We have expanded the President's commitment to conservation through partnership, civic involvement, and economic incentives. A cornerstone of this effort is our cooperative conservation grant programs. These grants support local partnerships that conserve open spaces, involving citizens and communities in activities aimed at protecting and restoring habitats, wildlife, and plants.

- We launched our Water 2025 initiative, a collaborative long-range discussion with Federal, State, Tribal, and community organizations about how to meet water needs during possible long-term drought conditions through new technologies and new partnerships.

- We promoted the development of renewable energy resources such as hydropower, wind, geothermal, solar, and biomass on the public lands we manage. Such resources are used to generate nearly 9% of America's electricity. A significant part of our effort involves reducing permitting backlogs while providing careful oversight to ensure energy resources are developed in an environmentally sound and economically feasible manner. In FY 2004, we processed 26 wind energy rights-of-way. About 30 million tons of biomass were produced from lands managed by Interior's Bureau of Land Management (BLM), mostly due to a new stewardship contracting authority that now allows the BLM to dispose of forest thinnings.

- We expanded the outreach of our Healthy Forests Initiative; together with the U.S. Forest Service we have reduced hazardous fuels on over 11 million acres between FY 2001 and FY 2004. During that same period, we provided assistance to over 6,000 rural and volunteer fire departments. In FY 2004, we rehabilitated 573,475 acres of burned Interior lands.

- We celebrated 125 years of service by the United States Geological Survey (USGS), which serves the Nation with relevant and objective science. In FY 2004, USGS provided mineral information covering 2,401,329 square miles of the United States, conducted oil and gas resource assessments on five targeted basins, provided temporal and spatial monitoring data to meet land use planning and monitoring requirements for nearly 55 percent of the surface area of the Nation, and worked closely with more than 40 percent of America's communities to use our science to help them prepare for natural hazard emergencies.

- We created new jobs and improved educational opportunities on America's Indian reservations and made significant steps forward in our efforts to resolve the complicated Indian Trust issues, although much remains to be done.

FY 2004 was also marked by noteworthy management advances. We are continuing implementation of our Strategic Human Capital Management Plan and automating employee recruitment processes. Data obtained from our new Activity-Based Cost and Performance System will help us realign and restructure our workforce to reduce redundancy, track and analyze our mission performance, and provide the best value for services offered. We have also begun implementing the Financial and Business Management System, which will give us improved management information and standardize our business processes.

While we have much to celebrate, we still have opportunities for improvement. We must continue to find ways to achieve results for America in the face of increased urbanization, new law enforcement security challenges, public demand for improved service and accountability, and aging infrastructure. We must continue to ensure that the Indian Trust Funds activity and balances are recorded properly, accurately, and in a timely manner. In FY 2004, the Office of Inspector General once again identified our responsibilities to Indian and insular areas as a management challenge. While we have continued efforts to improve our approach for collecting and processing trust funds, we must also continue to implement and improve our Departmental trust policies, procedures, systems, and internal controls, and achieve the goals of the Department's Comprehensive Trust Management Plan.

We need to continue to correct remaining financial management weaknesses. While we received clean audit opinions for FY 2004, the auditors identified 15 material weaknesses of which 10 were carried over from FY 2003. During FY 2004, 7 material weaknesses were downgraded or corrected.

Learning from the achievements of the Bureau of Indian Affairs and the National Park Service, we must improve tracking of our maintenance projects and needs in our other bureaus. Our facilities professionals are using software tools and conducting annual condition assessments and comprehensive assessments to help us identify repair and maintenance priorities, and reduce our maintenance deficiencies.

Management demands are sure to increase in the years to come. Our response must be a strategic focus on efficient and careful use and management of our resources. Performance and financial management help us to create and sustain that focus, to see where we are succeeding and where we are falling short, and to adjust our tactics and processes accordingly. This outcome-based report documents our accountability to the taxpayer.

Lewis and Clark's expedition yielded information that fired the imagination of Americans and marked the beginning of even more discovery and exploration through westward expansion. Like Lewis and Clark, we are on a journey that shapes the future of our country. That future holds opportunity as well as challenge. We will continue to meet those challenges with performance improvement and a steady stream of innovation. We look forward to honoring our commitment to stewardship of our natural, cultural, recreational, and heritage resources for the benefit of Americans today and for generations to come.

Gale A. Norton

Gale A. Norton
Secretary of the Interior

*November 15, 2004*

# Message from the Chief Financial Officer

In FY 2004, the Department of the Interior continued on a journey toward management excellence—excellence defined by results. Our journey is self-propelled as each of us shares this aspiration for excellence. It is also driven by growing demands for greater transparency, accountability, effectiveness, and efficiency.

Progress for much of our journey toward management excellence is captured in the Department's FY 2004 Performance and Accountability Report (PAR). The PAR provides our most important financial and performance information for the Department of the Interior. It is also our principal publication and report to Congress and the American people on our stewardship, management, and leadership of the public funds entrusted to us.

I am pleased to report that for the eighth consecutive year we have received an unqualified ("clean") opinion on the Department's consolidated financial statements from our auditors. This is the best possible audit result and affirms our commitment to financial reporting excellence. Along with this opinion, the Department had other noteworthy accomplishments in FY 2004. The Department:

- Received the prestigious Association of Government Accountants' Certificate of Excellence in Accountability Reporting. This marks the third year in a row that the Department has been recognized for quality reporting.

- Commenced implementation of the unified Strategic Plan for the Department of the Interior. Nearly two years in the making, this plan replaced eight separate bureau plans. The new strategic plan integrates and aligns bureau responsibilities under four major mission goals—resource protection, resource use, recreation, and serving communities—and emphasizes results and performance management.

- Met or exceeded 63% of the 226 performance measures monitored from our new Strategic Plan. This is the first year we have reported on our performance against almost an entirely new set of performance measures. Last year we were able to meet or exceed 66% of the 323 performance measures monitored, but these measures from our previous Strategic Plan were less rigorous and often focused on outputs rather than outcomes.

- Implemented new human resource strategies and processes to align our talented workforce to meet new and expanding challenges. Our Human Capital Management Strategic Plan identified Indian trust management, wildland fire management, and law enforcement, including homeland security, as growing challenges.

- Initiated an Activity-Based Costing/Performance Management (ABC/PM) system throughout the Department. Interior's ABC/PM system includes 326 crosscutting work activities that bureaus and departmental offices either use directly, or use to capture costs associated with bureau/departmental work activities. ABC/PM provides program and financial managers with the information they need to allocate resources and monitor and evaluate performance effectively.

- Selected an enterprise-wide software and system integrator for the Department's Financial and Business Management System (FBMS). The FBMS will replace Interior's antiquated accounting and business systems and provide standard business practices supported by a single, integrated finance and business system. During FY 2004, over 500 Interior staff helped create a Departmental blueprint, a road map for implementing the FBMS. Bureaus will phase in deployment over several years with system completion anticipated by the end of 2008.

- Embarked on major efforts to inventory our facilities, assess their condition, and develop asset management systems. The Department manages nearly every type of facility found in America's towns and cities—we have wastewater treatment plants, dams, electric generating facilities, houses, hotels, campgrounds, roads, boat docks, stables, and even landfills. By knowing what we have and managing it well, we can better serve the public.

- Achieved cost savings and increased information technology (IT) security through better cross-departmental information technology management. Interior tested the industry-recognized top 20 categories of external vulnerabilities on an on-going basis and, in just 15 months, reduced its vulnerabilities from 957 per month to 0 in April 2004. IT system security accreditation and certifications soared from 21% in March 2004 to 98% by September 2004.

- Made advances in implementing the President's Management Agenda. Specifically, we improved our Executive Scorecard status rating in FY 2004 in the areas of Strategic Management of Human Capital and E-Government, as well as significantly improving our progress ratings for Budget and Performance Integration, E-Government, and Financial Performance.

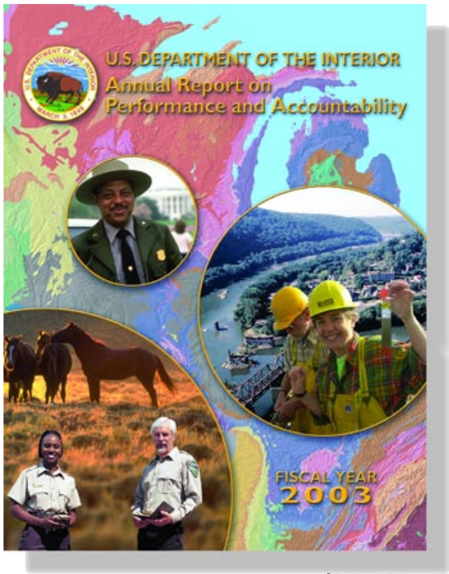
- Corrected or downgraded five out of six (83%) Federal Managers' Financial Integrity Act material weaknesses targeted for correction in FY 2004 as well as two additional material weaknesses, targeted for correction in FY 2005, ahead of schedule. We also corrected or downgraded 7 of 14 (50%) material weaknesses reported in the FY 2003 financial statement audit opinions which were targeted for correction in FY 2004 (three additional material weakenesses were not targeted for correction until FY 2005).

Sustaining our efforts toward management excellence requires the ongoing commitment and creativity of Interior's dedicated employees. In the upcoming year, mission, metrics, and management will continue to lie at the center of achieving results. We plan to better focus our "mission" by identifying clear goals and performance measures and aligning our workforce to better focus on those goals.

P. Lynn Scarlett
Chief Financial Officer

*November 15, 2004*

In Memory of
R. Schuyler Lesher

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## *Department of the Interior*

**In recognition of your outstanding efforts preparing DOI's Performance and Accountability Report for the fiscal year ended September 30, 2003.**

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

Bobby A. Derrick, CGFM
2004-2005 National President

# From Mission to Measurement: How to Read This Report

The Department of the Interior's fiscal year (FY) 2004 Annual Report on Performance and Accountability will reach many people who have specific needs for the information it contains. We have designed our presentation to serve multiple audiences, with varied approaches, points of view, and levels of interest.

Our report contains five parts. Combined, these five elements provide an accurate and thorough accounting of the Department's stewardship of our critical resources and services to the American people.

***Part 1: Management's Discussion and Analysis*** is a high-level overview of the Department's performance in FY 2004. It is designed for the public, legislators, and Federal, State, Tribal, and local governments.

After a brief discussion of Interior's mission, our new strategic plan, and the process we use to measure our performance, Part 1 summarizes our performance for the year by strategic mission area. Specific examples of the ways we have and have not met mission performance goals are offered, along with an overview of our key management challenges. Our scorecard, as measured by the President's Management Agenda (PMA), and a discussion of Interior's Program Assessment Rating Tool (PART) evaluations round out the performance summary.

Part 1 also discusses the Department's compliance with legal and regulatory requirements, including the Government Performance and Results Act (GPRA), the Federal Managers' Financial Integrity Act (FMFIA), the Federal Financial Management Improvement Act (FFMIA), the Inspector General Act Amendments (Audit Follow-up), the Improper Payments Information Act, the biennial review of user fees, and other key legal and regulatory requirements. An analysis of financial statement data concludes this portion of the report.

***Part 2: Performance Data and Analysis*** presents the Department's performance results in detail. This will be most useful to members and staff of Congress, program examiners with the Office of Management and Budget, analysts with the Office of Inspector General (OIG) and the Government

Accountability Office (GAO), and interested citizens and customers. With the Administration's emphasis on linking performance and results to individual performance plans, Part 2 is important for all DOI employees as well.

Part 2 charts all Interior targets as tied to our end-outcome goals and strategic mission areas. We have discontinued most of the measures used in our previous strategic plan, replacing them with improved, outcome-oriented measures. Because this is the first year that we have measured our performance using the new measures and targets from our FY 2003 - 2008 Strategic Plan, most of our performance data are baseline in nature with few trend data being available from prior years. Our presentation this year visually denotes whether we met a given performance target. Where applicable, we have explained why and to what extent our performance fell short of plans.

***Part 3: Financial Section***, along with Part 4, will interest anyone who is concerned with tracking the Department's financial performance. This section comprises consolidated financial statements, footnotes, deferred maintenance data, intra-governmental transaction disclosures, stewardship information, and other supplementary information.

***Part 4: Audit Section*** contains an assessment of the Department's consolidated financial statements by an independent certified public accounting firm. The objective of a financial statement audit is to determine whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes an assessment of the accounting principles used and significant estimates made by management, as well as an evaluation of the overall financial statement presentation.

This section also presents a summary of the most serious management challenges facing the Department. This assessment was prepared by the Office of Inspector General in accordance with the Reports Consolidation Act of 2000.

***Part 5: Appendices*** contains Improper Payments Information Act data, an organization chart for the Department, a glossary of acronyms, and a list of figures and charts.

This report was developed and prepared by Department of the Interior employees. The Department procured the services of a contractor to provide editorial assistance in drafting the GPRA discussion in the Management Discussion and Analysis section of the report.

We are interested in your feedback regarding the content of this report. Please feel free to e-mail your comments to us at *www.doi.gov/ppp/feedback.html* or write to us at the address listed on the "We'd Like to Hear From You" page at the end of the report.

# Part 1. Management's Discussion and Analysis

# Who We Are and What We Do

The Department of the Interior is the Nation's principal Federal conservation agency (*Figure 1-1*). We manage many of the Nation's special natural, cultural, and historic places, conserving lands and waters, protecting cultural legacies, and keeping alive the Nation's history. We manage parks, refuges, and recreation areas for public enjoyment (*Figure 1-2*). We manage and provide access to many of the Nation's natural resources, enhance scientific understanding, and fulfill America's trust and other responsibilities to native people. We provide hydropower to the western States. We deliver water to over 31 million citizens and manage over 2,800 dams and reservoirs throughout the Department. Our stewardship responsibilities extend from Mt. Rushmore to the Everglades and encompass petroglyphs, pioneer trails, and historic museum pieces ranging from airplanes to clothing. Our mission, vision, and key business principles are summarized in *Figure 1-3*.

The Department operates at 2,400 locations across the United States, Puerto Rico, and U.S. territories. We have a full-time workforce of more than 70,000 employees and 200,000 volunteers (*Figure 1-4*). For more information about our varied responsibilities, see *Figure 1-5*, Interior by the Numbers.

FIGURE 1-1

**Bureau Missions**

**BUREAU OF LAND MANAGEMENT (BLM)**

**Mission:** To sustain the health, diversity and productivity of the public lands for the use and enjoyment of present and future generations.

**MINERALS MANAGEMENT SERVICE (MMS)**

**Mission:** The Minerals Management Service manages the mineral resources on the Outer Continental Shelf and Federal and Indian mineral revenues to enhance public and trust benefit, promote responsible use and realize fair value.

**OFFICE OF SURFACE MINING (OSM)**

**Mission:** Ensure that coal mines are operated in a manner that protects citizens and the environment during mining and assures that the land is restored to beneficial use following mining, and mitigate the effects of past mining by aggressively pursuing reclamation of abandoned coal mine lands.

**BUREAU OF RECLAMATION (BOR)**

**Mission:** Manage, develop, and protect water and related resources in an environmentally and economically sound manner in the interest of the American public.

**U.S. GEOLOGICAL SURVEY (USGS)**

**Mission:** Provide the Nation with reliable, unbiased information to describe and understand the earth; minimize loss of life and property from natural disasters; manage water, biological, energy and mineral resources; and enhance and protect our quality of life.

**FISH AND WILDLIFE SERVICE (FWS)**

**Mission:** Conserve, protect, and enhance fish and wildlife and their habitats for the continuing benefit of the American people.

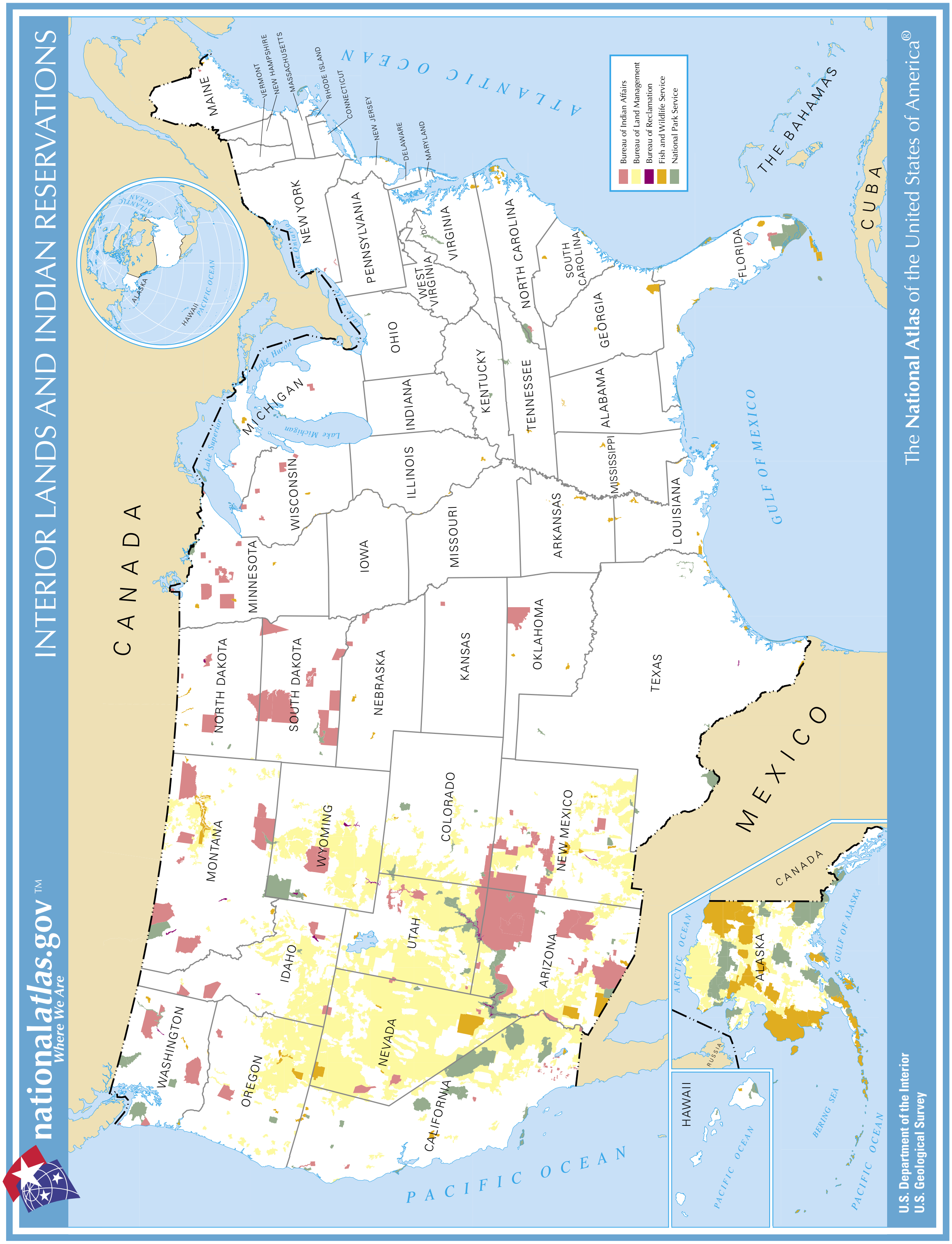
**NATIONAL PARK SERVICE (NPS)**

**Mission:** Preserve unimpaired the natural and cultural resources and values of the national park system for the enjoyment, education, and inspiration of this and future generations. The Park Service cooperates with partners to extend the benefits of natural and cultural resource conservation and outdoor recreation throughout this country and the world.

**BUREAU OF INDIAN AFFAIRS (BIA)**

**Mission:** Fulfill its trust responsibilities and promote self-determination on behalf of Tribal governments, American Indians and Alaska Natives.

FIGURE 1-2




Note - Land areas less than 23,000 acres do not show on the map due to the map scale.

FIGURE 1-3

**Interior's Mission, Vision, and Key Business Principles**

## 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.

## Vision

Communication, consultation, and cooperation all in the service of conservation.

## Key Business Principles

*Value* *Accountability* *Modernization* *Integration*

FIGURE 1-4

**Interior's Workforce (Full-Time Equivalents)**

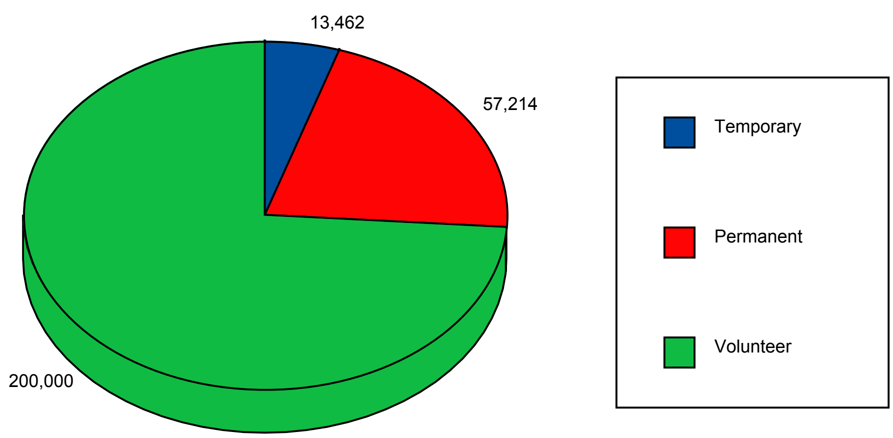


FIGURE 1-5

# Your Department of the Interior
# By the Numbers

The Department of the Interior was created in 1849, just 43 years after the Lewis and Clark expedition. Since that time, the Department has become steward for:

**Land**

- 504 million acres of surface land, including 55.7 million acres that belong to American Indians and Alaska Natives
- 700 million acres of mineral estate underlying Federal and other land managed by Interior through leasing

**Water**

- 1.76 billion acres of the Outer Continental Shelf
- 348 reservoirs
- 2,500 dams
- 58 Hydroelectric Power Plants

**Recreation Opportunities Through:**

- 388 units in the National Park System
- 544 units in the National Wildlife Refuge System *
- 291 DOI managed Wilderness Areas
- 88 National Monuments
- 45 National Natural Landmarks
- 441 miles of BLM National Recreation Trails

**Wildlife**

- 86 National Fish Hatcheries
- 206 Wild Horse and Burro Herd Management Areas
- 1,264 U.S. Endangered Species

* As of October 30, 2004, an additional refuge had been added to the system, bringing the total to 545.

# Making Performance Measurements Matter: Our Strategic Planning Framework

This year's Performance and Accountability Report (PAR) is a significant milestone in the development of the Department's performance measurements. For the first time since the inception of the Government Performance and Results Act (GPRA) in 1993, we have looked at the Department as a whole—creating a new tool that integrates and aligns bureau responsibilities. Focused on results, the PAR measures outcomes (i.e., how we are making a difference and the results of our efforts), not outputs (i.e., our products and deliverables), and emphasizes accountability.

In the past, the Department gathered strategic plans, annual plans, and annual performance reports from individual bureaus, then bundled and submitted them collectively with an overview providing the Departmental perspective. This approach reinforced the historic evolution of the Department as the public sector equivalent to a holding company, with compartmentalized bureaus working separately, without cooperative planning, shared responsibilities, or common measurements.

The Department's 2003-2008 Strategic Plan was designed to help transcend that compartmentalization. Introduced in September 2003, it presents the Department from an enterprise perspective, as one entity, with a single over-arching plan driven by cross-cutting programs and multi-bureau and multi-agency goals and objectives.

The 2004 Performance and Accountability Report is our first publicly documented analysis of how we are performing against the targets set by the new strategic plan. The results it measures will become the baseline and then the coordinates by which we steer our course into the future. Interior's mission has been organized into four areas of responsibility: Resource Protection, Resource Use, Recreation, and Serving Communities (*Figure 1-6*).

Each area has its own strategic goal, supported by several related end-outcome goals (i.e., the desired consequences of our actions). Those end-outcome goals, in turn, guide a collection of related programs and services administered by one or more of the Department's bureaus and offices. Likewise, each goal is supported by a broad range of quantitative performance measures—intermediate outcome goals and performance targets that step down to the bureau, program, and individual employee level.

We have also changed what we measure. We are now tracking the cost of outcomes, program by program—the cost of operating a wildlife refuge, for example, or removing invasive plants from an acre of land. With numbers that tie dollars to measurable outcomes, managers can link budget spending with performance results, as envisioned by the President's Management Agenda. The result is a better way to identify superior performance, focus attention on achievement and innovation, and move quickly to spread best practices throughout the organization.

FIGURE 1-6


Department of the Interior
MISSION AREAS & OUTCOME GOALS
PARTNERSHIPS
MANAGEMENT
SCIENCE
Serving Communities
• Protect Lives, Resources and Property
• Advance Knowledge Through Scientific Leadership and Inform Decisions Through the Applications of Science
• Fulfill Indian Fiduciary Trust Responsibilities
• Advance Quality Communities for Tribes and Alaska Natives
• Increase Economic Self-Sufficiency of Insular Areas
Recreation
• Provide for a Quality Recreation Experience, Including Access and Enjoyment of Natural and Cultural Resources on DOI Managed and Partnered Lands and Waters
• Provide for and Receive Fair Value in Recreation
Resource Use
• Manage or Influence Resource Use to Enhance Public Benefit, Promote Responsible Use, and Ensure Optimal Value
• Deliver Water and Generate Hydropower, Consistent with Applicable Federal and State Law, in an Environmentally Responsible and Cost Efficient Manner
Resource Protection
• Improve the Health of Watersheds, Landscapes, and Marine Resources that are DOI Managed or Influenced in a Manner Consistent with Obligations Regarding the Allocation and Use of Water
• Sustain Biological Communities on DOI Managed and Influenced Lands and Waters in a Manner Consistent with Obligations Regarding the Allocation and Use of Water
• Protect Cultural and Natural Heritage Resources

# How We Performed in FY 2004

The Department met or exceeded 63% of the 226 performance measures monitored during FY 2004 (*Figure 1-7 and Table 1-1*). For a full report of each measure, see Part 2: Performance Data and Analysis. In FY 2004, 22% of the measures were not met and 15% were not reportable because data were insufficient to generate or estimate performance. Performance information for these measures will be provided no later than our FY 2005 Performance and Accountability Report.

A principal reason that performance was not better is that most of the Department's measures were new for FY 2004. Consequently, historical data to support targeting was only rarely available. To our credit, we chose not to set exceptionally conservative targets despite this uncertainty. The value of the data collected for the FY 2004 report will grow over the remaining years of our FY 2003–2008 Strategic Plan. FY 2004's results will become a point from which we can begin to show performance trends over a longer term, while identifying the factors that impact our mission performance.

FIGURE 1-7

**Performance Measures Met or Exceeded**

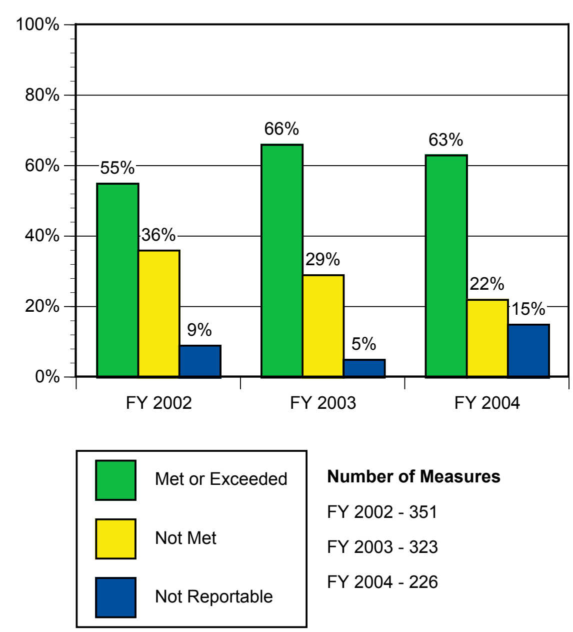


TABLE 1-1

| Interior's FY 2004 Performance Measure Scorecard | | | | | |
|---|---|---|---|---|---|
| GPRA Program Activity | Number of Measures | Met Goal | Did Not Meet Goal | No Report | Percent Exceeding or Meeting Goal |
| Mission Area 1 | 48 | 25 | 14 | 9 | 52.0% |
| Mission Area 2 | 41 | 29 | 10 | 2 | 70.7% |
| Mission Area 3 | 16 | 9 | 3 | 4 | 56.0% |
| Mission Area 4 | 86 | 59 | 17 | 10 | 68.6% |
| Strategic Goal | 35 | 20 | 7 | 8 | 57.0% |

## Program Assessment Rating Tool (PART)

Since FY 2002, the Administration has reviewed programs using a government-wide evaluation approach called the Program Assessment Rating Tool, or PART. PART is a standardized and systematic process by which OMB evaluates program performance against a standard set of criteria. PART results will be used to affirm programs that are performing well and to improve underachieving programs through the development and implementation of program-specific recommendations.

Like all new management tools, PART implementation is neither quick nor easy—and its utility will increase as the Administration gains experience with the tool. But it is helping Interior take a focused look at its programs. For example, the PART process helped Interior identify a need for greater program clarity to more effectively and efficiently address rural water requirements. As a consequence, the Administration proposed legislative changes to create a more coherent program within the Bureau of Reclamation relating to the construction of rural water projects.

Fifteen Interior programs were assessed using the PART process for Budget Year 2004. These assessments led to several recommendations for improvement. In response, Interior program managers developed corrective action plans to improve the effectiveness of these assessed programs. Key executives are actively monitoring progress toward implementing these actions using a web-enabled tracking system. Part 2 of this report provides a list of the programs assessed and the actions taken to date in response to the PART evaluation process.

## Performance Scorecard and the President's Management Agenda (PMA)

In FY 2004 Interior continued to improve in areas targeted by the President's Management Agenda (PMA). The PMA focuses on improving Federal management and program performance. Organized around five mutually reinforcing components, the PMA applies to every department and agency. The five elements are:

- Strategic Management of Human Capital
- Competitive Sourcing
- Improved Financial Performance
- Expanded Electronic Government (E-Government)
- Budget and Performance Integration

These components share a common goal of enhancing citizen-centered governance focused on delivering results that matter to the American public. OMB uses what is called an Executive Branch Management Scorecard to monitor the status and progress of agencies toward attaining PMA goals. Color-coded ratings (red, yellow, and green) are used to visually depict agency ratings.

The Executive Branch Scorecard for the fiscal year ending September 30, 2004, showed Interior's progress as green in four areas and yellow in the other two (*Table 1-2*). Overall, Interior has moved from red to yellow in performance status in three areas, while remaining red in two areas. We improved our status rating in FY 2004 in the areas of Strategic Management of Human Capital and E-Government (moving from a red to a yellow rating). However, we still have much work to do in the areas of Budget and Performance Integration and Financial Performance (red rating for FY 2004 and FY 2003). Interior's progress ratings for Budget and Performance Integration, E-Government, and Financial Performance was upgraded to green, although Competitive Sourcing dropped back to yellow. In FY 2004, Interior took on an additional initiative, Real Property, in an effort to improve how it manages its physical assets. While it scored a red rating in this category, it has shown progress during the year (yellow). *Table 1-3* summarizes benefits Interior expects to derive by continuing and completing goals related to the PMA.

TABLE 1-2

**Interior's FY 2004 and FY 2003 Scorecards**

| | September 30, 2004 | | September 30, 2003 | |
|---|---|---|---|---|
| | Status | Progress | Status | Progress |
| *Human Capital* | Yellow | Green | Red | Green |
| *Competitive Sourcing* | Yellow | Yellow | Yellow | Green |
| *Financial Performance* | Red | Green | Red | Yellow |
| *E-Government* | Yellow | Green | Red | Yellow |
| *Budget and Performance Integration* | Red | Green | Red | Yellow |
| *Real Property* | Red | Yellow | N/A | N/A |

TABLE 1-3

**Interior Looks Forward**

| By continuing and completing goals related to the PMA areas, we will . . . | |
|---|---|
| ***Strategic Human Capital*** | Know which types of jobs with what sort of skills we need for the future in the most challenging areas so that we can target recruitment efforts and make the most intelligent use of contractors. |
| ***Competitive Sourcing*** | Save money to reinvest in our mission by routinely challenging ourselves to re-examine how we get the job done, and looking for ways to operate more efficiently and make better use of partners' capabilities. |
| ***Financial Performance*** | Have a modern financial management system that will allow us to enter data once into one system, thereby saving time on administrative chores that can be spent instead on accomplishing our mission, and reduce errors due to several manual data entries. |
| ***E-Government*** | Save millions of dollars through volume Information Technology (IT) purchases and by adopting Department-wide modern systems, freeing up funds to invest in on-the-ground mission delivery.<br><br>Increasingly use technology to handle routine and repetitive tasks like taking campground reservations, so the Department will have more time to do the more challenging work that draws on our expertise and taps our enthusiasm.<br><br>Have secure IT systems so that our work and service to the public will not be interrupted by security breaches.<br><br>Provide readily available information for management decisions. |
| ***Budget and Performance Integration*** | Have current and easy-to-use financial and performance information available to all employees, so we can more easily learn from each other's best practices, as well as anticipate and resolve problems.<br><br>Be better able to make budget decisions based on comparing performance of related programs. |
| ***Real Property*** | Have developed the first Department Asset Management Plan, so we can make more intelligent choices about the investment in and use of our assets. |

## Major Management Challenges

Each year, the Inspector General and GAO identify what they consider to be the major management challenges facing the Department. *Table 1-21* in Part 1, Compliance with Legal and Regulatory Requirements section, summarizes these and provides actions taken to address the challenges to date. More in-depth discussion of the OIG's Top Management Challenges can be found in Part 4, Top Management Challenges for the Department of the Interior section. Many of these challenges remain the same as in past years. They include:

***1. Financial Management.*** Although the Department has made some progress, internal control weaknesses continue to hinder our management systems. Interior has several initiatives underway aimed at improving financial management, including: the Financial and Business Management System (FBMS), Performance and Budget Integration, and Activity-Based Costing/ Performance Management (ABC/PM). While these initiatives should upgrade financial management in the future, they are placing increased demands on already stretched financial resources.

***2. Information Technology.*** The Department has made information technology (IT) security maintenance a high priority for all bureaus. Interior has significantly improved its information security program, as demonstrated by the increase in the percentage of systems that were certified and accredited from 6 percent in 2003 to more than 80 percent in 2004. To foster this effort, Interior has invested more than $100 million in its security program over the past 3 years. Based on these efforts, the Inspector General and the Department have concluded that DOI's information security program generally meets the requirements of the Federal Information Security Management Act (FISMA). DOI will continue to make improvements to further strengthen IT security and ensure consistent implementation by all bureaus and offices.

***3. Health, Safety and Emergency Management.*** Interior has a responsibility to protect the millions of visitors to its recreation sites and public lands. Likewise, it must protect its facilities and property from both internal and external threats. Interior continues to be challenged in updating its mission and priorities to reflect its new security responsibilities and commitment.

***4. Maintenance of Facilities.*** Interior needs to more aggressively address its deferred maintenance backlog. DOI has embarked on a comprehensive approach to maintenance management that includes implementation of a comprehensive maintenance management system to effectively plan, prioritize, conduct, and track the condition of maintenance of facilities. It has adopted a computer-based facilities maintenance management system, which it tested in FY 2002, and has been assessing the condition of facilities. It has developed a five-year maintenance plan, and established goals to reduce the deferred maintenance backlog. However, maintenance remains a material weakness and an enormous challenge to be managed.

***5. Responsibility to Indians and Insular Areas.*** Interior needs to address persistent management problems in programs for Indians and island communities. Despite DOI's efforts, inadequate information systems and controls prevent it from completely ensuring that trust and program funds are properly managed. Interior managers are taking steps to improve, including replacing information technology legacy systems and implementing enhanced management controls to ensure proper accounting of trust funds.

***6. Resource Protection and Restoration.*** Interior resource managers face the challenge of balancing the competing interests for use of the Nation's natural resources. Interior has made progress in this area, particularly toward restoring significant national ecosystems to health by: (1) addressing the growing wildland fire threat to communities and resources caused by excessive buildup of fuels in forested ecosystems; (2) restoring the South Florida ecosystem, including the Everglades; and, (3) controlling and eradicating invasive non-native species.

***7. Revenue Collections.*** The largest revenue collector in DOI is the Minerals Management Service (MMS). The amount of collections and the significant potential for underpayments make revenue collections a continued management challenge for the Department. MMS has implemented a comprehensive system and other program improvements to address concerns with its entire Minerals Revenue Management Program.

***8. Procurement, Contracts and Grants.*** Interior spends substantial resources each year in contracting for goods and services, and in providing Federal assistance to States and American Indian organizations. Managing procurement activities continues to be a challenge requiring constant attention. Interior has developed and implemented several comprehensive plans to continue to address deficiencies in specific areas.

# Mission Area 1: Resource Protection–Protect the Nation's Natural, Cultural, and Heritage Resources

- **End Outcome 1** — Improve the Health of Watersheds, Landscapes, and Marine Resources that are DOI Managed or Influenced in a Manner Consistent with Obligations Regarding the Allocation and Use of Water
- **End Outcome 2** — Sustain Biological Communities on DOI Managed and Influenced Lands and Waters in a Manner Consistent with Obligations Regarding the Allocation and Use of Water
- **End Outcome 3** — Protect Cultural and Natural Heritage Resources

As the Nation's principal conservation agency, Interior is the custodian of many of America's natural and cultural resources—conserving Federally managed lands and waters, protecting fish and wildlife, and preserving public lands for future generations to enjoy. We fulfill our resource protection mandate in several ways. We administer programs on thousands of upland, wetland, and aquatic parcels within our jurisdiction. We protect thousands of native plant and animal species, including 1,264 with special status under the Endangered Species Act. We serve as guardians of the Nation's cultural heritage, with assets ranging from Native American archeological and cultural sites to national icons such as the Statue of Liberty and the U.S.S. Arizona Memorial.

### Recognizing Good Neighbors in Reclamation

Since passage of the Surface Mining Law in 1977, land reclamation has become a built-in component of surface coal mining in the United States. Interior's Office of Surface Mining initiated its annual Excellence in Surface Coal Mining Reclamation Awards in 1986 to spotlight the people and organizations behind some of the most outstanding achievements in environmentally sound surface mining and land reclamation, and to share experience gained from completing such exemplary reclamation. More than 170 awards have been conferred upon various mining companies and individuals since the award program's initiation about 18 years ago.

In 2004, OSM's "Best of the Best" Award in Excellence in Surface Coal Mining Reclamation went to the San Juan Mine in Waterflow, New Mexico. The team at the San Juan Mine exemplified award-winning reclamation; grading techniques and channel design used at the mine represent some of the most innovative reclamation technology that has been developed for western coal mining during the past 25 years. The reclamation team created slopes with the same characteristics as undisturbed lands. Their design process is based on fluvial geomorphic principles, so the reclaimed topography is more stable, diverse, and resistant to damage from flash flooding than traditional reclaimed land in an arid environment.

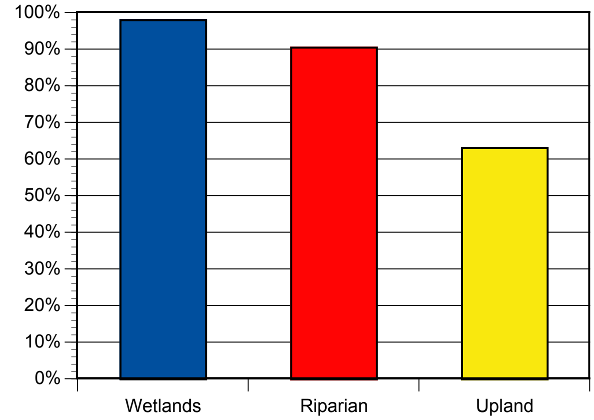
## End Outcome Goal 1: Improve the Health of Watersheds, Landscapes, and Marine Resources

Science is key to making decisions on how best to conserve the Nation's natural resources. Science conducted by the U.S. Geological Survey (USGS) focuses on understanding, modeling, and predicting how multiple forces affect natural systems to enable land managers to evaluate the resource and environmental consequences of management choices under various scenarios. Scientists at Interior's National Park Service (NPS), Bureau of Land Management (BLM), U.S. Fish and Wildlife Service (FWS), and Bureau of Indian Affairs (BIA) actively monitor the health of plants and animals and the quality of water and air on Interior-managed public and Tribal lands to identify factors impacting our natural resources. The NPS Natural Resource Challenge, for example, focuses on monitoring conditions within national park boundaries. The initiative includes vital signs and water quality monitoring. Recurring monitoring enables BLM to assess whether land use plans and management decisions are having their intended effect. Data collected by the FWS's Migratory Bird Survey Program are used by scientists to understand how bird populations respond to annual and long-term variation in weather and climate and the importance of habitat integrity to maintaining healthy bird populations. The USGS's Fire Science Research Program focuses on determining the role of fire in the restoration of non-forested ecosystems, the role of fire in the control and spread of invasive plants, and the effectiveness of fire/fuel treatments to reduce fire hazards. All of these efforts have helped Interior realize land and water restoration and protection efforts (*Figure 1-8*).

Our resource protection mandate is not limited to Federal lands. We manage conservation activities on non-Federal lands, particularly lands impacted by past mining. For example, within the last few years, we have sealed more than 27,000 abandoned mine portals and shafts and reclaimed more than 190,000 acres of abandoned coal mine land. In FY 2004, preliminary data suggest that we improved 12 stream-miles compromised by past surface coal mining against a target of 150 miles, but these data have yet to be verified.

FIGURE 1-8

**Percent of Targeted Wetlands, Riparian, and Upland Areas Restored in FY 2004**




### 500 Babies Offer Hope for the Future of Their Species

About 500 hatchlings of the world's most endangered sea turtles were released into the waters of Padre Island National Seashore in July 2004. The release was the exciting culmination of months of work between the U.S. Fish and Wildlife Service, the National Park Service, the Texas Parks and Wildlife Department, and the National Marine Fisheries Service, with funding in part from Unilever and the National Park Foundation to help save Kemp's ridley sea turtles from extinction—a successful program for over two decades. A record 40 Kemp's ridley nests were located on the Texas coast during the season. Eggs from 32 of the 40 nests were transported to an incubation facility at Padre Island NS for protected care and monitoring. The successful release of hatchlings from the tenderly incubated eggs adds substantially to chances for long-term survival of the Kemp's ridley at the Padre Island National Seashore.

## End Outcome Goal 2: Sustain Biological Communities

Part of our conservation mission includes discharging specific duties under the Endangered Species Act. We strive to recover species to healthy, self-sustaining levels, and protect species that are candidates for listing.

The Candidate Conservation Program is an integral component of endangered species management. This program conserves species on the brink of becoming listed as threatened or endangered. By working with private landowners, Tribes, State fish and wildlife agencies, and other Federal agencies, Interior's employees partner with others through the Candidate Conservation Program in a voluntary manner to stave off species extinction while promoting common sense, multiple-use land management. The Candidate Conservation Program has two key components: assessments of declining species and preventing the need to list those species. In FY 2004, Interior reported three new Candidate Conservation Agreements (CCAs) and three new Candidate Conservation Agreements with Assurances (CCAAs) were established to protect candidate and other at-risk species. Since inception of the program, Interior has signed and completed 108 CCAs and 8 CCAAs. An additional 37 CCAs and 35 CCAAs are ongoing. Many of these agreements have successfully contributed to removing threats, thus reducing or avoiding the need for listing. We have made substantial progress with a number of species, and as individual activities of the agreements are implemented over the coming years, we may be able to determine that listing several species covered by these agreements is unnecessary. The three species for which we determined that listing was unnecessary in FY 2004 due entirely or substantially to conservation efforts were slickspot peppergrass, the Camp Shelby burrowing crayfish, and the Holsinger's cave beetle.

Some invasive species threaten the ecological and economic health of the Nation. These alien species of plants and animals often invade native species habitat, choking out the endemic flora and fauna and competing for resources. The uncontrolled spread of some invasive species can lead to a loss of native species and upset the ecological balance. Controlling these invaders is difficult and expensive. Interior is working closely with other Federal and State agencies to detect, predict the spread of, and prevent the establishment of invasive species before they become nuisances. In FY 2004, Interior restored an estimated 3,611,708 acres of land and 1,145 miles of stream- and shore-line to achieve habitat conditions to support species conservation against a target of 3,978,995 acres of land, and 841 stream/shoreline miles. We are partnering with private landowners and local communities to control established species such as tamarisk in the Southwest, the brown tree snake on Guam, and Asian carp in the Mississippi River Basin. These partnerships have achieved habitat/biological community goals for an estimated 47,022 acres of land through voluntary agreements and have protected habitat on an estimated 8,754,360 acres of landscapes and watersheds. In FY 2004, Interior experienced an estimated 8.7% change, against a target of 6.5%, from its baseline in the number of acres infested with invasive plant species. While we planned to establish a baseline to help us measure our

### Team Tamarisk: Fighting a Nasty Weed

An inclusive alliance of cooperating agencies, Tribes, Federal and State organizations, and individuals across the West have banded together to form Team Tamarisk, a group devoted to controlling tamarisk and associated non-native invasive plants. Tamarisk is an especially tenacious, undesirable invasive shrub that can cause a wide variety of economic, environmental, and public health and safety problems. It annually consumes an extra 2-3 million acre-feet of water out of western rivers in comparison to the consumption of native vegetation, stealing this precious resource from fish, wildlife, farmers, and faucets in western cities. It also burns even when it is green, making it a year-round fire hazard. Team Tamarisk is fighting the tamarisk wars head-on, developing a strategic approach to eliminate this nuisance. At a landmark conference sponsored in March 2004 by the Departments of the Interior and Agriculture, the National Invasive Species Council, the National Association of Counties, and numerous other organizations and agencies, more than 400 individuals came together to develop a set of principles to help guide tamarisk control work. We believe that by working together, we can make progress in addressing this invasive species challenge and win the tamarisk war.

progress in controlling the number of invasive animal populations, we were unable to establish that baseline due to delays in establishing reporting databases and systems. Final data are expected in late December 2004. Overall, our efforts are helping to reestablish habitat conditions that support native species conservation.

## End Outcome Goal 3: Protect Cultural and Natural Heritage Resources

Interior's historic preservation responsibilities include maintaining and updating inventories of historic and prehistoric districts, structures, buildings, sites, landscapes, and objects on lands owned or controlled by the Department. Interior also partners with Tribes and other government agencies as well as non-profit groups to preserve historic structures not managed by Interior. Interior strives to increase the number of historic structures contained on the List of Classified Structures (LCS) that are in "good" condition. The LCS is the primary database containing condition information on national park historic structures. Structures on the LCS are on, or are eligible for, the National Register of Historic Places, or are otherwise treated as cultural resources. The condition of these historic structures is listed as good, fair, or poor. Maintaining these structures in good condition meets requirements of the National Historic Preservation Act and is also a responsibility of the Department as part of its commitment to maintain the integrity of cultural resources it manages.

We are making progress. In FY 2004, 64.5% of cultural properties in DOI's inventory were in good condition, against a target of 62.1%. Efforts are underway to establish a baseline against which we can measure progress toward the percentage of collections designated as Indian natural resource trust assets (defined to consist of objects, works of art, and historic documents representing the fields of archeology, art, geology, biology, paleontology, and ethnology) contained in our inventory that are in good condition. As of the end of FY 2004, we have not yet identified the eligible properties in the BIA inventories, but a system has been developed that will enable us to identify and evaulate the condition of these properties over the next two years, at which time we will be able to establish the baseline.

### Preserving Memories and Historic Treasures: Marian Anderson's Piano

On February 24, 2004, Secretary of the Interior Gale A. Norton conferred a special historical designation on the Steinway Grand Concert Piano used to accompany the prominent African American opera singer, Marian Anderson. The piano was purchased in 1937 while Harold L. Ickes served as Secretary of the Interior and Franklin D. Roosevelt was President. In 1939, after Marian Anderson was denied the opportunity to sing at Constitution Hall (due to a clause in all contracts restricting the hall to "a concert by white artists only, and for no other purpose"), Secretary Ickes arranged for her to perform at the Lincoln Memorial and at the Interior Department. In 1943, the piano again accompanied Ms. Anderson when she performed at an Interior ceremony dedicating a mural depicting her performance at the Lincoln Memorial.

"African American history is a book filled with many unexplored chapters," Norton said at the 2004 event, at which she was joined by Ken Saliba, Vice President of Steinway and Sons Piano Company; Ms. Cynthia Hoover, Curator of Historical Instruments of the Smithsonian Museum; and Howard University officials. "These important chapters illustrate the contributions African Americans made in shaping this Nation. Let us appreciate this opportunity and build on it for the future."

TABLE 1-4

| Mission Area 1: Resource Protection<br>Performance and Resource Scorecard | | | | |
|---|---|---|---|---|
| **End Outcome Goal** | **Number of Measures Met** | **Number of Unmet Measures** | **Number of Measures Containing Estimated or No Reports** | **Costs (in millions)** |
| Goal #1: Improve the Health of Watersheds, Landscapes, and Marine Resources that are DOI Managed or Influenced in a Manner Consistent with Obligations Regarding the Allocation and Use of Water | 14 | 7 | 5 | $911 |
| Goal #2: Sustain Biological Communities on DOI Managed and Influenced Lands and Waters in a Manner Consistent with Obligations Regarding the Allocation and Use of Water | 7 | 4 | 2 | $1,670 |
| Goal #3: Protect Cultural and Natural Heritage Resources | 4 | 3 | 2 | $466 |
| Total | 25 | 14 | 9 | $3,047 |
| Percentage (Total of 48 Measures) | 52% | 29% | 19% | |

# Mission Area 2: Resource Use–Manage Resources to Promote Responsible Use and Sustain a Dynamic Economy

- **End Outcome 1** — **Energy–Manage or Influence Resource Use to Enhance Public Benefit, Promote Responsible Use, and Ensure Optimal Value**
- **End Outcome 2** — **Non-Energy Minerals–Manage or Influence Resource Use to Enhance Public Benefit, Promote Responsible Use, and Ensure Optimal Value**
- **End Outcome 3** — **Forage–Manage or Influence Resource Use to Enhance Public Benefit, Promote Responsible Use, and Ensure Optimal Value**
- **End Outcome 4** — **Forest Products–Manage or Influence Resource Use to Enhance Public Benefit, Promote Responsible Use, and Ensure Optimal Value**
- **End Outcome 5** — **Water–Deliver Water Consistent with Applicable State and Federal Law, in an Environmentally Responsible and Cost-Efficient Manner**
- **End Outcome 6** — **Hydropower–Generate Hydropower Consistent with Applicable Federal and State Law, in an Environmentally Responsible and Cost-Efficient Manner**

Managing the vast resources of America's public lands has been a core Interior responsibility since the Department was founded in 1849. Over the past 156 years, that management task has grown more complex than it was in the 19th Century. Today, we continue to provide access to the resources needed by the Nation, but our challenge is to determine where, when, and how to provide access to the renewable and non-renewable economic resources of these public lands and waters.

Lands and water managed by Interior produce resources critical to the Nation's economic health. Our multiple-use lands, water, and offshore areas supply about 30% of the Nation's domestic energy production, including 34.5% of the natural gas, 34.7% of the oil, 43% of the coal, 17% of the hydropower, and 50% of the geothermal energy. Making responsible resource use decisions demands that we balance the economy's call for energy, minerals, water, forage, and forest resources with our resource protection and recreation mandates. Interior conducts resource and environmental assessments to make informed decisions.

## End Outcome Goals 1, 2, and 3: Managing Energy and Non-Energy Minerals and Forage Resources

Science is a key foundation upon which we base management decisions that promote natural resource use to sustain a dynamic economy while maintaining healthy lands and waters. Interior scientists, including geologists, engineers, and researchers at USGS, provide the critical information needed to make informed natural resource use decisions. In FY 2004, the USGS helped support non-energy mineral resource use decisions by providing information covering 2,401,329 average square miles of the United States. This information includes geologic maps and digital data sets, mineral locality information, and a web-based geochemical database. The geochemical database alone includes data for approximately 71% of the land area of the United States, including sites in all 50 States.  USGS also conducted five oil and gas resource assessments (against a goal of 5) on targeted basins to support management decisions.

One hundred percent of its studies were validated through appropriate peer or independent reviews.

Interior also manages leases and mineral operations covering more than 700 million acres of mineral estate underlying Federal and other onshore surface ownerships, and nearly 1.8 billion acres of the Outer Continental Shelf (OCS). Annual revenues from resource use activities have reached as high as $11 billion. In FY 2004, these revenues amounted to approximately $10 billion. These revenues are shared, in part, with States, Tribes, and communities (*Figure 1-9*). These revenues play an empowering role in local economies. Some of them also become a part of the Historic Preservation Fund and the Land & Water Conservation Fund, helping to protect natural, cultural, recreational, and heritage resources. Interior's BLM and Minerals Management Service (MMS) have specific responsibilities as stewards of energy minerals resources on Interior-managed lands. In FY 2004, revenues collected from the offshore mineral leases administered by MMS amounted to approximately $6.3 billion. BLM collected more than $700 million in revenue from energy, minerals, grazing, land sales, and other leases it administers. In FY 2004, MMS reported that royalties received for offshore and onshore mineral leases comprised 96% of predicted revenues (against a target of 98% for 2001), based on market indicators in the production year. It reported that it disbursed 95.5% of its revenues on a timely basis, against a target of 94%, compared with 92.6% in FY 2003 and 80% in FY 2002.

Implementing the President's National Energy Plan, which focuses in part on producing energy on Federal lands while maintaining environmental protections, is a priority of the Department. In FY 2004, Interior met its performance target and held four offshore sales, consistent with the Secretary's Five-Year Program for supporting the National Energy Plan. Offshore sales resulted in $544 million in high bids on 922 tracts.

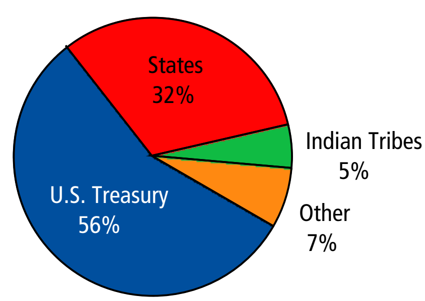
### Walk a Mile in My Boots

The FWS and the National Cattlemen's Beef Association (NCBA) have launched a cooperative exchange program between FWS employees and NCBA representatives that provides an opportunity to learn about each others' respective lifestyles and perspectives. Through the "Walk a Mile in My Boots" initiative, ranchers and FWS employees are learning what it is like to be on the "other side of the fence"—often quite literally. Ranchers and FWS employees sign up for an exchange that lasts typically between 2 and 10 days. During that time, ranchers shadow FWS biologists, managers, and educators and attend government meetings while visiting refuges and offices. FWS employees are paired with cattlemen, learning what it is like to run a ranch and participating in a range of activities from mending fences to moving cattle.

Since the program's launch in the summer of 2003, exchanges have taken place in Texas, Idaho, Montana, and Wyoming. Those participating have characterized the program as a "rewarding experience."

FIGURE 1-9

**Interior Revenue Distribution**



As part of the President's Healthy Forests Initiative, forest managers are looking to reduced fuels techniques to mitigate damage to forests caused by fires. Here are photos showing a stand of trees that was thinned, before (left photo) and after a fire (right photo).

## End Outcome Goal 4: Forest Products

Forest management programs led by BIA and BLM within the Department have the dual benefit of generating timber harvests on public and Indian trust lands, while restoring forest health through the President's Healthy Forests Initiative. BIA is steward for Indian forests, which cover 18 million acres on 275 reservations in 26 states. BIA forest use plans, which at present cover 44% of forested lands on reservations, optimize the benefits of timber resources while addressing use conflicts, ensuring Tribes realize the full potential of their lands. Guardian of forest health on the Interior lands it manages, BLM balances its conservation mission with managing timber as a resource. In FY 2004, BLM offered 188 million board feet (MMBF) of timber for sale on Interior lands, against a target of 208 MMBF. The administrative cost of the timber offered was maintained at $176 against a target of $165 per thousand board feet (MBF) within 94% of its target for costs. The $176 includes administrative and program management costs that were not included in the target. Due to litigation in the Pacific Northwest, Interior was unable to meet its target for percent of wood products offered over the allowable sale quantity (ASQ). Instead, 80% of the wood products offered were consistent with management plans against a target of 88.5%. In addition, we increased the volume of timber offered for sale on Indian lands to 579.8 MMBF, exceeding a target within our Serving Communities mission area.

## End Outcome Goal 5: Deliver Water

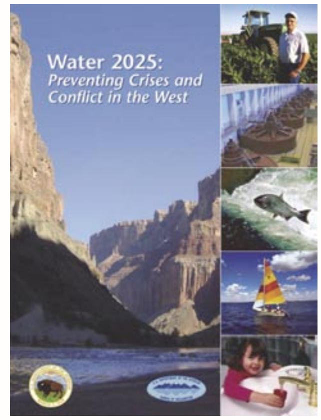
Water availability is among the most critical issues facing our Nation today. Interior is the largest supplier and manager of water in the 17 western States. Interior bureaus manage over 2,800 dams and reservoirs. Interior's Bureau of Reclamation (Reclamation) manages 476 dams and 348 reservoirs, and provides drinking water to over 31 million people. Interior water irrigates more than 10 million acres of farmland, on which farmers produce about 60% of the Nation's vegetables and 25% of our fruits and nuts. In FY 2004, Reclamation delivered an estimated 28.7 million acre-feet (MAF) of water to its customers, consistent with applicable requirements of Federal and State water laws, against a target of 29.1 MAF. One acre-foot equals about 326,000 gallons of water, or enough to fill a football field to a depth of one foot. An acre-foot is also enough water to supply the needs of a family of five for a year. The Department of Water Resources in the State of Utah estimates Lake Powell holds approximately 28 million acre feet at normal capacity.

Reclamation operates and maintains a safe and reliable water infrastructure and delivery system. In FY 2004, 100% of its water facilities remained in compliance with environmental requirements as defined by law, against a target of 97%. Reclamation's Facilities Reliability Rating showed 97.4%, against a target of 96%, of its water infrastructure was in fair to good condition. Reclamation increased its capacity for delivering water, making an additional 103,598 acre-feet available (against a target of 102,109), by completing infrastructure construction projects.

## End Outcome Goal 6: Generate Hydropower

Reclamation's water infrastructure generates 17% (42 billion kilowatt hours) of the Nation's hydropower—making Reclamation the second largest producer of hydroelectric power in the United States. Reclamation produces this power cost-effectively and reliably. In FY 2004, Reclamation's facilities produced power at a cost estimated to be within the lowest quartile of all hydropower producers. Its hydroelectric power generating units were available for an estimated 91.9% of the time to the interconnected Western Electrical System during daily peak summer demand periods in 2004 (against a target of 91.5%). Its forced outage time is better than the industry average at about 1% (against a target of 2.5%).

### Partnering to Succeed: Water 2025 Initiative




Water supply challenges will continue to confront the West in the coming decades. Crisis management is not an effective way to address these long-term, systemic problems. Recent crises in the Klamath and Middle Rio Grande Basins—where American Indian Tribes, farmers, urban residents, and fish and wildlife have been affected by water shortages—vividly demonstrate the consequences of failing to strategically address the problem of competing demands for a finite water supply. To address these and other concerns, an initiative known as Water 2025 is underway. Its purpose is to help manage scarce water resources and develop partnerships to nourish a healthy environment and sustain a vibrant economy. Through a 50-50 Challenge Grant Program, Water 2025 encourages voluntary water banks and other market-based measures, promotes the use of new technology for water conservation and efficiency, and removes institutional barriers to increase cooperation and collaboration among Federal, State, Tribal, and private organizations. The goal of these challenge grants is to support realistic, cooperative approaches and tools that have the most likelihood of successfully addressing water challenges in the basins facing the greatest risk.

Interior and its partners will continue to use Water 2025 as a basis for public discussion of the realities that face the West so that decisions can be made at the appropriate level in advance of water supply crises. Water 2025 will hopefully serve as a usefull tool for finding innovative, workable solutions to water management challenges.

TABLE 1-5

| Mission Area 2: Resource Use<br>Performance and Resource Scorecard | | | | |
|---|---|---|---|---|
| **End Outcome Goal** | **Number of Measures Met** | **Number of Unmet Measures** | **Number of Measures Containing Estimated or No Reports** | **Costs (in millions)** |
| Goal #1: Energy—Manage or Influence Resource Use to Enhance Public Benefit, Promote Responsible Use, and Ensure Optimal Value | 12 | 2 | 1 | $1,902 |
| Goal #2 Non-Energy Minerals—Manage or Influence Resource Use | 4 | 1 | 0 | $142 |
| Goal #3: Forage—Manage or Influence Resource Use | 1 | 1 | 1 | $76 |
| Goal #4: Forest Products | 1 | 3 | 0 | $58 |
| Goal #5: Water—Deliver Water Consistent with Applicable Federal and State Law, in an Environmentally Responsible and Cost-Efficient Manner | 6 | 3 | 0 | $1,134 |
| Goal #6: Hydropower—Generate Hydropower Consistent with Applicable Federal and State Law | 5 | 0 | 0 | $218 |
| Total | 29 | 10 | 2 | $3,530 |
| Percentage (Total of 41 Measures) | 70.7% | 24.4% | 4.9% | |

# Mission Area 3: Recreation–Provide Recreation Opportunities for America

- **End Outcome 1** Provide for a Quality Recreation Experience, Including Access and Enjoyment of Natural and Cultural Resources on DOI Managed and Partnered Lands and Waters
- **End Outcome 2** Provide for and Receive Fair Value in Recreation

The Department's formal recreation responsibility began with Yellowstone National Park, established in 1872 to serve as a "pleasuring-ground for the benefit and enjoyment of the people." Today NPS, BLM, FWS, and Reclamation provide recreation opportunities, operating under the principal mandates of the NPS Organic Act, the Refuge Recreation Act, the National Wildlife Refuge System Improvement Act, and the Federal Land Policy and Management Act.

## End Outcome Goal 1: Provide for a Quality Recreation Experience

Interior's recreation destinations are among the Nation's most popular. In FY 2004, the 388-unit National Park System reported 268 million visits. Thirty-nine million people visited the 544-unit, 96-million-acre National Wildlife Refuge System, which just celebrated its 100th anniversary. An additional 66 million people visited the 262 million acres of public lands managed by BLM, while Reclamation logged 90 million visits to 308 sites. There are also significant recreational opportunities on lands administered by BIA as well as on Tribal lands.

### Wheelin' Sportsmen

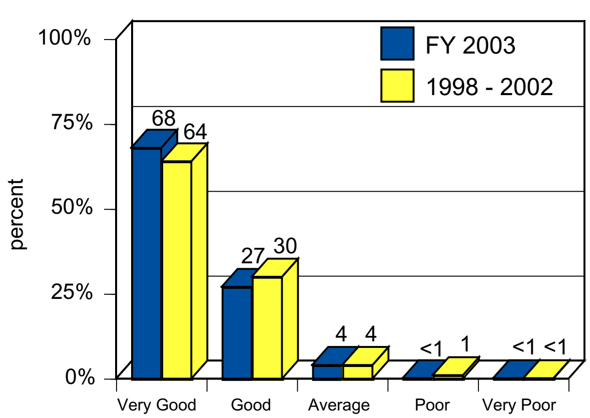
Interior's FWS and the National Wild Turkey Federation's Wheelin' Sportsmen program have partnered under a Memorandum of Understanding to create outdoor opportunities for the disabled. Wheelin' Sportsmen represents a national outreach effort to help persons with disabilities enjoy outdoor recreation, including hunting, fishing, and bird-watching. The FWS has long been interested in expanding opportunities for the disabled. Through the partnership, special events are being held at National Wildlife Refuges for the disabled and mobility-impaired to encourage enjoyment of public lands.

Americans come to national parks, refuges, and public lands for many reasons—to renew their sense of self, to experience adventure and relaxation, and to sample the rich diversity of our landscape and culture on water or land, at sea level or thousands of feet above, in scuba gear, on mountain bikes, or with a camera, while hunting, fishing, camping, hiking, boating, white-water rafting, and birding. We assess our success with our recreation mission by measuring visitor satisfaction, ease of access, visitor learning opportunities, and the quality of our facilities.

In FY 2003, 96% of visitors responding to a satisfaction survey reported that they were satisfied with the overall quality of their experience, against a target of 95% (*Figure 1-10)* (Note: 2004 results will be available in March 2005 since surveys are conducted during the prior summer season (May - October). In FY 2004, 153 million visitors, against a target of 125.4 million visitors, participated in interpretive and educational programs designed to enrich their visit. Interior ensured that 7.8%, against a target of 9.7%, of its facilities were universally accessible (including access by the disabled) in relation to the total number of recreation areas it manages. Preliminary data suggest that specific management actions and partnerships made 338.5 million acres, against a target of more than 340 million acres, available for recreation along with 19,870 miles of rivers and shorelines. These data, however, have yet to be verified.

FIGURE 1-10

**Visitor Satisfaction with Park Services**




## End Outcome Goal 2: Provide for and Receive Fair Value in Recreation

The Recreational Fee Demonstration Program is designed to improve visitor services. Established by Congress in 1996, this program permits agencies to retain most recreation fees at the site where they were collected so that they can be reinvested to improve visitor facilities and services. Although recreational fees date to 1908, Congress first established broad recreation fee authority in 1965 under the Land and Water Conservation Fund Act. In enacting this authority, Congress acknowledged that visitors to Federal lands receive some benefits that do not directly accrue to the public at large and that charging a modest fee to visitors is both equitable and fair to the general taxpayer.

In FY 2004, Interior generated $147 million in revenues through the Recreational Fee Demonstration Program. This program has enabled us to invest funds to further reduce our maintenance backlog, enhance resource protection activities, and defray the cost of future fee collections at recreational areas managed by FWS, NPS, and BLM.

In addition, $25 million in revenue, against a target of $39.1 million, was collected from concessions located on National Park System lands, 94.5% of which are operated under performance-based contracts (against a target of 2.9% for FY 2004). An estimated 82.4% of those responding to a survey in FY 2004 reported they were satisfied with the value received for the fee they paid to use recreational sites, meeting our target.

TABLE1-6

| Mission Area 3: Recreation<br>Performance and Resource Scorecard | | | | |
|---|---|---|---|---|
| **End Outcome Goal** | **Number of Measures Met** | **Number of Unmet Measures** | **Number of Measures Containing Estimated or No Reports** | **Costs (in millions)** |
| Goal #1: Provide for a Quality Recreation Experience, Including Access and Enjoyment of Natural and Cultural Resources on DOI Managed and Partnered Lands and Waters | 6 | 2 | 4 | $1,834 |
| Goal #2: Provide for and Receive Fair Value in Recreation | 3 | 1 | 0 | $327 |
| Total | 9 | 3 | 4 | $2,161 |
| Percentage (Total of 16 Measures) | 56% | 19% | 25% | |

# Mission Area 4: Serving Communities– Safeguard Lives, Property and Assets, Advance Scientific Knowledge, and Improve the Quality of Life for Communities We Serve

- **End Outcome 1** — **Protect Lives, Resources, and Property**
- **End Outcome 2** — **Advance Knowledge Through Scientific Leadership and Inform Decisions Through the Applications of Science**
- **End Outcome 3** — **Fulfill Indian Fiduciary Trust Responsibilities**
- **End Outcome 4** — **Advance Quality Communities for Tribes and Alaska Natives**
- **End Outcome 5** — **Increase Economic Self-Sufficiency of Insular Areas**

Interior's responsibility to serve communities continues to grow larger and more complex, extending well beyond the lands and resources we manage. The Department is responsible for protecting lives, resources, and property; providing scientific information for better decision-making; and fulfilling the Nation's trust or other special responsibilities to American Indians, Alaska Natives, and residents of island communities.

We help protect communities from wildland fires; safeguard visitors on our lands from illegal activities; and, provide scientific information to reduce risks from earthquakes, landslides, and volcanic eruptions. We provide scientific assessments and information on the quality and quantity of our Nation's water resources; collect, process, integrate, archive, and provide access to geospatial and natural resource data; and, conduct multi-purpose natural science research to promote understanding of earth processes, which are vital to resource use as well as resource protection.

### Partnering to Succeed: Improving Wildland Fire Management

Partnerships like the Wildland Fire Leadership Council leverage scarce resources and focus unique expertise and technology available through partner agencies to solve problems of mutual concern. The Wildland Fire Leadership Council, comprising representatives from Interior, the Department of Agriculture, Tribal forestry, and State agencies, works closely with community-based fire-fighting units to improve wildland fire management and reduce hazardous fuels on forests and rangelands. In FY 2004, the Council worked with communities to develop common performance measures, common cost accounting protocols, and an effective hazardous fuels reduction program. Since 2001, Interior and the U.S. Forest Service have removed hazardous fuels from over 11 million acres.

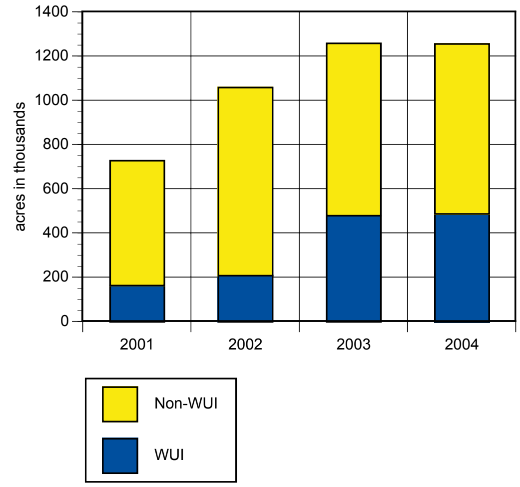
Federal agencies have provided assistance to 7,731 rural and volunteer fire departments through grants, training, supplies, equipment, and public education support. These agencies have also sponsored 14 national and 500 community Firewise workshops to increase awareness about wildland fire prevention and management.

## End Outcome Goal 1: Protect Lives, Resources, and Property

Interior has improved its ability to protect lives, resources, and property from the ravages of wildland fires. We had a 97% success rate in containing unwanted wildfires on initial attack during the 2003 fire season. During the 2004 fire season, our success rate was 97%, exceeding our target of 95%. *Figure 1-11* shows upward trending hazardous fuels treatment data on wildland urban interface (WUI) and non-WUI areas. Interior exceeded its FY 2004 fuels targets because of four interdependent factors: four years of capacity-building, advance planning that created a large number of on-the-shelf projects, a below normal fire season in the lower 48 States that enhanced personnel availability, and generally favorable weather conditions for fuels treatments.

FIGURE 1-11

**Hazardous Fuels Treatment: National Fire Plan**




The United States is also subject to a variety of natural hazards (earthquakes, volcanic eruptions, and landslides) that can result in considerable human suffering and billions of dollars in property and business losses. The occurrence of these hazardous events is inevitable and uncontrollable. However, the extent of damage and loss of life can be reduced through preventative planning; social, economic, and engineering adaptations; provision of real-time

**Scientists and Mount St. Helens: Monitoring a Restless Earth**

In the fall of 2004, USGS scientists monitored the eruption of Mount St. Helens in Washington State. Seismic unrest at the volcano (whose American Indian name means "smoking mountain") began on September 23. Activity ramped up quickly, and the first steam and ash explosion occurred on October 1. USGS scientists quickly expanded monitoring networks and issued appropriate warnings of the potential dangers of an eruption to the U.S. Forest Service, State emergency management officials, the Federal Aviation Administration, the Washington Volcanic Ash Advisory Center, and nearby residents. They provided the continuous updates and information needed to protect people and aircraft from hazardous situations, as the volcano produced periodic steam and ash explosions that sent ash as high as 10,000 feet, accompanied by persistent seismic unrest. Mount St. Helens is one of several potentially active volcanic peaks in the Pacific Northwest Cascade Range. Its 1980 eruptions marked the reawakening of a relatively young (40,000 years) volcano that had been dormant since 1857. One major hazard posed by eruptions at Mount St. Helens is that ash clouds could affect air traffic and operations at nearby airports in Portland and Seattle.

warning capabilities; and more effective post-event emergency response. The more precisely we can define risks, the greater the likelihood that appropriate mitigation strategies will be adopted (e.g., building codes for new construction and retrofitting; land-use plans; local zoning regulations; and design and location/routing of critical infrastructure such as highways, bridges, subways, water and sewer lines, gas lines, electric lines, and petroleum-distribution networks). The sooner information reaches emergency response centers, the sooner teams can be dispatched to resolve time-sensitive medical, utility, or infrastructure problems. Our programs are designed to produce information and understanding that will reduce the impacts that natural hazards and disasters on human life and the economy. In FY 2004, 43.2% of communities in the United States used Interior science related to hazard mitigation, preparedness, and avoidance to assist in preparing for and mitigating hazard events. These communities reported that 98% of the information provided met their needs and/or helped achieve the goal of reduced risk. Ninety-eight percent of those surveyed reported satisfaction with the adequacy of our science base for their decision-making regarding the hazards for which we gather data.

## End Outcome Goal 2: Advance Knowledge Through Scientific Leadership

Science is the cornerstone of Interior's land management decisions, supporting work to achieve resource protection, resource use, recreation, and serving community goals. We provide scientific assessments and information on the quality and quantity of our Nation's water resources. We collect, process, integrate, archive, and provide access to geospatial and

### Fire Break Protects Utah Community

It's a tragic story, one heard all too frequently during recent fire seasons: wildfire sweeps through a community. Homes are destroyed and with them the family treasures of those who fled. Sometimes lives are lost.

That could have been the story of the small southwestern Utah town of Central had it not been for the combined efforts of the community working with State and Federal agencies to prepare for the possibility of wildland fire. At about 4:00 p.m. on Thursday, August 12, lightning ignited the Cal Hollow Fire in pinyon and juniper woodland northwest of the town. On this hot, windy summer afternoon fire swept through the trees, hot embers blew in the wind, and the fire headed straight for the town. At 6:00 p.m. more than 100 households were evacuated.

This story could have ended in misfortune, but this town was surrounded by a fuel break—a fuel break that was built as a cooperative effort by the people of Central and several State and Federal agencies as part of President Bush's Healthy Forests Initiative using National Fire Plan dollars. The fuel break slowed down the raging fire, giving firefighters the time they needed to avert disaster. By 10:00 p.m., the fire had been contained and residents returned to their homes. No one was hurt. No structures were lost.

Creation of fuel breaks accelerated as part of the Healthy Forests Initiative. In 2002, several communities were identified for pilot testing the use of streamlined environmental analysis to meet urgent needs for fuel reduction. Because Central was one of the top 10 "communities at risk" for wildfire in Utah, it made an excellent choice for a demonstration project. Like many wildland-urban-interface (WUI) communities, Central has State, private, BLM, and Forest Service land surrounding it. In order to buffer the community from wildland fires, all of these groups worked as a team under a chartered organization called The Color Country Fuels and Wildland-Urban Interface Committee. This team worked with the local community to remove brush and lop trees around their homes, creating a "fuels-free" barrier around structures. Many homeowners had to be convinced to support the approach—many people prefer to see dense woodland right up against the property boundary of their homes.

Addressing the State and Federal agency representatives who were present at an interview after the fire, Gerald Schiefer, assistant fire warden of Pine Valley, expressed appreciation, "Thank you for doing the fire break. It probably saved Central and it significantly slowed the fire. This allowed for defensive action for the homes . . . even though there was a good wind, until the air drops could be made. You guys are our heroes."

natural resource data. We conduct multi-purpose natural science research to promote understanding of earth processes—processes vital to resource use, as well as resource protection. We provide these data to decision-makers within Federal, State, and local government agencies, as well as local communities, so that leaders and managers can make informed decisions on land and resource management.

In FY 2004, Interior's principal science bureau, the USGS, expanded its information base by providing temporal and spatial monitoring, research, and assessment/data coverage to meet land use planning and monitoring requirements for 54.66% of the surface area of the United States, against a target of 45.91%. It improved access to this information, providing 90% of decision-makers with science data needed to make informed decisions, meeting our target. Ninety-three percent reported that these data helped them achieve their management goals. USGS validated 100% of these studies through appropriate peer or independent review to ensure accuracy and reliability of the research, against a target of 100%.

## End Outcome Goals 3 and 4: Fulfill Indian Fiduciary Trust Responsibilities and Advance Quality Communities for Tribes and Alaska Natives

Interior works with 562 federally recognized Tribes and a service population of approximately 1.5 million American Indians and Alaska Natives to help them protect their land and natural resources, to fulfill our trust obligations and to help create the infrastructure and educational opportunities that build strong communities. At the outset of FY 2004, we provided services to elementary and secondary school populations of about 48,000 Indian students while protecting millions of cultural and historic resources on Federal and Indian Lands.

In FY 2004, we discharged these responsibilities by:

- Creating 1,719 jobs for American Indians and Alaska Natives using capital provided by Interior loans, against a target of 1,300 jobs, and at a cost of $1,799 per job, against a target of $4,400.

- Reporting an attendance rate of children in grades 1-12 as 87.18%, against a target of 92%.

- Ensuring that 48% of BIA school children were able to read independently by the 3rd grade, against a target of 52%.

- Achieving parity between the Tribal community and U.S. rural area national average on high school graduation at 80%, exceeding our target of 78%.

Interior manages approximately 56 million acres of Indian trust land. An estimated 10 million acres belong to individual Indians, while nearly 46 million acres are held in trust for Indian Tribes. On these lands, Interior manages over 100,000 leases for individual Indians and Tribes. Leasing revenues, use permit fees, land sale revenues, and interest income totaling approximately $205 million in FY 2004 were collected for approximately 266,000 open Individual Indian Money accounts. In FY 2004, about $378 million was collected in 1,400 Tribal accounts for 300 Tribes. In addition, the trust manages approximately $3 billion in Tribal funds and $414 million in individual Indian funds.

### BIA "Green" School Recognized

In April 2004, the U.S. Green Building Council awarded the Bureau of Indian Affairs and the Baca/Dlo'ay azhi Community School Project of Prewitt, New Mexico, with the Leadership in Energy and Environmental Design (LEED) designation. The LEED designation raises consumer awareness in the benefits of green buildings and recognizes leaders of the environmentally-sensitive building design industry. The Baca/Dlo' ay azhi Community School is the first LEED certified building in the State of New Mexico. Several sustainable design features, in addition to Navajo cultural elements, were incorporated into the innovative, energy-efficient school.

We recognize the challenges of our Indian fiduciary trust responsibilities. We have made a number of changes to improve how we manage trust assets. In FY 2003, we reorganized the BIA and the Office of the Special Trustee for American Indians so that our organizational structure could better focus on its critical fiduciary trust duties. We are also improving the management of approximately 266,000 open Individual Indian Money account assets.

In FY 2004, we improved our timeliness in providing financial account information, providing timely information 97% of the time against a target of 100%. Additional efforts are underway to ensure we meet our 100% accuracy target in FY 2005.

## End Outcome Goal 5: Increase Economic Self-Sufficiency of Insular Areas

Along with serving communities of American Indians and Alaska Natives, the Department of the Interior coordinates Federal policy with respect to the territories of American Samoa, Guam, the U.S. Virgin Islands, and the Commonwealth of the Northern Mariana Islands. We also oversee Federal programs and funding in the Federated States of Micronesia, the Republic of the Marshall Islands, and the Republic of Palau. We provide financial and technical assistance and promote appropriate Federal policies to help the islands develop more efficient and effective government. We helped increase the economic self-sufficiency of insular areas in FY 2004 by taking actions to realize a ratio of Federal revenue to total revenues in insular areas of 0.26, against a target of 0.25. We also realized a ratio of 0.76 private sector jobs to total employment, against a target of 0.70, to help increase economic development in the insular areas.

## Achieving Law Enforcement Excellence

Interior's law enforcement, security, and emergency management activities are critical to successfully managing and protecting public lands, resources, visitors, and employees, as well as surrounding communities. Interior is in its second year of reforming its law enforcement activities, responding to 25 specific areas of improvement identified by a 2002 Inspector General report and mandated for reform by the Secretary of the Interior. Interior is making strategic investments in its law enforcement and security programs, improving its oversight of related budgets, and assuring accountability through effective performance goals and measures.

The law enforcement, security, and emergency management functions of the Department are integrated through an extensive information sharing and analysis program. Electronic connectivity has been established between the Department's 24-hour Watch Office and the intelligence, law enforcement, and homeland security communities. A secure collaborative internet-based workspace has been created to enhance information sharing throughout the Department. Regularly scheduled intelligence briefings are being provided to key leadership to improve their situational awareness and support decision-making.

A noteworthy improvement is IMARS—Interior's Incident Management, Analysis and Reporting System. IMARS will be developed as a single, Web-based system to be used by all Interior offices and bureaus with law enforcement responsibilities to record and manage information relating to incidents on Interior lands. Not only is the system concept the first of its kind within the Department, it is also the first system to integrate incident information collection and performance reporting for all law enforcement programs within one Federal Department.

Interior is playing a significant role in carrying out the National Critical Infrastructure Protection (CIP) Program. We must provide for the safety and security of the employees, visitors, facilities, and key resources we manage in accordance with procedures developed collaboratively with the Department of Homeland Security. Recent efforts have focused on improving security at priority dam locations. Additionally, as part of our responsibilities under the CIP Program, we are working to protect our Nation's national monuments and icons, in cooperation with Federal, State, local, and private partners.

With more than 1,200 linear miles of borderland under Interior's jurisdiction, we face challenges in safeguarding our Nations's natural, cultural, recreational, and heritage resources from risks associated with continuing illegal activities along the border. Interior is working closely with the Department of Homeland Security to protect employees, visitors, cultural and natural resources, and facilities through increased law enforcement security staffing at the most at-risk locations.

We are also working to improve Interior's response, through the President's National Response Plan (NRP), to any type of emergency—man-made or natural. The Department will provide support to nine "Emergency Support Functions" under the Department of Homeland Security's new NRP; we also have primary responsibility under this plan for developing interagency guidance related to the protection of natural and cultural resources during emergencies, as well as emergency response on tribal lands and the Insular Areas. Another major emergency management initiative is the testing and evaluation of Continuity of Operations (COO) and Continuity of Government (COG) plans, which will lead to a revision of Departmental guidance and plans to enhance our capability to carry out essential functions during emergencies and other situations that disrupt normal operations.

TABLE 1-7

| Mission Area 4: Serving Communities<br>Performance and Resource Scorecard | | | | |
|---|---|---|---|---|
| **End Outcome Goal** | **Number of Measures Met** | **Number of Unmet Measures** | **Number of Measures Containing Estimated or No Reports** | **Costs (in millions)** |
| Goal #1: Protect Lives, Resources, and Property | 18 | 2 | 5 | $2,305 |
| Goal #2: Advance Knowledge Through Scientific Leadership and Inform Decisions Through the Applications of Science | 5 | 1 | 0 | $959 |
| Goal #3: Fulfill Indian Fiduciary Trust Responsibilities | 21 | 9 | 2 | $773 |
| Goal #4: Advance Quality Communities for Tribes and Alaska Natives | 12 | 5 | 3 | $2,402 |
| Goal #5: Increase Economic Self-Sufficiency of Insular Areas | 3 | 0 | 0 | $342 |
| Total | 59 | 17 | 10 | $6,781 |
| Percentage (Total of 86 Measures) | 68% | 20% | 12% | |

# Strategic Goal: Management Excellence– Manage the Department to be Highly Skilled, Accountable, Modern, Functionally Integrated, Citizen-Centered, and Result-Oriented

- **End Outcome 1** — **Workforce has Job-Related Knowledge and Skills Necessary to Accomplish Organizational Goals**
- **End Outcome 2** — **Accountability**
- **End Outcome 3** — **Modernization**
- **End Outcome 4** — **Integration**
- **End Outcome 5** — **Customer Value**

Management improvement is an ongoing, iterative process that is essential if we are to deliver the consistent performance improvement the American public expects. Interior's journey toward management excellence builds upon the Secretary's four key business principles: customer value, accountability, integration, and modernization. Our management goals guide us toward the effective, efficient accomplishment of Interior's mission. We strive to ensure that all of our activities are customer-centered—designed to add value for citizens, partners, users of public lands, other Federal agencies, Tribes, States, and local governments. This focus requires an organization of results-oriented, skilled, diverse employees. To create this organization, we apply best practices in competitive sourcing reviews and human capital management.

### Modernization and Integration of Interior Business Systems: FBMS

Interior's Financial and Business Management System (FBMS) is a major Department-wide initiative that will integrate financial management, acquisition, property management, grants administration, and other subsidiary systems. It will revamp administrative processes throughout the Department. The FBMS will help us provide complete, accurate, and timely information that employees and managers need to make informed decisions about their programs at all levels of the organization. The integrated system will streamline linkages between critical financial management systems, providing service through a single system instead of the more than 16 systems that Interior currently operates. The FBMS will provide more economic and efficient input and retrieval of data. It will help us to achieve unqualified audit opinions and the best use of taxpayer dollars. Most importantly, it will standardize business practices and business data across the Department.

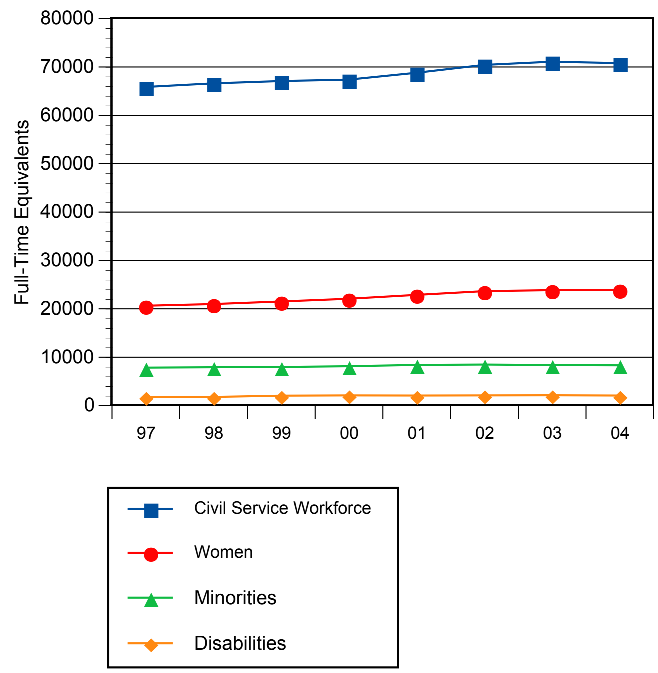
Interior took a tremendous step toward making its vision of the FBMS a reality when, in January 2004, it awarded a contract to BearingPoint, Inc., as a solution provider for the system. Interior managers have given FBMS the highest priority for new information technology systems.

## End Outcome Goal 1: Knowledgeable and Skilled Workforce

Our Strategic Human Capital Management Plan, published in September 2002, establishes the link between human resources and our mission. It identifies common challenges that are shaping the skills, training, and professions that we need to discharge our responsibilities effectively. These challenges include increased urbanization, rising security demands, an aging infrastructure, and increased expectations for accountability and efficiency by those we serve. The goals outlined in our Human Capital Plan have spurred us toward progress. Through this plan, we seek to have the right people in the right places at the right time with the right tools. In FY 2004, we completed 71.4% of the strategic actions needed to fully implement our Human Capital Plan, against a target of 90%, falling short because we were unable to complete a task related to evaluating the relationship between succession planning for leadership and bureau workforce planning solutions. However, outcome goals were identified for 100% of these actions. All of our Senior Executive Service (SES) now have performance agreements in place containing GPRA, PMA, and Citizen-Centered Governance performance-based elements, making these key leaders and managers accountable as partners in realizing the Department's human capital goals. *Figure 1-12* shows progress toward achieving our diversity goals.

FIGURE 1-12

**Diversity Trends**

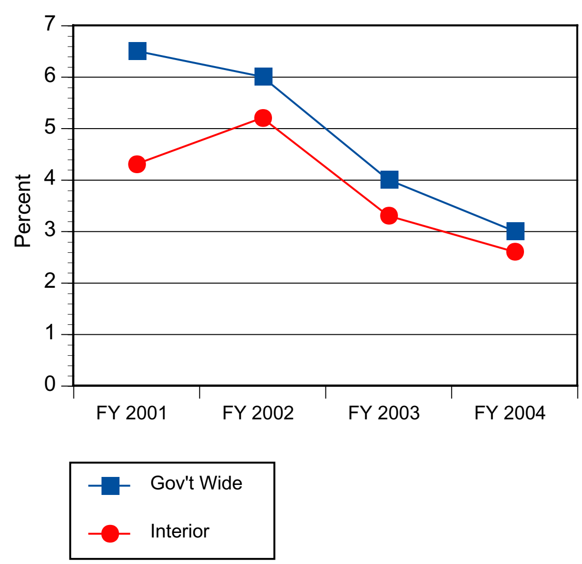



## End Outcome Goal 2: Accountability

To be accountable, Interior must set clear performance measures for managers and employees. The SES cascading performance agreements are an important start. However, managers and employees also need accurate, timely, and integrated financial, budget, and performance information if they are to excel. Interior has taken steps to become more accountable and efficient, while providing employees with the data they need to accomplish their mission, by focusing on innovations and a re-engineering of business processes. An example of our progress toward being more accountable can be seen in *Figure 1-13,* which shows how we have reduced the number of delinquent travel charge card accounts.

FIGURE 1-13

**Travel Card Payment Delinquency**



In October 2003, we began deploying a new activity-based cost/performance management system, ABC/PM, which breaks work into specific activities, allowing managers to measure and compare unit costs and performance by dollars spent and actions undertaken. In FY 2004, 100% of Interior's bureaus and offices reported fully implementing accurate activity-based accounting systems, meeting our target.

By implementing systems like ABC/PM and adopting Department-wide financial management systems, we are eliminating redundancy and inefficiency while promoting shared processes that further Interior's integration goals.

## End Outcome Goals 3 and 4: Modernization and Integration

Our modernization activities use technology to work smarter and provide single points of access to services. A key to modernization is our enterprise architecture (EA). EA is a blueprint for key business areas that enables Interior to integrate processes and systems and reduce redundancies, thereby more effectively managing information technology resources. In FY 2004, Interior developed modernization blueprints for key business lines, including wildland fire, law enforcement, financial management, and recreation.

Blueprints are presented to Interior's Information Technology (IT) Investment Review Board (IRB) for approval. Approved blueprints guide the IRB's future investment decision-making in each business area, thus forming a strong tie between EA and capital planning and investment control. In FY 2004, the IRB approved the recreation modernization blueprint. The remaining blueprints will be presented for approval to the IRB the first quarter of FY 2005.

Interior's Enterprise Services Network (ESN) project complements its EA activities by integrating and consolidating Interior's existing networks, systems, and computing environments to provide secure and robust telecommunications throughout the agency. The benefits to be gained include standardized and efficient network operations, enhanced accountability for network performance, a uniformly high level of security, the reduction of risks associated with the loss of knowledge capital due to high projected turnover rates for skilled staff, and improved technical support for network managers. In FY 2004, preparations for Phase I of the ESN project were completed, setting the stage for a single Department-wide intranet by November 2004 and the consolidation of all internet connections across Interior by the end of December 2004. The network operations and security center to manage the network and provide customer support was also operational.

## End Outcome Goal 5: Customer Value

Interior is using information technology as one of its tools for improving ways it serves other agencies and the public, thus offering customer value. One example is Interior's Recreation One-Stop initiative (*Figure 1-14*). By tapping into the power of the Internet to provide potential visitors with an array of helpful information about public lands, the

### Honoring the A-Team: Interior Recognized for Excellence in Enterprise Architecture

On September 22, 2004, Interior was awarded the prestigious E-Gov Institute Award for Excellence in Enterprise Architecture. Interior's Enterprise Architecture Program is a roadmap for leveraging information technology to meet strategic and programmatic goals and objectives efficiently and effectively. Under this program, Interior has developed modernization blueprints for many of its key business lines, including Wildland Fire, Recreation, Law Enforcement, and Financial Management. Interior was one of only five other award recipients, competing with 92 other Federal, State and local government entries. The award honored Interior's Enterprise Architecture Program in the category of Federal Civilian Leadership in Government Transformation.

Department's Recreation One-Stop initiative has created a citizen-centered Web portal for recreation opportunities throughout the Nation. Supported by a partnership of Federal agencies, including Interior's NPS, BLM, FWS, and Reclamation, as well as the U.S. Forest Service and U.S. Army Corps of Engineers, the Recreation One-Stop project uses cutting-edge data-sharing technology to make recreation information accessible directly to the public and through State and local government partnerships. In FY 2004, the Interior-managed project broke new ground when a performance-based contract was awarded to integrate two existing Federal recreation reservation systems into one user-friendly national recreation reservation system. Individuals planning trips will be able to make recreation-related reservations using Federal sites and a single on-line "shopping cart." In addition to improving upon the existing www.recreation.gov website, the project has developed recreational data standards acceptable to the recreation community. The new service will provide valuable information ranging from entrance fees for given sites, to weather conditions, and will feature links to non-Federal recreation partners.


FIGURE 1-14

Another way Interior adds customer value to our services is through its volunteer program. Interior has close ties to the American people. The historic, cultural, and natural resources we manage provide a rich context within which to engage the public, establish partnerships, and promote volunteerism in America.

Every year, Interior receives enormous contributions from partners and volunteers. Individuals of all ages and levels of experience contribute valuable time to help us fulfill our recreation mission while promoting healthy lifestyles and dynamic recreational opportunities. Interior bureaus support vibrant volunteer programs. Through special programs such as Take Pride in America, volunteers enhance our refuges, parks, recreation areas, and cultural and historic sites. Volunteers are recognized for their outstanding efforts with national annual awards.

In FY 2004, over 200,000 volunteers contributed close to 8.9 million hours valued at about $153 million by working with NPS, FWS, BLM, USGS, and Reclamation. Some Interior bureaus and offices, however, cannot tap into valuable volunteer resources because they do not have the statutory authority to accept these services. We are hoping to change this. Rep. Richard Pombo (R-CA) sponsored legislation that passed the House in late 2004 to provide the Office of the Secretary and BIA with the authority to accept volunteer services while also updating the volunteer authorities of the USGS and Reclamation. These new authorities will allow Interior to expand and standardize its highly successful volunteer programs.

TABLE 1-8

| Strategic Goal: Management Excellence Performance and Resource Scorecard | | | |
|---|---|---|---|
| **End Outcome Goal** | **Number of Measures Met** | **Number of Unmet Measures** | **Number of Measures Containing Estimated or No Reports** |
| Goal #1: Workforce has Job-Related Knowledge and Skills Necessary to Accomplish Organizational Goals | 0 | 0 | 1 |
| Goal #2: Accountability | 2 | 0 | 1 |
| Goal #3: Modernization | 4 | 0 | 0 |
| Goal #4: Integration | 1 | 0 | 1 |
| Goal #5: Customer Value | 13 | 7 | 5 |
| Total | 20 | 7 | 8 |
| Percentage (Total of 35 Measures) | 57% | 20% | 23% |

* Management Excellence costs are part of Mission Area goal costs.

# Looking Forward: Our Challenges

## Challenge 1: Increased Use of Our Facilities and Aging Infrastructure

Increasingly, the management of lands and resources under Interior's stewardship involves ecological, scientific, economic, and social factors that extend well beyond any single agency's or bureau's boundaries. Population shifts toward the West, the South, and the coasts are bringing rapid growth—new people in new places, with new houses, roads, schools, stores, and other buildings. This urbanization can fragment wildlife and waterfowl habitat and impact cultural and heritage resources. Interior maintains more than 40,000 buildings, 4,200 bridges and tunnels, 126,000 miles of highways and roads, and 4,500 historic trails.

## Challenge 2: Increased Demand for Energy and Water

The demand for energy keeps growing, along with the demand for non-energy minerals, forage, and forest products. Water shortages are already a way of life, particularly in the arid West, and are certain to get worse. Increased demands are further compounded during periods of drought. Interior must continue to find creative new ways to store and deliver water to those we serve to help meet demands, while prudently managing and accounting for millions of dollars appropriated for our water conservation projects.

## Challenge 3: Natural and Manmade Hazards

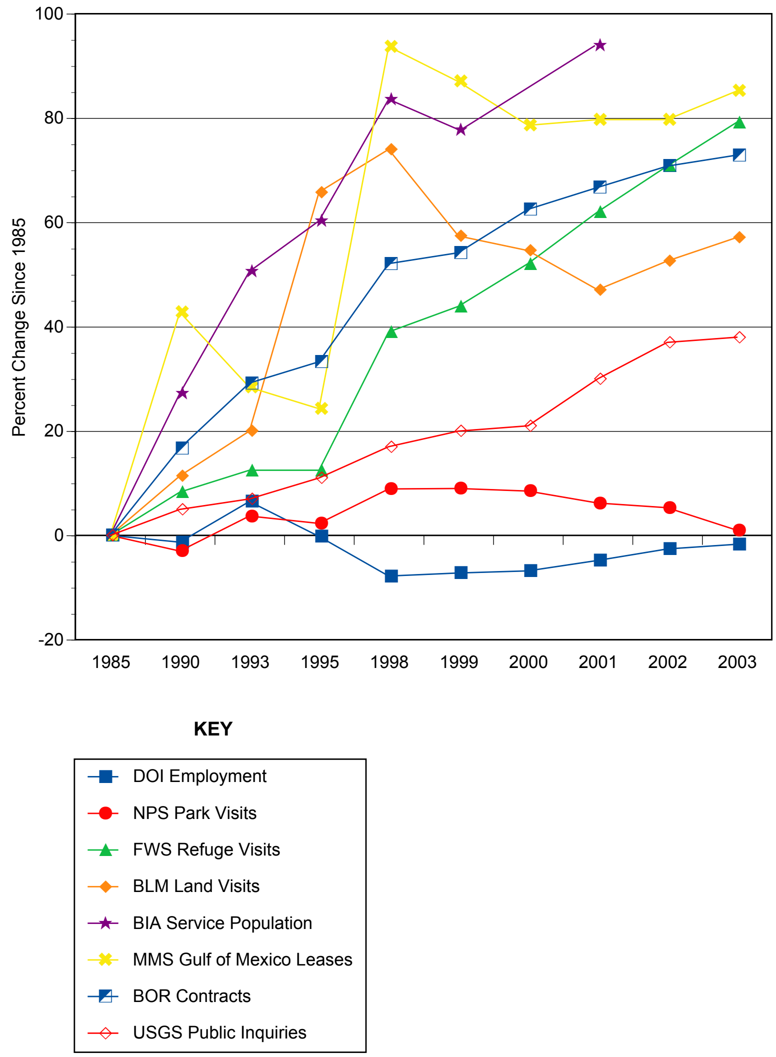
A growing number of communities are at risk from natural hazards, the perils of coastal storms and other processes, and capricious forces of nature that can cause wildfires of devastating proportion. Global trading patterns and connections bring invasive species into our farms and natural areas, devastating habitat and exacerbating fire threats. Our increasing role in homeland security, law enforcement, and emergency management responsibilities to protect people; natural, cultural, and heritage resources; dams; and icons and monuments from intentional criminal acts is significant and demands our continued vigilance. Working with our partners in Federal, State, Tribal, and local law enforcement, security, intelligence, and emergency management is essential in carrying out our responsibilities.

## Challenge 4: Increased Demand for Service and Human Resources

The American people continue to expect more from their public servants (*Figure 1-15*). Citizens also increasingly expect to be involved at every step of the decision process. They call for better business management practices, improved efficiency, financial integrity, and mission accountability. However, there are costs for developing systems that improve business practices. In optimizing the use of funding, coming up with resources to fund such improvements can be challenging. Besides meeting and reconciling those demands, Interior personnel must compete for financial and workforce resources and cope with the complications of fast-changing technology. The retirement of the baby boomers is producing new labor force dynamics, shifting to a younger workforce with different values, standards, and expectations.

FIGURE 1-15

**Demand for Services (Percent Change Since 1985)**



## Interior's Response to Future Challenges

Unity, focus, efficiency, and flexibility will all be needed to meet the accelerating challenges of the years ahead. Secretary Norton's vision for effective performance—the 4 C's: Cooperation, Consultation and Communication, in the service of Conservation—reflect Interior's goal of involving others, including communities, partners, customers, contractors, volunteers, and the interested public, in carrying out our mission by improving our programs, processes, plans, and practices.

## Partnership and Volunteers

Partnerships are critical for Departmental success, and will continue to help us meet future challenges. In FY 2004, we continued to strengthen our relationships with our large network of volunteers, as well as creating alliances across intra- and interagency borders to address such critical issues as wildland fire and homeland security. These enhanced partnerships leverage funding, help us identify strategies that make sense on the ground to the wide variety of stakeholders having an interest in our programs, and create an environment of communication, consultation, and cooperation. Partnerships benefit not only the resources we manage but also the people we serve. For example, the value of in-kind contributions of our volunteer corps in helping us complete programmatic goals was estimated at about $153 million in 2004. Partnerships such as the High Plains Partnership—a public/private initiative across the 11-State High Plains region—help conserve declining species and habitats on private lands. A cooperative effort between Interior's Fish and Wildlife Service, the Department of Agriculture, State fish and wildlife agencies, private conservation organizations, and private landowners would leverage funds over the next two years to restore, enhance, and protect 2 million acres of land. It will ultimately reduce the potential for listing candidate species, help us to recover or downlist species, and preclude the need to list grassland species in decline.

Other initiatives managed by Interior, including the Central Utah Project, with its $46.3 million 2005 budget, help Interior conserve and provide water to a thirsty West. The Central Utah Project Completion Act authorizes funding for fish, wildlife, and recreation mitigation and conservation activities; establishes the Utah Reclamation Mitigation and Conservation Commission to oversee implementation of those activities; and authorizes funding for Ute Indian rights settlement. Accomplishments in 2004 ranged from river restoration work to the implementation of water conservation measures that conserved thousands of acre-feet of water.

## Strong Science Conducted with Integrity

Strong science and scholarship will remain the foundation of our work. In FY 2004, we continued to improve the timeliness, accuracy, usability, and accessibility of science available for political leaders, policymakers, and the public. By stressing the connection between the Department's scientists across bureau lines, we strengthened a culture of collegiality, with rigorous internal and external peer review to ensure the highest quality science. A new code of Scientific Ethics will be in place across Interior in 2005 to help ensure scientific integrity on the part of Interior scientists.

## Improved Business Practices Through Technology and Management Tools

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

At the core of our response to our future mission and management challenges is an effort to link our performance with budget data—to make budgeting decisions based on more and better information about how dollars are used and how programs might be improved to enhance results. The continuing PART evaluations, coupled with our integrated Strategic

Plan approach and our implementation of ABC/PM across Interior, all provide building blocks to link budget and performance. Already some of our bureaus are using ABC/PM to improve their work efforts by integrating ABC/PM data into workforce planning, creating more alignment between staff resources and functions to be performed.

Just three years ago, Interior—like most other Federal agencies—did not close its financial books and complete its annual audit until five months after the fiscal year. Needed improvements identified through audits, therefore, could not be undertaken until long after the problems had occurred. Accelerated annual audits will help us tackle financial management and related problems in a timely fashion. And while we have corrected or downgraded 21 of 34 material weaknesses at the bureau level from FY 2002, we have more work to do. Our ability to complete our Performance and Accountability Report by November 15, 2004, just 45 days after the close of the fiscal year, signals that we are beginning to operate with current financial and performance information, enabling us to make better decisions and more efficiently accomplish our mission. In addition, our FY 2005 budget includes a total of $18.5 million to fund the implementation of the Financial and Business Management System (FBMS), our major enterprise management initiative that will revamp administrative processes throughout the Department while modernizing and integrating financial management, acquisition, property management, grants administration, and other subsidiary systems.

The President has pledged to bring park facilities and resources into good condition, committing $4.9 billion over five years for park facility maintenance and construction. The Administration's FY 2005 budget request includes $310 million to address park road maintenance needs through the proposed reauthorization of the Transportation Equity Act for the 21st Century.

Using data from annual condition assessments completed for almost all of its regular assets, the National Park Service will use its Facility Condition Index for each asset to serve as a starting point for determining the investment required and for establishing performance goals to achieve an acceptable condition over time.

### Assessing Facility Condition

Using data from annual condition assessments completed for almost all of its parks, the National Park Service has developed a baseline facility condition index—an industry standard for quantifying the condition of a structure—to serve as a starting point for determining the investment needed to bring the asset to an acceptable condition over time.


As required by Executive Order 13327 (Federal Real Property Asset Management), Interior prepared a draft of its first-ever Asset Management Plan. This comprehensive plan, which was submitted in draft to OMB on September 30, 2004, fulfilled a commitment identified in the real property scorecard.

The purpose of the plan is to establish a strategy to manage and oversee Interior-owned and leased assets (including buildings, structures, linear assets, motor vehicle fleet, and office and warehouse space) to maximize their contribution toward accomplishing the Department's diverse missions. The plan's strategies will enable the Department and its bureaus to better:

- Align investments with strategic missions and business goals and outcomes;
- Ensure adherence to Federal and Department-wide investment life-cycle management principles and standards;
- Institute Department-wide objectives, goals, and performance measures;
- Analyze baseline information;

- Evaluate, prioritize, acquire, and manage owned and leased assets based on a range of current and future business, technical, and workforce issues and factors;
- Balance the value of the asset portfolio and individual assets with current and potential risks;
- Seek sound, efficient, and effective solutions to asset needs; and
- Reduce the cost of operating and maintaining assets.

## Performance Accountability

The Department's new Strategic Plan represents a major step forward in the long journey toward integrating our processes and programs, reflecting both the changing realities we face and the direction we will take in the years to come. In addition to allowing us to set and measure consistent multi-agency, results-oriented goals, our new performance measurements provide the tools to make Interior more transparently accountable to citizens. They provide the means to reinforce organizational and individual accountability, with results tied to annual performance agreements of senior executives. They guide the development of the Departmental E-Government strategy, based upon analysis of shared business lines. They help us track progress related to Departmental workforce planning efforts as we develop a team that has the skills to accomplish our goals and achieve our performance targets. Backed by the Department-wide implementation of activity-based costing, they let us display the numerical relationships between our budget, strategic plan, performance results, and financial statements, further improving our ability to evaluate program management and performance.

# Compliance With Legal and Regulatory Requirements

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

- Federal Managers' Financial Integrity Act (FMFIA);
- Federal Financial Management Improvement Act (FFMIA);
- Inspector General Act Amendments (Audit Follow-Up);
- Improper Payments Information Act (IPIA);
- Federal Information Security Management Act (FISMA); and
- Other key legal and regulatory requirements including:

  - Prompt Payment Act (PPA)
  - Debt Collection Improvement Act (DCIA)
  - Biennial review of user fees

In addition, this section includes summaries of Department financial management improvement initiatives with respect to:

- Audited financial statement results;
- Financial management systems;
- Financial management human capital;
- Financial data stewardship; and,
- Major management challenges facing Interior.

## Federal Managers' Financial Integrity Act (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 sound delivery of services to customers; and (5) maximizes desired program outcomes. Interior has developed and implemented management, administrative, and financial system controls that reasonably ensure that:

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

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

### Annual Assurance Statement

The FMFIA requires agencies to provide a statement of assurance annually regarding the effectiveness of their management, administrative, and accounting controls, and their financial systems. Interior's FY 2004 Annual Assurance Statement is provided in *Figure 1-16*. The basis for the assurance statement conclusions is discussed in the following sections and is depicted in the chart in *Figure 1-17*.

### Management Control Assessments

Interior conducted an annual assessment of the effectiveness of its management, administrative, and accounting

FIGURE 1-16

**FISCAL YEAR 2004**
**ANNUAL ASSURANCE STATEMENT**

*The Department conducted the annual assessment of its systems of management, accounting, and administrative controls in accordance with the requirements and guidelines prescribed by the Federal Managers' Financial Integrity Act and Office of Management and Budget Circular A-123, "Management Accountability and Control." This assessment recognized the Department's significant progress in mitigating 70% of the FMFIA material weaknesses carried forward from the prior year. Based on the results of this assessment, with the exception of the four material weaknesses noted herein, the Department can provide reasonable assurance that its systems of management, accounting, and administrative controls, taken as a whole, meet the objectives specified in Section 2 of FMFIA and OMB Circular A-123.*

*The Department conducted an annual evaluation of its Information Technology (IT) Security Program as required by the Federal Information Security Management Act. The results of this evaluation led the Department and the Office of Inspector General to conclude that: significant improvements in the information technology security program had been achieved; the IT security program generally meets the requirements of FISMA; and, most of Interior's information systems have the levels of security needed to safeguard information and related assets.*

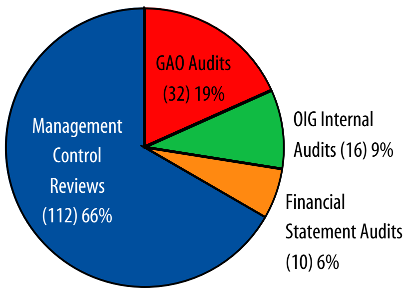
*The Department again received an unqualified audit opinion from the independent audit of its financial statements. However, the results of the audit indicated that several Department entities were not in full compliance with applicable Federal financial management system requirements, Federal accounting standards, and the U.S. Government Standard General Ledger based on OMB guidance and materiality thresholds prescribed for the FFMIA, which differed from those prescribed under FISMA. As a result, the Department does not fully comply with, or meet the objectives of, Section 4 of the FMFIA, OMB Circular A-127, "Financial Systems," and OMB Circular A-130, "Management of Federal Information Resources." The Department has implemented a remediation plan to resolve these deficiencies and expects to complete corrective actions in FY 2005.*

Gale A. Norton

**Secretary of the Interior**

FIGURE 1-17

**Basis for FY 2003 Assurance Statement**




systems controls in accordance with FMFIA and OMB guidelines. The conclusions in the Secretary's Annual Assurance Statement are based on the results of 112 management control reviews of programs and administrative functions conducted by bureaus and offices (66%), 16 OIG internal program audits (9%), 32 GAO program audits (19%), and the 10 financial statement audits (6%) conducted by the independent public accounting firm, KPMG LLP, under the auspices of the Chief Financial Officers (CFO) Act of 1990 and the Government Management Reform Act (GMRA) of 1994. It should be noted that, as in prior years, management control reviews performed by the Department and its bureaus provided the majority of the support (66%) for the Annual Assurance Statement. In addition, many of Interior's management control reviews and related accountability and integrity program activities were focused on areas identified as major management challenges and components of the President's Management Agenda. *Figure 1-18* presents a crosswalk of those activities.

## Material Weaknesses and Accounting System Non-conformances

Prior to FY 2004 and since the inception of the FMFIA in 1982, Interior had identified and reported 172 material weaknesses and 65 accounting system non-conformances. Interior had corrected 162 of these material weaknesses (94%) and 64 of these accounting system non-conformances (98%). During FY 2004, one new material weakness was identified while 7 material weaknesses were corrected or downgraded. All accounting system non-conformances identified through FY 2000 were previously corrected. The remaining accounting system non-conformance for financial management system security controls was downgraded as a result of significant progress achieved during FY 2004.

FIGURE 1-18

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

| Management Accountability and Integrity Program Activities in FY 2004 Related to Interior's Major Management Challenges and President's Management Agenda (Update as of 8/31/04) | Interior's Top Management Challenges | | | | | | | | President's Management Agenda | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Financial Management | Information Technology | Health, Safety, and Emergency Management | Maintenance of Facilities | Responsibilities to Indian and Insular Affairs | Resource Protection and Restoration | Revenue Collections | Procurement, Contracts, and Grants | Competitive Sourcing | Strategic Management of Human Capital | Expanded Electronic Government | Improved Financial Management | Budget and Performance Integration |
| Management Control Reviews/Management Studies and Initiatives | ✔ | ✔ | ✔ | ✔ | ✔ | ✔ | | ✔ | ✔ | ✔ | ✔ | ✔ | ✔ |
| | | | | | | | | | | | | | |
| Office of Inspector General Audits | | | | | | | | | | | | | |
| - Program Audits Completed | ✔ | ✔ | | ✔ | | ✔ | | | | | | ✔ | |
| - Financial Statement Audits Completed | ✔ | | ✔ | | | | ✔ | ✔ | | | | ✔ | |
| | | | | | | | | | | | | | |
| U.S. Government Accountability Office Audits Completed | ✔ | ✔ | | ✔ | ✔ | ✔ | | ✔ | | ✔ | | ✔ | |
| | | | | | | | | | | | | | |
| Federal Manager's Financial Integrity Act (FMFIA) Material Weaknesses | | | | | | | | | | | | | |
| - Corrected or Downgraded During FY 2004 | ✔ | ✔ | ✔ | | | ✔ | ✔ | | | | | ✔ | |
| - Pending and Carried Forward to FY 2005 | | | ✔ | ✔ | ✔ | | | | | | | | |

TABLE 1-9

| Number of Material Weaknesses Reported and Corrected or Downgraded | | | |
|---|---|---|---|
| Period Reported | Reported | Corrected or Downgraded | Pending at Year End |
| Prior Years | 169 | 152 | 17 |
| FY 2001 | 1 | 1 | 17 |
| FY 2002 | 2 | 8 | 11 |
| FY 2003 | 0 | 1 | 10 |
| FY 2004 | 1 | 7 | 4 |
| Total | 173 | 169 | 4 |

TABLE 1-10

| Number of Material Non-Conformances Reported and Corrected or Downgraded | | | |
|---|---|---|---|
| Period Reported | Reported | Corrected or Downgraded | Pending at Year End |
| Prior Years | 64 | 64 | 0 |
| FY 2001 | 1 | 0 | 1 |
| FY 2002 | 0 | 0 | 1 |
| FY 2003 | 0 | 0 | 1 |
| FY 2004 | 0 | 1 | 0 |
| Total | 65 | 65 | 0 |

The Department's progress in correcting material weaknesses and accounting system non-conformances is presented in *Tables 1-9 and 1-10*. These tables present the number of new material weaknesses and accounting system non-conformances reported and corrected by fiscal year and the number pending at year-end. *Table 1-11* presents the 10 material weaknesses that were pending at the beginning of FY 2004, including those designated as "mission critical weaknesses," and the status (correction or downgrade) of these weaknesses. Interior will carry forward only four material weaknesses to FY 2005, the lowest total of pending material weaknesses since the inception of the FMFIA.

### GPRA Goal for Timely Correction of Material Weaknesses

Interior is committed to the timely correction of material weaknesses in order to improve integrity and accountability in its programs, organizations, and functions. To ensure that the material weaknesses identified and reported in the FMFIA program are corrected in a timely manner, the Department established a GPRA performance measure. The Department's performance goal for FY 2004 was to substantially complete at least 80% of the material weaknesses targeted for completion in FY 2004.

The Department met this performance goal in FY 2004 by correcting or downgrading 5 of 6 material weaknesses targeted for completion in FY 2004, for an 83% performance goal achievement (*Table 1-11*). In addition, 2 material weaknesses targeted for correction after FY 2004 were downgraded. The extensive accomplishments of Office of the Special Trustee for American Indians (OST) in improving Records Management, and the efforts of BOR and FWS in improving Real Property Management weaknesses ahead of schedule contributed to Interior exceeding this GPRA performance goal.

### Mission Critical Material Weaknesses

OMB Circular A-123, "Management Accountability and Control," requires that each agency identify and report on the most critical material weaknesses affecting the agency. The Department has adopted the guidelines for mission critical material weakness designations recommended by the GAO. These guidelines are noted in *Figure 1-19*. Interior recognizes the importance of correcting mission critical weaknesses in a timely manner. The Department and senior program management officials continuously monitor corrective action progress for all mission critical weaknesses.

## Federal Financial Management Improvement Act (FFMIA)

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

Federal agencies are required to address compliance with the requirements of the FFMIA in the representation letter to the financial statement auditor. The

**TABLE 1-11**

**Pending FMFIA Material Weaknesses as of September 30, 2004**

| Bureau | Date First Reported | Description | Corrective Actions | FY 2004 Progress | FY 2003 PAR Target Date | Status |
|---|---|---|---|---|---|---|
| **Mission Critical Material Weaknesses** | | | | | | |
| OST, BIA and OS/ OHTA | FY 1991 | Indian Trust Assets: Improve trust policies, procedures, systems, training, and internal controls. | Improve procedures, systems, and internal controls over the billing and collection of lease revenue, eliminate the backlog of unprocessed probates, update land ownership records, and address any remaining historical accounting concerns. | During FY 2004, the OIG commenced a performance audit to ensure appropriate collection of funds and adherence to internal controls. The OIG will complete the audit in FY 2005. When the results of that audit are distributed, additional improvements will be implemented where appropriate, along with the additional improvements that are planned and underway in the areas of land records, probate, and leasing.<br><br>While improvements in systems, procedures, and controls have been implemented, there has been no determination that the trust fund balances need to be adjusted. OST acknowledges that the accuracy of balances in the trust fund accounts has been challenged, and the Court has directed Office of Historical Trust Accouting (OHTA) to conduct an historical accounting. OST also acknowledges that the outcome of the historical accounting may lead to a future direction from the Court or Congress to adjust those balances. | FY 2007 | Ongoing. No change in the FY 2007 targeted correction date. |
| OST and BIA | FY 1991 | Records Management: Long standing deficiencies in the records management program have made it difficult to ensure the maintenance and preservation of Indian Trust records. | An updated work plan with strategies, tasks, timelines and resource requirements have been developed by the Office of Trust Records. The implementation of this work plan will resolve many of the identified deficiencies and establish an active and comprehensive records management program for BIA and OST. | The Office of Trust Records (OTR) identified the following six strategies and related action milestones to achieve an effective records management program: (1) records retention schedules; (2) record-keeping requirements; (3) safeguarding records; (4) training programs; (5) evaluation of records programs; and, (6) record retrieval and document production requirements. The six strategies have been substantially completed. Major milestones include: the BIA Indian Affairs Records and Files Disposition Handbook was updated and approved by the Archivist of the United Sates; the Indian Affairs Records Management Manual has been developed and published; the American Indian records Repository was constructed and now contains 32,000 boxes of indexed records previously stored in several records centers across the country; 530 pieces of fireproof records storage equipment have been provided to BIA and OST offices; training and technical guidance has been provided to over 192 line officers; protocols for retiring inactive trust records have been developed and implemented; and, a central database for all inactive Indian Affairs records has been developed, implemented, and over 65,000 boxes of records have been indexed and entered into the database. The remaining action milestones in each strategy are ongoing activities and routine business practices. OTR will continue to monitor and report to the Office of the Assistant Deputy Secretary on the status of these ongoing activities and routine business practices. | FY 2006 | Downgraded |

**TABLE 1-11**

**Pending FMFIA Material Weaknesses as of September 30, 2004**

| Bureau | Date First Reported | Description | Corrective Actions | FY 2004 Progress | FY 2003 PAR Target Date | Status |
|---|---|---|---|---|---|---|
| **Mission Critical Material Weaknesses** | | | | | | |
| NPS | FY 2002 | Oil and Hazmat Incident Preparedness and Response Program: The lack of an adequate oil and hazardous material incident preparedness and response program potentially endangers the safety of the public, employees, and park resources. | NPS will develop and implement a comprehensive corrective action plan to ensure full and complete compliance with applicable laws, regulations, Executive orders, and policies to ensure the safety of the public, employees, concessionaires and park resources. | NPS designated an Associate Director for the Hazmat Response Program within NPS, and implemented a comprehensive corrective action plan to ensure full and complete compliance with applicable laws, regulations, Executive orders, and policies to ensure the safety of the public, employees, concessionaires, and park resources. NPS conducted follow-up assessments at high-risk parks to measure compliance with fuel transfer, storage and handling operations policies, procedures, and regulations. The results of the assessment indicated there were no material instances of non-compliance. | FY 2004 | Corrected |
| NPS | FY 2000 | Inadequate Structural Fire Program: The current program does not provide adequate protection of employees and visitors, contents, structures, and resources for the effects of fire as required by Director's Order No. 58. | NPS will develop and implement a comprehensive structural fire program plan as directed by Congress. The plan will include specific milestones to address the operational, organizational, technical, and staffing deficiencies cited in the May 2000 GAO audit report and July 2000 Congressional hearing on fire safety failures of the NPS. | NPS has: implemented a requirement that fire safety reviews of all new construction and major facility rehabilitation projects be conducted by a trained, qualified inspector; developed a facilities liaison position to conduct fire protection condition assessments of concessions facilities in national parks; implemented a requirement that any new fire alarm or sprinkler system must be tested before installation for compliance with National Fire Protection Codes; and implemented a phased training program for park personnel on inspection, testing, and maintenance of sprinkler and alarm systems. Remaining training courses have been funded and scheduled for FY 2005. | FY 2004 | Downgraded |

TABLE 1-11

| Pending FMFIA Material Weaknesses as of September 30, 2004 | | | | | | |
|---|---|---|---|---|---|---|
| **Bureau** | **Date First Reported** | **Description** | **Corrective Actions** | **FY 2004 Progress** | **FY 2003 PAR Target Date** | **Status** |
| **Mission Critical Material Weaknesses** | | | | | | |
| DEPT | FY 2000 | Information Technology Security: The increasing growth in electronic commerce, the heightened reliance on information systems to accomplish basic missions, and the growing potential vulnerabilities of information systems to unauthorized access have resulted in the need for a comprehensive Department program to maintain IT security. | The Department will continue a comprehensive IT security assessment to determine the security and control issues in its bureaus and offices. Based on its findings, the Department will develop and implement additional security improvement initiatives and capital budgeting requirements, and implement them on a phased basis. | The Chief Information Officer (CIO) has: provided mandatory Security End-user training for DOI employees and contractors and Specialized Security training for individuals having significant security responsibilities; tracked all training for FISMA reporting and for the IT security scorecard; conducted an annual IT Security Program Review for each bureau and tracked improvements over FY 2003 results; continued developing and implementing policy and procedures to measure effectiveness through Entity-wide IT Security Program reviews; enacted a requirement for all bureaus to use Plan of Action and Milestones (POA&M) as an active project management tool to manage and track all IT security weaknesses and activities; and continued to work with BLM to test and roll out Department-wide Smartcard solution for integrating building PC, network, and system access.<br><br>IN FY 2004, the CIO completed a comprehensive assessment of IT security compliance with NIST Publication 800-26. The assessment measured compliance at both the program and system level in 17 control areas for all Departmental and bureau IT security programs, Major Applications (MA) and General Support Systems (GSS). The results of the assessment indicated that Departmental and bureau progress had reached the desired compliance levels in all but a few areas. Therefore, the CIO concluded, and the Department concurred, that the Department-wide material weakness no longer exists, and that further attention and improvement will be directed at certain areas. | FY 2004 | Downgraded |
| NPS/BIA | FY 2000 | Inadequate Wireless Telecommunications: Effective radio communications is critical to employee and public safety, and the efficient management of the parks and public lands. The current wireless telecommunications program in some bureaus does not effectively support bureau and public safety operations, does not comply with Department management directives, and is not funded to achieve timely compliance. | The Department will develop and implement a plan to meet employee and public safety objectives, and restore the program to efficiency by reviewing bureau Narrowband Capital Investment and Implementation Plans; revise plans to maximize radio system sharing, minimize supporting infrastructure requirements; and ensure maximum use of alternative wireless services. | Interior's CIO has: reviewed bureau and office Narrowband Capital Investment and Implementation Plans to verify that operations requirements would be met and funding priorities were adequate to meet the mandated land mobile radio narrowband transition by January 2005; revised, Radio Handbook and IRM Bulletins to provide policy direction and wireless program management guidance to ensure compliance with the National Telecommunications and Information Administration Standards, and the Omnibus Budget and Reconciliation Act of 1993; provided Departmental Budget formulation guidance for the transition to VHF narrowband operation for fiscal years 1999 to 2006; identified and implemented plans and actions to maximize resource sharing; and, assessed the transition plans quarterly for all affected offices and bureaus. As a result, BLM, FWS, BOR, USGS, and OS will meet the narrowband transition mandate. NPS and BIA will not be in compliance with the National Telecommunications and Information Administration Standards, and the Department-wide material weakness will be downgraded to bureaus-specific material weaknesses for BIA and NPS at the end of FY 2005. | FY 2005 | Ongoing. A targeted correction date of FY 2007 has been assigned by NPS and BIA. |

TABLE 1-11

| Pending FMFIA Material Weaknesses as of September 30, 2004 | | | | | | |
|---|---|---|---|---|---|---|
| Bureau | Date First Reported | Description | Corrective Actions | FY 2004 Progress | FY 2003 PAR Target Date | Status |
| Mission Critical Material Weaknesses | | | | | | |
| DEPT | FY 1999 | Inadequate Department-wide Maintenance Management Capability: Interior lacks consistent, reliable, and complete information to plan for, budget, and account for resources dedicated to maintenance activities. | Identify and implement a comprehensive maintenance management system with an appropriate linkage to the accounting system; conduct comprehensive condition assessments; make determinations to repair, replace, or relocate facilities; develop a 5-year Deferred Maintenance Plan and Capital Improvement Plan; repair, replace, and relocate facilities to "good condition"; and reduce deferred maintenance to established goals (5 percent or less of replacement cost). | Interior identified and commenced implementation of a comprehensive maintenance management system (MAXIMO) with an appropriate linkage to the accounting system. All bureaus are in various stages of implementation, except BIA which is using its own "Legacy" system. All bureaus are starting the 5th year of the 5-year plan to conduct comprehensive condition assessments on all constructed assets with a current replacement value of more than $50,000. With this information, bureaus are making the determination to repair, replace, or relocate facilities. A 5-year Deferred Maintenance Plan and Capital Investment Plan have been developed and are updated annually. Facilities are being repaired, replaced, and relocated to good condition based on priorities from condition assessments. At the completion of the first cycle of 5-year condition assessments, a baseline of outstanding deferred maintenance will be established and annual reductions toward the goal of 5% or less of replacement cost will be measured. | FY 2004 | Ongoing. A targeted correction date of FY 2006 has been assigned by the Department. |

TABLE 1-11

| Pending FMFIA Material Weaknesses as of September 30, 2004 | | | | | | |
|---|---|---|---|---|---|---|
| **Bureau** | **Date First Reported** | **Description** | **Corrective Actions** | **FY 2004 Progress** | **FY 2003 PAR Target Date** | **Status** |
| **Mission Critical Material Weaknesses** | | | | | | |
| BIA (New) | FY 2004 | Indian Detention Facilities: After years of inadequate management attention and funding priorities, serious safety, security, and maintenance deficiencies exist at the majority of BIA detention centers. These deficiencies are a hazard to inmates, staff, and the public. | BIA will immediately commence the implementation of corrective actions that will improve the security, safety, management, and operating efficiency of detention facilities. These actions will include:<br><br>• The Deputy Assistant Secretary for Law Enforcement will become actively engaged in managing the detention program;<br><br>• The Department's Office of Law Enforcement will conduct frequent scheduled and unscheduled compliance inspections;<br><br>• Clear "serious incident" reporting and follow-up protocols will be established and implemented;<br><br>• Facility staffing models will be developed, and shortages related to officer safety should be immediately identified and corrected;<br><br>• Recruiting standards and guidelines for detention officers will be developed and adhered to;<br><br>• A system for identifying and prioritizing facilities repairs impacting inmate and officer safety will be implemented;<br><br>• Internal controls and other improvements for budgeting, cost tracking, and reporting purposes will be developed and implemented;<br><br>• Strategic plans for jail replacement and renovation based on comprehensive condition assessments will be developed;<br><br>• Training standards and models for detention offices will be developed and compliance/certification reviews will be conducted; and,<br><br>• Regular regional meetings of detention administrators will be held to identify best practices and address and resolve emerging issues. | Before the end of FY 2004, BIA commenced restructuring of the Office of Law Enforcement; issued the Indian Country Detention Strategic Planning summary; developed a staffing plan to address critical staffing shortages; and, commenced development of revised training programs.<br><br>OIG audit report with recommendations was issued in September 2004. | N/A | Ongoing. A targeted correction date of FY 2005 has been assigned by BIA. |

TABLE 1-11

**Pending FMFIA Material Weaknesses as of September 30, 2004**

| Bureau | Date First Reported | Description | Corrective Actions | FY 2004 Progress | FY 2003 PAR Target Date | Status |
|---|---|---|---|---|---|---|
| **Other Material Weaknesses** | | | | | | |
| BIA | FY 1984 | Irrigation Operations and Maintenance: The establishment of irrigation assessment rates and collection, recording, investment, and utilization of irrigation receipts are inadequate. Operation and maintenance (O&M) receivable balances have not been kept current and billing and debt collection processes have not been consistently followed. | The BIA will: (1) convert irrigation project billings and collections to the National Irrigation Information Management System (NIIMS) and interface it with Federal Financial System (FFS); complete and forward the construction debt cancellation package to the Assistant Secretary - Indian Affairs; develop Operations Handbook regarding project operations and keeping O&M assessments and collection processes current; and, develop and publish revised irrigation regulations in 25 CFR 171 A and B as a Final Rule, | All irrigation projects have been converted and billings and collections are now processed through NIIMS and reported in FFS. The construction debt cancellation package has been completed and approved by the Assistant Secretary - IA. The Operations Handbook has been issued. Tribal consultations for the Notice of Proposed Rulemaking (NPR) on the revised irrigation regulations have been completed. The NPR will be issued in December 2004. | FY 2004 | Downgraded |
| BLM | FY 2002 | Land Appraisal and Exchange Functions: Management and oversight of the land appraisal and exchange functions do not ensure that objective and independent market value opinions from qualified appraisers are used in land transactions. | The BLM will establish an independent appraisal function to review all land exchange transactions and establish a multi-agency team to review and identify appraisal and exchange function deficiencies and implement appropriate corrective actions. | Secretarial Order No. 3251 issued and implemented on November 12, 2003, consolidated and transferred real estate appraisal functions of all Interior bureaus into the Office of the Secretary (Office of Appraisal Services in the National Business Center). The consolidation ensures appraisal independence, accountability, high standards, and appropriate training and oversight for Departmental appraisal functions. | FY 2004 | Corrected |

**TABLE 1-11**

| Pending FMFIA Material Weaknesses as of September 30, 2004 | | | | | | |
|---|---|---|---|---|---|---|
| **Bureau** | **Date First Reported** | **Description** | **Corrective Actions** | **FY 2004 Progress** | **FY 2003 PAR Target Date** | **Status** |
| **Other Material Weaknesses** | | | | | | |
| BOR and FWS | FY 2000/ FY 2003 | Improving Controls and Systems for Accounting and Reporting Real Property: The Bureau of Reclamation and U.S. Fish and Wildlife Service do not have the internal controls, accounting procedures, and/or systems to properly account for real property. | The BOR will improve its land inventory and financial reconciliations by (1) conducting reconciliations and searches to validate the accuracy of its land records; (2) populating its new real property system with such data; (3) developing and issuing policy and procedures to ensure future quality, accuracy, and completeness of data captured in the lands and finance systems; and (4) conducting an initial and periodic reconciliation between the detailed land data maintained in its real property system and FFS to ensure the quality of information contained in both systems. FWS will improve the processes, procedures, controls, and systems to ensure that regions provide accurate and timely information for the real property system. | BOR has revised policies and procedures for recording land records in the property management system (FIRM) to ensure and complete reconciliations quality, accuracy, and completeness of data captured in the lands and finance systems; assessed and approved regional reconciliation methodologies; and, completed more than 90% of the project reconciliations to date. The remaining project reconciliations will be completed in FY 2005. FWS implemented a comprehensive corrective actions plan. Completed actions to date include: assessment of regional responsibilities and capabilities to ensure transactions are timely and accurate; property management training; implementation of processes and internal controls to ensure transactions are processed timely and accurately in the financial records; performance of quarterly reconciliations of Construction Work In Progress (CWIP) and other subsidiary systems and the General Ledger; and, implementation of procedures to determine and properly account for capital leases at lease inception. | FY 2005 | Downgraded |

FIGURE 1-19

**Material Weakness Guidelines**

The Department defines a mission critical material weakness as:

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

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

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

auditor is required to report on the agency's compliance with FFMIA requirements in the Independent Auditor's Report and in the Internal Control and Compliance 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.

As a result of material weaknesses and other reportable conditions identified in the FY 2004 financial statement audits, Interior concluded that it did not substantially comply with the FFMIA. The Department has reported the areas requiring improvement in the associated remediation plan.

## Highlights of FFMIA Remediation Plan

***Information Technology Security.*** Interior developed an Information Technology (IT) Security Plan to improve controls over financial and information technology systems, and protect information resources. Under the leadership of the OCIO, the Department has achieved substantial progress in implementing the plan at both the Department and bureau levels. Sound guidance has been provided to bureaus and offices regarding desired implementation of IT security requirements. The FY 2004 FISMA annual evaluation of the IT security program by the Department and the OIG concluded that: (1) significant improvements had been achieved; (2) the IT security program generally meets the requirements of FISMA; and, (3) most of Interior's information systems have the level of security needed to safeguard information and related assets. The Department recognizes that additional improvements in these areas are desired to raise all aspects of the IT security program to targeted performance levels. The Department will focus on these improvements in FY 2005.

***Segregation of Duties.*** The Department will continue to work with those bureaus with reported vulnerabilities in this area to review and restructure employee roles and responsibilities to achieve a higher degree of segregation of duties in information technology system-related operations where it is cost-effective. Bureaus with vulnerabilities in this area, and the related corrective action plans, are noted in *Table 1-20*.

***Access Controls.*** The Department has taken action to secure network vulnerabilities and improve access control in each of the following areas: network configuration management; password management; monitoring of security violation logs; access to program and sensitive files that control computer hardware and sensitive applications; and physical security controls. Some bureaus have not followed existing access control procedures that limit or detect inappropriate access to information technology systems and related resources. Bureaus with vulnerabilities in this area are noted in *Table 1-20*.

***Change Controls.*** The Department's IT Security Plan seeks to assure that appropriate policies, procedures, and operational controls are developed and implemented to prevent unauthorized system, program, or application modifications. Some bureaus have not fully implemented change controls, or followed existing procedures over application software development and change controls for all financial systems and applications. The bureaus with vulnerabilities in this area are noted in *Table 1-20*.

***Service Continuity.*** As noted in the FY 2004 FISMA evaluation, not all bureaus have completely implemented and tested Continuity of Operation Plans for major systems. These bureaus need to ensure that plans are in place and tested to minimize the risk of loss from unplanned interruptions, and to protect data should interruptions occur. Bureaus with vulnerabilities in this area are noted in *Table 1-20*.

***Federal Accounting Standards.*** Interior has strived to fully develop and implement strengthened policies, procedures, and controls to ensure that financial statements and related disclosures are prepared in accordance with Federal accounting standards and the U.S. Standard General Ledger, specifically the standards concerning intragovernmental eliminations and real property. The Department consolidated and bureau material weaknesses in these areas, and the related corrective action plans, are noted in *Tables 1-19* and *1-20*.

## Inspector General Act Amendments (Audit Follow-Up)

Interior believes that the timely implementation of OIG and GAO audit recommendations is essential to improving efficiency and effectiveness in its programs and operations, as well as achieving integrity and accountability goals. As a result, Interior has instituted a comprehensive audit follow-up program to ensure that audit recommendations are implemented in a timely and cost-effective manner and that disallowed costs and other funds due from contractors and grantees are collected or offset. In FY 2004, Interior monitored a substantial amount of Single Audit, OIG, and GAO audit activity, including 101 Single Audits, 72 OIG audits, and 61 GAO audits. Audit follow-up actions include analyzing audit reports referred; advising grantors of audit findings; tracking, reviewing, and validating audit recommendations; developing mutually acceptable and timely resolution to disputed audit findings and recommendations; and monitoring the recovery of disallowed costs.

### GPRA Goal for Timely Implementation of Audit Recommendations

To further demonstrate the importance of timely implementation of OIG and GAO audit recommendations, beginning in FY 2001, Interior established an aggressive annual GPRA performance goal of implementing 75% of all GAO and OIG audit recommendations within one year of the referral of those recommendations to the Department for tracking of implementation. After successfully meeting that goal for the first time in FY 2002, Interior elected to raise the performance goal to 80% for FY 2003 and FY 2004.

Interior was able to meet its GPRA performance goal for FY 2004. A composite implementation rate of 88% was achieved (*Table 1-12*). The primary reason for Interior's success in achieving the GPRA performance goal for the second consecutive year was the aggressive progress monitoring plan implemented at the direction of the Assistant Secretary – Policy, Management and Budget. In addition to the quarterly management control and audit follow-up program progress scorecard prepared for each bureau and office, a monthly progress scorecard for audited financial statement recommendation implementation progress was established to ensure audit recommendation implementation commitments were being met, and that immediate senior management attention was directed to slippage when it occurred. Interior plans to employ the same aggressive progress monitoring plans in FY 2005 to ensure the continued achievement of this GPRA performance goal.

### Single Audits

Interior provides over $2 billion each year in funding for grants, cooperative agreements, Indian self-determination contracts, and self-governance compacts to State and local governments, Indian tribes, colleges and universities, and other nonprofit organizations. Under the provisions of the Single Audit Act, the grantees' financial operations, management control

TABLE 1-12

| FY 2004 GPRA Performance Goal for Implementation of OIG and GAO Audits | | | |
|---|---|---|---|
| Bureau/Office | Number of Recommendations Meeting GPRA Goal Criteria | Number of Recommendations Implemented Within Planned One Year Target | Percentage Implementation |
| BIA | 31 | 30 | 97% |
| NPS | 27 | 21 | 78% |
| FWS | 43 | 35 | 81% |
| BLM | 25 | 13 | 52% |
| MMS | 23 | 21 | 91% |
| OSM | 10 | 10 | 100% |
| BOR | 33 | 30 | 91% |
| USGS | 63 | 63 | 100% |
| OS (Dept) | 23 | 20 | 87% |
| PIA (Dept) | 2 | 2 | 100% |
| OST (Dept) | 26 | 24 | 92% |
| **TOTAL** | **306** | **269** | **88%** |

structure, and level of compliance with applicable laws and regulations must be audited each year. All Single Audit reports are forwarded to and screened by the Federal Single Audit Clearinghouse (Clearinghouse). Those Single Audit reports, with findings and recommendations requiring audit follow-up, are forwarded to the Department for distribution to the appropriate bureaus for audit follow-up, resolution, and tracking. Each bureau is responsible for meeting with grantees and negotiating a resolution to the deficiencies identified in the audit reports, as well as for determining the allowability of any expenditure of Federal funds that has been questioned by the auditors.

### Collecting and Offsetting Disallowed Costs in Single Audits

As shown in *Table 1-13*, Interior closed only 4 of 65 (6%) audits in tracking during FY 2004. There was a substantial increase in the number of audits referred for tracking with disallowed costs (32 audits with $12.5 million in disallowed costs). The $710,000 in disallowed costs recovered represented about 2% of total disallowed costs in tracking during the year. Of the 61 audits in tracking at the end of the year, 28 (46%) had management decision dates greater than 1 year old. The Department plans to be more aggressive in its monitoring and follow-up activities during FY 2005, and expects to achieve significant increases in the number of audit reports closed and disallowed costs recovered, or offset.

### Internal Audits

Internal audits are audits conducted by the OIG of Interior's programs, organizations, and financial and administrative operations. During FY 2004, 72 audits were being tracked (46 audits carried over from FY 2003 and 26 new audits were referred for tracking during FY 2004), and 30 of those audits were closed (42%). A total of 536 recommendations from OIG internal audit reports were in tracking during the year, of which 267 were completed or closed during FY 2004. For the 42 audits pending at the end of FY 2004, there are 269 recommendations awaiting final implementation action.

One category of OIG internal audits is those audits where the OIG presents recommendations to improve efficiency and where funds can be put to better use (FBU audits). Interior tracks the successful implementation of FBU audit recommendations and FBU dollar estimates, which are agreed to by management. As noted *Table 1-14*, there were 5 audits with $128.6 million in FBU dollars tracked during FY 2004. Three audits (60%) with $90.4 million (70%) in FBU dollars were closed during the year.

### Government Accountability Office Audits

GAO audits are a major component of Interior's audit follow-up program workload and cover a variety of programs, operations, and activities. A total of 25 GAO reports with 57 recommendations were carried over from FY 2003. GAO issued a total of 26 new reports with 51 recommendations during the year. The Department was successful in closing 28 of the 51 (55%) reports in tracking during FY 2004, along with 13 (12%) recommendations (*Table 1-15*).

TABLE 1-13

**FY 2004 Summary of Actions Taken on Contract, Grant, and Single Audits with Disallowed Costs**

| | | | Number of Reports | Disallowed Costs |
|---|---|---|---|---|
| (A) Reports on Hand at Beginning of Period * | | | 33 | $22,575,433 |
| (B) New reports | | | 32 | $12,537,394 |
| Total reports in tracking | | | 65 | $35,112,827 |
| (C) Final action taken during period | | | 4 | $710,213 |
| Collected | 3 | $429,738 | | |
| Written Off | 0 | 0 | | |
| Offset | 0 ** | $140,359 | | |
| Reinstated | 1 | $140,116 | | |
| Referred to Treasury for Collection Action | 0 | 0 | | |
| (D) Reports in progress at end of period | | | 61 | $34,402,614 |
| Mgmt Dec < 1 yr old | 32 | $12,537,394 | | |
| Mgmt Dec > 1 yr old | 28 | $19,695,605 | | |
| Mgmt decision under formal appeal | 1 | $2,169,615 | | |

* Fiscal Year 2004 beginning balances have been restated to eliminate 53 audit reports with non-monetary findings (internal control issues, etc.) and $23,016,670 million in funds not subject to Interior audit follow-up that were included in FY 2003 ending balances.

** Report has costs in multiple categories.

TABLE 1-14

**Summary of Actions Taken with Funds to be Put to Better Use (FBU) in FY 2004**

| | | | Number of Reports | FBU Dollars |
|---|---|---|---|---|
| (A) Reports on hand at beginning of report period | | | 2 | $14,435,553 |
| (B) New reports received during report period | | | 3 | $114,139,271 |
| Total reports in tracking | | | 5 | $128,574,824 |
| (C) Reports closed during report period | | | 3 | $90,355,553 |
| (D) Reports in progress at end of report period | | | 2 | $38,219,271 |
| Mgmt dec < 1 yr old | 2 | $38,219,271 | | |
| Mgmt dec > 1 yr old | 0 | 0 | | |
| Mgmt dec under formal appeal | 0 | 0 | | |

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

## Audited Financial Statement Results

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

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

The results of the FY 2003 and FY 2004 audited financial statement process are summarized in *Table 1-16*. As shown in the table, there were instances where exceptions on internal controls were noted as material weaknesses or reportable conditions, as well as instances of noncompliance with laws and regulations other than compliance with the Federal Financial Management Improvement Act (FFMIA).

### Resolution of Internal Control Weaknesses and Non-Compliance Issues Reported in FY 2003 Audited Financial Statements

*Tables 1-17 and 1-18* summarize the status of material weaknesses and non-compliance issues reported in the FY 2003 audited financial statements. The Department has established an internal goal of completing corrective actions for material weaknesses and non-compliance issues by the end of the following fiscal year, unless the magnitude of the corrective action plans involves a multi-year effort.

While the Department made progress in correcting material weaknesses reported in the FY 2003 audits, delays in completing corrective actions in some bureaus and several multi-year corrective action plans precluded the achievement of the internal goal in FY 2004. In summary, 7 of the 17 (41%) total material weaknesses reported in FY 2003 financial statements were corrected or downgraded to reportable conditions during FY 2004. Moreover, 7 of the 14 (50%) material weaknesses reported in FY 2003

TABLE 1-15

| Summary of Actions Taken on Reports Issued by the GAO in FY 2004 | | | | | |
|---|---|---|---|---|---|
| | | | | Number of Recommendations | Number of Reports |
| In tracking at the beginning of reporting period | | | | 57 | 25 |
| Issued during the reporting period | | | | 51 | 26 |
| Subtotal | | | | 108 | 51 |
| Closed during the reporting period | | | | 13 | 28 |
| In tracking at the end of the reporting period | | | | 95 | 23 |
| Code | Status of final reports in tracking | No. of Recommendations | No. of Reports | | |
| D1 | Management decisions < 1 yr old | 43 | 12 | | |
| D2 | Management decisions > 1 yr old | 53 | 21 | | |
| D3 | Mgmt decisions under formal appeal | 0 | 0 | | |

TABLE 1-16

| Summary of FY 2003 and FY 2004 Financial Statement Audits | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Unqualified Opinion on Financial Statements | | Material Weakness in Report on Internal Controls | | Full Compliance with Laws and Regulations (Non FFMIA) | | Full Compliance with Laws and Regulations (FFMIA) | | Full Component Compliance with Laws and Regulations (FFMIA) | | |
| | | | | | | | | | Systems | Accounting | SGL |
| | FY 2003 | FY 2004 | FY 2003 | FY 2004 | FY 2003 | FY 2004 | FY 2003 | FY 2004 | FY 2004 | FY 2004 | FY 2004 |
| Dept | Yes | Yes | Yes | Yes | No (2,3,4) | No (2,3,4) | No | No | No | No | No |
| FWS | Yes | Yes | Yes | Yes | Yes | Yes | No | No | No | No | Yes |
| USGS | Yes (1) | Yes | Yes | No | Yes | Yes | No | No | No | Yes | Yes |
| BIA | Yes | Yes | Yes | Yes | No (2,3,4) | No (2,4) | No | No | No | No | No |
| BLM | Yes | Yes | No | Yes | Yes | Yes | No | No | No | No | Yes |
| MMS | Yes | Yes | No | Yes | Yes | No (2,3) | No | No | No | No | Yes |
| NPS | Yes | Yes | No | No | No (4) | No (4) | No | No | No | No | Yes |
| BOR | Yes | Yes | Yes | Yes | Yes | Yes | No | No | Yes | No | Yes |
| OSM | Yes | Yes | No | No | Yes | Yes | No | Yes | Yes | Yes | Yes |
| DO | Yes | Yes | Yes | Yes | No (4) | No (3,4) | No | No | No | No | Yes |

(1) Balance sheet only
(2) Debt Collection Improvement Act
(3) Prompt Payment Act
(4) Single Audit Act

and targeted for correction in FY 2004 were corrected or downgraded to reportable conditions. The decline in the correction percentage over the prior year was directly attributable to several bureaus failing to meet corrective action commitments.

The Department did not make progress in correcting non-compliance issues reported in the FY 2003 audits as delays in completing corrective actions in a few bureaus precluded the achievement of the internal goal in FY 2004. In summary, only 2 of the 18 (11%) total non-compliance issues reported in FY 2003 financial statements were corrected or downgraded during FY 2004. However, it should be noted that the correction rate is somewhat understated as several bureaus corrected one or more of the FFMIA non-compliance components reported in FY 2003. For example, the USGS achieved compliance of the corrective actions related to its accounting standard component but not its financial system component. As a result, the FFMIA non-compliance was carried forward to FY 2005.

TABLE 1-17

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

TABLE 1-17

| FY 2003 Audited Financial Statements<br>Status of Material Weakness Corrective Actions (as of 9/30/04) | | | | |
|---|---|---|---|---|
| **Bureau** | **Material Weakness Description** | **Corrective Action** | **Original Target Date** | **Corrective Action Status** |
| BIA | Year-End Accruals and Deobligations | Develop and implement policies and procedures to ensure that appropriate accruals and deobligations are recorded in financial management systems. | 9/30/04 | Corrected |
| BIA | Controls Over Property | Implement controls to improve reporting of additions and disposals, construction-in-progress, leased property, depreciation, and reconciliations between general and subsidiary ledgers. | 9/30/04 | Delayed |
| BIA | Controls Over Procurement Activity | Implement controls and processes to improve the timely, accurate, and complete recording of acquisitions. Ensure that documentation complies with policies and procedures. | 9/30/04 | Downgraded |
| BIA | Controls Over Processing Trust Transactions | Improve fiduciary controls over the processing of Trust transactions including segregation of duties, related party transactions, probate backlogs, and appraisal compacts. | 9/30/04 | Delayed |
| OST | Reliance on Processing of Trust Transactions in the BIA | Work collaboratively with Departmental offices to monitor progress, ensure timely completion of Trust reform initiatives, and fulfill fiduciary responsibility to Trust fund beneficiaries. | 9/30/04 | Delayed |
| OST | Resolution of Financial Reporting Issues from Prior Periods | Continue to develop issue papers and action plans to address and resolve prior period issues. | 9/30/04 | Delayed |

TABLE 1-18

| FY 2003 Audited Financial Statements Non-Compliance with Laws and Regulations Status Report (as of 9/30/04) | | | | |
|---|---|---|---|---|
| Bureau | Non-Compliance Description | Corrective Action | Target Date | Status |
| DEPT | Debt Collection Improvement Act of 1996 | Interior should establish a process to ensure eligible receivables in all bureaus are referred to the U.S. Department of the Treasury in a timely manner. | 9/30/04 | Delayed |
| DEPT | Single Audit Act Amendments of 1996 | Improve grantee monitoring processes to ensure compliance with reporting requirements | 9/30/04 | Delayed |
| DEPT | Prompt Payment Act of 1982 (P.L. 97-177) | Ensure that all bureaus correctly enter payment data into FFS in order to properly calculate and pay prompt pay interest due. | 9/30/04 | Delayed |
| DEPT | Federal Financial Management Improvement Act (FFMIA) | Develop and implement appropriate controls to ensure full compliance with Federal financial system requirements and U.S. Standard General Ledger accounting standards at the transaction level. | 9/30/04 | Delayed |
| BIA | Federal Financial Management Improvement Act (FFMIA) | Develop and implement appropriate controls to ensure full compliance with Federal financial management systems, accounting standards, and the SGL at the transaction level. | 9/30/04 | Delayed |
| BIA | Single Audit Act Amendments of 1996 | Ensure that monitoring activities in the Office of Audit and Evaluation over A-133 audits result in full compliance. | 9/30/04 | Delayed |
| BIA | Prompt Payment Act of 1982 (P.L. 97-177) | Train and monitor employees to ensure that the acceptance dates per the invoice and receiving report are correctly transferred to the payment voucher and that the information should also be correctly entered into FFS. | 9/30/04 | Corrected |
| BIA | Debt Collection Improvement Act of 1996 | Establish, implement, and monitor policies and procedures addressing debt collection issues to ensure compliance with the Debt Collection Improvement Act. | 9/30/04 | Delayed |
| DO | Federal Financial Management Improvement Act (FFMIA) | Develop and implement appropriate controls to ensure full compliance with Federal financial systems and accounting standards. | 9/30/04 | Delayed |
| DO | Single Audit Act Amendments of 1996 | Ensure that monitoring activities in the Office of Audit and Evaluation over A-133 audits result in full compliance. | 9/30/04 | Delayed |
| MMS | Federal Financial Management Improvement Act (FFMIA) | Develop and implement a process to ensure that the Minerals Revenue Management Financial System (MRMFS) is able to produce timely and accurate financial information to meet the requirements of FFMIA | 9/30/04 | Delayed |
| FWS | Federal Financial Management Improvement Act (FFMIA) | Develop and implement appropriate controls to ensure full compliance with Federal financial management systems and accounting standards. | 9/30/04 | Delayed |
| BLM | Federal Financial Management Improvement Act (FFMIA) | Develop and implement appropriate controls to ensure full compliance with Federal accounting standards. | 9/30/04 | Delayed |
| NPS | Single Audit Act Amendments of 1996 | Ensure that monitoring activities in the Office of Audit and Evaluation over A-133 audits result in full compliance. | 9/30/04 | Delayed |
| NPS | Federal Financial Management Improvement Act (FFMIA) | Develop and implement appropriate controls to ensure full compliance with Federal financial management systems and accounting standards. | 9/30/04 | Delayed |
| BOR | Federal Financial Management Improvement Act (FFMIA) | Develop and implement appropriate controls to ensure full compliance with Federal financial management systems and accounting standards. | 9/30/04 | Delayed |
| USGS | Federal Financial Management Improvement Act (FFMIA) | Develop and implement appropriate controls to ensure full compliance with Federal financial management systems. | 9/30/04 | Delayed |
| OSM | Federal Financial Management Improvement Act (FFMIA) | Develop and implement appropriate controls to ensure full compliance with Federal financial management systems requirements. | 9/30/04 | Corrected |

The Department intends to implement more aggressive monitoring actions during FY 2005 in order to substantially correct all of the material weaknesses and noncompliance issues reported in FY 2004 by the end of the third quarter of FY 2005.

*Tables 1-19 and 1-20* present summaries of each of the material weaknesses and non-compliance issues reported in Department consolidated and bureau FY 2004 financial statement audit opinions. A total of 15 material weaknesses were reported, of which 10 (67%) were carried over from FY 2003. A total of 19 non-compliance issues were reported, of which 16 (84%) were carried over from FY 2003.

## Major Management Challenges Confronting Interior

The OIG and the GAO annually advise Congress what they consider to be the Major Management Challenges facing the Department. *Table 1-21* presents a summary of the Major Management Challenges identified by the OIG and GAO and actions taken to address these challenges to date.

## Improper Payments Information Act of 2002

The Improper Payments Information Act (IPIA) of 2002 (P.L. 107-300) requires Federal agencies to carry out a cost-effective program for identifying payment errors and recovering any amounts overpaid. An improper (or erroneous) payment includes any payment that should not have been made, or that was made in an incorrect amount under statutory, contractual, administrative, or other legally applicable requirement. Incorrect amounts include: overpayments; underpayments (including inappropriate denials of payment or service); any payment made to an ineligible recipient or for an ineligible service; duplicate payments; payments for services not received; and payments that do not account for credit for applicable discounts.

To implement IPIA, the Office of Management and Budget (OMB) required agencies to review all programs (meeting OMB's definition of "program") to determine the risk susceptibility of making improper payments and to perform more in depth assessments for those programs meeting OMB's criteria for "significant erroneous payments." The threshold for significant erroneous payments is: program payments exceeding both 2.5% and $10 million annually. For all programs meeting the criteria, agencies were required to quantify the amount of erroneous payments using a statistically valid method with a 90% confidence level.

### Summary of Implementation Efforts for FY 2004

Based on a series of internal control review techniques, Interior determined that none of its programs are risk-susceptible for making significant improper payments at or above the threshold levels set by OMB. It should be noted that these reviews were conducted in addition to audits under the Single Audit Act Amendments of 1996, the Chief Financial Officers Act of 1990, GAO reviews, and reviews by Interior's Inspector General. Three different techniques were used to arrive at this determination: (1) risk assessments of internal controls related to payments for all programs; (2) Departmental Functional Reviews (DFRs) focusing on the general control environment for making payments and the controls related to specific payment types; and (3) pre-payment and post-payment audits and recoveries. Each of the three techniques is summarized below:

***1. Risk Assessments.*** Interior's Management Control Guidance for FY 2004 required managers to conduct risk assessments of all programs to determine if any were risk-susceptible for making significant improper payments. The assessments were used to establish risk profiles for all bureau programs. In particular, three programs of the Department were initially thought to have the potential for meeting the OMB threshold for significant erroneous payments. This initial assessment was based on prior audit and management control review efforts. The programs included were: Indian Self-Determination and Education Act (P.L. 93- 638) of the Bureau of Indian Affairs, Federal Aid of the U.S. Fish and Wildlife Service, and Financial Assistance of the Office of Insular Affairs. These three programs were required to make a more in-depth risk assessment. The results of these reviews and the reviews of all other Interior programs come to the conclusion that none of Interior's programs pose a high-risk of making significant improper payments based on OMB's criteria.

TABLE 1-19

| FY 2004 Audited Financial Statements<br>Material Weakness Corrective Action Plan | | | | |
|---|---|---|---|---|
| Bureau | Material Weakness Description | Corrective Action | Target Date | New Weakness or Carryover from FY 2003 |
| DEPT | Intragovernmental Eliminations | Implement policies and procedures and work with other Federal agencies to provide streamlined and efficient year-end eliminations and reporting processes. | 9/30/05 | Carryover |
| DEPT | Controls Over the Year-End Closing Process | Implement procedures to ensure transactions are promptly and accurately recorded to minimize year-end and post-certification adjustments. Ensure supervisors review and approve all journal entries. | 9/30/05 | Partial Carryover |
| DEPT | Controls Over Trust Funds | Implement and/or revise controls and procedures to ensure that the Indian Trust Funds' activity and balances are properly and timely recorded, and controls and plans are in place to resolve the other deficiencies noted. | 9/30/05 | Carryover |
| DEPT | Controls Over Property, Plant, and Equipment | Complete land inventory and reconciliation and implement controls and procedures to ensure transactions are promptly and accurately recorded. | 9/30/05 | Carryover |
| DO | Budgetary Transactions | Improve controls to ensure that budgetary transactions promptly recorded, properly classified and accounted for in order to prepare timely and reliable financial reports. | 9/30/05 | New |
| DO | Accruals | Test and finalize the accrual methodology for interim financial reporting to reduce year-end accrual effort, and reconcile accrual calculations to the general ledger. | 9/30/05 | New |
| DO | Controls Over Tribal and Other Special Trust Funds | Implement policies, procedures, controls and systems to effectively manage Tribal and Other Special Trust Funds. | 9/30/05 | Carryover |
| BOR | Controls Over Land Inventory | Develop a complete and accurate inventory system that identifies by project all land and land rights, and reconcile system balances to the general ledger. | 9/30/05 | Carryover |
| MMS | Controls Over the Year-End Closing Process | Implement procedures to ensure transactions are promptly and accurately recorded to minimize year-end and post-certification adjustments. Ensure supervisors review and approve all journal entries. | 9/30/05 | New |
| BLM | Accounting for Mineral Leases | Implement procedures to ensure that mineral lease transactions are promptly and accurately recorded. Ensure supervisors review and approve all journal entries. | 9/30/05 | New |
| BIA | Controls Over Processing Trust Transactions | Improve fiduciary controls over the processing of Trust transactions including segregation of duties, probate backlogs, probate backlogs and appraisalcompacts. | 9/30/05 | Carryover |
| BIA | Controls Over Fund Balance with Treasury | Improve controls and procedures to ensure timely transaction entry and reconciliations, and supervisors review and approve adjusting entries. | 9/30/05 | New |
| BIA | Controls Over Property, Plant, and Equipment | Develop and implement policies and procedures to ensure that property, plant, and equipment accounts are stated in accordance with Federal accounting standards. Address construction grants, inventory observations, construction in progress, depreciation expense, and fixed asset subsidiary ledger. | 9/30/05 | Carryover |
| OST | Reliance on Processing of Trust Transactions at the BIA | Work collaboratively with Departmental offices to monitor progress and ensure timely completion of trust reform initiatives, and fulfill trust fiduciary responsibilities to trust fund beneficiaries. | 9/30/05 | Carryover |
| OST | Resolution of Financial Reporting Issues from Prior Periods (six part material weakness) | Continue to develop issue papers and action plans to address and resolve prior period issues. | 9/30/05 | Carryover |

**TABLE 1-20**

| FY 2004 Audited Financial Statements<br>Non-Compliance with Laws and Regulations | | | | |
|---|---|---|---|---|
| **Bureau** | **Non-Compliance Description** | **Corrective Action** | **Target Date** | **New or Carryover from FY 2003** |
| DEPT | Federal Financial Management Improvement Act | Improve controls to comply with Federal financial management system requirements, and accounting standards. | 9/30/05 | Carryover |
| DEPT | Debt Collection Improvement Act of 1996 | Establish a process to ensure eligible bureau receivables are referred to the U.S. Department of Treasury in a timely manner. | 9/30/05 | Carryover |
| DEPT | Prompt Payment Act of 1982 | Ensure that all bureaus correctly enter payment data voucher into FFS in order to properly calculate and pay prompt pay interest due. | 9/30/05 | Carryover |
| DEPT | Single Audit Act Amendments | Improve grantee monitoring processes to ensure compliance with the reporting requirements of the Single Audit Act Amendments. | 9/30/05 | Carryover |
| BOR | Federal Financial Management Improvement Act | Develop and implement appropriate controls to ensure full compliance with Federal accounting standards. | 9/30/05 | Carryover |
| FWS | Federal Financial Management Improvement Act | Develop and implement appropriate controls to ensure full compliance with Federal financial management systems and accounting standards. | 9/30/05 | Carryover |
| MMS | Federal Financial Management Improvement Act | Develop and implement appropriate controls to ensure full compliance with Federal financial management systems. | 9/30/05 | Carryover |
| MMS | Prompt Payment Act of 1982 | Ensure that payment data vouchers are entered correctly into FFS in order to properly calculate and pay prompt pay interest due. | 9/30/05 | New |
| MMS | Debt Collection Improvement Act of 1996 | Establish, implement and monitor policies and procedures addressing debt collection issues to ensure full compliance with the Debt Collection Improvement Act of 1996. | 9/30/05 | New |
| NPS | Single Audit Act Amendments | Develop controls to ensure grantees complete, report on, and implement timely corrective actions for single audits. | 9/30/05 | Carryover |
| NPS | Federal Financial Management Improvement Act | Develop and implement appropriate controls to ensure full compliance with Federal financial management systems and accounting standards. | 9/30/05 | Carryover |
| DO | Federal Financial Management Improvement Act | Continue to improve and implement appropriate controls to ensure full compliance with Federal financial management systems requirements and accounting standards. | 9/30/05 | Carryover |
| DO | Single Audit Act Amendments | Improve grantee monitoring processes to ensure compliance with the reporting requirements of the Single Audit Act Amendments. | 9/30/05 | Carryover |
| DO | Prompt Payment Act of 1982 | Train and monitor employees to ensure that the acceptance dates per the invoice and receiving port are correctly transferred to the payment voucher and that the information should also be correctly entered into FFS. | 9/30/05 | New |
| BIA | Debt Collection Improvement Act of 1996 | Establish, implement and monitor policies and procedures addressing debt collection issues to ensure full compliance with the Debt Collection Improvement Act of 1996. | 9/30/05 | Carryover |
| BIA | Federal Financial Management Improvement Act | Develop and implement appropriate controls to ensure full compliance with Federal financial management systems, accounting standards, and the SGL at the transaction level. | 9/30/05 | Carryover |
| BIA | Single Audit Act Amendments | Improve grantee monitoring processes to ensure compliance with the reporting requirements of the Single Audit Act Amendments. | 9/30/05 | Carryover |
| USGS | Federal Financial Management Improvement Act | Develop and implement appropriate controls to ensure full compliance with Federal financial management systems requirements. | 9/30/05 | Carryover |
| BLM | Federal Financial Management Improvement Act | Develop and implement appropriate controls to ensure full compliance with Federal financial management systems and accounting standards. | 9/30/05 | Carryover |

TABLE 1-21

| Summary of Major Management Challenges Facing Interior | | | | |
|---|---|---|---|---|
| **Major Management Challenge** | **Description** | **New or Carryover from FY 2003** | **Interior Actions to Date** | **Status at end of FY 2004** |
| Financial Management | Sound financial management is critical to providing accurate financial information, managing for results, and ensuring operational integrity. Although the Department has made some progress, internal control weaknesses continue to hinder DOI financial management reporting and related systems. | Carryover | The Department has several initiatives aimed at improving financial management, most notably: the Financial and Business Management System (FBMS), and Activity Based Costing/Performance Management (ABC/PM). While these initiatives should upgrade financial management in the future, they are placing increased demands on already stretched financial resources.<br><br>• **Financial and Business Management System**<br>In 2003, DOI launched a comprehensive plan to transform its financial management functions and create a world-class financial management structure. The cornerstone of the Department's plan to transform financial management is the FBMS, which will replace a variety of outdated, stand-alone, mainframe-based systems. Computer Labs have been set up to enable staff to test the new FBMS software. In addition, a capstone business case is being prepared for FBMS that will discuss other systems that will be retired. About 160 systems will be affected by the implementation of the FBMS, and currently, 80 of those systems have been identified for retirement.<br><br>FBMS will be phased into implementation over the coming years, starting in FY 2005 and continuing through FY 2008. Successful implementation of FBMS will be key to addressing DOI's financial management challenges.<br><br>• **Activity-Based Costing/Performance Management**<br>Activity-Based Costing/Performance Management comprises management tools that will help DOI better understand the costs of conducting business because it allows management to examine how program activities consume resources and produce outputs. Formal Department-wide ABC/PM implementation started in October 2003, when DOI employees began documenting their time, purchases, travel related costs, and training to the work activities they performed. Employees used the time and attendance systems, financial data recording processes, and methodologies specified by their bureaus/offices to capture time and expenses against work activities to record outputs. Because DOI is so early in the implementation process, it is difficult to assess how effective the implementation of ABC/PM has been. DOI will monitor the implementation of ABC/PM and make modifications, as necessary, to ensure that ABC/PM provides useful information. | Ongoing |

**TABLE 1-21**

| Summary of Major Management Challenges Facing Interior | | | | |
|---|---|---|---|---|
| **Major Management Challenge** | **Description** | **New or Carryover from FY 2003** | **Interior Actions to Date** | **Status at end of FY 2004** |
| Information Technology | The Department has made information technology (IT) security maintenance a high priority for all bureaus. DOI is continuing to make substantial progress in strengthening IT security. Sound guidance has been provided to bureaus and offices regarding desired implementation of IT security requirements. Although substantial improvements have been made and sound operations are prevalent, some DOI entities do not fully comply with all Federal financial management systems requirements specified in OMB Circular A-130, "Management of Federal Information Resources." Therefore, as a whole, the Department does not fully comply with, or meet the objectives of, Section 4 of the Federal Financial Management Improvement Act and OMB Circular A-127, "Financial Systems." The Department has implemented a remediation plan to resolve remaining material weaknesses and expects to complete corrective actions in FY 2005. | Carryover | DOI has significantly improved its information security program, as demonstrated by the increase in the percentage of systems that were certified and accredited from 6% in 2003 to 98% in 2004. To foster this effort, the Department has invested more than $100 million in its security program over the past three years. Based on these efforts, DOI believes that its information security program generally meets the requirement of FISMA and that most of its information systems have levels of security to safeguard Department information and related assets.<br><br>DOI has made efforts to further (1) improve the IT business cases; ( 2) prioritize IT investments; and (3) develop a strategy to fund enterprise IT investment. DOI is continuing to make progress in strengthening IT security. For example, DOI has developed an information technology security program that meets the financial accounting systems application and general control requirements of the Federal Information Security Management Act. DOI evaluated the perimeter security of its computer systems on a monthly basis and currently shows zero potential vulnerability when measured against an industry standard. Also, DOI has established security processes and documentation for its Indian Trust systems. | Ongoing |

TABLE 1-21

| Summary of Major Management Challenges Facing Interior | | | | |
|---|---|---|---|---|
| **Major Management Challenge** | **Description** | **New or Carryover from FY 2003** | **Interior Actions to Date** | **Status at end of FY 2004** |
| Health, Safety, and Emergency Management | Annually, DOI has nearly 260 million visits to national parks, 68 million visits to public lands, and 39 million visits to national wildlife refuges. In addition, there are 90 million visitor days of use at 308 Bureau of Reclamation (BOR) recreation sites. Accordingly, DOI must protect these visitors, hundreds of thousands of employees and volunteers, thousands of facilities, and millions of acres of property from both internal and external threats. The physical isolation of some DOI lands and facilities increases their vulnerability to threats and inhibits DOI's response time. | Carryover | In summary, DOI's areas of concern and actions have been focused on the following areas:<br><br>**Radio Communications**<br>Effective radio communications are critical to employee and public safety and the efficient management of the parks and public lands. The current wireless telecommunications program in some bureaus does not effectively support bureau and public safety operations, does not comply with Departmental management directives, and is not funded to achieve timely compliance. The Department has developed and commenced implementation of a plan to meet employee and public safety objectives; restore program efficiency by reviewing bureau Narrowband Capital Investment and Implementation Plans; revise plans to maximize radio system sharing and minimize supporting infrastructure requirements; and ensure maximum use of alternative wireless services by FY 2005.<br><br>**NPS's Structural Fire Program**<br>The Structural Fire Program has not provided adequate protection of employees and visitors, structures, and resources from the effects of fire as required by Director's Order No. 58. NPS has developed and made substantial progress in implementing a comprehensive structural fire program plan as directed by Congress. The plan includes specific milestones to address the operational, organizational, technical, and staffing deficiencies.<br><br>**NPS's Hazardous Material Program**<br>In FY 2003, DOI reported that the lack of an adequate oil and hazardous material incident preparedness and response program seriously endangered the safety of the public, employees, and park resources. NPS has developed and made substantial progress in implementing a comprehensive corrective action plan to ensure full and complete compliance with applicable laws, regulations, Executive orders, and policies to ensure the safety of the public, employees, concessionaires, and park resources.<br><br>**Security Surrounding National Icons**<br>Security surrounding the National Park Service's Icon Parks is a key focus of the Department's Homeland Security efforts. The Office of Law Enforcement and Security (OLES) has installed a security professional and has been involved with the implementation of homeland security and related Departmental policies. However, NPS has yet to put in place a security professional or embrace many of the recommendations presented by OLES to enhance security because funding for enhanced security competes with other park projects. DOI will focus on providing the appropriate balance for these competing priorities.<br><br>**DOI Law Enforcement**<br>OLES and the bureaus have been working towards implementing 25 Secretarial directives to improve law enforcement. There has been some progress in improving the oversight and coordination of the law enforcement programs. Each bureau now has senior-level law enforcement managers in place and an internal affairs office to address integrity-related issues. Also, a Department-wide policy to provide guidance on internal affairs will be issued. | Ongoing |

**TABLE 1-21**

| Summary of Major Management Challenges Facing Interior | | | | |
|---|---|---|---|---|
| **Major Management Challenge** | **Description** | **New or Carryover from FY 2003** | **Interior Actions to Date** | **Status at end of FY 2004** |
| Maintenance of Facilities | DOI owns, builds, purchases, and contracts services for assets such as visitor centers, schools, office buildings, roads, bridges, dams, irrigation systems, and reservoirs. According to the January 2003 Government Accountability Office (GAO) report titled, "Major Management Challenges and Program Risks, Department of the Interior," DOI needs to more aggressively address the deferred maintenance backlog because the deterioration of facilities can adversely impact public health and safety, reduce employee morale and productivity, and increase the need for costly major repairs or early replacement of structures and equipment. DOI has undertaken facility condition assessments throughout all bureaus. These assessments are producing a facility condition index for each facility and, in the aggregate, for different facility categories. This index provides a measure of whether facilities are in acceptable condition or have a backlog of maintenance needs. | Carryover | DOI has embarked on a comprehensive approach to maintenance management that includes implementation of a comprehensive maintenance management system to effectively plan, prioritize, conduct, and track the condition and maintenance of facilities within all bureaus, especially NPS, and provide long-term leadership to keep money available to address the long-standing issues of deferred maintenance. The key elements of that plan and status at the end of FY 2004 are as follows:<br><br>• Identify and implement a comprehensive maintenance management system with an appropriate linkage to the accounting system (completed);<br><br>• Conduct comprehensive condition assessments (5-year plan for assessments underway – approximately 73 percent completed);<br><br>• Make determinations to repair, replace, or relocate facilities (underway);<br><br>• Develop a 5-year Deferred Maintenance Plan and Capital Improvement Plan (completed and updated annually); and<br><br>• Repair, replace, and relocate facilities to good condition, and reduce deferred maintenance to established goals (underway).<br><br>DOI has adopted a computer-based facilities maintenance management system, which it tested at multiple locations, and implementation will be completed in FY 2005. The Department has been assessing the condition of facilities, developing a 5-year maintenance plan, and establishing goals to reduce the deferred maintenance backlog. Also, DOI has established a Facilities Management Systems Partnership (FMSP) that provides a forum for the Department and its facilities managing bureaus to coordinate the development and use of facilities management systems. While the FMSP has made demonstrable strides in developing a framework within which to address facilities management issues, deferred maintenance in the Department remains a material weakness and an enormous challenge to be managed. | Ongoing |

TABLE 1-21

| Summary of Major Management Challenges Facing Interior | | | | |
|---|---|---|---|---|
| **Major Management Challenge** | **Description** | **New or Carryover from FY 2003** | **Interior Actions to Date** | **Status at end of FY 2004** |
| Responsibility to Indians and Insular Areas | DOI needs to address persistent management problems in programs for Indians and island communities. DOI is responsible for administering the Federal government's trust responsibilities to Indian Tribes and individual Indians, and it provides more than $750 million annually for basic Tribal services, such as social services, Tribal courts, and natural resource management. In addition, over the years, GAO and OIG have reported on DOI's management of Indian trust funds and programs. Despite DOI's efforts, inadequate accounting and information systems and internal controls prevent DOI from completely ensuring that trust and program funds are properly managed. Further, DOI has various responsibilities to seven island communities - four U.S. territories and three sovereign island nations. The Insular Area governments have serious long-standing financial and program management deficiencies. | Carryover | **Indian Affairs**<br>Indian Trust Records - The independent certified public accounting firm of KPMG LLP, under contract with the Office of Special Trustee for American Indians (OST), rendered qualified opinions on OST's FY 2003 and FY 2004 financial statements. KPMG qualified its opinion because of internal control inadequacies in certain trust-related systems and procedures which provide required financial/trust information for OST. Also, KPMG noted that certain parties for whom OST holds monetary assets in trust do not agree with the balances recorded by OST, and have either filed or are expected to file claims against the U.S. Government, or have filed a request for an accounting which may or may not lead to claims against the U.S. government.<br><br>DOI 's conversion to a commercial trust fund accounting system and the implementation of enhanced OST management controls have helped ensure that all trust funds we account for are properly collected. Historical accounting methods and existing system of controls are being strengthened to ensure that BIA ownership and distribution information is correct. The Department will continue to improve its trust policies, procedures, systems, and internal controls and provide training to achieve the goals of the Comprehensive Trust Management Plan by FY 2006.<br><br>Indian Country Detention Facilities - In September 2004, the OIG informed the Department of the deplorable conditions existing at some of the detention facilities that may lead to life-threatening situations and management deficiencies in the Office of Law Enforcement Services detention program. DOI is assisting the BIA in immediately developing and implementing an action plan to address and alleviate the potentially life-threatening situations at its detention facilities and improve detention program management.<br><br>Native American Schools – BIA funds or operates schools in 23 States, providing education services to about 48,000 students that attended 184 elementary and secondary schools and dormitories at the outset of FY2004, and supports 29 Tribally controlled community colleges, universities, and post-secondary schools. A significant number of the schools built in the 1940s and 1950s have been poorly maintained, with inadequate roofing and floors, plumbing, heating, and lighting. They are also obsolete and lack critical capabilities such as science and computer labs.<br><br>To address the problem of inadequate facilities, Congress increased funding to replace and repair American Indian Schools. Six of the seven replacement projects funded from FY 1998 through FY 2000 have been completed and one is awaiting Certificate of Occupancy. Of the thirteen replacement projects funded in FY 2001 and FY 2002, five schools are completed, seven schools are in construction and one school is in design. Of the fourteen replacement projects funded in FY 2003 and FY 2004, one school is complete, two are in construction, and the remaining ten are in Planning or Design phase. BIA is also making significant progress in addressing the Indian school maintenance backlog by providing for a total of 19 facilities improvement and repair projects from FY 2003 to FY 2004. | Ongoing |

TABLE 1-21

| Summary of Major Management Challenges Facing Interior | | | | |
|---|---|---|---|---|
| Major Management Challenge | Description | New or Carryover from FY 2003 | Interior Actions to Date | Status at end of FY 2004 |
| | | | DOI's FY 2004 budget included $294.9 million for school construction which provided funding for 8 replacement school projects as well as several major improvement and repair projects at Indian schools. The FY 2004 funding improved the facility condition index for BIA schools to .124 with 106 schools or 58% in fair or good condition as compared with 91 or 48% in fair or good condition in FY 2003. The FY 2004 budget also included $520.6 million in school operations funding to continue to address the President's commitment to "Leave No Child Behind."<br><br>**Insular Affairs**<br>Insular Area governments generally lack the standard business practices essential to financial accountability. OIG audits have identified serious administrative and accounting deficiencies, including property management practices that were not sufficient to satisfactorily account for and safeguard equipment purchased with grant funds; improper procurement practices that allowed purchases without competition; poor records management; inadequate accounting practices that resulted in questioned costs, incorrect grant balances, and poor reporting practices to the Office of Insular Affairs (OIA) that unnecessarily delayed projects.<br><br>Although the OIG is authorized to audit all revenues and expenditures of Insular Area governments, DOI does not have the authority to enforce audit findings and recommendations for funds provided by other Federal agencies or for funds provided by DOI that have Federally imposed entitlement conditions. While OIA has taken steps to strengthen controls over its grants, OIG's follow-up audits highlighted the necessity of continuing to urge other Federal agencies providing funds to the Insular Areas to become more involved in monitoring these funds and ensuring their proper use.<br><br>DOI has reviewed and implemented improvements in the process used by the OIA to award and monitor grants to Insular Areas. OIA awards over $50 million in grants each year that provide Insular Areas with technical and financial assistance to develop more dynamic economies and improve the quality of life for the citizens. While OIA properly processed grants, weaknesses in monitoring grants resulted in public projects that were not completed on time, essential services that were delayed or not provided at all, and Federal monies that were wasted. | |

**TABLE 1-21**

| Summary of Major Management Challenges Facing Interior | | | | |
|---|---|---|---|---|
| **Major Management Challenge** | **Description** | **New or Carryover from FY 2003** | **Interior Actions to Date** | **Status at end of FY 2004** |
| Resource Protection and Restoration | DOI resource managers face the challenge of balancing the competing interests for use of the Nation's natural resources. DOI manages 507 million acres, or about one-fifth, of the land area of the United States and 700 million acres of subsurface minerals. Federal lands account for 30 to 35 percent of energy produced in the United States. DOI has jurisdiction over an additional 1.76 billion acres of the Outer Continental Shelf. In addition, DOI manages 542 national wildlife refuges, 388 units of the national park system, 70 national fish hatcheries, 15 national monuments in the national landscape conservation system, and 13 national conservation areas.<br><br>Major contributors to the challenge of effective resource management include increased population, environmental issues, shortages of resources such as water, oil and gas, and demands for more recreational areas. DOI faces challenges in implementing policy goals for repairing and maintaining ecosystems within budget limitations. Of special concern are wildfires, water allocations, a changing land and recreation base, and invasive (non-native) species. | Carryover | To achieve its Department-wide mandate for protecting and preserving the natural resources under its management, DOI has developed long-term goals of restoring the health of public lands and maintaining ecosystems. The Department has made significant progress in restoring significant national ecosystems to health by (1) addressing the growing wildland fire threat to communities and resources caused by the excessive buildup of fuels in forested ecosystems, such as those located in the interior Western States; (2) restoring the South Florida ecosystem, which includes the Everglades; and (3) controlling and eradicating invasive non-native species. | Ongoing |

**TABLE 1-21**

| Summary of Major Management Challenges Facing Interior | | | | |
|---|---|---|---|---|
| **Major Management Challenge** | **Description** | **New or Carryover from FY 2003** | **Interior Actions to Date** | **Status at end of FY 2004** |
| Revenue Collections | DOI annually collects from $6 to $11 billion in revenues from energy, minerals, grazing, timber, lands sales, and other revenue producing activities. The highest revenue collector in DOI is MMS, which annually collects more than $6 billion in mineral revenues from more than 84,260 onshore and offshore Federal leases. Since 1982, the MMS Minerals Revenue Management Program has collected and distributed approximately $127 billion to Federal, State, and Indian accounts. The MMS also conducts a comprehensive compliance effort to ensure that royalty payments from lessees are on time and accurate. Because of the amount of collections and the significant potential for underpayments, the OIG believes that revenue collections should be a management challenge for the Department. | Carryover | MMS has implemented comprehensive systems and other program improvements to address OIG audit concerns with the Minerals Revenue Management Program. MMS has assisted the OIG with investigations which have uncovered multi-million dollar royalty underpayments. One recent investigation resulted in a $49 million settlement agreement with a major oil company for failure to pay royalties on natural gas production from offshore leases. | Ongoing |
| Procurement, Contracts, and Grants | DOI spends substantial resources each year in contracting for goods and services and in providing Federal assistance to States and Indian organizations. Managing procurement activities is an unending challenge requiring constant attention. | Carryover | DOI has developed and implemented comprehensive plans to continue to address OIG-identified deficiencies such as:<br><br>• BIA's acquisition management organization, policies, procedures, and guidelines;<br><br>• The lack of management supervision by DOI bureaus and offices over purchases made with credit cards; and<br><br>• Contract administration for construction projects such as the 12 procurements for interrogation, intelligence, logistics, and security services valued at $81 million placed by the Southwestern Branch of the National Business Center's Acquisition Services Division (NBC) which were made under General Services Administration (GSA) schedules for Information Technology and Professional Engineering Services. | Ongoing |

*Table 1-22* is a summary listing of all Interior program outlays by bureau. Although not required, the table is provided to disclose the Department's outlays and cite the major programs reviewed under the IPIA.

TABLE 1-22

**FY 2004 Outlays by Major Program Area**

| Bureau or Office | Major Program Area | FY 2004 Outlays (millions) |
|---|---|---|
| BIA | Operation of Indian Programs, Construction, Land and Water Settlements, Water Rights, and Habitat Acquisition | $2,161 |
| BLM | Management of Land and Resources, Fire | 1,761 |
| BOR | Water and Related Resources, Central Valley Project Restoration, California Bay Delta | 1,101 |
| FWS | Resource Management, Federal Aid in Wildlife Restoration, Cooperative Endangered Species Fund, Federal Aid in Sport Fisheries, Construction, Land Acquisition | 1,999 |
| USGS | Geologic Hazards Resources, Water Resources Investigation, Bilogical Research, National Mapping, Science Support | 841 |
| MMS | Mineral Leasing, Royalty and Offshore Management | 923 |
| NPS | Operation of the NPS, Construction and Maintenance, Land Acquisition and State Assistance, National Recreation and Preservation, Historic Preservation, Park Police | 2,586 |
| OSM | Abandoned Mine Reclamation, Regulation and Technology | 317 |
| OIA | Compact of Free Association, Payments to U.S. Territories, Assistance to Territories | 397 |
| OS | Payments in Lieu of Taxes (1) | 216 |
| Total | | $12,302 |

(1) Payments in Lieu of Taxes Program was transferred to the Office of the Secretary from BLM in FY 2004.

***2. Department-Wide Functional Reviews (DFRs).*** Interior conducted DFRs in FY 2004 for the following payment processes: vendor, travel, grants, purchase card, and payroll/time keeping. Using a proprietary automated assessment tool, the DFR included a review of internal controls surrounding all payment processes and collected responses from 70 finance office and program employees. The results of the DFRs indicated that internal controls were adequate and working as intended in the vendor, grant, travel, and purchase card processes. Additional opportunities for strengthening controls were identified in the payroll processing area; however, it was determined that payroll processing internal control requirements were sound based on a Statement of Auditing Standard 70 review conducted by independent audit.

***3. Pre- and Post-Payment Audits and Recoveries.***
A. Prepayment Audit of Government Bills of Lading (GBLs) - Interior has been conducting prepayment audits of its freight bills via GBL for a number of years. This effort is required by the Travel and Transportation Reform Act of 1998. We are continuing that effort and have worked with our bureaus to reasonably assure that all freight bills receive pre-payment audits. During FY 2004, pre-payment audit contractors identified $611,813 in savings for about 18,500 bills of lading reviewed.

B. Single Audit Act - Under the provisions of the Single Audit Act, grantees' financial operations, management control structures, and level of compliance with applicable laws and regulations must be audited periodically. All Single Audit reports are submitted to the Federal Single Audit Clearinghouse (Clearinghouse), U.S. Bureau of the Census. Interior provides funding for grants, cooperative agreements, Indian self-determination contracts, and self-governance compacts to State and local governments, Indian tribes, colleges and universities, and other nonprofit organizations. Those Single Audit reports, with findings and recommendations are forwarded to the Office of Financial Management for Audit Follow-up actions. Each bureau is responsible for meeting with grantees and negotiating a resolution of the deficiencies identified in the audit reports, as well as, determining the acceptability of any expenditure of Federal funds questioned by the auditors. Interior recovered $570,079 in disallowed costs in FY 2004 identified via prior audits under the Single Audit Act.

C. Recovery Audits - In response to Section 831 of the Defense Authorization Act for FY 2002 (U.S. Code 31 USC 3561-3567), Interior contracted with a recovery audit firm near the end of FY 2003. A pilot program was conducted for the Office of the Secretary (Departmental Management) in early FY 2004. This effort recovered $39,875 at a cost of $7,975. A performance goal of the Department was to have recovery audit programs initiated in all bureaus by the end of FY 2004. This was accomplished and the contractor (PRG Schultz) has been engaged by task order and has initiated recovery audit recovery efforts in each bureau.

Additional detail on the Department's risk assessments, Departmental Functional Reviews, and recovery audits are contained in Appendix A of this report.

***Interior Plans for FY 2005 – FY 2007.*** Annual performance goals are to maintain adequate controls over payment processes to ensure that erroneous payments are minimized. *Table 1-23* displays future plans and current year performance on measures to maintain a focus on recovery efforts. The Department will continue using contractor assistance to perform pre-payment audits of bills of lading and will proceed with post-payment audits (recovery audits) initiated in FY 2004.

TABLE 1-23

| Erroneous Payments | | | | | |
|---|---|---|---|---|---|
| Performance Measure | FY 04 Plan | FY 04 Actual | FY 05 Plan | FY 06 Plan | FY 07 Plan |
| Federal Assistance - Percent of Audit Disallowances | .06% | .02% | .05% | .04% | .03% |
| Federal Assistance - Percent of Disallowances Returned to Government | 60% | 80% | 70% | 75% | 80% |

In addition to the measures listed in *Table 1-23*, Interior will complete the following tasks in FY 2005 to ensure compliance with the IPIA:

First Quarter
- Issue management control guidance for FY 2005 requiring bureau annual risk assessments of all programs.

Second Quarter
- Complete recovery audit for vendor payments (FY 2001-2003) in all bureaus.

Third Quarter
- Continue recovery audits to include FY 2004 vendor payments and complete all bureau risk assessments.

Fourth Quarter
- Review and analyze bureau's risk assessment reports to determine if any corrective action plans are necessary, and if so, have the appropriate bureaus provide the plans.

- Prepare data to fulfill the reporting requirements of the Improper Payments Information Act and OMB for inclusion in Interior's Performance and Accountability Report for FY 2005.

## Federal Information Security Management Act (FISMA)

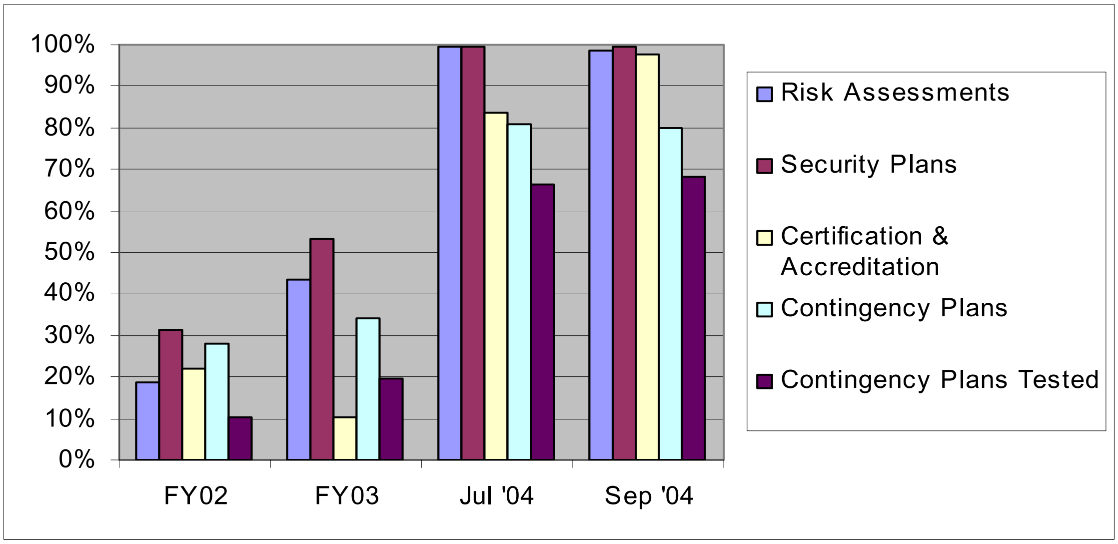
The inception of the Federal Information Security Management Act (FISMA), and the preceding Government Information Security Reform Act (GISRA) clarified a framework and relevant agency roles in ensuring the effectiveness of security controls with regard to information resources that support Federal operations and assets. The law gives latitude for OMB and the Department of Commerce through the National Institute of Standards and Technology (NIST) to identify minimum standards of operating information systems within the Federal government.

DOI quickly responded to the enactment of FISMA and prior guidance from OMB. Before FY 2002, the Department IT Security Program budget was approximately $4 million per year. Additionally, in FY 2003 less than 10% of DOI systems had documented authorization to operate as required by OMB Circular A-130. In FY 2004, the annual IT Security Program budget had grown to $30 million, or approximately 5% of total IT outlay. Twelve million dollars of that investment was focused directly on certification and accreditation activities (C&A), which largely address the requirements of FISMA with regard to assessing risk, demonstrating commensurate controls, and documenting agency official approval of operations (*Figure 1-20*).

The Interior IT Security Program has taken a comprehensive approach to meeting FISMA requirements and aligning with the prevailing guidance from NIST and OMB. DOI developed meaningful criteria for all elements of FISMA emphasis. Associated initiatives are active to (1) develop policy, (2) define procedures, (3) implement procedures, (4) train staff, and (5) validate systems against the established criteria. These

FIGURE 1-20

**Certification and Accreditation Activities**




five phases occurred for all FISMA areas and represent the required activities in creating organizational change.

Specific milestones achieved in FY 2004 include:

- ***Assess Risk / Commensurate Controls / System Specific Plans (C&A)***. C&A process guides finalized, 258 security staff trained in C&A procedures, Department-wide Blanket Purchase Agreement (BPA) with 10 qualified vendors established for C&A implementation, $12 million in funding distributed to bureaus to provide for C&A activities, which resulted in 98% of systems completing certification and accreditation by September 2004. This includes all operational financial systems. Twenty-one percent of these C&A packages were quality assured by an independent contractor and all procedures are in strict compliance with NIST guidance.

- ***Integration with Strategic and Operational Planning.*** Interior includes all security program budget costs in appropriate OMB submissions. Furthermore, Enterprise Architecture (EA) is a means of capital asset control in which DOI has made substantial progress. Clear security architecture will enable system owners to build and change systems in accordance with pre-approved patterns. Benefits of architecture include operational consistency, cost-effective licensing, and ease of security control maintenance/validation. DOI received the E-Government Institute's Federal Civilian Leadership in Government Transformation Award for the DOI Enterprise Architecture.

- ***Minimum Configurations.*** Established a Technical Reference Model and approved Security Technical Implementation Guides (STIGS) for critical IT security components, such as operating systems, router configuration, data-base hardening, etc.

- ***Process for Deficiency Resolution.*** The Plan of Actions & Milestones (POA&M) is the OMB required, authoritative format for tracking identified deficiencies in operations. System owners must review this list and determine reasonable remediation schedules within their system release plans. DOI has identified a policy for maintaining POA&M entries and has deployed an automated support tool for collaborative entry of a single authoritative repository for deficiencies. Eighty-six IT security staff have been trained in procedures and the tool for resolving POA&M entries.

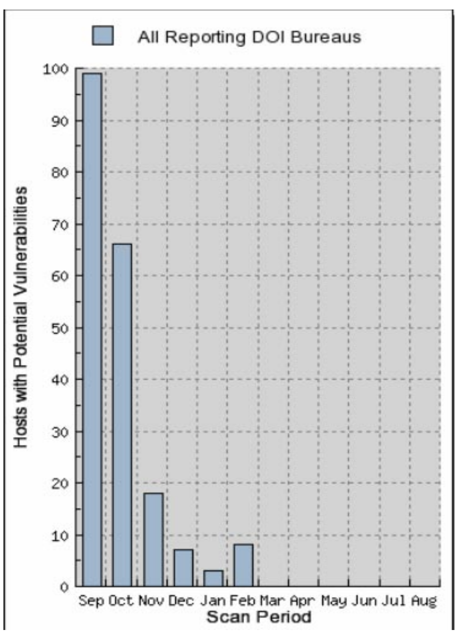
- ***Incident Response***. Completed incident response policy definition within Departmental Manual (DM) 375.19. Continued outsourcing of agency incident response handling to the Department of Homeland Security (DHS) US Computer Emergency Readiness Team (US CERT). One hundred fifty-four DOI technical staff trained in incident response procedures.

- ***Training***. Ninety-three percent of DOI employees and contractors (76,888) completed IT security awareness training by July 2004. Certification training programs for IT security professionals resulted in 56 DOI security staff attaining the ISC2 Certified Information System Security Professional (CISSP) including the agency CIO.

- ***Periodic Testing***. In addition to C&A Security Test & Evaluations, Interior followed NIST guidance in conducting self-assessment reviews (NIST 800-26) for all systems. Independent technical testing was commissioned via monthly scanning of perimeter networks utilizing the SANS Top 20 vulnerability list as the standard. In September 2003, almost one hundred hosts had vulnerabilities that appeared on the SANS Top 20 list. By March 2004, Interior achieved no related vulnerabilities and has maintained that status to this day (*Figure 1-21*).

FIGURE 1-21

**Count of Perimeter Servers with SANS Top 20 Listed Vulnerability**




- ***Continuity of Operations***. Established a contingency planning technical guide as part of security planning guidance. Eighty percent of systems have completed contingency plans with 68% completing annual testing requirements.

- ***Critical Infrastructure.*** Created a methodology for evaluating systems for relevance to critical infrastructure Presidential directives and identified five as relevant.

As demonstrated, the nearly $100 million identified for DOI IT Security Program initiatives in FY 2003 - FY 2005 is both focused on the right objectives and achieving lasting results. In the FY 2004 FISMA Annual Report, the Inspector General observed that Interior has "…significantly improved its information security program…" and that it "… generally meets the requirements of FISMA …".

Appropriately, the OIG and CIO recognize the need for improvement. C&A quality will continue to be reviewed and bolstered. Contingency plan tests must occur with greater frequency and the methods of information assurance must be demonstrably validated in contract organizations that maintain Interior information assets or services.

The Finance and Business Management System (FBMS) demonstrates the forward thinking Interior is applying to improve the level of mission performance using information management. This new system is applying FISMA principles on a recurring basis. C&A activities have been embedded in every phase of the life cycle with the IT security office participating in weekly reviews of progress and tracking towards the second quarter of FY 2005 initial deployment. The C&A will be updated as required for each subsequent deployment. Enterprise Architecture (EA), including reusable security patterns, are being applied and updated as the real project precipitates new scenarios and considerations. This feedback cycle between architecture, security, system development, and business stakeholders achieves the awareness of risk, application of commensurate controls, and support of business processes desired. FBMS is the largest case study to test organizational implementation of FISMA principles and is the prototype for DOI systems management going forward.

FIGURE 1-22

**Prompt Payment Performance**

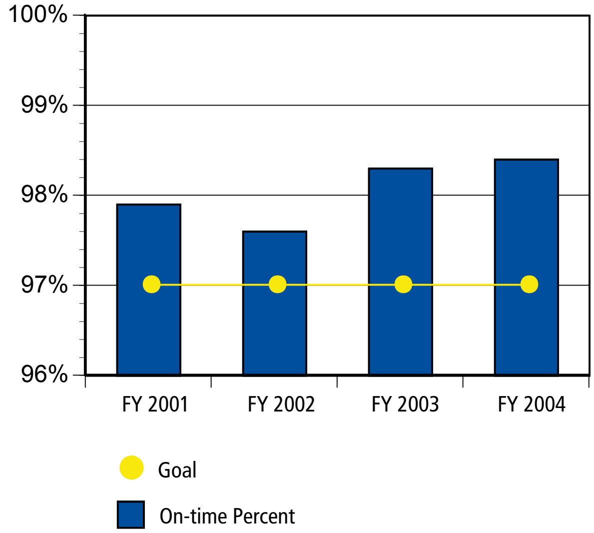
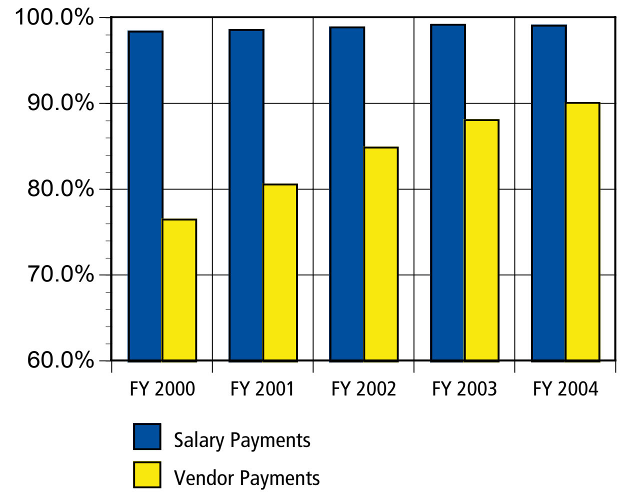



FIGURE 1-23

**Electronic Funds Transfer**




## Compliance With Key Legal and Financial Regulatory Requirements

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

Based on the results of the FY 2004 independent financial statement audit, Interior was determined to be non-compliant with several legal and regulatory financial requirements, in addition to the three components of the FFMIA. As noted earlier in this section, *Table 1-20* presents a summary of the areas of non-compliance reported in the FY 2004 financial statement audit opinions, as well as planned corrective actions and target dates.

### Prompt Pay, Debt Collection, and Electronic Funds Transfer (EFT)

The Department is continuing to strive to improve performance under the requirements of the Prompt Payment Act and the Debt Collection Improvement Act. The Prompt Payment Act requires that payments be made within 30 days of receipt of invoice; otherwise, the Federal Government is required to pay interest.

The Department's FY 2004 performance resulted in achieving goals for Prompt Pay (*Figure 1-22*) and payments made by Electronic Funds Transfer (*Figure 1-23*).

The results of the FY 2004 consolidated financial statement audit indicated that Interior is not in compliance with the Debt Collection Improvement Act. This non-compliance is attributable to the BIA because its eligible delinquent debt represents a significant share of the Department's total. The BIA only referred 49% of its eligible delinquent debt to Treasury in FY 2004, which negatively impacted the overall performance of the Department and resulted in a Departmental referral rate of 62%. It is significant to note that by excluding the BIA, the Department's total referral performance would be 96%, exceeding the performance goal target of 94%.

OMB Memorandum M-04-10 dated April 19, 2004, requested agencies to disclose their debt management policies. Interior recently issued a Credit and Debt Management Handbook containing current policies in this area. The Credit and Debt Management Handbook can be found on the Internet at *www.doi.gov/pfm* (click on Policy and Financial Management Handbooks). The Handbook includes requirements for (1) referring delinquencies in excess of 181 days to the U.S. Treasury; (2) compromising, writing-down, forgiving or discharging debt; and, (3) preparing Internal Revenue Service Form 1099-C when debts are written-off.

### Biennial Review of Fees

The Chief Financial Officers Act of 1990 requires biennial reviews by Federal agencies of agency fees, rents, and other charges imposed for services and things of value provided to specific beneficiaries, as opposed to the American public in general. The objective of these reviews is to identify such activities and begin charging fees, if permitted by law, and to periodically adjust existing fees to reflect current costs or market value. This minimizes the general taxpayer subsidy of specialized services or things of value (such as rights or privileges) provided directly to identifiable non-Federal beneficiaries.

Interior conducted a biennial review of its user fee programs during FY 2004. This review was based on FY 2003 data and indicates Interior does not have any significant deficiencies in the bureaus. However, we will continue to strive to improve cost accounting methods including the use of ABC/PM concepts that were implemented Department-wide in FY 2004.

## Financial Management Improvement Initiatives

The Department has several ongoing initiatives that address the President's Management Agenda goal to improve financial performance. These initiatives are discussed in the sections that follow.

## Financial Management Systems

The Department shares the view of the government-wide CFO Council that a key to improved financial and program management is improved financial management systems. Improving financial management systems will provide for and strengthen decision-making capabilities and enable Interior program and financial managers to more effectively achieve the Department's missions. The Department recognizes the importance of its financial management systems as a part of its capital assets portfolio and uses sound information technology investment management principles to plan and monitor these systems. Interior's goal is to achieve and maintain the objective stated in OMB Circular A-127 for each agency to establish a single, integrated financial management system. In pursuing this goal, the Department will follow the information technology investment management practices and principles identified in the Clinger-Cohen Act of 1996.

### Financial Management Systems Improvement Strategy

The Department's goal is to continue to improve financial transaction processing and to enhance financial management systems support through an effective partnership of program, information system, and financial managers.

The Department relies on a unified set of financial management systems planned for and managed together and operated in an integrated fashion to collectively support program and financial managers. These systems are managed at various levels within the Department. Some of these systems are managed on a Departmental level, others are maintained at a bureau or local level, and some are government-wide systems on which the Department relies on. Collectively, they represent the Department's financial management systems architecture. The current financial system architecture is shown in *Figure 1-24* , arrayed by the different types of management approaches being used. *Figure 1-25* lists the Department's current financial management systems and applications.

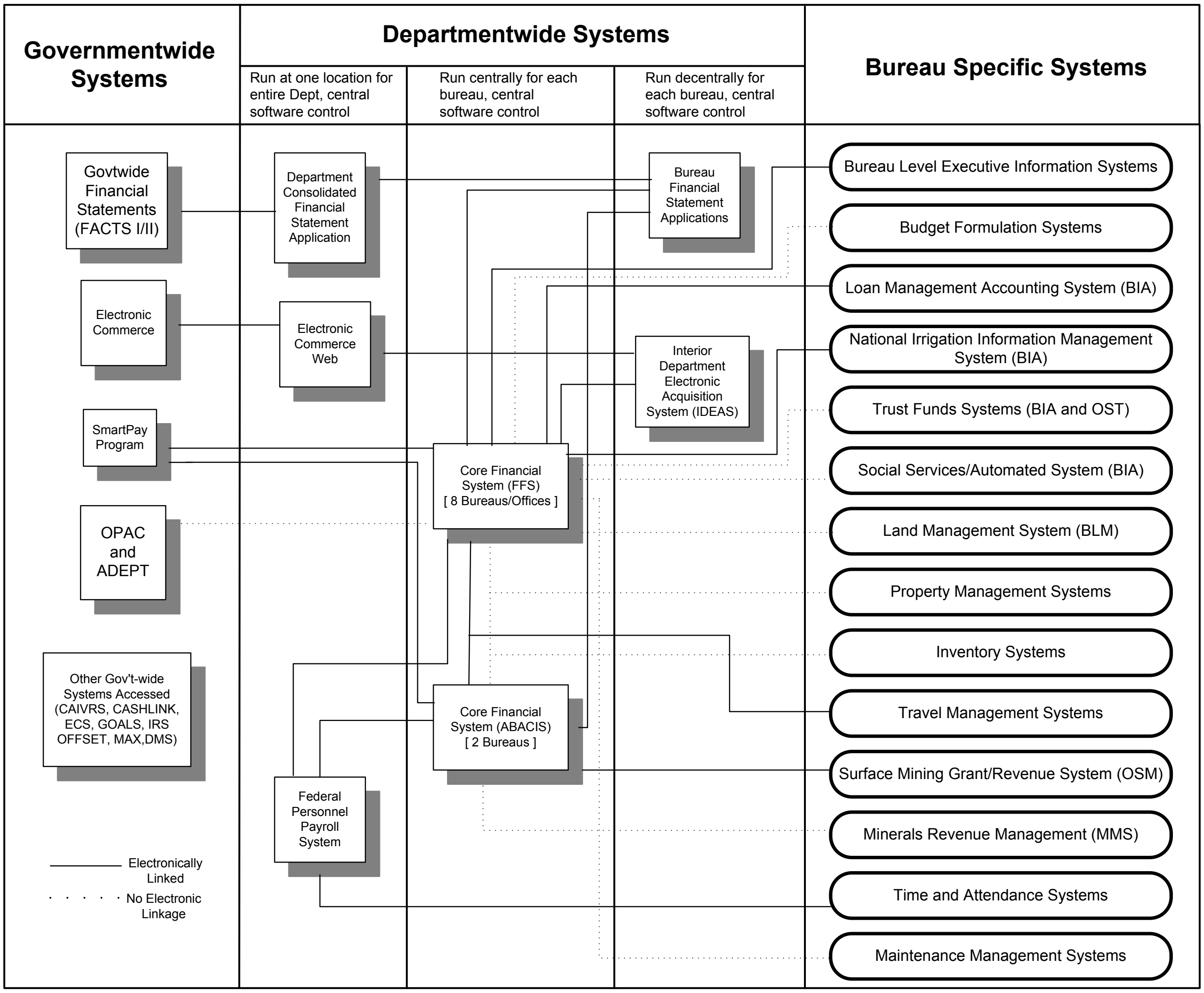
The Department has viewed the movement toward a single, integrated financial system as encompassing four interrelated elements: (1) migrating to and enhancing standard department-wide systems; (2) improving or replacing financial and mixed systems to take advantage of new technological capabilities (e.g., Internet browser and smart card technology); (3) effectively interfacing or integrating financial management systems through electronic transfer of data and establishing standardized financial data classifications for movement of data to support finance and program managers; and (4) following sound investment principles in selecting and evaluating its financial management systems and recognizing those systems as part of the Department's portfolio of capital assets.

The Department's current financial management system improvement efforts involve three major thrusts:

- ***Financial and Business Management System.*** Define, carefully plan, and implement a new generation of financial management systems to take advantage of new technology and processing opportunities.

FIGURE 1-24

**Interior Financial Management System Architecture**




- ***Critical Programmatic/Financial Management Systems.*** Continue to improve certain critical bureau-based programmatic/financial management programs: Minerals Revenue Management, and Indian Trust Funds.

- ***Improve the Information Technology (IT) Infrastructure Supporting Financial Systems.*** The IT infrastructure is critical to maintaining quality financial management systems. One of the major IT infrastructure efforts is the Interior Information Architecture Program.

## Financial and Business Management System

The Department of the Interior is in the process of implementing the Financial and Business Management System (FBMS). The FBMS will provide Interior with standard business practices supported by a single, integrated finance and administrative system for all bureaus. FBMS is an integrated suite of software applications that will help Interior to manage a variety of business functions, including core financials, acquisition, budget formulation, personal property and fleet management, real property, travel, financial assistance, and enterprise management information.

The financial systems and tools that are in place today do not meet the needs of the employees who report on key information, make decisions based on that information, and apply the limited resources that they have to serve each bureau's mission. In many areas, redundant administrative tasks take away time that could be better spent on mission-focused activities.

The FBMS is taking a comprehensive approach to improving the current business functions in its core systems by replacing the current computer systems with state-of-the-art software. The combination of business practices and new computer system functionality will enable the bureaus to improve service to their customers and to operate more efficiently. Benefits gained from implementing this suite of applications will include the ability to access and share real-time, accurate business information; support effective business decisions for mission delivery; issue accurate financial reports and analysis of managerial data; support timely decision-making in the field; free-up more time for mission-focused activities; focus on value-added analysis rather than data gathering; and eliminate redundant administrative tasks and multiple login screens.

FIGURE 1-25

### Interior Financial Management Systems and Applications

**DEPARTMENTWIDE SYSTEMS**

**Core Financial System (FFS)**
- Federal Financial System (8 Bureaus/Offices)

**Core Financial System**
- Advanced Budget/Accounting Control and Information System (2 Bureaus)
- Accounting and Aircraft System (OAS)

**Payroll Personnel System**
- Federal Personnel/Payroll System (FPPS)

**Interior Department Electronic Acquisition System**

**Consolidated Financial Statement System**

**BUREAU SPECIFIC SYSTEMS**

**Bureau Level Executive Information Systems**
- Management Information System (BLM)
- Administrative Financial System III (NPS)
- Federal Aid Information Management System (FWS)
- Financial Reporting and Reconciliation System (NPS)
- Budget and Science Information System (GS)
- TSC Management Information System (BOR)

**Budget Formulation Systems**
- Budget Allocation System (FWS)
- Program and Budget System (BOR)
- Operations Formulation System (NPS)
- Project Management Information System (NPS)
- Budget Planning System (BLM)

**Loan Management Accounting System (BIA)**

**National Irrigation Information Management System (BIA)**

**Social Services Automated System (BIA)**

**Trust Funds (BIA, OST)**
-Trust Funds Accounting System
- Integrated Resources Management System

**Land Management System (BLM)**
- Collection and Billing System

**Property Management Systems**
- FFS Fixed Assets Subsystem (BIA, BLM, GS, NPS)
- Moveable Property System (BOR)
- Property Management System (MMS)
- Personal Property Management Information System (FWS)
- Federal Real Property Management (GS)
- Property Accountability Ledger System (OSM)
- Refuge Management Information System (FWS)

**Inventory Systems**
- FEDSTRIP System (BOR)
- DORRAN (GS)
- Peachtree 2000 Inventory System (GS)
- IBIS (GS)

**Travel Management Systems**
- Travel Manager Plus

**Minerals Revenue Management (MMS)**

**Surface Mining Grant/Revenue System (OSM)**
- Grant Information Financial Tracking System
- Fee Billing and Collection System
- Audit Fee Billing and Collection System
- Civil Penalty Accounting Control System

**Time and Attendance Systems (Various)**

**Maintenance Management Systems (Various)**

Interior has adopted a multi-year, phased approach to implementing the FBMS in its bureaus/offices. The implementation of this enterprise system solution will enable the incremental retirement of at least five major administrative systems, as many as 30 bureau-specific systems, and hundreds of cuff records now used by individual managers to track their programs as individual bureaus implement the new software/solutions. The following is the current FBMS implementation schedule:

- 2/28/05 - Implement the financial assistance module in the Minerals Management Service, Office of Surface Mining, and the Fish and Wildlife Service (except for the Federal Aid Program.
- 10/01/05 - Implement all remaining FBMS modules (except budget formulation) in the Minerals Management Service, Office of Surface Mining, and the Bureau of Land Management.
- 11/01/05 - Implement the budget formulation module in the Minerals Management Service, Office of Surface Mining, and the Bureau of Land Management.
- 10/01/06 - Implement all FBMS modules in the Fish and Wildlife Service, the National Park Service, and the Office of the Secretary.
- 10/01/07 - Implement all FBMS modules in the U.S. Geological Survey, the Bureau of Reclamation, and the Bureau of Indian Affairs.

### FY 2004 Accomplishments

- Awarded a contract to BearingPoint, Inc. as the FBMS solution provider.
- Developed a Departmental blueprint which will govern the operation and configuration of the FBMS modules.

### FY 2005 Planned Activities

- Decide on the FBMS hosting solution.
- Accomplish the necessary activities to ensure a successful February 2005 implementation of the financial assistance module as described above.
- Accomplish the necessary activities to ensure successful 10/01/05 and 11/01/05 implementations as described above.

### Critical Programmatic/Financial Management Systems

The Department has two critical categories of programmatic/financial management systems that process financial data. They are the Minerals Revenue Management System and the American Indian Trust Funds Systems.

### Minerals Revenue Management System

Minerals Revenue Management (MRM) is responsible for ensuring that all mineral revenues from Federal and Indian lands are efficiently, effectively, and accurately collected, accounted for, verified, and disbursed to recipients in a timely manner. These revenues average more than $8 billion annually. To ensure revenues are properly collected and disbursed, MMS utilizes a broad range of financial services, and pursues a comprehensive compliance strategy that includes an automated compliance verification program to validate the accuracy and timeliness of revenues paid. MRM also administers a robust Royalty-In-Kind (RIK) program, which utilizes an asset management approach to ensure the optimal value of mineral resources.

### FY 2004 Accomplishments

- Received an unqualified opinion on MRM's portion of the FY 2003 DOI financial statements.
- In response to CFO audit recommendations, improved accounts receivable management, enhanced security policies, and implemented system software changes to obtain substantial compliance with applicable standards.
- Reduced royalty error rates to the lowest level in three years.
- Initiated a multi-year Records Management Improvement Project (RMIP) to ensure MRM's Indian Fiduciary trust records and other Federal records are managed in accordance with Federal and Departmental policies.
- Developed and published a strategic Five Year Business Plan for implementation of a permanent and expanded RIK program.
- Continued to implement the President's November 2001 directive to fill the remaining capacity of the Strategic Petroleum Reserve (SPR) utilizing Gulf of Mexico Federal RIK Oil. The current full deployment delivery rate is 105,000 barrels per day and the initiative is targeted for completion by the end of FY 2005.
- Published the final rule amending Federal Oil Valuation regulations on May 5, 2004. A final Federal gas rule is anticipated to be drafted in FY 2005.
- Published a final Accounting and Auditing Relief for Marginal Properties rule on September 13, 2004. This rule implements accounting and auditing relief for marginal properties, as authorized by the Federal Oil and Gas Royalty Simplification and Fairness Act of 1996.

### FY 2005 Planned Activities

- Implement the 5-year RIK Business Plan and conduct the action items within the plan, which are anticipated to include actions involving organizational realignments, human resources, marketing strategies, and cost accounting measurements.
- Complete SPR Fill Initiative by the end of calendar year 2005, depending on crude oil production levels in the Gulf of Mexico.
- Establish an ongoing continuous improvement cycle for compliance processes and systems.
- Publish a final Federal gas valuation rule.

- Publish a rule for proposed pre-payments of royalty relief to marginal properties.
- Publish a proposed rule on late-payment and over-payment interest.

### American Indian Trust Funds Systems

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

In FY 2001, the Department commissioned an independent review which concluded that the previous reform results were not satisfactory. Accordingly, the Department developed a more comprehensive and integrated approach—the Comprehensive Trust Management Plan, dated March 28, 2003. It sets forth a strategic framework, including six strategic goals (and various objectives) for the Department to meet, to fulfill its obligations to its fiduciary trust beneficiaries:

- Beneficiary services that are trusted, accurate, and responsive;
- Tribal self-governance and self-determination that increase participation in managing assets;
- Ownership information that is accurate, timely, and reliable;
- Land and natural resources management that maximizes return while meeting beneficiary desires;
- Trust fund assets management that meets fiduciary standards; and
- Administrative services that (1) enable and empower the organization and workforce to be an effective fiduciary trustee, and (2) provide modern, appropriate systems and tools to manage the fiduciary trust.

The Plan identifies primary business lines: beneficiary trust representation, trust financial management and stewardship, and management of land and natural resources. Strategic goals and specific related objectives fit within these business lines. The As-Is Study/Business Process Documentation provides details on how trust business processes are now being performed. The court-ordered Fiduciary Obligations Compliance Plan addresses how the Department intends to comply with certain fiduciary obligations owed to IIM account holders; the accounting systems must maintain accurate account balances and report information to beneficiaries. In addition, the Historical Accounting Plan for Individual Indian Money Accounts is being implemented.

### FY 2004 Accomplishments

- Completed the development of the "To-Be Business Process" re-engineering effort to standardize and streamline trust business processes.
- Worked on a Trust Asset and Accounting Management System (TAAMS) Title and Trust Funds Accounting System (TFAS) enhancement to produce performance statements that identify the source of income and list assets owned by each account holder. Finalized the technical design to distribute income from real property assets to owners; testing continues.
- Installed ProTrac, the new probate case management system; when fully operational, it will enable the Department to track cases within BIA, OHTA, and OST throughout their lifecycle.
- Completed Certification and Accreditation of TAAMS and TFAS in accordance with OMB Circular A-130, Appendix III.

### FY 2005 Planned Activities

- Continue implementation of the "To-Be-Business Process" business model which is referred to as the Fiduciary Trust Model (FTM). Acquire the best automated systems to support the FTM trust business processes and fulfill beneficiary needs and fiduciary requirements.
- Utilize the MRM function, which collects, accounts for, and distributes mineral revenues, to identify incorrect information so beneficiary accounts can be corrected.
- Based upon metrics gathered from the pilot Beneficiary Call Center, prepare a Statement of Work and advertise for a nationwide call center.
- Seek a commercial off-the-shelf Land and Resource Management System.

### Improve the Information Technology (IT) Infrastructure Supporting Financial Systems

The IT infrastructure is critical to maintaining quality financial management systems. One of the major IT infrastructure efforts is the Interior Information Architecture Program.

### Interior Information Architecture Program

When the Department looked for management strategies for improving services to citizens and its business partners, one solution that presented itself was similar to what private corporations have been looking at when faced with similar problems: Enterprise Architecture. Under Interior's Enterprise Architecture (IEA) Program, modernization blueprints have been developed for key lines of businesses (e.g., Wildland Fire, Recreation, Law Enforcement, and Financial Management) that outline a road map for leveraging information technology to meet strategic and programmatic goals and objectives efficiently and effectively. These blueprints identify gaps in Interior's existing IT portfolio that hamper the successful achievement of goals and objectives as well as minimizing system redundancy, and improving data sharing. The IEA has proven to be so successful that Interior was recently awarded the prestigious 'Excellence in Enterprise Architecture' award.

### FY 2004 Accomplishments

- Developed a modernization blueprint methodology to provide structure and consistency in Interior's architecture development. The methodology encompasses analyses of organizational structures, business functions, processes, data requirements, existing systems, and planned investments to achieve improved performance in accomplishing Interior's strategic and tactical goals.
- Developed Modernization Blueprints for the Financial Management, Recreation, Wildland Fire, and Law Enforcement lines of business. Each blueprint provides a detailed plan for improving internal efficiencies and end services, minimizing security and privacy risks, and reducing Interior's total cost of ownership through elimination of redundant systems and investments. Combined, the four modernization blueprints have identified approximately 100 redundant systems that DOI will retire within the next 1-3 years, resulting in millions of dollars in savings.
- Developed the Department Enterprise Architecture Repository (DEAR). DEAR aligns with the Office of Management and Budget's Federal Enterprise Architecture for improved information sharing with other Federal agencies. The repository unifies all development efforts and artifacts under one taxonomy in a centralized source accessible to all Interior bureaus and offices. The repository is "mined" throughout Interior to identify cross-cutting solutions, reduce redundancies, and identify reusable and sharable service components that ultimately reduce Interior's infrastructure costs.

### FY 2005 Planned Activities

- Implement a Department-level Business Process Re-engineering Lab to provide a methodology, facilities, and professional services support for intensive business process modernization.
- Provide support for the implementation of recommendations within the 2004 Line of Business Modernization Blueprints.

- Leverage the IEA Blueprint Methodology to develop additional Modernization Blueprints that are prioritized by the Interior Investment Review Board (IRB).

- Provide support for the DEAR tool including training for other architecture programs, user training within DOI, user feedback management, and the coordination of enhancement requests implementation.

## Financial Management Human Capital

The Department of the Interior's financial management community is facing a number of critical human capital issues. The decade of the 1990s brought significant legislation and organizational rightsizing to the Federal community. Both rightsizing and the legislative requirements of the CFO Act, GPRA, and GMRA increased the demands on financial management personnel. With the advent of the 21st century, there are additional issues. The next 5 years (2005-2010) bring the potential for a major loss of financial management leadership and expertise as the baby boomers reach retirement age. At the same time, Interior is engaged in a Department-wide effort to implement a fully integrated information management system, the Finance and Business Management System (FBMS).

It is imperative that Interior have adequate numbers of qualified financial management personnel and that these individuals have the competencies required to successfully support both the transition to and implementation of the FBMS, and to lead a world-class finance organization in the future.

In 2003, the Department implemented a Financial Management (FM) Transformation Plan. In the summer of 2003, the Department began to develop a financial management workforce plan to support this transformation effort and to identify the critical competencies needed for future, world-class financial management. The FM Workforce Plan was completed in the summer of 2004. Interior's CFO Council approved the Plan's major recommendations and is responsible for implementing these recommendations in support of the Department's FM Transformation Plan. These recommendations include:

- A strategic focus on new employee recruitment,

- Retention of employees who have (or can develop) needed competencies,

- Career paths to develop employees at all levels of experience with "workforce of the future" skills, and

- Training and professional development opportunities for both the technical/analytical and the business/organization skills to enhance competencies and develop employees with flexibility.

### Increase the Availability and Diversity of Qualified Accounting, Financial Analysis, Financial Systems, and Other Financial Personnel

A critical component of the Financial Management Human Capital Program is enhancing the Department's ability to meet its need for qualified accounting, financial systems, financial analysis, and other personnel to fill anticipated vacancies from projected retirements and other attrition factors. In 2002, the Department established the Financial Management Career Intern Program (FMCIP) to recruit and train entry-level professionals in accounting and financial analysis for the Department and the bureaus. Both the FM Transformation Plan and the FM Workforce Plan stress the need for strategic recruitment and retention, with particular emphasis on using programs such as career intern programs and making use of existing recruitment and retention authorities and incentives.

### FY 2004 Accomplishments

- Recruited 12 new interns as part of the 2004 class of the FMCIP.

- Graduated the 2002 FMCIP Class. The 2002 class was the first graduating class of the Department's new 2-year developmental program for accountants and financial analysts.

- Expanded efforts to recruit for the FMCIP at various multi-school career fairs on the east coast, in the Midwest, Southwest, and in Colorado.

### FY 2005 Planned Activities

- Develop a strategy for consolidated recruitment and retention efforts for critical financial positions.
- Recruit for the fourth Financial Management Career Intern class.
- Identify and recommend use of long-term recruitment and retention incentives.

### Sponsor Comprehensive Training and Career Development Programs in Financial Management

The other critical component of the Financial Management Human Capital Program is to provide appropriate training and professional development opportunities to financial management personnel so that they are adequately prepared to carry out their growing responsibilities. The FM Workforce Plan noted specific competencies Interior's workforce must develop to support the implementation of the FBMS and the successful transformation to a world-class finance organization. The plan emphasized the need for a simultaneous focus on competency training and development for both the current transition period and for the future.

The Department plans to expand training and career development opportunities to support the career paths identified in the new FM Careers Program. The Careers Program will be built on the JFMIP published core competencies and those critical competencies identified in the FM Workforce Plan. Some of the critical competencies identified are change management, project management, problem solving, analysis, consulting, coaching, knowledge sharing, and interpersonal skills.

### FY 2004 Accomplishments

- Conducted an FM Transformation Summit with participants from Departmental offices, bureaus, and the two FMCIP intern classes.
- Sponsored courses in the following subject areas:

  - Appropriations Law
  - Standard General Ledger
  - Problem Solving
  - Formal Mentoring
  - Budget Formulation and Execution
  - Effective Briefing and Presentation Skills
  - FASAB Standards
  - Analysis
  - CGFM series
  - Leadership

- Visited Proctor & Gamble and conducted an extensive interview with the Director of Proctor and Gamble's Finance and Accounting Learning Program.

### FY 2005 Planned Activities

- Plan and conduct another Department-wide conference for finance, budget, acquisition, performance, property, and grants management participants.
- Plan and conduct training in support of the new FM Careers Program, with particular emphasis on the critically needed competencies identified in the FM Workforce Plan. This includes the FM Career Intern Program.
- Promote participation in government-wide training and career development opportunities, including interagency team efforts.

## Financial Data Stewardship

Financial data stewardship is the process of managing information needed to support program and financial managers, and ensuring that data captured and reported is accurate, accessible, timely, and usable for decision-making and activity monitoring. The objective of data stewardship policy is to synchronize data collection processes, reduce data redundancy, and increase data accessibility, availability, and flexibility in a systematic manner. Effective data stewardship requires that (1) definitions clearly describe requirements and characteristics of data to be maintained in financial management systems; (2) data be created, recorded, and reported in compliance with definitions; and (3) feedback be provided when data are inadequate to meet user needs for information. Additionally, data assurance must provide attestation to, or comments on, the integrity of the information in the system.

The Office of Financial Management (PFM) provides overall coordination of data stewardship functions for financial data in the Department. The data stewardship function involves two levels of activities: (1) participation in setting government-wide financial data standard; and (2) setting financial data standards in coordination with the bureau's finance operations.

PFM has dedicated one staff person to focus on data stewardship functions, participate in government-wide financial data standard setting activities, and coordinate with the Standard Accounting Classification Advisory Team (SACAT) on setting standards for financial data for use throughout the Department. The PFM data steward monitors the department-wide data definition process, monitors data creation and compliance processes, ensures data usage relies on information derived from data consistent with the intended definition, and ensures adjustments are made to data definitions when data are inadequate to meet user needs. In addition, the PFM data steward will participate in the development and implementation of the Financial Business Management System. This function also coordinates Departmental financial data definitions with the two key government-wide financial data standard setting groups—the Financial Management Service's Standard General Ledger (SGL) and the Office of Management and Budget.

To coordinate the establishment and implementation of financial data standards in the Department, the bureaus and PFM have chartered the SACAT, under the leadership of the Finance Officers' Partnership, to establish and maintain a common approach among the bureaus for addressing SGL issues that relate to accounting policy and procedures, reporting requirements, internal controls, and SGL maintenance. The PFM data steward is a member of the SACAT.

### FY 2004 Accomplishments

- Participated in the Standard General Ledger Board and Issue Resolution Committee to ensure that the Department's position is fairly presented and defended.

- Continued to participate in the Intragovernmental Eliminations Taskforce (IGET) to develop strategies and procedures to be applied by all Departments to identify and prepare proper intra-departmental and intragovernmental elimination accounting entries for the government-wide consolidated financial statements.

- Participated in the SACAT to ensure that the bureaus' data structure is consistent with the government-wide data model.

- Reviewed SGL voting ballots with SACAT to determine if proposed changes would meet the Department's data needs and formed consensus on voting ballots.

- Participated in the FBMS blueprinting to ensure that the data structure is consistent with the government-wide data model.

### FY 2005 Planned Activities

- Continue to analyze and enhance the reporting process to support performance reporting under the GPRA and the timely preparation of the Annual Performance and Accountability Report.

- Work closely with the Decision Support System/ Executive Information System (DSS/EIS) Team to ensure that pertinent information is delivered to executives for decision-making purposes.

- Coordinate, on a Department-wide basis, critical financial data definitions necessary for reporting to OMB, the Department of the Treasury, and for Department-wide decision-making and management. This effort will be implemented by SACAT.

- Work closely with the FMBS Steering Committee to monitor implementation progress; address and resolve accounting and reporting issues; and ensure appropriate internal controls are planned, implemented, and functioning as intended.

# Analysis of Financial Statements

The Department received, for the eighth consecutive year, an unqualified audit opinion on its financial statements. These financial statements are prepared in accordance with established federal accounting standards and are audited by the independent accounting firm of KPMG LLP. It is the Department's goal to improve financial management and to provide accurate and reliable information that is useful for assessing performance and allocating resources.

*Figure 1-26* illustrates a condensed version of the Department's Consolidated Balance Sheet and Statement of Net Cost.

## Overview of Financial Position

### Assets

In FY 2004, the Department's assets totaled $56,946 million. This is an increase of $2,980 million over the prior year's assets totaling $53,966 million. Intragovernmental Assets are primarily the Fund Balance with Treasury and Investments in U.S. Treasury Securities. Intragovernmental Assets and General Property, Plant, and Equipment comprise 96% of total assets. The largest increase to assets relates to increased oil prices and sales volume for royalty revenue that relates to accounts receivable with the public. *Figure 1-27* summarizes the Department's assets as of September 30, 2004.

The increase in Intragovernmental Assets is primarily due to an increase in the Fund Balance with Treasury from advances with Federal agencies for the Interior Franchise Fund (IFF) and the Working Capital Fund (WCF) and because revenues exceeded transfers out and expenses for the Conservation Funds. A portion of the Fund Balance with Treasury includes Conservation Funds (Land and Water Conservation Fund, Historic Preservation Fund, and Environmental Improvement and Restoration Fund) reported as "restricted" since these conservation funds are not presently available to Interior.

Investments are largely composed of U.S. Treasury Securities invested on behalf of the various Interior programs such as the Environmental Improvement and Restoration Fund, the Abandoned Mine Land Fund, and the Aquatic Resources Trust Fund and other funds.

FIGURE 1-26

**Condensed Balance Sheet**
**For the Fiscal Years Ended September 30, 2004 and 2003**
**(dollars in thousands)**

| | 2004 | 2003 | % Change |
|---|---|---|---|
| **Assets** | | | |
| Intragovernmental Assets | $ 37,402,718 | $ 34,698,993 | 8% |
| General Property, Plant, and Equipment, Net | 17,154,211 | 16,955,915 | 1% |
| Accounts and Interest Receivable, Net | 1,347,641 | 1,226,984 | 10% |
| Other | 1,041,708 | 1,084,511 | -4% |
| **Total Assets** | $ 56,946,278 | $ 53,966,403 | 6% |
| **Liabilities** | | | |
| Intragovernmental Liabilities | $ 4,738,939 | $ 4,350,627 | 9% |
| Accounts Payable | 1,024,845 | 965,509 | 6% |
| FECA | 664,855 | 712,250 | -7% |
| Contingent Liabilities | 781,453 | 776,546 | 1% |
| Other | 2,761,629 | 1,648,606 | 68% |
| Total Liabilities | 9,971,721 | 8,453,538 | 18% |
| **Net Position** | | | |
| Unexpended Appropriations | 4,080,359 | 3,929,302 | 4% |
| Cumulative Results of Operations | 42,894,198 | 41,583,563 | 3% |
| Total Net Position | 46,974,557 | 45,512,865 | 3% |
| **Total Liabilities and Net Position** | $ 56,946,278 | $ 53,966,403 | 6% |

**Condensed Statement of Net Cost**
**For the Fiscal Years Ended September 30, 2004 and 2003**
**(dollars in thousands)**

| | 2004 |
|---|---|
| **Mission** | |
| Resource Protection | $ 2,435,401 |
| Resource Use | 2,447,656 |
| Recreation | 1,901,519 |
| Serving Communities | 6,008,038 |
| **Non-Mission** | |
| Reimburseable Activity and Other Costs | 266,435 |
| **Net Cost of Operations** | $ 13,059,049 |
| Total Cost | $ 17,793,034 |
| Total Revenue | 4,733,985 |
| **Net Cost of Operations** | $ 13,059,049 |

| | 2003 |
|---|---|
| **Mission** | |
| Protect and Preserve the Environment | $ 3,848,345 |
| Provide Recreation | 1,943,686 |
| Manage Natural Resources | 2,773,058 |
| Provide Science | 1,108,064 |
| Meet Our Trust Responsibilities | 2,304,961 |
| **Non-Mission** | |
| Reimburseable Activity and Other Costs | 261,280 |
| **Net Cost of Operations** | $ 12,239,394 |
| Total Cost | $ 16,101,375 |
| Total Revenue | 3,861,981 |
| **Net Cost of Operations** | $ 12,239,394 |

FIGURE 1-27

**FY 2004 Asset Categories**

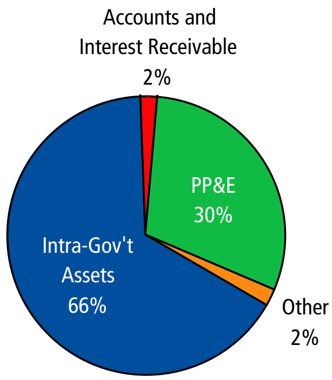



TABLE 1-24

| Stewardship Land (Federal Acres) | | | | |
|---|---|---|---|---|
| | Beginning Acres | Additions | Withdrawals | Ending Acres |
| BLM | 261,950,378 | 42,563 | (144,821) | 261,848,120 |
| NPS | 78,842,824 | 241,819 | (61,970) | 79,022,673 |
| FWS | 90,264,000 | 42,600 | - | 90,306,600 |
| BOR | 5,861,154 | - | (136,156) | 5,724,998 |
| BIA * | 205,205 | 465 | (149) | 205,521 |
| Other | 12,380 | 671 | (320) | 12,731 |
| Total | 437,135,941 | 328,118 | (343,416) | 437,120,643 |

* The BIA also administers approximately 56 million acres of Tribally and individually owned land held in trust status.

TABLE 1-25

| Stewardship Investments (in millions) | | | | |
|---|---|---|---|---|
| | FY 2004 | FY 2003 | Change | % Change |
| Non-Federal Physical Property | $644 | $641 | $3 | 1.0% |
| Research and Development | 981 | 952 | 29 | 3.0% |
| Human Capital | 639 | 631 | 8 | 1.3% |
| Totals | $2,264 | $2,224 | $40 | 2.0% |

General Property, Plant, and Equipment are primarily composed of land, structures, and facilities that are used for general operations, power, wildlife enhancement, and recreation. Most of the Department's structures and facilities are composed of dams, power, and irrigation facilities managed by the Bureau of Reclamation. The remainder consists of buildings and facilities used in the Department's operations (e.g., visitor centers, fish hatcheries, and Bureau of Indian Affairs schools).

## Stewardship Assets and Investments

Interior is the Federal government's largest land-managing agency, administering over 500 million acres of America's land mass and serving as steward for the natural and cultural resources associated with these lands. Approximately 437 million acres of the 500 million acres managed by Interior are considered stewardship land (*Table 1-24*). The non-stewardship land managed by Interior consists primarily of Tribally and individually owned land held in trust status and non-federal land (i.e., private, state, or local) that are within the administrative boundaries of the National Park System and the National Wildlife Refuges.

Interior-administered stewardship lands encompass a wide range of activities including recreation, conservation, and functions vital to the health of the economy and to the American people. The stewardship assets managed by the Department remained constant with a slight net decrease due to a BOR land reconciliation effort.

Stewardship investments represent expenses charged to current operations that are expected to benefit the Nation over time. The Department's Stewardship Investments include research and development programs, investment in education, and the purchase or construction of assets for which State, local or tribal governments and insular areas retain title. Stewardship investments are summarized in *Table 1-25*. The decrease in the investments from FY 2003 to FY 2004 is due primarily to reduced available funding for stewardship investments.

The Department'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 Required Supplementary Stewardship Information section of the report.

## Liabilities

In FY 2004, the Department's liabilities totaled $9,972 million. This is an increase of $1,518 million over the prior year's liabilities, which totaled $8,454 million. Intragovernmental Liabilities is primarily debt to the U.S. Treasury and advances and deferred revenue.

FIGURE 1-28

**FY 2004 Liability Categories**

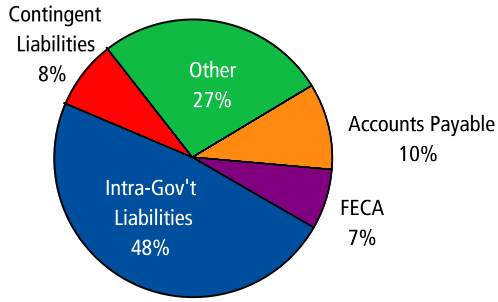
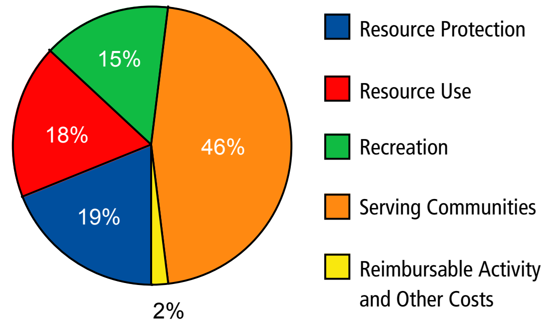



FIGURE 1-29

**FY 2004 Net Cost of Operations**




Intragovernmental Liabilities and accounts payable with the Public comprise 58% of the Department's total liabilities. The largest increase to liabilities relates to a change in accounting principle for the USPP Pension Plan. *Figure 1-28* summarizes the Department's liabilities as of September 30, 2004.

In FY 2004, the Interior was directed by the OMB to account for the liability of the USPP Pension Plan. This resulted in a change of accounting principle and the recognition of the USPP Pension Plan liability for future benefits. A liability was not previously recognized because the Department does not administer the pension plan. As a result of the change in accounting principle, the Department recorded an adjustment of $649 million to establish the liability. This decreased Net Position by the same amount.

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. The Department's unfunded liabilities consist primarily of environmental and legal contingent liabilities and unfunded employee compensation costs including FECA and annual leave. These liabilities will be paid from funds made available to the Department in future years. The associated expense is recognized in the period in which the liability is established, regardless of budgetary funding considerations.

### Ending Net Position

The Department's Net Position at the end of FY 2004, disclosed in the Consolidated Balance Sheet and the Consolidated Statement of Changes in Net Position was $46,974 million, an increase of about $1,461 million or 3% from the previous year.

The Net Position of the Department consists of two components (1) Unexpended Appropriations of $4,080 million and (2) Cumulative Results of Operations of $42,894 million. The growth in Unexpended Appropriations is primarily due to the continued increase in budget authority received to achieve the mission goals of the Department.

### Results of Operations

The Department's net cost of operations for FY 2004 was $13,059 million. This is an increase of $820 million from the previous year's net cost of $12,239 million. Most costs incurred by the Department are directly related to providing services to the public. Costs associated with earning revenue from Federal agencies are approximately 14% of total expenses.

Interior updated its Strategic Plan in FY 2004 and replaced its previous five mission goals with the following four mission goals: Resource Protection, Resource Use, Recreation, and Serving Communities. Serving Communities represents 46% of the Department's net cost of operations (*Figure 1-29*).

### Revenues

During FY 2004, Interior earned approximately $2,208 million in revenues from the public and approximately $2,526 million in revenue from other

Federal entities for a total of $4,734 million. This is an increase of about $872 million from September 30, 2003. The increase in revenue is due to an increase in intragovernmental revenue from the Interior Franchise Fund and the Working Capital Fund, as well as an increase in land sales. In FY 2003, approximately $1,819 million was earned in revenues from the public and approximately $2,043 million was earned in revenue from other Federal entities for a total of $3,862 million.

Interior classifies revenues as either exchange or non-exchange revenue. Exchange revenues are those that derive from transactions in which both the government and the other party receive value, including park and wildlife refuge entrance fees, map sales, and other products and services that are directly related to Departmental operations. Revenues collected from other Federal agencies consist of reimbursable activities such as construction, engineering, and other technical services. A majority of the revenue received from Federal agencies is due to the IFF and the National Business Center providing shared administrative services and commonly required products to Federal agencies. The Department also collects mineral lease revenues on behalf of the Federal government. These are presented in the Statement of Custodial Activity rather than the Statement of Net Cost.

The Department collects various non-exchange revenues. Examples of non-exchange revenues are taxes, fines and penalties which the Federal Government collects as a result of its sovereign powers rather than as a result of providing goods or service for a fee. Donations to the Department are also reported as non-exchange revenues. Non-exchange revenue increased from $1,159 million in FY 2003 to $1,202 million for FY 2004.

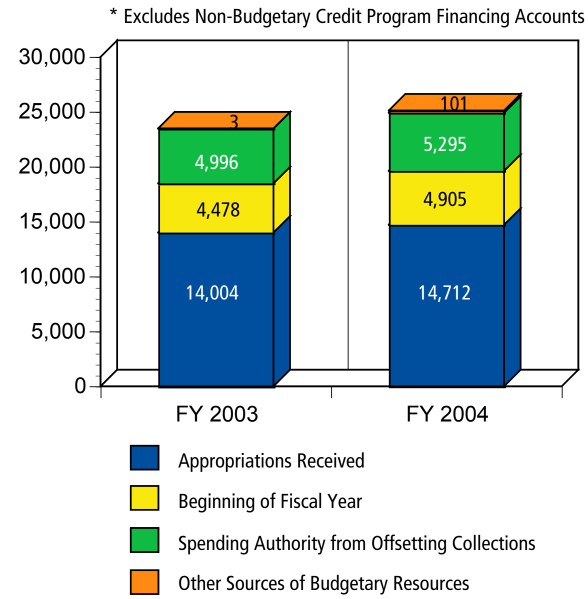
Revenues earned are either retained by the Department to further Interior's mission or returned to the General Fund of the Treasury. In either case, these revenues offset the taxpayer's investment in the Department. During FY 2004 and FY 2003, the Department returned to the General Fund of the Treasury, $30 million and $42 million, respectively.

### Custodial Activity

In accordance with federal accounting standards, receipts from mineral leasing revenues are presented in the Department's Statement of Custodial Activity since the collections are considered to be revenue of the Federal Government as a whole rather than the Department. Mineral leasing revenues were $9,250 and $8,247 million as of September 30, 2004 and 2003, respectively, and include Outer Continental Shelf and onshore oil, gas, and mineral sales and royalties. The large increase is due to large sales occurring near the end of FY 2004.

FIGURE 1-30

**Budgetary Resources ***
**(in millions)**




The Department collects a portion of revenue as royalties-in-kind for transfer to the Strategic Petroleum Reserve. Interior received approximately 38.4 and 38.2 million barrels of petroleum as in-kind mineral lease revenues for the periods ended September 30, 2004 and 2003.

### Budgetary Resources

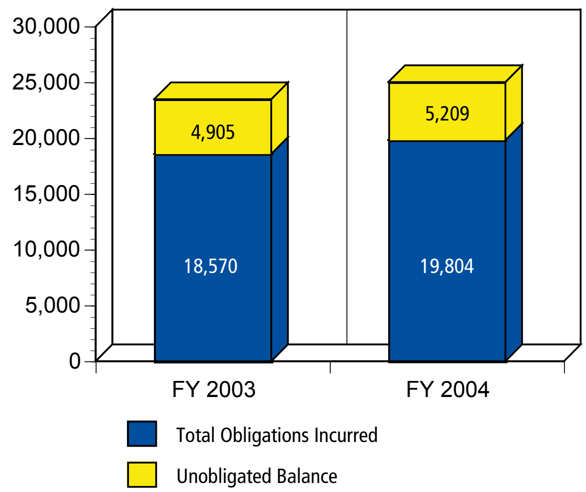
The Department receives most of its funding from general government funds administered by the U.S. Treasury and appropriated for Interior's use by Congress. These resources consist of the balance at the beginning of the year, appropriations received during the year, and spending authority from offsetting collections as well as other sources of budgetary resources (*Figure 1-30*). Other sources include special and trust funds such as Conservation Funds (the Land and Water Conservation Fund, Historic Preservation Fund, and the Environmental Improvement and Restoration Fund), Reclamation Fund, and the Aquatic Resources Trust Fund. These funds are administered in accordance with applicable laws and regulations.

The Combined Statement of Budgetary Resources provides information on the budgetary resources that were made available to the Department for the year and the status of those resources at the end of the fiscal year. Obligations of $19,803 and $18,570 million were incurred as of September 30, 2004 and 2003 on total budgetary resources of $25,013 and $23,475 million, respectively (*Figure 1-31*). The Combined Statement of Budgetary Resources is presented on a combined basis rather than a consolidated basis for consistency with budget execution information and to properly report obligations incurred by the entire Department.

FIGURE 1-31

**Status of Budgetary Resources ***
**(in millions)**

* Excludes Non-Budgetary Credit Program Financing Accounts




### Limitations of Financial Statements

Management prepares the accompanying financial statements to report the financial position and results of operations for the Department of the Interior 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 the formats prescribed in OMB Bulletin No. 01-09, Form and Content of Agency Financial Statements, 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.

# Part 2. Performance Data and Analysis (Unaudited See Auditors' Report)

# Performance Data and Analysis

## Program Evaluations

Program evaluations are an important tool in analyzing the effectiveness and efficiency of our programs, and evaluating whether they are meeting their intended objectives. Our programs are evaluated through a variety of means, including performance audits, Program Assessment Rating Tool (PART), financial audits, management control reviews, and external reviews from Congress, OMB, OIG, and other organizations, such as the National Academy of Public Administration and the National Academy of Sciences. We use self-assessments to verify that performance information and measurement systems are accurate and supportive of our strategic direction and goals. Data collection and reporting processes are reviewed and improved through the use of customer and internal surveys.

Examples of some of the program evaluations conducted for each of Interior's bureaus during FY 2004 follow in *Table 2-1* (Note - this table includes PART assessments conducted during FY 2004 for Budget Year 2006). *Table 2-2* lists all PARTs completed for Budget Year 2004 (the PART assessments were actually conducted in FY 2002).

In all cases, Interior program managers have developed action plans in response to the recommendations for the PARTed programs. These action plans were implemented early in FY 2003, and periodic progress reports have been provided to OMB. Interior is using a Web-based tracking system to track and monitor progress toward meeting milestones associated with implementing the Administration's recommendations for a specific PART.

## Results at a Glance Tables

*Table 2-3* presents the Department 's performance results in detail, charting Interior targets as they are tied to our end outcome goals, mission areas, and strategic goal of management excellence. Interior has discontinued most of the measures used in our previous strategic plan; because this is the first year that we are measuring our performance using targets from our FY 2003-2008 Strategic Plan, most of our data are baseline in nature, and few trend data are available from prior years. However, where we have historical data, we have provided those within the "Performance Discussion," field of our tables.

Our presentation this year visually indicates whether we met a given performance target and whether targets are "estimated." Where applicable, we have explained why and to what extent our performance fell short of plans and how we will improve.

## Data Verification and Validation

In January 2003, the Department issued a memorandum requiring that a Data Verification and Validation (V&V) process be put in place and used effectively by all offices collecting and reporting performance data. Data V&V guidance, developed in cooperation with Departmental bureaus and offices, including the OIG, was issued with the memorandum. The guidance is considered a tool for effectively elevating Data V&V procedures to an acceptable functional level within an organization or for detecting potential problem areas in well-established bureau/office Data V&V systems.

## Data Completeness and Reliability

Performance data included in Interior's FY 2004 Performance and Accountability Report (PAR) are considered complete and reliable and contain no material inadequacies.

Interior performance data for FY 2004 are presented as actual data for the entire fiscal year, as estimated year-end results, or as preliminary or incomplete data. Interior defines a "goal met" if the actual data are within 5% of the target. In cases where our target took the form of establishing a baseline, we report the goal met if the baseline was established in the reporting year. The methodology used for the estimate projection is documented. There are 33 measures that are not reportable. Explanations for the unavailability of final data are provided in every instance. Final performance data for estimated and unreported data will be included in the FY 2006 President's Performance Budget or no later than the publication date for the FY 2005 Performance and Accountability Report.

Reliability of performance data is based on their use by managers and decision-makers with recognition for data limitations. The Department also requires the full implementation of data validation and verification criteria to ensure that information is properly collected, recorded, processed, and aggregated for reporting and use by decision-makers.

## Key to Table 2-3

One of three summary conclusions is reported for each measure that presents actual or estimated results data: Goal Met; Goal Not Met; or Goal Exceeded. Given statistical uncertainties, Goal Met is reported if the actual or estimated performance result is from 95% to 105% of the performance target. If the summary conclusion for a measure is Goal Met, Goal Exceeded, or Baseline Established, then that result is visually depicted by a check-mark placed in a separate table column. No summary conclusion is presented for measures that report preliminary data (i.e., data that were collected but not verified accurate) or incomplete data because the GPRA implementation guidelines do not allow agencies to compare these types of data with performance goals. An "(E)" is included in the "FY04 Actual" column if the result presented is an estimate. A "(P)" in this column indicates the result presented is preliminary data.

TABLE 2-1

| FY 2004 Sample Program Evaluations | | |
|---|---|---|
| **Bureau** | **Program/Goal** | **Methodology/Purpose** |
| BIA | P.L. 102-477: Job Training Program | 10-15 grantee reviews are conducted annually. Program and on-site reviews for each of the 48 grantees are conducted on a three-year cycle. |
| BIA | Environmental Program | Five environmental audits are conducted annually. |
| BIA | Forest Management Program | Annual accomplishment reports are collected and evaluated every March. |
| BIA | Housing Improvement Program | Annual program evaluations are conducted every October. |
| BIA | Road Maintenance Program | Each one of the 12 Regional Road Maintenance Programs is evaluated bi-annually as part of the Indian Reservation Roads Process Review Program. |
| BIA | Indian Post Secondary/Vocational Education | The program was assessed for Budget Year 2006 using the Program Assessment Rating Tool (PART). Once recommendations for programmatic improvements are final, an action plan to implement those improvements will be developed. |
| BIA | Indian 477 Job Placement and Training | The program was assessed for Budget Year 2006 using PART. Once recommendations for programmatic improvements are final, an action plan to implement those improvements will be developed. |
| BIA | Road Maintenance | The program was assessed for Budget Year 2006 using PART. Once recommendations for programmatic improvements are final, an action plan to implement those improvements will be developed. |
| BIA | Indian School Construction | The program was assessed for Budget Year 2006 using PART as a RePART from a prior review conducted in FY 2002 for Budget Year 2004. Once recommendations for programmatic improvements are final, an action plan to implement those improvements will be developed. |
| BLM | Range Management | The program review was conducted through visits to three States, sample consistency in the State's processes for implementing the land health standards handbook and other policy guidance |
| BLM | Wild Horse and Burros | The review evaluated the overall program and organizational structure of Eastern States Office. |
| BLM | Aviation | The program reviewed aviation planning, organization, and operations to ensure efficiency and safety throughout the organization. |
| BLM | Condition Assessment of Safety, Health and Environmental Program | By working with State and Field Office engineering, HAZMAT, and safety staffs, the program review identified recommendations that are eligible for deferred maintenance funding and program funding for their implementation. The review also determined how facility operations and internal controls affect the compliance status of the assessed facilities. |
| BLM | Realty and Ownership | The program was assessed for Budget Year 2006 using PART. Once recommendations for programmatic improvements are final, an action plan to implement those improvements will be developed. |
| BLM | Southern Nevada Public Land Management Act Program | The program was assessed for Budget Year 2006 using PART. Once recommendations have been received from OMB regarding programmatic improvements, an action plan to implement those improvements will be developed. |
| BLM<br>FWS<br>NPS | Land and Water Conservation Fund Land Acquisition Program | The program was assessed for Budget Year 2006 using PART. Three Interior bureaus have responsibility for implementing portions of the program and were each part of the review. Once recommendations for programmatic improvements are final, an action plan to implement those improvements will be developed. |
| BOR | Hazardous Materials | Reclamation conducted program reviews of regional and area office HAZMAT compliance activities. Five reviews were completed in FY 2004; no material weaknesses were identified. |
| BOR | Crediting of Incidental Revenues | The results of the automated survey were analyzed in FY 2004 to determine the need for on-site reviews. A corrective action plan was developed to address non-material management concerns. |
| BOR | Museum Property | Reclamation participated in a targeted review of museum property. Reclamation is not operating under a material weakness or reportable condition for management of its museum property. |
| BOR | Dam Safety Program | An annual review of the Dam Safety Program was completed in April 2004; no material weaknesses were identified. |

TABLE 2-1

| FY 2004 Sample Program Evaluations | | |
|---|---|---|
| **Bureau** | **Program/Goal** | **Methodology/Purpose** |
| BOR | Sensitive Automated Information Systems | Reclamation conducted Management Control Reviews (MCRs) on 39 IT portfolio systems; no material weaknesses were identified. |
| BOR | Personal Property Management | Eleven reviews were conducted in five regions during FY 2004; no material weaknesses were identified. |
| BOR | Improper Payments | Reclamation conducted a risk assessment and determined that there are no programs that require reporting to the President and Congress or that require a progress report on actions to reduce improper payments. Reclamation is addressing performance measures, convenience check inventories, and proper accounting treatment for payroll transactions as recommended by the Department following the review. |
| BOR | Acquisition Management | Reviews of simplified acquisitions, interagency acquisitions, contracts, financial assistance agreements, and contracts, grants, and cooperative agreements awarded under Title I of Public Law 93-638 were conducted to evaluate quality, effectiveness, and efficiency. Internal controls in the Mid-Pacific and Lower Colorado regions were completed in July 2004; no material weaknesses or reportable deficiencies were identified. |
| BOR | Water Management-Project Planning and Construction (Supply) Program | The program was assessed for Budget Year 2006 using PART. Once recommendations for programmatic improvements are final, an action plan to implement those improvements will be developed. |
| BOR | Recreation and Concessions | The program was assessed for Budget Year 2006 using PART. Once recommendations for programmatic improvements are final, an action plan to implement those improvements will be developed. |
| MMS/ BLM | Natural Gas Flaring and Venting: Opportunities to Improve Data and Reduce Emissions | In the Venting and Flaring Report GAO-04-809, GAO recommended that the Secretary of Energy consider opportunities to improve data on flaring and venting. In addition, GAO recommended that the Secretary of the Interior consider regulatory changes for federal leases to reduce the most harmful emissions from flaring and venting and to improve oversight. The Department of Energy and the Department of the Interior generally agreed with GAO's findings and recommendations. |
| MMS | Mineral Revenues: Cost and Revenues Information Needed to Compare Different Approaches for Collecting Federal Oil and Gas Royalties | In the RIK report, GAO-04-448, GAO recommended that MMS identify and acquire key information to monitor and evaluate the RIK Program prior to expanding the program further. The MMS Five Year Royalty in Kind Business Plan released in July, 2004, provides the blueprint to successfully increase revenues and decrease administrative costs. The business plan incorporates suggestions of the General Accounting Office. In commenting on the draft report, Interior generally agreed with GAO's observations. |
| MMS | Onshore Minerals Management (OMM)-Leasing and Environmental and Resource Evaluation | The program was assessed for Budget Year 2006 using PART. Once recommendations for programmatic improvements are final, an action plan to implement those improvements will be developed. |
| MMS | Solid Minerals | An Alternate Management Control Review (AMCR) was held to assess progress of the prior corrective actions from the FY 1996 review. |
| MMS | Outer Continental Shelf Inspection Program | AMCR determined if the Inspection program controls in place are being used, if they are effective, or if they need to be adjusted or changed substantively. |
| NPS | National Historic Landmarks (NHL) | NHL staff surveyed NHL owners and State Historic Preservation Officers' staff regarding condition of their NHLs. Washington program staff analyzed and reported findings for improvements. |
| NPS | Visitor Satisfaction | Visitor Services Card customer satisfaction survey is continuously used at each park. |
| NPS | Visitor Understanding | The program review included asset mapping and evaluation of the complete spectrum of interpretive services service-wide (4 years). |
| NPS | Donations & Grants | The Service-wide Cooperating Association Coordinator conducts an ongoing evaluation at 8-15 associations. |
| NPS | Cultural Resource Stewardship | The program was assessed for Budget Year 2006 using PART. Once recommendations for programmatic improvements are final, an action plan to implement those improvements will be developed. |
| NPS | Albright-Wirth Grant Program | An external assessment of the program was conducted through surveys and personal interviews with staff from the National Park Foundation, NPS program administrators, current and former grant recipients and reviewers. The assessment reviewed grant management, budget management, the selection process, and marketing strategies to improve accountability and program performance. |

TABLE 2-1

| FY 2004 Sample Program Evaluations | | |
|---|---|---|
| **Bureau** | **Program/Goal** | **Methodology/Purpose** |
| OSM | Fee Compliance Program | AMCR conducted to determine if management controls on the reclamation fee account management process surrounding the addition of new accounts, management of current account status and the closing of accounts provide reasonable assurance that these program activities were being effectively and efficiently managed. |
| OSM | Watershed Cooperative Agreement Program | AMCR conducted for comprehensive look at all event cycles for the program that were active, beginning in FY 2002 through the present day. In addition, all instructions, requirements, and website information was reviewed to determine if changes or clarifications were needed or could be made to improve the effectiveness of the program |
| OSM | Coal Regulatory Programs | An OIG review determined the adequacy of inspection and bond release activities; potential for regulatory program cost savings; and OSM reporting of GPRA performance measures. |
| OSM | Applicant/Violator System (AVS) Program | AMCR conducted to determine if management controls with the AVS program provide reasonable assurance that assignment of AVS login accounts are being effectively and efficiently managed. |
| OSM | Acquisition Management | AMCR conducted to determine whether emergency, non-emergency, bond forfeiture and civil penalty reclamation construction contracts are properly documented and closed out by the contracting staff in Appalachian Regional Coordinating Center and the adequacy of existing policies and procedures for documenting and closing out construction contracts. |
| OSM | Cash Management/Debt Collection Financial Instruments | AMCR conducted to determine if management controls on the cash management and debt collection process provided reasonable assurance that program activities were being effectively and efficiently managed. |
| OSM | Sensitive Automated Information Systems | AMCR conducted to certify that all prescribed controls or alternative controls are in place and effective for OSM's general support systems and major applications |
| OSM | Personnel Management | AMCR conducted to determine if the Delegated Examining within OSM is providing customers a product that meets the requirement of the law for accuracy and an effective, efficient recruitment tool. |
| OSM | Safety Management | AMCR conducted to determine if OSM's accident and illness reporting is done in a timely manner and has adequate management involvement. |
| OSM | Travel | AMCR review of travel vouchers was conducted to ensure that the centrally-billed transactions are not being claimed as a reimbursable expense. |
| OSM | Federal Abandoned Mine Land (AML) Reclamation and Regulation and Technology Program | The program was assessed for Budget Year 2006 using PART. Once recommendations for programmatic improvements are final, an action plan to implement those improvements will be developed. |
| USGS | Geographic Analysis & Monitoring (GAM) Program/Geographic Science Steering Committee Review | Preliminary feedback from the steering committee has refocused GAM program activities into 4 science themes, which form the basis of the GAM FY 2005 Science Program Plan. Final report due Fall 2004 from Science Planning Team. The report is expected to impact direction and priorities of GAM science activities. |
| USGS | Water Resources Research Act Program/National Research Council (NRC) Review "Confronting the Nation's Water Problems: The Role of Research" | The pre-publication copy of the report was released. Awaiting final report to complete action plan. |
| USGS | Cooperative Water Program External Review from Advisory Committee for Water Information (ACWI) | Review conducted under the ACWI. The USGS convened an external review task force to follow up on the FY 1999 external review of the Cooperative Water Program, to evaluate USGS' progress in addressing the recommendations from that review. The task force gave a status report at the annual meeting in September 2004 of the Federal/Non-Federal Advisory Committee on Water Information. |

TABLE 2-1

| FY 2004 Sample Program Evaluations | | |
|---|---|---|
| Bureau | Program/Goal | Methodology/Purpose |
| USGS | Landslide Hazard Program External Review by NRC on National Landslide Hazards Mitigation Strategy for the Landslide Hazards Program (LHP) | USGS has taken initial steps within base funding to implement the NRC's suggestions, including (1) strengthen partnerships between the USGS and other Federal agencies and States in order to produce an effective national strategy that can be applied at the local level, (2) incorporating the development and dissemination of state-of-art risk analysis methods into its 5-year plans. The LHP has explored the implementation of a "learning from landslide disasters" effort similar to the one funded by the National Science Foundation for earthquakes, and, (3) improving education and awareness of landslide hazards and mitigation options through a new fact sheet, participation in Earth Science week activities, and support for a handbook for land-use planners on landslide hazards. |
| USGS | Coastal and Marine Geology Program (C&MGP; Coastal Charting and Mapping Needs External review by NRC, review of most important data collection efforts of the C&MGP). | Report entitled "A Geospatial Framework for the Coastal Zone: National Needs for Coastal Mapping and Charting," addressed the breadth of Federal activities related to coastal mapping and charting. USGS programs were part of a larger effort. Recommendations speak to the need for development of consistent standards and protocols, improved agency coordination in setting priorities and developing programs, and improved access to data and tools for data application. Recommendations required multi-agency response; USGS is working with other Federal mapping agencies to develop responses. |
| USGS | Earthquake Hazards Program (EHP)<br>External review by Scientific Earthquake Studies Advisory Committee | The EHP 5-year plan for FY 2004 - FY 2008 was reviewed and approved by the Scientific Earthquake Studies Advisory Committee, and USGS. The plan is now being reviewed by the Bureau's OMB examiner and will be published as a USGS circular early FY 2005. |
| USGS | Astrogeology Program<br>Internal Review | Two external reviews were conducted in FY 2004 to benefit the NASA Planetary Geology and Geophysics Cartographic and Geologic Mapping Working Group. The reviews received positive feedback. Currently awaiting final confirmation of funding award and budget. |
| USGS | Water Resources Research Act Program State Water Resource Institutes | The Water Resources Research Act, as amended, requires that each Institute be evaluated at least every 5 years. Detailed evaluations of all 54 Institutes are being conducted in 2004, to determine their eligibility to receive grants. Results of the evaluations are being compiled. |
| USGS | Water Information Collection and Dissemination Program | The program was assessed for Budget Year 2006 using PART. Once recommendations for programmatic improvements are final, an action plan to implement those improvements will be developed. |
| USGS | Water Research Program | The program was assessed for Budget Year 2006 using PART. Once recommendations for programmatic improvements are final, an action plan to implement those improvements will be developed. |
| USGS | National Mapping Program | The program was assessed for Budget Year 2006 using PART as a RePART from a prior review conducted in FY 2002 for Budget Year 2004. Once recommendations for programmatic improvements are final, an action plan to implement those improvements will be developed. |

TABLE 2-2

| Program Assessments Conducted for Budget Year 2004 | | |
|---|---|---|
| Program | Bureau/Office | Overall Rating |
| Abandoned Mine Land | Office of Surface Mining | Results Not Demonstrated |
| National Park Service Facility Management (RePARTed BY05) | National Park Service | Effective |
| Reclamation Hydropower (RePARTed BY05) | Bureau of Reclamation | Effective |
| Indian Land Consolidation | Bureau of Indian Affairs | Moderately Effective |
| National Fish Hatchery System (RePARTed BY06) | U.S. Fish and Wildlife Service | Results Not Demonstrated |
| National Park Service Natural Resource Stewardship (RePARTed BY05) | National Park Service | Moderately Effective |
| Outer Continental Shelf Environmental Studies | Minerals Management Service | Moderately Effective |
| Partners for Fish and Wildlife | U.S. Fish and Wildlife Service | Adequate |
| Habitat Restoration Activities | Bureau of Land Management | Moderately Effective |
| Rural Water Supply Projects | Bureau of Reclamation | Results Not Demonstrated |
| Indian School Construction (RePARTed BY06) | Bureau of Indian Affairs | Results Not Demonstrated |
| Indian School Operations | Bureau of Indian Affairs | Adequate |
| Title XVI Water Reuse and Recycling | Bureau of Reclamation | Moderately Effective |
| National Map (RePARTed BY06) | U.S. Geological Survey | Results Not Demonstrated |
| DOI Wildland Fire Management | Department of the Interior, Office of Wildland Fire Management and Coordination | Results Not Demonstrated |

**TABLE 2-3**

| Mission Area 1. Resource Protection: Protect the Nation's Natural, Cultural, and Heritage Resources | | | | |
|---|---|---|---|---|
| **Performance Measures** | **FY 04 Plan** | **FY 04 Actual** | **Goal Met?** | **Performance Report and Discussion** |
| *End Outcome Goal - Improve health of watersheds, landscapes, and marine resources that are DOI managed or influenced in a manner consistent with obligations regarding the allocation and use of water* | | | | |
| Wetland areas - Percent of acres achieving desired conditions where condition is known and as specified in management plans consistent with applicable substantive and procedural requirements of State and Federal water law | 98.0% | 98.0% | √ | Goal Met. Although FWS did not set a target for this measure for FY 2004, it did establish a baseline of 55% (excludes Alaska). Although NPS did not set a target for this measure for FY 2004, it did plan to establish a baseline for this measure. However, the NPS did not establish a baseline because insufficient data were collected during FY 2004 to provide a basis for establishing a baseline value. Data collection and analysis will continue during FY 2005. It is anticipated that a baseline value for NPS will be included in the FY 2005 Performance and Accountability Report. |
| Riparian areas - Percent of stream-miles achieving desired conditions where condition is known and as specified in management plans consistent with applicable substantive and procedural requirements of State and Federal water law | 90.8% | 90.5% | √ | Goal Met. Although FWS did not set a target for this measure for FY 2004, it did establish a baseline of 52% (excludes Alaska). Although NPS did not set a target for this measure for FY 2004, it did plan to establish a baseline for this measure. However, the NPS did not establish a baseline because insufficient data were collected during FY 2004 to provide a basis for establishing a baseline value. Data collection and analysis will continue during FY 2005. It is anticipated that a baseline value for NPS will be included in the FY 2005 Performance and Accountability Report. |
| Upland areas - Percent of acres achieving desired conditions where condition is known and as specified in management plans consistent with applicable substantive and procedural requirements of State and Federal water law | 63.1% | 63.1% (E) | √ | Goal Met (Estimated). Based on estimated data, it is anticipated that the goal will be met. The basis for the estimate is actual upland condition information for FY 2003. It is believed that there was no significant change in the uplands during FY 2004. Therefore, it is reasonable to use FY 2003 data for estimates. Final data will be included in the FY 2005 Performance and Accoutability Report. Although FWS did not set a FY 2004 target for this measure, it did establish a baseline of 46% (excludes Alaska). Although NPS did not set a FY 2004 target for this measure, it did plan to establish a baseline. However, the NPS did not establish a baseline because insufficient data were collected during FY 2004 to provide a basis for establishing a baseline value. Data collection and analysis will continue during FY 2005. It is anticipated that a baseline value for NPS will be included in the FY 2005 Performance and Accountability Report. |
| Marine and coastal areas - Percent of acres achieving desired marine and coastal conditions where condition is known and as specified in management plans | Establish Baseline | | | Baseline Not Established. Both the FWS and the NPS planned to establish a baseline for this measure during FY 2004. The baseline for FWS is 64%. The NPS did not establish a baseline for this measure. The NPS did not establish a baseline because insufficient data were collected during FY 2004 to provide a basis for establishing a baseline value. Data collection and analysis will continue during FY 2005. It is anticipated that a baseline value for NPS will be included in the FY 2005 Performance and Accountability Report. |
| Number of land acres reclaimed or mitigated from the effects of degradation from past mining | 6,950 acres | | | No Report (Incomplete Data). Complete data are not available because one of the contributing bureaus (i.e., NPS) did not produce data in time for the report. The NPS data were delayed because of delays in establishing reporting protocols and systems for parks. Final data will be reported in the FY 2005 Performance and Accountability Report.<br><br>FY 2001 Actual 13,808 acres (OSM)<br>FY 2002 Actual: 8,606 acres (OSM)<br>FY 2003 Actual: 6,539 acres (OSM) |

**TABLE 2-3**

| Mission Area 1. Resource Protection: Protect the Nation’s Natural, Cultural, and Heritage Resources | | | | |
|---|---|---|---|---|
| **Performance Measures** | **FY 04 Plan** | **FY 04 Actual** | **Goal Met?** | **Performance Report and Discussion** |
| Number of stream-miles for which degradation from past surface coal mining has been improved | 150 miles | 12 miles (P) | | No Report (Preliminary Data). Office of Management and Budget guidelines preclude us from using preliminary data as a basis for determining whether the performance goal was achieved. Final data and analysis will be included in the FY 2005 Performance and Accountability Report. |
| Number of surface of acres of water for which degradation from past surface coal mining has been improved | 150 acres | 24.6 acres (P) | | No Report (Preliminary Data). Office of Management and Budget guidelines preclude us from using preliminary data as a basis for determining whether the performance goal was achieved. Final data and analysis will be included in the FY 2005 Performance and Accountability Report. |
| Percent of surface waters (miles) managed by DOI that meet State (EPA approved) water quality standards | 91% | | | No Report (Incomplete Data). Some of the data needed to assess results for this measure were not available in time for the report. The missing data include Alaska, Eastern States, and some data from California. Final data for this mesure will be included in the FY 2005 Performance and Accountability Report. Although NPS did not set an FY 2004 target for this measure, it did establish a baseline value of 98.9%. |
| Percent of surface waters (acres) managed by DOI that meet State (EPA approved) water quality standards | Establish Baseline | | | Baseline Not Established. Three DOI bureaus (i.e., NPS, BLM and FWS) had planned to establish a baseline for this measure. For BLM, insufficient data were available during FY 2004 to provide a basis for establishing a baseline value. BLM will continue data collection and analysis during FY 2005, and it is anticipated that a baseline value will be included in the FY 2005 Performance and Accountability Report. The FWS did establish a baseline for this measure during FY 2004, and the baseline value is 91%. The NPS also established a baseline for this measure during FY 2004, and the baseline value is 82.5%. |
| Protect and/or restore X number of surface and ground water systems directly managed or influenced by DOI, as specified in management plans and consistent with applicable Federal and State law, by working with State and local resource managers, as appropriate, to meet human and ecological needs | 1 system | 5 systems | √ | Goal Exceeded. This was the first year data for this goal was tracked. Because no history of performance was available for this goal, the target set was lower than what DOI was actually able to achieve. Out-year targets will be adjusted to reflect this performance. Although the FWS did not set a FY 2004 target for this measure, it established a baseline value of 107,225 systems. |
| Percent of reporting Class I DOI lands that meet ambient air quality standards (NAAQS) | 77% | 80% | √ | Goal Met. |
| Percent of reporting Class I DOI lands that meet visibility objectives | 56% | | | No Report (Incomplete Data). Some of the FY 2004 data for this measure (i.e., NPS for August/September) were not available in time for the report. Final data will be included in the FY 2005 Performance and Accountability Report. Although the FWS did not set a FY 2004 target for this measure, it did plan to establish a baseline. However, insufficient FY 2004 data were available to provide a basis for establishing a baseline value. Data collection and analysis will continue in FY 2005, and it is anticipated that an FWS baseline will be included in the FY 2005 Performance and Accountability Report. |

TABLE 2-3

| Mission Area 1. Resource Protection: Protect the Nation's Natural, Cultural, and Heritage Resources | | | | |
|---|---|---|---|---|
| **Performance Measures** | **FY 04 Plan** | **FY 04 Actual** | **Goal Met?** | **Performance Report and Discussion** |
| ***Intermediate Strategy - Restore and Maintain Proper Function to Watersheds and Landscapes*** | | | | |
| Percent of acres degraded by wildland fire with post-fire rehabilitation treatments underway, completed, and monitored | 18.8% | 11.9% (E) | | Goal Not Met (Estimated). Based on estimated data, it is anticipated that the goal will not be met. Estimated data is from the National Fire Plan Operations and Reporting System (NFPORS). Final data will be included in the FY 2005 Performance and Accountability Report. |
| Number of acres in fire regimes 1, 2, or 3 moved to a better condition class that were identified as high priority through collaboration consistent with the 10-year Implementation Plan – in total | 280,000 acres | 255,980 acres (E) | | Goal Not Met (Estimated). Based on estimated data, we anticipate that the goal will not be met. However, the DOI bureaus nearly achieved this goal. Data is estimated from the National Fire Plan Operations and Reporting System (NFPORS). Fuels treatment projects are prioritized through an interagency collaborative process that includes partners in local communities. The mix of fuel treatment projects actually conducted can vary annually according to this prioritization process, fuel conditions, and local weather conditions, and reflects efforts to mitigate the greatest risks to communities and the environment. Final data will be included in the FY 2005 Performance and Accountability Report. |
| Number of acres in fire regimes 1, 2, or 3 moved to a better condition class that were identified as high priority through collaboration consistent with the 10-year Implementation Plan – as a percent of total acres treated | 38.7% | 33.3% (E) | | Goal Not Met (Estimated). Based on estimated data, it is anticipated that the goal will not be met. However, the DOI bureaus nearly achieved this goal. Data is estimated from the National Fire Plan Operations and Reporting System (NFPORS). Fuels treatment projects are prioritized through an interagency collaborative process that includes partners in local communities. The mix of fuel treatment projects actually conducted can vary annually according to this prioritization process, fuel conditions, and local weather conditions, and reflects efforts to mitigate the greatest risks to communities and the environment. Final data will be reported in the FY 2005 Performance and Accountability Report. |
| Number of acres in prior measure moved to a better condition class per million dollars of gross investment | 3,783 acres | 3,199 acres (E) | | Goal Not Met (Estimated). Based on estimated data, it is anticipated that the goal will not be met. Data is estimated from the National Fire Plan Operations and Reporting System (NFPORS). Fuels treatment projects are prioritized through an interagency collaborative process that includes partners in local communities. The mix of fuel treatment projects actually conducted can vary annually according to this prioritization process, fuel conditions, and local weather conditions, and reflects efforts to mitigate the greatest risks to communities and the environment. The greater cost per acre treated reflects more treatments were conducted during the year that relied on more expensive methods conducted on smaller projects. Final data will be included in the FY 2005 Performance and Accountability Report. |
| Satisfaction with science information and products | $\geq$ 80% | 100% | √ | Goal Met. |
| Number of acres treated that are in condition classes 2 or 3 in fire regimes 1 through 3 outside of wildland-urban interface, and are identified as high priority through collaboration consistent with the 10-Yr. Implementation Plan in total | 440,000 acres | 549,800 acres (E) | √ | Goal Exceeded (Estimated). Based on estimated data, it is anticipated that the goal will be exceeded. Data is estimated from the National Fire Plan Operations and Reporting System (NFPORS). Fuels treatment projects are prioritized through an interagency collaborative process that includes partners in local communities. The mix of fuel treatment projects actually conducted can vary annually according to this prioritization process, fuel conditions, and local weather conditions, and reflects efforts to mitigate the greatest risks to communities and the environment. |

TABLE 2-3

| Mission Area 1. Resource Protection: Protect the Nation's Natural, Cultural, and Heritage Resources | | | | |
|---|---|---|---|---|
| **Performance Measures** | **FY 04 Plan** | **FY 04 Actual** | **Goal Met?** | **Performance Report and Discussion** |
| ***Intermediate Strategy - Restore and Maintain Proper Function to Watersheds and Landscapes*** | | | | |
| Number of acres treated that are in condition classes 2 or 3 in fire regimes 1 through 3 outside of wildland-urban interface, and are identified as high priority through collaboration consistent with the 10-Year Implementation Plan as a percent of all acres treated | 60.8% | 71.6% (E) | √ | Goal Exceeded (Estimated). Based on estimated data, it is anticipated that the goal will be exceeded. Data is estimated from the National Fire Plan Operations and Reporting System (NFPORS). Fuels treatment projects are prioritized through an interagency collaborative process that includes partners in local communities. The mix of fuel treatment projects actually conducted can vary annually according to this prioritization process, fuel conditions, and local weather conditions, and reflects efforts to mitigate the greatest risks to communities and the environment. Final data will be included in the FY 2005 Performance and Accountability Report. |
| Number of acres treated outside the wildland-urban interface per million dollars gross investment | 9,776 acres | 9,598 acres (E) | √ | Goal Met (Estimated). Based on estimated data, it is anticipated that the goal will be met. More acres were treated than planned, but the average cost per acre was slightly higher in 2004. Final data will be included in the FY 2005 Performance and Accountability Report. |
| Tons of salt loading prevented | 25,000 tons | 26,680 tons | √ | Goal Exceeded. The goal to support projects that reduce salinity by 25,000 tons per year is mandated by law. Reclamation exceeded the target as a result of sponsored control and prevention projects that contributed greater than the minimum total of 25,000 tons of salt prevented per year.<br><br>FY 2001 Actiual: 36,437 tons (BOR)<br>FY 2002 Actual: 35,500 tons (BOR)<br>FY 2003 Actual: 30,393 tons (BOR) |
| Number of acres achieving watershed and landscape goals through voluntary partnerships | 403,072 acres | 318,070 acres (E) | | Goal Not Met (Estimated). Based on estimated data, it is anticipated that the goal will not be met. Estimates are based on prior year's performance trend data. Also, because the reporting programs are voluntary programs, exact estimates of landowner interest by habitat type are not possible. Estimates are based on the prior year's performance but may not be achievable if landowner interest does not match landowner interest from last year. Final data will be included in the FY 2005 Performance and Accountability Report. |
| Number of stream/shoreline miles achieving watershed and landscape goals through voluntary partnerships | 858 miles | 820 miles (E) | √ | Goal Met (Estimated). Based on estimated data, it is anticipated that the goal will be met. Estimates are based on prior year's performance trend data. Because the reporting programs are voluntary programs, exact estimates of landowner interest by habitat type are not possible. Estimates are based on the prior year's performance but may not be achievable if landowner interest does not match landowner interest from last year. Final data will be included in the FY 2005 Performance and Accountability Report. |
| Percent of known contaminated sites remediated on DOI managed land | 5.5% | 10.6% | √ | Goal Exceeded. The Department was able to exceed its goal for this measure because some sites were less expensive to remediate than planned, and because additional sources of funding became available allowing DOI to do more remediation work. Outyear targets for this measure will be adjusted to account for this better than expected performance. Although FWS did not set a FY 2004 target for this measure, it did establish a baseline value of 176 contaminated sites. |

TABLE 2-3

| Mission Area 1. Resource Protection: Protect the Nation's Natural, Cultural, and Heritage Resources | | | | |
|---|---|---|---|---|
| **Performance Measures** | **FY 04 Plan** | **FY 04 Actual** | **Goal Met?** | **Performance Report and Discussion** |
| ***Intermediate Strategy 2 - Improve information base, information management and technical assistance*** | | | | |
| Satisfaction scores on resource protection partnerships | ≥ 80% | 97% | √ | Goal Met. Although BLM did not set a FY 2004 target for this measure, it did plan to establish a baseline. However, a baseline was not established in time for the report because it had not received the results of a survey that will provide a basis for that baseline. The baseline will be included in the FY 2005 Performance and Accountability Report. |
| Percent of watershed and landscape-related studies validated through appropriate peer or independent review | 100% | 100% | √ | Goal Met. |
| ***End Outcome Goal - Sustain biological communities on DOI managed and influenced lands and waters in a manner consistent with obligations regarding the allocation and use of water*** | | | | |
| Percent of species of management concern that are managed to self-sustaining levels, in cooperation with affected States and others, as defined in approved management documents | 61.1% | | | No Report (Incomplete Data). Some of the FY 2004 data for this measure (i.e., NPS) were not available in time for the report. Final NPS data are expected in mid-November 2004. The data delay is asiciated with delays in establishing park reporting procedures, and systems did not allow parks to report data as planned. Data are available for the other bureau (i.e., FWS) that contributes data to this measure. The FWS exceeded its goal for this measure. The FWS believes that achieving a better than expected result may be due to favorable environmental conditions in one year resulting in a population showing improvement in the following year. Final data will be included in the FY 2005 Performance and Accountability Report. |
| Percent of threatened or endangered species listed a decade or more that are stabilized or improved | 38.8% | 37.9% (E) | √ | Goal Met (Estimated). Based on estimated data, it is anticipated that the target will be met. Estimated data is based on regional input into the end-of-year performance reporting for the Recovery Data Call and prior year's performance trend data. Final data will be included in the FY 2005 Performance and Accountability Report.<br><br>FY 2001 Actual: 52% (320 of 616 species) (FWS)<br>FY 2002 Actual: 45% (320 of 705 species) (FWS)<br>FY 2003 Actual: 42% (332 of 792 species) (FWS) |
| Percent of candidate species where listing is unnecessary as a result of conservation actions or agreements | 1.6% | 1.2% | | Goal Not Met. Departmental results for this measure are managed by the Fish and Wildlife_ Service. Due to the complex and voluntary nature of candidate agreements, the FWS does not control the timeline for completing them. An agreement that we expected would be the basis for making listing unnecessary for one species, the California golden trout, was not completed and signed until just before the end FY 2004. Consequently, there was no time left in the fiscal year to conduct the necessary analyses to reach a decision that listing is unnecessary and to publish a required "not warranted" finding. We expect to complete these tasks in FY 2005. |

**TABLE 2-3**

| Mission Area 1. Resource Protection: Protect the Nation's Natural, Cultural, and Heritage Resources | | | | |
|---|---|---|---|---|
| **Performance Measures** | **FY 04 Plan** | **FY 04 Actual** | **Goal Met?** | **Performance Report and Discussion** |
| Percent change from baseline in the number of acres infested with invasive plant species | 6.5% | 8.7% (E) | √ | Goal Exceeded (Estimated). Based on estimated data, it is anticipated that the goal will be exceeded. The estimate is based on a polynomial regression analysis. Better than expected success by the Department's exotic plan management teams is the reason for the unexpected success. Outyear targets may need to be adjusted based on actual performance. Final data will be included in the FY 2005 Performance and Accountability Report. Although the BLM did not set a FY 2004 target for this measure, it established a baseline value of 35,455,520 acres. Although BOR did not set a FY 2004 target for this measure, it did conduct successful invasive plant management activities. |
| Percent change from baseline in the number of invasive animal populations | 0.3% | | | No Report (No Data). The single bureau reporting to this measure for for FY 2004 is NPS. No data were available at the time of the report because of delays in establishing reporting databases and systems. Final data are expected in late November 2004. Final data will be included in the FY 2005 Performance and Accountability Report. Although the FWS did not set a FY 2004 target for this measure, it did plan to establish a baseline. However, insufficient FY 2004 data were available to provide a basis for establishing a baseline value. Baseline efforts will continue in Fy 2005, and it is anticipate that a baseline will be included in the FY 2005 Performance and Accountability Report. |
| ***Intermediate Strategy - Create Habitat Conditions for Biological Communities to Flourish*** | | | | |
| Number of acres restored or enhanced to achieve habitat conditions to support species conservation consistent with management documents, program objectives, and consistent with substantive and procedural requirements of State and Federal water law | 3,978,995 acres | 3,611,708 acres (E) | | Goal Not Met (Estimated). Based on estimated data, it is anticipated that the goal will not be met. Estimated data are based on prior years performance results. Part of the reason the goal was not met is that some of the acres included in the FY 2004 target were removed during the year due to realignment of Refuge Program measures. Final data will be reported in the FY 2005 Performance and Accountability Report. |
| Number of stream/shoreline miles restored or enhanced to achieve habitat conditions to support species conservation consistent with management documents, program objectives, and consistent with substantive and procedural requirements of State and Federal water law | 841 miles | 1,145 miles | √ | Goal Exceeded. This goal was exceeded because of unanticipated restoration successes associated with partnership activities. |
| Number of acres of landscapes and watersheds managed through partnerships and networked lands that achieve habitat protection | 8,754,360 miles | 8,754,360 miles (E) | √ | Goal Met (Estimated). Based on estimated data, it is anticipated that the goal will be met. Estimated data is based on prior year's performance trend data. Final data will be included in the FY 2005 Performance and Accountability Report. |
| Number of acres achieving habitat/biological community goals through voluntary agreements | 49,264 acres | 47,022 acres (E) | √ | Goal Met (Estimated). Based on estimated data, it is anticipated that the target will be met. Estimated data are based on prior year's performance trend data. Final data will be included in the FY 2005 Performance and Accountability Report. |
| Number of stream/shoreline miles achieving habitat/biological community goals through voluntary agreements | Establish Baseline | | | Baseline Not Established. Insufficient data were collected during FY 2004 to provide a basis for establishing a baseline for this measure. Data collection and analysis will continue during FY 2005. It is anticipated that baseline value will be included in the FY 2005 Performance and Accountability Report. |

TABLE 2-3

| Mission Area 1. Resource Protection: Protect the Nation's Natural, Cultural, and Heritage Resources | | | | |
|---|---|---|---|---|
| **Performance Measures** | **FY 04 Plan** | **FY 04 Actual** | **Goal Met?** | **Performance Report and Discussion** |
| ***Intermediate Strategy - Manage Populations to Self-Sustaining Levels for Specific Species*** | | | | |
| No GPRA Measures | | | | |
| ***Intermediate Strategy - Improve Information Base , Information Management, and Technical Assistance*** | | | | |
| Satisfaction scores on biological research partnerships | $\geq$ 80% | 98% | √ | Goal Met. |
| Percent of biological research studies validated through appropriate peer review or independent review | 100% | 100% | √ | Goal Met. |
| Conservation and biological research facilities are in fair to good condition as measured by the Facilities Condition Index | 0.11 | 0.12 (E) | | Goal Not Met (Estimated). Based on estimated data, it is anticipiated that the goal will not be met. FCI goals are still very tenuous. Some facility condition assessments have not been completed, and replacement costs are still being refined. Therefore, it is expected that numbers will continue to fluctuate over the next several years. Much of this is due to change in data quality, not actual change in condition. Calculations in the measure include only those facilities which have undergone comprehensive condition assessments. Final data will be included in the FY 2005 Performance and Accountability Report. |
| ***End Outcome Goal - Protect Cultural and Natural Heritage Resources*** | | | | |
| Percent of cultural properties in DOI inventory in good condition | 62.1% | 64.5% | √ | Goal Met. |
| Percent of collections in DOI inventory in good condition | 30.7% | 42.3% (P) | | No Report (Preliminary Data). Complete data are expected to be available in November 2004. Office of Management and Budget guidelines preclude us from using preliminary data as a basis for determining whether the performance goal was achieved. Final data and analysis will be included in the FY 2005 Performance and Accountability Report. |
| Percent of participating cultural properties owned by others in good condition | 4.8% | 4.9% (E) | √ | Goal Met (Estimated). Based on estimated data, it is anticipated that the goal will be met. The estimate is based on multi-year averages of performance by others. Final performance will not be available until August 2005 because by law (43 CRD 12), Federal agencies cannot ask for information on Federal Grants until at least 90 days after the end of the grant period. Final data for FY 2004 will be included in the FY 2005 Performance and Accountability Report. |
| Percent of paleontologic localities in DOI inventory in good condition | 42.1% | 61.1% (P) | | No Report (Preliminary Data). Some data are preliminary. Complete data are expected to be available in December 2004. Office of Management and Budget guidelines preclude us from using preliminary data as a basis for determining whether the performance goal was achieved. Final data and analysis will be included in the FY 2005 Performance and Accountability Report. Althought FWS did not set a FY 2004 target for this measure, it did plan to establish a baseline, and the baseline value is 100% (i.e., all 5 known locations in good condition).<br><br>FY 2001 Actual: 23.0% (NPS)<br>FY 2002 Actual: 44.6% (NPS)<br>FY 2003 Acutal: 47.6% (NPS) |

TABLE 2-3

| Mission Area 1. Resource Protection: Protect the Nation's Natural, Cultural, and Heritage Resources | | | | |
|---|---|---|---|---|
| **Performance Measures** | **FY 04 Plan** | **FY 04 Actual** | **Goal Met?** | **Performance Report and Discussion** |
| Percent of Special Management Areas meeting their heritage resource objectives under the authorizing legislation | 63% | 29% | | Goal Not Met. The goal was not met because the target was too narrowly focused. DOI results included only the Wilderness Areas and National Historic and Scenic Trail and River segments. The target also included Wilderness Study Areas and Wild Horse and Burro Herd Management Areas, which was too broad and yielded results that were not meaningful. Although FWS did not set an FY 2004 target for this measure, it did plan to establish a baseline, and the baseline value is 85%. Although NPS did not set an FY 2004 target for this measure, it did plan to establish a baseline. However, insufficient FY 2004 data were available to provide a basis for establishing a baseline value. Baseline data collection and analysis will continue in FY 2005 and it is anticipated that an NPS baseline will included in the FY 2005 Performance and Accountability Report. |
| Percent of Indian and Alaska Native students demonstrating knowledge of native language, history and customs | Establish Baseline | | | Baseline Not Established. Insufficient data were collected during FY 2004 to provide a basis for establishing a baseline value for this measure. Data collection and analysis will continue during FY 2005. It is anticipated that a baseline value will be included in the FY 2005 Performance and Accountability Report. |
| ***Intermediate Strategy - Increase Knowledge Base of Cultural and Natural Heritage Resources Managed or Influenced by DOI*** | | | | |
| No GPRA Measures | | | | |
| ***Intermediate Strategy - Manage Special Management Areas for Natural Heritage Resource Objectives*** | | | | |
| Percent of acres of designated wilderness achieving wilderness character objectives as specified by statute | 60% | 85.1% | √ | Goal Exceeded. BLM is the only bureau currently reporting to this measure. BLM's initial baseline was inaccurate and now, with complete field data, the BLM will adjust outyear targets accordingly. Although FWS did not set a FY 2004 target for this measure, it did plan to establish a baseline. The FWS baseline value is 94%. Although NPS did not set a FY 2004 target for this measure, it did plan to establish a baseline. However, insufficient FY 2004 data were available to provide a basis for establishing a baseline value. Baseline data collection and analysis will continue in FY 2005, and it is aniticipated that a NPS baseline will be included in the FY 2005 Performance and Accountability Report. |
| ***Intermediate Strategy - Reduce Degradation and Protect Cultural and Natural Heritage Resources*** | | | | |
| Facilities condition - Facilities are in fair to good condition as measured by the Facilities Condition Index | 0.126 | 0.118 | √ | Goal Exceeded. FCI goals are still very tenuous. Some facility condition assessments have not been completed, and replacement costs are still being refined. Therefore, it is expected that numbers will continue to fluctuate over the next several years. Much of this is due to change in data quality, not actual change in condition. Calculations in the measure include only those facilities which have undergone comprehensive condition assessments. Although NPS did not set a FY 2004 target for this measure, it did plan to establish a baseline. The NPS baseline value is 0.21. |
| ***Intermediate Strategy - Increase Partnerships, Volunteer Opportunities, and Stakeholder Satisfaction*** | | | | |
| Partner satisfaction scores with DOI on cultural and heritage resource partnerships | Establish Baseline | | | Baseline Not Established. The baseline was not established because insufficient data were available during FY 2004. Data collection and analysis will continue during FY 2005 and it is anticipated that a baseline will be included in the FY 2005 Performance and Accountability Report. |

TABLE 2-3

**Mission Area 2. Resource Use: Manage Resources to Promote Responsible Use and Sustain a Dynamic Economy**

| Performance Measures | FY 04 Plan | FY 04 Actual | Goal Met? | Performance Report and Discussion |
|---|---|---|---|---|
| *End Outcome Goal - Manage or influence Resource Use to Enhance Public Benefit, Promote Responsible Use, and Ensure Optimal Value: Energy* | | | | |
| Number of onshore acres available for energy resource exploration/ development consistent with applicable management plans or permitting requirements | 590,000,000 acres | 590,000,000 acres | √ | Goal Met. |
| Implement National Energy Policy by holding 17 offshore sales consistent with the Secretary's 5-Year Program | 4 sales | 4 sales | √ | Goal Met. |
| Average acreage disturbed per permitted energy exploration or development activity | 2.3 acres | 2.3 acres | √ | Goal Met. |
| Coal – Percent of active sites that are free of off-site impacts | 93% | 93% (E) | √ | Goal Met (Estimated). Based on estimated data, we anticipate that the goal will be met. Data collection by states for the 2004 reporting year is July 1, 2003 to June 30, 2004. To accommodate the October 1, 2003 - September 30, 2004 time frame, data for the quarter July-Aug-Sept 2003 were deducted to provide the needed baseline for the fiscal year reporting time period. Then data for the quarter covering July-August-September 2004 were estimated based on a ratio, i.e., change over a five year period applied to the 2003 data, that was then added to the nine month data. Final data will be provided in the FY 2005 Performance and Accountability Report.<br><br>FY 2001 Actual: 93.9% (OSM)<br>FY 2002 Actual: 92.8% (OSM)<br>FY 2003 Actual: 92.3% (OSM) |
| Coal - Number of acres where reclamation goals are achieved as evidenced by release from Phase III Performance Bonds | 70,000 acres | 49,054 acres (E) | | Goal Not Met (Estimated). Based on the estimated data, we anticipate that the goal will not be met. DOI has determined that the best mechanism for documenting this performance measure is final (phase III) bond release. However, restoration of coal-mined land to its pre-mining capability or to conditions capable of supporting higher or better use is sometimes accomplished without coal operators seeking phase III bond release. Operators are not legally required to request bond release, and many have found that there are economic advantages to not requesting that bond be released, thus, causing an underreporting of results. Efforts are being made to develop new performance measures to indicate reclamation accomplishments including the use of the bond release mechanism as an indicator. State data collection for the 2004 reporting year is July 1, 2003 to June 30, 2004. To accommodate the Federal reporting period of October 1, 2003 - September 30, 2004, the State data are adjusted. Data for Federal program States (TN and WA) report actual Federal fiscal year data and no adjustments to the data were made. Final data will be provided in the FY 2005 Performance and Accountability Report.<br><br>FY 2001 Actual: 81,853 acres (OSM)<br>FY 2002 Actual: 73,407 acres (OSM)<br>FY 2003 Actual: 48,528 acres (OSM) |

TABLE 2-3

| Mission Area 2. Resource Use: Manage Resources to Promote Responsible Use and Sustain a Dynamic Economy | | | | |
|---|---|---|---|---|
| **Performance Measures** | **FY 04 Plan** | **FY 04 Actual** | **Goal Met?** | **Performance Report and Discussion** |
| Royalties received for mineral leases are x percent of predicted revenues, based on market indicators in the production year | 98% of predicted revenue (46% of 2001 royalty universe) | 96% of predicted revenue (75% of 2001 royalty universe) | √ | Goal Met. |
| Compliance work is completed within the 3-year compliance cycle for x percent of royalties for production year | 69% for 2001 | 69.4% for 2001 | √ | Goal Met. |
| Percent of revenues disbursed on a timely basis per regulation | 94% | 95.50% | √ | Goal Met.<br><br>FY 2001 Actual: 98.4% (MMS)<br>FY 2002 Actual: 80.0% (MMS)<br>FY 2003 Actual: 92.6% (MMS) |
| ***Intermediate Strategy - Effectively Manage and Provide for Efficient Access and Development*** | | | | |
| Number of pending cases of permits and lease applications that are in backlog status for fluid energy minerals (APDs) | 2,100 APDs | 2,182 APDs | √ | Goal Met. |
| Number of pending cases of permits and lease applications that are in backlog status for solid energy minerals (LBAs) | 26 LBAs | 45 LBAs | | Goal Not Met. DOI had more LBAs in backlog status due to increased demand at the end of the year and did not meet the goal. DOI will adjust out-year targets accordingly. |
| Number of pending cases of permits and lease applications that are in backlog status for rights-of-way (ROWs) | 1,850 ROWs | 1,007 ROWs | √ | Goal Exceeded. DOI reprogrammed funding for this high priority activity, which resulted in a 40% actual reduction in the targeted backlog of permits and applications. DOI will adjust out-year targets for this continuing high priority activity. |
| ***Intermediate Strategy - Enhance Responsible Use Management Practices*** | | | | |
| Achieve an oil spill rate for offshore development of no more than one barrel spilled per 100,000 barrels produced | .00001 | | | No Report (No Data). FY 2004 data were not available in time for this report, pending final disposition of ongoing investigation and damage assessments following Hurricane Ivan. Final data will be provided in the FY 2005 Performance and Accountability Report.<br><br>FY 2001 Actual: 1.00 (MMS)<br>FY 2002 Actual: 0.58 (MMS)<br>FY 2003 Actual: 4.00 (MMS) |
| ***Intermediate Strategy - Optimize Value Through Effective Lease and Permit Management*** | | | | |
| No GPRA Measures | | | | |

TABLE 2-3

**Mission Area 2. Resource Use: Manage Resources to Promote Responsible Use and Sustain a Dynamic Economy**

| Performance Measures | FY 04 Plan | FY 04 Actual | Goal Met? | Performance Report and Discussion |
|---|---|---|---|---|
| ***Intermediate Strategy - Improve Information Base, Information Management and Technical Assistance*** | | | | |
| Improve customer satisfaction rating with energy resources permitting process | 50% | 48% | √ | Goal Met. |
| Number of targeted basins with oil and gas resource assessments available to support management decisions | 5 basins | 5 basins | √ | Goal Met. |
| Percent of studies validated through appropriate peer independent review | 100% | 100% | √ | Goal Met. DOI is reviewing this measure for appropriateness to this strategy and may delete it in subsequent reports. |
| ***Intermediate Strategy - Manage or Influence Resource Use to Enhance Public Benefit, Promote Responsible Use and Ensure Optimal Value: Non-Energy Minerals*** | | | | |
| Number of acres available for non-energy mineral resource exploration and development consistent with applicable management plans | 570,700 acres | 570,700 acres (E) | √ | Goal Met (Estimated). Based on estimated data it is anticipated that this goal will be met. Estimate based on previous year's information and is currently gathering updates on available acreages based upon the revised time sensitive plans. Final data will be provided in the FY 2005 Performance and Accountability Report. |
| Number of acres reclaimed to appropriate land condition and water quality standards | 8,000 acres | 1,786 acres | | Goal Not Met. DOI did not meet this goal because reclamation schedules are established by permittees based upon the rate of mining. Also, drought conditions in the West prevented final reclamation of some on these lands. |
| ***Intermediate Strategy - Effectively Manage and Provide for Efficient Access and Production*** | | | | |
| Average time for review and approval of saleable, leasable and locatable minerals processing actions | 18 months | 6 months | √ | Goal Exceeded. DOI exceeded the target by improving processes to complete applications in a more timely manner. |
| ***Intermediate Strategy - Enhance Responsible Use Management Practices*** | | | | |
| No GPRA Measures | | | | |
| ***Intermediate Strategy - Optimize Value Through Effective Lease and Permit Management*** | | | | |
| No GPRA Measures | | | | |
| ***Intermediate Strategy - Improve Information base, Information Management and Technical Assistance*** | | | | |
| Average square miles of the United States with non-energy mineral information available to support management decisions | 2,535,644 square miles | 2,401,329 square miles | √ | Goal Met. |
| Percent of studies validated through appropriate peer or independent review | 100% | 100% | √ | Goal Met. DOI is reviewing this measure for appropriateness to this strategy and may delete it in subsequent reports. |
| ***End Outcome Goal – Manage or Influence Resource Use to Enhance Public Benefit, Promote Responsible Use, and Ensure Optimal Value: Forage*** | | | | |
| Percent of acres with DOI range improvements resulting in sustainable grazing | 6.8% | 5% | | Goal Not Met. In the process of measuring this activity, DOI discovered that the ongoing denominator was not accurate. There are only 160 million acres available for grazing. DOI will adjust the targets in the out-years. |

TABLE 2-3

| Mission Area 2. Resource Use: Manage Resources to Promote Responsible Use and Sustain a Dynamic Economy | | | | |
|---|---|---|---|---|
| **Performance Measures** | **FY 04 Plan** | **FY 04 Actual** | **Goal Met?** | **Performance Report and Discussion** |
| Percent of permitted acres maintained at appropriate land conditions and water and air standards | 63% | 63% (E) | √ | Goal Met (Estimated). Based on estimated data, it is anticipated that this goal will be met. The estimate is based on previous year's information. DOI will change the targeting baseline to the more accurate figure of 160 million acres available for grazing in the out-years. Final data will be included in the FY 2005 Performance and Accountability Report. |
| ***Intermediate Strategy - Provide Access for Grazing*** | | | | |
| Average time (average reduction, number of days) for processing and issuance of grazing permits | 215 days | | | No Report (No Data). FY 2004 data were not available in time for the report. Final data will be provided in the FY 2005 Performance and Accountability Report. |
| ***Intermediate Strategy - Enhance Responsible Use of Management Practices*** | | | | |
| No GPRA Measures | | | | |
| ***Intermediate Strategy - Optimize Value Through Effective Lease and Permit Management*** | | | | |
| No GPRA Measures | | | | |
| ***Intermediate Strategy – Improve Information Base, Information Management and Technical Assistance*** | | | | |
| No GPRA Measures | | | | |
| ***End Outcome Goal – Manage or Influence Resource Use to Enhance Public Benefit, Promote Responsible Use, and Ensure Optimal Value: Forest Products*** | | | | |
| Volume of timber offered for sale | 208 MMBF | 188 MMBF | | Goal Not Met. Litigation procedures from unavoidable legal cases slowed the timber sales process this year.<br><br>FY 2001 Actual: 73.6 MMBF (BLM)<br>FY 2002 Actual: 188.5 MMBF (BLM)<br>FY 2003 Actual: 196.5 MMBF (BLM) |
| Volume of wood products offered consistent with applicable management plans | 88.5% of ASQ | 80% of ASQ | | Goal Not Met. Due to litigation in the Pacific Northwest, DOI was not able to meet this year's target for percent offered over the allowable sale quantity (ASQ). Succeeding year targets will be adjusted accordingly. |
| Percent of permitted acres maintained at appropriate land conditions and water quality standards | 100% | 100% | √ | Goal Met. |
| Administrative cost per million board feet of timber offered for sale | $165 | $176 | | Goal Not Met. DOI was within 94% of achieving its target for costs. The $176 "actual" reported includes additional administrative and program management costs that were not included in the original target. These costs will be included in suceeding targets. |
| ***Intermediate Strategy - Provide Access for Production*** | | | | |
| No GPRA Measures | | | | |
| ***Intermediate Strategy - Enhance Responsible Use of Management Practices*** | | | | |
| No GPRA Measures | | | | |
| ***Intermediate Strategy - Optimize Value Through Effective Lease and Permit Management*** | | | | |
| No GPRA Measures | | | | |

TABLE 2-3

| Mission Area 2. Resource Use: Manage Resources to Promote Responsible Use and Sustain a Dynamic Economy | | | | |
|---|---|---|---|---|
| **Performance Measures** | **FY 04 Plan** | **FY 04 Actual** | **Goal Met?** | **Performance Report and Discussion** |
| ***Intermediate Strategy - Improve Information Base, Information Management and Technical Assistance*** | | | | |
| No GPRA Measures | | | | |
| ***End Outcome Goal – Deliver Water, Consistent with Applicable Federal and State Law, in an Environmentally Responsible and Cost-Efficient Manner*** | | | | |
| Acre-feet of water delivered consistent with applicable substantive and procedural requirements of Federal and State water law | 29,100,000 acre feet | 28,761,995 acre feet (E) | √ | Goal Met (Estimated). Based on estimated data, it is anticipated that the goal will be met. Estimated data are based on a 3-year average for water released in the 4th quarter added to actual data of the first 3 quarters in FY 2004. Final data will be provided in the FY 2005 Performance and Accountability Report.<br><br>FY 2001 Actual: 29.1 MAF (BOR)<br>FY 2002 Actual: 29.4 MAF (BOR)<br>FY 2003 Actual: 21.4 MAF (BOR) |
| Amount of acre-feet of restricted capacity | 16,831 acre-feet | 16,831 acre-feet | √ | Goal Met. |
| Percent of water facilities that do not receive Federal or State notices of violation under environmental requirements as defined by Federal and State law | 97% | 100% | √ | Goal Met. |
| Cost per acre-foot of water to operate water storage facilities at full capacity | Establish Baseline | | | Baseline Not Established. Insufficient data were collected during FY 2004 to provide a basis for establishing a baseline value for this measure. Data collection and analysis will continue during FY 2005, and a baseline value will be included in the FY 2005 Performance and Accountability Report. |
| ***Intermediate Strategy - Operate and Maintain a Safe and Reliable Water Infrastructure*** | | | | |
| Water infrastructure is in fair to good condition as measured by the Facilities Reliability Rating | 96% | 97.4% | √ | Goal Met. |
| Facilities (exclusive of Facilities Reliability Rating facilities) are in fair to good condition as measured by the Facilities Condition Index [results pertain to both water and hydropower facilities] | Establish Baseline | | | Baseline Not Established. Insufficient data were collected during FY 2004 to provide a basis for establishing a baseline value for this measure. Data collection and analysis will continue during FY 2005, and a baseline value will be included in the FY 2005 Performance and Accountability Report. |
| ***Intermediate Strategy - Effective Water Management to Optimize Supply*** | | | | |
| Number of agreements, partnerships and management options exercised resulting in improved water supply | 59 | 59 | √ | Goal Met. |
| ***Intermediate Strategy - Address Environmental/Resource Stewardship Concerns*** | | | | |
| Percent of environmental audit findings and reviews addressed (results pertain to both water and hydropower facilities) | 84% | 56% | | Goal Not Met. DOI was able to address only 56% of the findings within one year due to insufficient staff resources. Additional staff are now on board, and delays in responding to findings will be addressed during FY 2005. |

TABLE 2-3

| Mission Area 2. Resource Use: Manage Resources to Promote Responsible Use and Sustain a Dynamic Economy | | | | |
|---|---|---|---|---|
| **Performance Measures** | **FY 04 Plan** | **FY 04 Actual** | **Goal Met?** | **Performance Report and Discussion** |
| ***Intermediate Strategy - Complete Construction Projects to Increase Delivery Infrastructure and Water Availability*** | | | | |
| Potential acre-feet made available through completion of projects | 102,109 | 103,598 | √ | Goal Met. |
| ***End Outcome Goal – Generate Hydropower, Consistent with Applicable Federal and State Law, in an Environmentally Responsible and Cost-Efficient Manner*** | | | | |
| Percentile of lowest cost hydropower producers, comparing cost per megawatt of installed capacity | upper 25th | upper 25th (E) | √ | Goal Met (Estimated). Based on estimated data, it is anticipated that the goal will be met. The estimate is based on the average annual cost increase from 1999 to 2003. The percent increase was applied to FY 2003 costs to obtain estimated FY 2004 costs, which should be just within the upper 25th percentile compared to costs of other hydropower producers. Note: Measure to be reported as upper 25th percentile as shown in Strategic Plan vs. previous method. Final data will be provided in the FY 2005 Performance and Accountability Report.<br><br>FY 2001 Actual: 75th percentile (BOR)<br>FY 2002 Actual: 85th percentile (BOR)<br>FY 2003 Actual: 75th percentile (BOR) |
| Percent of time in forced outage equal to or better (lower) than the industry average | 2.5% | 1% (E) | √ | Goal Met (Estimated). Based on estimated data, it is anticipated that the goal will be met or exceeded. DOI believes it will be on target and possibly achieve a 1% forced outage rate based on actual forced outage data through July 2004. Data from August - September are needed for a final forced outage rate, which should be available in the first quarter of FY 2005. Final data will be provided in the FY 2005 Performance and Accountability Report.<br><br>FY 2001 Actual: 1.6% (BOR)<br>FY 2002 Actual: 1.3% (BOR)<br>FY 2003 Actual: 1.5% (BOR) |
| Percent of power facilities that do not receive notice of violations under environmental requirements as defined by Federal and State law | 94% | 98.20% | √ | Goal Met. |
| ***Intermediate Strategy - Operate and Maintain Reliable, Safe, and Secure Power Facilities*** | | | | |
| Hydropower facilities are in fair to good condition as measured by the Facilities Reliability Rating | 96% | 100% | √ | Goal Met. |
| ***Intermediate Strategy - Improve Power Generation Management to Maximize Supply*** | | | | |
| Percent of time that Bureau of Reclamation hydroelectric generating units are available to the interconnected Western Electrical System during daily peak summer demand periods | 91.5% | 91.90% (E) | √ | Goal Met (Estimated). Based on estimated data, it is anticipated that the goal will be met. The estimate was obtained using all actual peak availability data. However, this includes only one month of data within the peak summer period in June 2004. Data from July-September are needed to obtain a final peak availability rate. The availability rate will be finalized during first quarter of FY 2005. Final data will be provided in the FY 2005 Performance and Accountability Report. |
| ***Intermediate Strategy - Address Environmental/Resource Stewardship Concerns*** | | | | |
| No GPRA Measures | | | | |

TABLE 2-3

## Mission Area 3. Provide Recreation Opportunities for America

| Performance Measures | FY 04 Plan | FY 04 Actual | Goal Met? | Performance Report and Discussion |
|---|---|---|---|---|
| ***End Outcome Goal – Provide for Lands and Waters*** | | | | |
| Satisfaction of meeting public demand for recreation as measured by a general public survey | 32% | 32% (E) | √ | Goal Met (Estimated). Based on estimated data, it is anticipated that this goal will be met. The estimate is based on survey data that are not collected annually. The value established in the previous survey is assumed to hold constant until another survey or other data invalidate that assumption. Final data will be included in the FY 2005 Performance and Accountability Report. Although one contributing bureau (i.e., FWS) did not set a FY 2004 target for this measure, it did establish a baseline value of 90%. |
| Satisfaction with the quality of experience | 95% | 95% (E) | √ | Goal Met (Estimated). Based on estimated data, it is anticipated that this goal will be met. The estimate is based on linear regression analysis of past years' data (NPS), and the previous year's data (BLM). Final data are expected in November 2004. Final data will be included in the FY 2005 Performance and Accountability Report. Although FWS did not set a FY 2004 target for this measure, it did establish a baseline value of 88%.<br><br>FY 2001 Actual: 92.5% (NPS=95.0%; BLM=90.0%)<br>FY 2002 Actual: 95.0% (NPS)<br>FY 2003 Actual: 96.5% (NPS=96.0%; BLM=97.0%) |
| ***Intermediate Strategy - Improve Capacities to Provide Access for Recreation Where Appropriate*** | | | | |
| Number of acres made available for recreation through management actions and partnerships | 340,902,700 acres | 338,589,759 acres (P) | | No Report (Preliminary Data). Final data are expected to be available in December 2004. Final data will be included in the FY 2005 Performance and Accountability Report. Although FWS did not set a FY 2004 target for this measure, it did establish a baseline value of 92,848,744 acres.<br><br>FY 2001 Actual: 726,900 acres (NPS)<br>FY 2002 Actual: 782,710 acres (NPS)<br>FY 2003 Actual: 846,282 acres (NPS) |
| Number of river and shoreline miles made available for recreation through management actions and partnerships | 19,870 miles | 19,890 miles (P) | | No Report (Preliminary Data). Final data are expected to be available in December 2004. Final data will be included in the FY 2005 Performance and Accountability Report. Although FWS did not set a FY 2004 target for this measure, it did make progress toward establishing a baseline. FWS has established the number of acres associated with this measure (i.e., 2,700), but it cannot yet express this value in terms of river and shoreline miles. Analysis will continue during FY 2005.<br><br>FY 2001 Actual: 3,172 miles (NPS)<br>FY 2002 Actual: 4,058 miles (NPS)<br>FY 2003 Actual: 5,050 miles (NPS) |

TABLE 2-3

| Mission Area 3. Provide Recreation Opportunities for America | | | | |
|---|---|---|---|---|
| **Performance Measures** | **FY 04 Plan** | **FY 04 Actual** | **Goal Met?** | **Performance Report and Discussion** |
| Percent of universally accessible facilities in relation to the total number of recreation areas | 9.70% | 7.80% | | Goal Not Met. Two bureaus targeted to measure (i.e., BLM and BOR). Neither bureau achieved its goal, and thus, the Department did not achieve its goal. The BLM did not meet it's goal due to a shift in its focus to other priorities like deferred maintenance projects. The BOR did not meet its goal because it did not account for all of its recreation areas in its target. However, the BOR did retrofit more recreation sites than originally planned. Although NPS did not set a FY 2004 target for this measure, it did plan to establish a baseline. However, insufficient FY 2004 data were available to establish a baseline value. Baseline data collection and analysis will continue in FY 2005. It is anticipated that a NPS baseline will be included in the FY 2005 Performance and Accountability Report.<br><br>FY 2001 Actual: 3.0% (BLM)<br>FY 2002 Actual: 5.1% (BLM)<br>FY 2003 Actual: 9.9% (BLM=7%; BOR=12.8%) |
| ***Intermediate Strategy - Promote Recreation Opportunities*** | | | | |
| Number of on-line recreation transactions supported by DOI | 2,500 transactions | 12,960 transactions | √ | Goal Exceeded. The Department will adjust its outyear targets to account for this higher than expected number of on-line transactions. Although NPS did not set a FY 2004 target for this measure, it did plan to establish a baseline. The NPS baseline value is 90,341 transactions. |
| ***Intermediate Strategy - Manage Recreation Activities Seamlessly*** | | | | |
| Percent of recreation areas with community partnerships | 73.9% | 27.1% | | Goal Not Met. The Department's goal for this measure was not met because BLM's target for the measure was based on an overly broad interpretation of what constitutes a partnership. As a result, the actual number of partnerships was much lower than anticipated. The other bureaus that set FY 2004 targets for this measure either met their target (i.e., BOR) or exceeded their target (i.e., FWS). Although NPS did not set a FY 2004 target for this measure, it did plan to establish a baseline. However, insufficient FY 2004 data were available at the time of the report to provide a basis for establishing a baseline. Adequate data are expected to be available by December 2004, and a NPS baseline value will be included in the FY 2005 Performance and Accountability Report. |
| Number of individuals using an interagency pass | 10,700 individuals | 10,750 individuals | √ | Goal Met. Although NPS did not set a FY 2004 target for this measure, it did plan to establish a baseline. The NPS baseline is 396,000 individuals. |
| ***Intermediate Strategy - Enhance the Quality of Recreation Opportunities*** | | | | |
| Facilities are in fair to good condition as measured by the Facilities Condition Index | 0.181 | | | No Report (No Data). The Department was unable to generate all the data needed to calculate FY 2004 results for this measure. The reason is that the BLM has not completed the transition to a data system that supports Facility Condition Index calculations. For that reason, no FCI data will be generated for BLM for FY 2004. The BLM expects to be able to produce data for FCI calculations in FY 2005. The other bureau that targeted this measure for FY 2004 (i.e., FWS) did not meet its target FCI. For FWS, setting FCI targets is still very tenuous because condition assessments have not been completed for all facilites, replacement values are still being refined, and the overall quality of FCI data continues to change. For those reasons FWS expects that FCI targets will fluctuate for the next few years. Although BOR did not set a FY 2004 target for this measure, it did plan to establish a baseline. However, insufficient FY 2004 data were available to provide a basis for establishing a baseline value. Baseline data collection and analysis will continue in FY 2005. It is anticipated that a BOR baseline will be included in the FY 2005 Performance and Accountability Report. |

TABLE 2-3

| Mission Area 3. Provide Recreation Opportunities for America | | | | |
|---|---|---|---|---|
| **Performance Measures** | **FY 04 Plan** | **FY 04 Actual** | **Goal Met?** | **Performance Report and Discussion** |
| ***Intermediate Strategy - Provide Effective Interpretation and Education Programs*** | | | | |
| Number of visitors served by facilitated programs | 125,398,684 visitors | 153,341,900 visitors | √ | Goal Exceeded (Estimated). Based on estimated data, it is anticipated that this goal will be exceeded. The estimate is based on past year's actual performance and some actual data for FY 2004. The goal was exceeded because some contributing bureaus set targets using an overly narrow interpretation of what constitutes a facilitated program. Final data will be included in the FY 2005 Performance and Accountability Report. |
| ***Intermediate Strategy - Ensure Responsible Use in Recreation to Protect Natural, Cultural, and Recreational Resources*** | | | | |
| Demonstrate increased public awareness of underutilized recreation areas through increased visitation at targeted areas | No Target | | | No Report (No Target). This measure is being excluded from this year's Performance and Accountability Report. The usefulness of this measure without defined targets for which there was no baseline established is being reconsidered due to a possible lack of viability and/or practicality. This measure might be refined or considered unmeasurable or too complicated and costly to measure relative to the benefits of the results. |
| ***Intermediate Strategy – Improve Information Base, Information Management and Technical Assistance*** | | | | |
| Manager satisfaction scores for technical assistance and science products for recreation purposes | 90% | 90% | √ | Goal Met (Estimated). Based on estimated data, it is anticipated that the goal will be met. The estimate is based on partial results from a customer survey. Complete data are expected in early 2005. Final data will be included in the FY 2005 Performance and Accountability Report. Although FWS did not set a FY 2004 target for this measure, it did establish a baseline value of 70%. |
| ***End Outcome Goal - Provide for and Receive Fair Value in Recreation*** | | | | |
| Customer satisfaction with value for fee paid | 82.4% | 82.4% | √ | Goal Met (Estimated). Based on estimated data, it is anticipated that this goal will be met. The estimate is based on a prior survey that is not conducted annually. Final data will be included in the FY 2005 Performance and Accountability Report. Although FWS did not set a FY 2004 target for this measure, it did plan to establish a baseline value. However, insufficient data were available in time to establish a baseline value for the report. A FWS baseline value will be included in the FY 2005 Performance and Accountability Report. |
| ***Intermediate Strategy - Promote Quality Service for Recreation*** | | | | |
| Percent of concession activities with performance-based contracts | 2.9% | 94.5% | √ | Goal Exceeded. The vast majority of contracts included in the target for this measure is NPS contracts. Because concession contracts are not procurement contracts NPS can (and has) told the concessionaire how to perform services. As such, all concession contracts set standards of operations and provide for evaluations of concessionaire performance. Outyear targets will be revised to reflect the current level of performance for this measure. Although BOR set a FY 2004 target of zero for this measure because no concession contracts were due for renewal, one concessionaire unexpectedly surrendered its concession allowing BOR to issue a new, performance-based contract. |
| ***Intermediate Strategy - Effectively Manage Service Fees and Recreation Fees*** | | | | |
| Revenue collected from concessions | $39,100,000 | $25,000,000 | | Goal Not Met (Estimated). Based on estimted data, it is anticipated that the goal will not be met. The estimate is based on actual data for FY 2003 and the first 3 quarters of FY 2004. The reason for lower than expected concession revenue is that concessions have not yet recovered from the 9/11 tragedy. Final data will be reported in the FY 2005 Performance and Accountability Report. |
| Cost per visitor at development and recreational fee demonstration sites | Establish Baseline | | √ | Baseline Established. The baseline is $6.40 per visitor. |

**TABLE 2-3**

**Mission Area 4. Serving Communities: Safeguard Lives, Property and Assets, Advance Scientific Knowledge, and Improve the Quality of Life for Communities We Serve**

| Performance Measures | FY 04 Plan | FY 04 Actual | Goal Met? | Performance Report and Discussion |
|---|---|---|---|---|
| *End Outcome Goal - Protect Lives, Resources, and Property* | | | | |
| Loss of life from severe, unplanned and unwanted wildland fire is eliminated | 0 | | | No Report (Incomplete Data). One DOI employee lost his life on wildland fire response. DOI is gathering additional information on lives lost in fires on DOI-managed and Tribal lands. This will be reported no later than FY 2005 Performance and Accountability Report. |
| Firefighter injuries from severe, unplanned and unwanted wildland fire are reduced | Establish Baseline | | √ | Baseline Established. The Departmental baseline is 414 injuries. |
| Damage to communities and the environment from severe, unplanned and unwanted wildland fire are reduced | No Target | | | No Report (No Target).This measure is being excluded from this year's Performance and Accountability Report. The usefulness of this measure without defined targets for which there was no baseline established is being reconsidered due to a possible lack of viability and/or practicality. This measure might be refined or considered unmeasurable or too complicated and costly to measure relative to the benefits of the results. |
| Amount of time lost from firefighter injury in proportion to the number of days worked across all agencies | Establish Baseline | | √ | Baseline Established. The Departmental baseline is .0005 days. |
| Number of homes and significant structures lost as a result of wildland fire | Establish Baseline | | √ | Baseline Established. The Departmental baseline is 104 homes/structures. |
| Visitor lives lost due to illegal activities on DOI lands and in DOI facilities (incidents per 100,000 visitor/resident days) | Establish Baseline | | √ | Baseline Established. BLM has established a baseline of 7 incidents per visitor/resident days. NPS plans to implement IMARS are on track and a baseline should be established in FY 2005 and reported in the Performance and Accountability Report for FY 2005. |
| Visitor serious injuries due to illegal activities on DOI lands and in DOI facilities (incidents per 100,000 visitor/resident days) | Establish Baseline | | √ | Baseline Established. BLM has established a baseline of 40 incidents per visitor/resident days. NPS plans to implement IMARS are on track and a baseline should be established in FY 2005 and reported in the Performance and Accountability Report for FY 2005. |
| Percent of communities using DOI science on hazard mitigation, preparedness and avoidance for each hazard management activity | 36.70% | 43.20% | √ | Goal Exceeded. FY 2003 baseline was recalculated to reflect more accurate assessment of number of communities at risk for earthquakes. New baseline is 39.5%. |
| Met need for information to help achieve goal of reduced risk | ≥ 80% | 98% | √ | Goal Met. |
| Number of people with reduced exposure potential to safety risks from abandoned mine lands | 10,000 people | 160,257 people | √ | Goal Exceeded. Target established without baseline data being available. Information calculated from projects reported completed in AMLIS matched with number of people residing within 1mile radius of project calculated from census tract data. |
| Reduced number of fatalities among workers in DOI permitted or contracted activities | <7 | 3 | √ | Goal Exceeded. Reduce from 5-year average (1999-2003) of 7 fatalities. MMS continues to closely monitor incident-related data to understand the causes of offshore accidents, and works with industry and other regulators to enhance the safety of OCS operations. |

**TABLE 2-3**

## Mission Area 4. Serving Communities: Safeguard Lives, Property and Assets, Advance Scientific Knowledge, and Improve the Quality of Life for Communities We Serve

| Performance Measures | FY 04 Plan | FY 04 Actual | Goal Met? | Performance Report and Discussion |
|---|---|---|---|---|
| Reduced number of serious injuries among workers in DOI permitted or contracted activities | <25 | 29 | | Goal Not Met. Reduce from 5-year average (1999-2003) of 25 serious injuries. Many of the serious injuries involved lifting operations associated with cranes. MMS has recently worked with industry to modify existing standards to include for crane equipment and training, and has adopted these standards into the compliance inspection program. |
| Reduced number of fatalities on DOI managed or influenced lands and waters | No Target | | | No Report (No Target).This measure is being excluded from this year's Performance and Accountability Report. The usefulness of this measure without defined targets for which there was no baseline established is being reconsidered due to a possible lack of viability and/or practicality. This measure might be refined or considered unmeasurable or too complicated and costly to measure relative to the benefits of the results. |
| Reduced number of serious injuries on DOI managed or influenced lands and waters | 5,172 | | | No Report (No Data). |
| ***Intermediate Strategy - Improve Fire Management*** | | | | |
| Percent of unplanned and unwanted wildland fires controlled during initial attack | 95% | 97% (E) | √ | Goal Met (Estimated). Based on estimated data, we anticipate that the goal will be met.<br><br>FY 2001 Actual: 95% (DOI)<br>FY 2002 Actual: 94% (DOI)<br>FY 2003 Actual: 97% (DOI) |
| Number of acres burned by unplanned and unwanted wildland fires | 4,798,000 acres | 3,327,739 acres (P) | | No Report (Preliminary Data). Final actual data could not be verified in time for this report. It will be published no later than the FY 2005 PAR. |
| Number of acres treated that are in the wildland-urban interface and are identified as high priority through collaboration consistent with the 10-Year Implementation Plan - in total | 331,798 acres | 485,871 acres (E) | √ | Goal Exceeded (Estimated). Based on estimated data, we anticipate that the goal will be exceeded. DOI exceeded its FY 2004 fuels targets because of four interdependent factors: 4 years of capacity building, advance planning that created a large number of on-the-shelf projects, a below normal fire season in the lower 48 States that enhanced personnel availability, and generally favorable weather conditions for fuels treatments. |
| Number of acres treated that are in the wildland-urban interface and are identified as high priority through collaboration consistent with the 10-Year Implementation Plan as X percent of all acres treated | 31.40% | 38.70% (E) | √ | Goal Exceeded (Estimated). Based on estimated data, we anticipate that the goal will be exceeded. DOI exceeded its FY 2004 fuels targets because of four interdependent factors: 4 years of capacity building, advance planning that created a large number of on-the-shelf projects, a below normal fire season in the lower 48 States that enhanced personnel availability, and generally favorable weather conditions for fuels treatments. |
| Number of acres treated in the wildland-urban interface per million dollars gross investment | 3,019 acres | 4,213 acres (E) | √ | Goal Exceeded (Estimated). Based on estimated data, we anticipate that the goal will be exceeded. DOI exceeded its FY 2004 fuels targets because of four interdependent factors: 4 years of capacity building, advance planning that created a large number of on-the-shelf projects, a below normal fire season in the lower 48 States that enhanced personnel availability, and generally favorable weather conditions for fuels treatments. |

TABLE 2-3

| Mission Area 4. Serving Communities: Safeguard Lives, Property and Assets, Advance Scientific Knowledge, and Improve the Quality of Life for Communities We Serve | | | | |
|---|---|---|---|---|
| **Performance Measures** | **FY 04 Plan** | **FY 04 Actual** | **Goal Met?** | **Performance Report and Discussion** |
| ***Intermediate Strategy - Improve Public Safety and Security and Protect Public Resources from Damage*** | | | | |
| Percent of physical and chemical hazards mitigated within 120 days to ensure visitor or public safety | Establish Baseline | | √ | Baseline Established. Baselines were established for 2 of 3 responsible bureaus as planned. The baseline for FWS is 0% (0 of 378 hazards). The baseline for NPS is 8% (21 of 239 hazards). |
| Buildings (e.g., administrative, employee housing) in fair to good condition as measured by the Facilities Condition Index | 0.149 | 0.130 (E) | √ | Goal Exceeded (Estimated). Based on estimated data, we anticipate that the goal will be exceeded. NPS set a conservative target for the first year of reporting on this goal based on past progress on improving the condition of non-historic buildings. Because NPS represents about 96% of the building value represented in this measure, its goal exceedence was the primary factor in overall goal exceedence. NPS will evaluate its out-year targets to determine if they need to be adjusted. Reported actuals are based on NPS, FWS, & USGS data. In addition, BIA established a baseline of .431. We expect a BLM baseline to be reported in FY 2005. |
| Other facilities, including roads, dams (non-BOR), trails, and bridges (non-BIA) are in fair to good condition as measured by a Facilities Condition Index | 0.203 | 0.312 (E) | | Goal Not Met (Estimated). Based on estimated data, we anticipate that the goal will not be met. The estimate is based on historical performance trend data. For FWS, FCI goals are still very tenuous with condition assessments only about half completed and replacement costs being refined; therefore it is expected that numbers will continue to fluctuate over the next several years. Much of this is due to change in data quality, not actual change in condition. Calculations in measure include only those facilities which have undergone comprehensive condition assessments. NPS component comprises more than 80% of the computed values and FCI goal was missed by .12 on the FCI scale. |
| ***Intermediate Strategy - Provide Information to Assist Communities in Managing Risks from Natural Hazards*** | | | | |
| Percent of sampled stakeholders reporting adequacy of science base to inform decision-making for each hazard management activity | ≥ 80% | 98% | √ | Goal Met. |
| ***Intermediate Strategy - Promote Respect for Private Property*** | | | | |
| Average number of months that active non-probate cases are before the Office of Hearings and Appeals | 16.8 months | 14.3 months | √ | Goal Exceeded. OHA was able to exceed its target principally because of an internal restructuring during FY 20 04 by the Interior Board of Land Appeals (IBLA). At the start of FY 2004, IBLA had the largest and second oldest caseload of OHA's six components. As a result of the restructuring, IBLA was able to focus more resources on its oldest cases than had been anticipated. OHA is adjusting its FY 05 and 06 targets to reflect the new approach taken by IBLA. |
| Average number of months that active non-probate cases in the oldest quartile are before the Office of Hearings and Appeals | 33.2 months | 32.1months | √ | Goal Met. |
| ***End Outcome Goal - Advance Knowledge Through Scientific Leadership and Inform Decisions Through the Applications of Science*** | | | | |
| Soundness of methodology, accuracy, and reliability of science (program evaluation, peer review) | 100% | 80% | | Goal Not Met. External reviews were delayed from the original schedule. There is no effect on overall program or activity performance. |

TABLE 2-3

| Mission Area 4. Serving Communities: Safeguard Lives, Property and Assets, Advance Scientific Knowledge, and Improve the Quality of Life for Communities We Serve | | | | |
|---|---|---|---|---|
| **Performance Measures** | **FY 04 Plan** | **FY 04 Actual** | **Goal Met?** | **Performance Report and Discussion** |
| Improved stakeholder access to needed science information | 90% | 90% | √ | Goal Met. |
| Stakeholders reporting that information helped achieve goal | 90% | 93% | √ | Goal Met. |
| ***Intermediate Strategy – Improve Information Base, Information Management and Technical Assistance*** | | | | |
| Percent of surface area with temporal and spatial monitoring, research, and assessment/data coverage to meet land use planning and monitoring requirements | 54.59% | 54.66% (E) | √ | Goal Met (Estimated). Based on estimated data, we anticipate that the goal will be met. Estimate based on 3 quarters of data and extrapolation into 4th quarter. Final actuals will be reported in the FY 2006 President's Budget. |
| Percent of studies validated through appropriate peer or independent review | 100% | 100% | √ | Goal Met. |
| Facilities are in fair to good condition as measured by the Facilities Condition Index | 0.170 | 0.172 | √ | Goal Met. |
| ***End Outcome Goal - Fulfill Indian Fiduciary Trust Responsibilities*** | | | | |
| Percent accuracy of financial account information provided to Trust beneficiaries | 26.7% | 17.8% | | Goal Not Met. The measurement consists of all per capita and judgment accounts opened in the Trust Fund Accounting System (TFAS) since March 1999 (23,000) plus the number of per capita and judgment accounts that were open as of 12/31/2000 to be reconciled by the Office of Historical Trust Accounting (41,000). The number to be reconciled by OHTA came from the Historical Accounting Plan for Individual Indian Money Accounts dated 1/6/03, p. III-4" workplan for per capita and judgment accounts. During FY 2004, OHTA reconciled at total of 35,952 Judgment and Per Capita accounts, of which 20,362 accounts open as of December 31, 2000 are applicable to this performance measure. The goal was not met in part because as part of the historical accounting OHTA is reconciling a larger population of Judgment and Per Capita accounts (99,572) all of which are not counted in this goal , and in part because the performance target did not reflect OHTA received approximately 35 percent of its funding request for FY 2004. Future performance targets will be adjusted based on actual funding levels, however, OHTA's reconciliation of Judgment and Per Capita accounts will continue to address the entire OHTA population of accounts, not only the accounts that fall under this goal (that were open as of 12/31/2000.). The denominator of this measure is based on the total number of open IIM accounts (excludes Tribal, house and special deposit accounts). |
| Percent timeliness of financial account information provided to Trust beneficiaries | 100% | 97% | √ | Goal Met. This goal is considered substantially met. |
| Percent of land-based Individual Indian Money transactions, as identified in the January 6, 2003, Plan for Historical Accounting, that will be reconciled | 0 | 0 | √ | Goal Met. The FY 2004 Appropriation law (P.L. 108-108) included language specifically barring the use of FY 2004 funds "to commence or continue historical accounting activities with respect to the Individual Indian Money Trust." Accordingly, the FY 2004 performance target was adjusted to zero to comply with Congressional limitation. |

TABLE 2-3

| Mission Area 4. Serving Communities: Safeguard Lives, Property and Assets, Advance Scientific Knowledge, and Improve the Quality of Life for Communities We Serve | | | | |
|---|---|---|---|---|
| **Performance Measures** | **FY 04 Plan** | **FY 04 Actual** | **Goal Met?** | **Performance Report and Discussion** |
| Percent of Federal Managers' Financial Integrity Act management control plans with corrective actions in place | 80.00% | 90.90% | √ | Goal Exceeded. The performance measure is based on the percent of FMFIA management control reviews (MCR) with corrective action plans (CAP) in place. A MCR outlines areas of high risk identified during the review process. A CAP outlines specific actions to be taken to mitigate areas of high risk due to programmatic weaknesses or other factors. The FY 2004 target goal of conducting 28 FMFIA MCR was a preliminary estimate as 33 FMFIA MCR were actually conducted in FY 2004. OST exceeded the goal due to management leadership and the implementation of a risk management tool which provided the methodology for OST managers to analyze risk in their programmatic areas and if necessary required the development of a CAP. |
| Percent of Tribes with trust program-related performance-based P.L. 93-638 agreements | Establish Baseline | | √ | Baseline Established. The baseline is 42%. |
| Percent of Tribes with trust program-related performance-based P.L. 103-413 agreements | Establish Baseline | | √ | Baseline Established. The baseline is 40%. |
| Number of Tribal trust funds under Tribal management by Tribes that seek to do so | 5 trust funds | | | No Report (No Data). Data will be reported in FY 2005 PAR under a modified measure. |
| Percent of DOI-supported Tribal judicial systems receiving an acceptable rating under independent Tribal Court Reviews | 5.00% | 0.01% | | Goal Not Met. Due to current levels of FTE for the Courts program, the BIA was unable to conduct court reviews as anticipated. Many Tribes have established standards and they will be reviewed against those standards when additional FTEs become available to conduct the reviews. |
| Indian natural resource trust assets management - Volume of timber offered for sale [MMBF=million board feet] | 570.0 MMBF | 579.8 MMBF | √ | Goal Met. |
| Indian natural resource trust assets management - Volume of wood products offered consistent with applicable management plans [MMBF=million board feet] | 570.0 MMBF | 579.8 MMBF | √ | Goal Met. |
| Indian natural resource trust assets management - Percent of eligible trust land acres that are under lease (% for energy development; % for non-energy mineral development; % for grazing land; % for agricultural use; % for commercial property use) | Establish Baseline | | | Baseline Not Established. The BIA has been working in conjunction with field counterparts as part of a larger trust reform initiative throughout the past year to provide online access to agricultural and range related resources. Through this initiative, the agriculture and grazing programs have developed an appropriate data collection tool to ensure confidence and reliability in the data being assessed prior to establishing baselines for this goal. The collection tool was placed on the intranet for program use in assessing both programs in October and final baseline data is expected to be available by the end of November, 2004. |
| Indian natural resource trust assets management - Number of acres of energy and non-energy Trust resource land developed that are reclaimed to appropriate land condition and water quality standards | Establish Baseline | | | Baseline Not Established. This measure is in error and a recommendation will be made to delete it from the plan. |

TABLE 2-3

| Mission Area 4. Serving Communities: Safeguard Lives, Property and Assets, Advance Scientific Knowledge, and Improve the Quality of Life for Communities We Serve | | | | |
|---|---|---|---|---|
| **Performance Measures** | **FY 04 Plan** | **FY 04 Actual** | **Goal Met?** | **Performance Report and Discussion** |
| Indian natural resource trust assets management - Percent of acres of forest, grazing and agricultural leases achieving desired conditions where condition is known and where specified in management plans consistent with applicable environmental laws and regulations | Establish Baseline | | | Baseline Not Established. Baselines were not established except for Forestry. The Forestry program established a baseline of 98% -- 74,786, in desired condition versus 76,075 leased acres. However, the BIA was not able to establish a baseline for the agriculture and range programs under this goal. The BIA has been working in conjunction with field counterparts as part of a larger trust reform initiative throughout the past year to provide online access to agricultural and range related resources. Through this initiative, the agriculture and grazing programs have developed an appropriate data collection tool to ensure confidence and reliability in the data being assessed prior to establishing baselines for this goal. The collection tool was placed on the intranet for program use in assessing both programs in October and final baseline data is expected to be available by the end of November, 2004. |
| Indian natural resource trust assets management - Percent change in baseline in the number of acres infested with invasive plant species | Establish Baseline | | | Baseline Not Established. The BIA has been working in conjunction with field counterparts as part of a larger trust reform initiative throughout the past year to provide online access to agricultural and range related resources. Through this initiative, the agriculture and grazing programs have developed an appropriate data collection tool to ensure confidence and reliability in the data being assessed prior to establishing baselines for this goal. The collection tool was placed on the intranet for program use in assessing both programs in October and final baseline data is expected to be available by the end of November, 2004. |
| Indian natural resource trust assets management - Percent of Interior/Tribal land use agreements that incorporate protections for Indian Sacred Sites and Sacred resources and their use | Establish Baseline | | √ | Baseline Established. The DOI was able to determine that none of the agreements issued in FY 2004 incorporated sacred sites language, thus establishing a baseline of 0. To constitute a land use agreement that "incorporates protections for sacred sites", the protections must be written into the land use agreement document itself (e.g. a condition in a lease) or attached as a formal agreement (e.g. memorandum of agreement signed by the BIA and the party(s) using the land). No leases having such conditions were issued during FY 2004 and no such memorandums of agreement were signed. The denominator for this goal will change each year based upon the total number of lease agreements that are issued each year. The BIA will increase its efforts to ensure that sacred sites language is incorporated into all agreements where such language is warranted in FY 2005. |
| Indian natural resource trust assets management - Percent of cultural properties in DOI inventory in good condition | Establish Baseline | | | Baseline Not Established. We have not yet identified the eligible properties on the BIA inventory. We now have a system in place to identify and evaluate the condition of these properties. It will take approximately 2 years to complete the process and establish the baseline for this goal. |
| Indian natural resource trust assets management - Percent of collections in DOI inventory in good condition | 17% | 17% | √ | Goal Met. |

TABLE 2-3

| Mission Area 4. Serving Communities: Safeguard Lives, Property and Assets, Advance Scientific Knowledge, and Improve the Quality of Life for Communities We Serve | | | | |
|---|---|---|---|---|
| **Performance Measures** | **FY 04 Plan** | **FY 04 Actual** | **Goal Met?** | **Performance Report and Discussion** |
| Indian natural resource trust assets management – Percent of paleontologic localities in DOI inventory in good condition | Establish Baseline | | √ | Baseline Established. The baseline is zero. |
| ***Intermediate Strategy - Improve Indian Fiduciary Trust Beneficiary Services*** | | | | |
| No GPRA Measures | | | | |
| ***Intermediate Strategy - Improve Indian Trust Ownership and Other Information*** | | | | |
| Percent of estates in which assets are distributed and all title information is updated in standard probate process cycle time | Establish Baseline | | √ | Baseline Established. The BIA Probate program has established a baseline of 56% (11,684 of 20,676 estates) for probate cases distributed or updated. Many challenges surfaced in tracking this information during the period. The probate data collection and tracking process is expected to be automated by mid-FY 2005 which will reduce time needed for data validation and verification. |
| Percent of probate cases where document preparation and post/record work has been completed | Establish Baseline | | √ | Baseline Established. During FY 2004, the Probate program completed 5,901 of 20,676 cases for a baseline completion rate of 25% . The probate data collection and tracking process is expected to be automated by mid-FY 2005 which will reduce the time needed for data validation and verification. |
| Average number of months that active probate cases are before the Office of Hearings and Appeals | 9 months | 6.4 months | √ | Goal Exceeded. OHA was able to exceed its target due to both a large increase (36%) in new referrals (which reduces the average age of cases), and a larger increase in case dispositions (41%) than had been anticipated. OHA had an insufficient baseline on which to project its FY 2004 target and, in given the results achieve, is adjusting its FY 2005 and FY 2006 targets to more aggressive. |
| Percent of missing owner information (accounts) recovered | 25% | 51% | √ | Goal Exceeded. The performance measure is based on the number of individual Indian monies (IIM) accounts without current addresses (i.e., Whereabouts Unknown (WAU)) for which current addresses are secured and the IIM account updated. During FY2004, it was estimated the base for IIM accounts WAU would be 52,943 accounts with OST's target to secure current addresses for 25% of these accounts. In March 2004, Trust Accountability staff performed a 100% search of the names of IIM account holders WAU to TransUnion. TransUnion is a credit reporting bureau which has current addresses for thousands of United States citizens. Also during March 2004, 13,821 IIM accounts WAU were updated with current addresses. This was predominantly due to a change in OST policy. This policy change was directly responsible for nearly half of the total IIM accounts WAU being updated with current addresses during FY 2004. |
| Percent of title encumbrances filed within 2 business days | 52% | 47% | | Goal Not Met. With the absence of Realty reporting from the Alaska Regional office, the BIA is only able to report that 47% percent of title encumbrances are filed within 2 business days, which is 5% short of our estimated target. The automated Realty reporting system was able to work out all reporting issues encountered in FY 2004 and will be fully implemented by all regions, including Alaska, in FY 2005 to allow for full reporting and expected goal achievement. |

TABLE 2-3

| Mission Area 4. Serving Communities: Safeguard Lives, Property and Assets, Advance Scientific Knowledge, and Improve the Quality of Life for Communities We Serve | | | | |
|---|---|---|---|---|
| **Performance Measures** | **FY 04 Plan** | **FY 04 Actual** | **Goal Met?** | **Performance Report and Discussion** |
| Percent of tracts for which DOI has data responsibility where real property ownership data are current, standardized and integrated and title status reports are provided within 10 days of request | No Target | | | No Report (No Target). This measure is being excluded from this year's Performance and Accountability Report. The usefulness of this measure without defined targets for which there was no baseline established is being reconsidered due to a possible lack of viability and/or practicality. This measure might be refined or considered unmeasurable or too complicated and costly to measure relative to the benefits of the results. |
| Number of land acquisitions to increase land use capabilities and reduce fractionation of land interests | 18,500 acquisitions | 41,755 acquisitions (E) | √ | Goal Exceeded (Estimated). The Indian Land Consolidation Project (ILCP) exceeded its target levels by a large margin for several reasons. A streamlined application process was implemented and a staff employee was hired to provide program oversight, which led to improved budget management. ILCP was finally able to provide appropriate funding on a more consistent basis. In addition, assistance was received from the Land, Titles and Records offices to help reduce backlogs and various reconciliation activities, which in turn allowed the project to identify additional individuals and their interests. |
| Acreage of land acquisitions to increase land use capabilities and reduce fractionation of land interests | 23,500 acres | 40,170 acres (E) | √ | Goal Exceeded (Estimated). Based on estimated data, we anticipate that the goal will be exceeded. The Indian Land Consolidation project was also able to ramp-up and begin outreach and/or acquisition activities for additional expansion sites at Pine Ridge, Winnebago, Standing Rock, Flathead, and Gila River. Three individuals were detailed to the project, which allowed for increased technical assistance and training for field sites to improve efficiency and weekly outreach efforts, thus resulting in the increased number of applications submitted. Another area of improvement was the implementation of a procedure for a shortened turn-around time on checks, which essentially reduced the wait time on checks from 4 - 6 weeks to 3 - 4 days. This increased seller satisfaction and Tribal interest in the project. |
| ***Intermediate Strategy - Improve Management of Land and Natural Resource Assets*** | | | | |
| Percent of revenue recorded in the Trust Financial Accounting System within 24 hours of receipt | 95% | 97% | √ | Goal Met. |
| Percent of revenue disbursed to Office of Trust Fund Management within 24 hours of receipt | 99% | 100% | √ | Goal Met.<br><br>FY 2001 Actual: No Data<br>FY 2002 Actual: No Data<br>FY 2003 Actual: 99.3% |
| Percent of royalties for which lease data are provided to BIA by the 1st semi-monthly disbursement | 60% | 84% | √ | Goal Exceeded.The BIA uses this lease distribution data to determine how much of the funds MMS transferred to OTFM are applicable to each lease, ensuring that BIA distributes revenues to the correct tribes or individual Indian mineral owners. FY 2004 is the first year MMS tracked timeliness of Indian lease distribution data; baseline data did not previously exist. MMS is reevaluating future year targets for this measure based on the strong FY 2004 performance. |
| Percent of ownership for which lease data are matched within 10 days | Establish Baseline | | | Baseline Not Established. The BIA was unable to establish a baseline for this performance measure because the collection system for the Realty program did not adequately capture the data elements required to compute this measure. The new automated collection system has been modified to include all of the appropriate elements to respond to this goal in FY 2005 and a baseline will be established. |

**TABLE 2-3**

| Mission Area 4. Serving Communities: Safeguard Lives, Property and Assets, Advance Scientific Knowledge, and Improve the Quality of Life for Communities We Serve | | | | |
|---|---|---|---|---|
| **Performance Measures** | **FY 04 Plan** | **FY 04 Actual** | **Goal Met?** | **Performance Report and Discussion** |
| Percent of appraisal reports completed within requestor business requirement | 80% | 94% | √ | Goal Exceeded. In an effort to improve the work process for regional areas affected by weather, location, limited means of transportation, and high volume of transactions, OAS employed a more efficient process of completing appraisals through market analysis. OAS applies the Market Analysis to appraise non-complex, homogeneous and vacant lands located within stable markets. This technique is not employed to support complex and/or controversial transactions that involve multiple estates, high valued and improved properties that typically require more in-depth data research, analysis and reporting to support the opinion of value. Market analysis was used to combine individual reports into one market analysis report. Therefore, the number of reports significantly reduce allowing the appraiser to complete the request within the 90 day timeframe. The number of requests received from BIA was also reduced by charting out the locations to determine the areas requiring a market analysis. |
| Percent of planned enhancement/ reintroduction objectives completed | 93% | 151% | √ | Goal Exceeded. For FWS, an examination of the target data in light of the FY 2004 accomplishments indicates that two regions were conservative with their target estimates. When we examined the baseline information (FY 2003) we didn't see a need to change the FY 2004 targets. Second, the data collection protocols and the database we use to capture planned activities and accomplishments (the Fisheries Information System) have improved substantially, with major additions during FY 2004. Thus, future year's accomplishment projections will be more accurate. For BIA, while it reported 15,655 acres/stream miles surveyed for species of concern 27 stream miles of habitat enhancements, we cannot establish a true baseline because we do not have data on the two remaining elements of "total planned enhancements" and "total numbers of individuals reintroduced from captivity." This performance measure, as stated, does not adequately apply to the small endangered species program implemented by the BIA and the duties it carries out. This confusion is causing a problem in the collection and validation of data for this goal. To resolve this issue in FY 2005, the BIA will be either modifying the measure within the strategic plan or redefining the existing measure to make it more applicable to the BIA endangered species program. |
| ***Intermediate Strategy - Manage Trust Fund Assets for Timely and Productive Use*** | | | | |
| Percent of individual and Tribal beneficiaries having current addresses that receive timely account statements | | | | Duplicate measure. This measure has been determined to be duplicative of another measure under Serving Communities Goal 1. |
| ***Intermediate Strategy - Support Indian Self-Governance and Self-Determination*** | | | | |
| No GPRA Measures | | | | |

**TABLE 2-3**

| Mission Area 4. Serving Communities: Safeguard Lives, Property and Assets, Advance Scientific Knowledge, and Improve the Quality of Life for Communities We Serve | | | | |
|---|---|---|---|---|
| **Performance Measures** | **FY 04 Plan** | **FY 04 Actual** | **Goal Met?** | **Performance Report and Discussion** |
| *End Outcome Goal - Advance Quality Communities for Tribes and Alaska Natives* | | | | |
| Achieve parity between the Tribal community and U.S. rural area national average on high school graduation | 78% | 80% | √ | Goal Met. BIA high school graduation rate is at 80% based on 1,829 of 2,285 high school seniors graduating. A correlative national rural graduation rate has not been issued by the Department of Education against which the BIA high school graduation rate can be compared. The national rural graduation rate is expected to be issued in late November 2004. |
| Achieve parity between the Tribal community and U.S. rural area national average on college graduation | Establish Baseline | | | Baseline Not Established. Tribal Community Colleges report on a calendar year basis so data will not be available until after January 1. Additionally, the Department of Education has not determined how they intend to calculate their rate at this time and, therefore, have no graduation rates. They are expected to have developed a formula for calculating graduation rates and post them to their website in late November. |
| Achieve parity between the Tribal community and U.S. national average on rural unemployment rates and per capita income | Tribal Avg=43% National Rural Avg=5% | | | No Report (No Data). This information is collected from the Indian Labor Force report that is not expected to be released until the first quarter of FY 2005. Data will be reported in the FY 2005 Performance and Accountability Report. |
| Achieve parity between the Tribal community and U.S. national average on violent crime | No Target | | | No Report (No Data). Because the Federal Bureau of Investigation has not yet published current figures on violent crime rates, we are unable to report either Tribal Community or national average figures. This information will be reported no later than the FY 2005 Performance and Accountability Report. |
| Percent of eligible Housing Improvement Program applicants whose need for safe and sanitary housing in Indian Country is met | 9.0% | 8.6% | √ | Goal Met. Goal was substantially met. |
| Percent of Tribes with non-trust program related performance-based P.L. 93-638 agreements | Establish Baseline (corrected) | | √ | Baseline Established. This measure is likely to be merged with its correlative "trust program related" measure due to pervasive overlap. Baseline is 42%. |
| Percent of Tribes with non-trust program related performance-based P.L. 103-413 agreements. | Establish Baseline (corrected) | | √ | Baseline Established. This measure is likely to be merged with its correlative "trust program related" measure due to pervasive overlap. Baseline is 40%. |
| ***Intermediate Strategy - Improve Communication and Responsiveness with Tribes, Alaskan Natives, and Individual American Indians*** | | | | |
| No GPRA Measures | | | | |
| ***Intermediate Strategy - Improve Education and Welfare Systems for Indian Tribes and Alaska Natives*** | | | | |
| Facilities are in fair to good condition as measured by the Facilities Condition Index | 0.124 | 0.124 | √ | Goal Met. |
| Percent of teacher proficiencies in select subject areas | Establish Baseline | | √ | Baseline Established. The baseline is 73.5%. |
| Teacher retention rate | Establish Baseline | | √ | Baseline Established. The baseline is 91%. |

TABLE 2-3

| Mission Area 4. Serving Communities: Safeguard Lives, Property and Assets, Advance Scientific Knowledge, and Improve the Quality of Life for Communities We Serve | | | | |
|---|---|---|---|---|
| **Performance Measures** | **FY 04 Plan** | **FY 04 Actual** | **Goal Met?** | **Performance Report and Discussion** |
| Student attendance rate | 92.00% | 87.18% | | Goal Not Met. A number of factors have been cited as contributing to lower school attendance than projected such as a partial closure of some schools due to uncontrolled mold infestations, a major chicken pox outbreak at an elementary school, and prolonged heavy rains in regions making roads impassable to schools. However, a complete analysis of data is still needed to confirm the causal relationships most affecting the student attendance target.<br><br>FY 2001 Actual: 90% (BIA)<br>FY 2002 Actual: 89% (BIA)<br>FY 2003 Actual: 89% (BIA) |
| Percent of children able to read independently by the 3rd grade | 52% | 48% | | Goal Not Met. Testing showed noticeable impacts were experienced for Special Ed and English Language Learners so an analysis of potential program improvements is in process to improve reading scores in FY 2005. |
| Percent of students achieving high school graduation | 78% | 80% | √ | Goal Met. |
| ***Intermediate Strategy - Promote the Economic Vitality of Indian Tribes and Alaska Natives*** | | | | |
| Number of jobs created through capital provided by DOI loans | 1,300 jobs | 1,719 jobs | √ | Goal Exceeded. The bureau exceeded its goal as several large loans were guaranteed for Dept. of Defense Contracts with Tribes, a water treatment plant facility, and construction on various projects. These loans generated more jobs than could have been anticipated 2 years prior to disbursement. |
| Percent of job retention one year out | 90% | | | No Report (No Data). This measure requires BIA to report how many job placements were achieved in the year and then determine through State unemployment records whether those individuals are still employed one year later. FY 2004 was the first year for reporting this goal, so job retention will be measured at the end of FY 2005. Results will be reported at that time, in the FY 2005 Performance and Accountability Report. |
| Cost per job achieved | $4,400 | $1,799 | √ | Goal Exceeded. The original target was an estimate as this is the first year for data collection on this goal. The BIA will modify its FY 2005 targets and strive to implement its job placement programs as efficiently as possible. |
| Percent of miles of road in good or better condition based on the Service Level Index | Establish Baseline | | √ | Baseline Established. The baseline is established at 15% of all roads are in good or better condition (3772.10 miles out of a total of 24920.65 miles). The miles reported under paved roads includes 346.65 miles of non-BIA roads. This road mileage is attributed to county and State roads that are located on reservations and are required to be maintained by BIA under the Road Maintenance program through signed agreements. BIA's paved road system has 33% of roads in good or better condition. Unpaved roads are in worse condition and bring the overall percentage down. The BIA will put a stronger focus on improving the condition of the non-paved roads in FY 2005 in order to improve our condition levels. |
| Percent of bridges in good or better condition based on the Service Level Index | Establish Baseline | | √ | Baseline Established. The baseline is 47%. |

TABLE 2-3

| Mission Area 4. Serving Communities: Safeguard Lives, Property and Assets, Advance Scientific Knowledge, and Improve the Quality of Life for Communities We Serve | | | | |
|---|---|---|---|---|
| **Performance Measures** | **FY 04 Plan** | **FY 04 Actual** | **Goal Met?** | **Performance Report and Discussion** |
| ***Intermediate Strategy - Enhance Public Safety*** | | | | |
| Part 1 violent crime rate per 100,000 inhabitants | 13.8 (-3%) | 14.6 | | Goal Not Met. There was a decrease of 2.22 /100,000 inhabitants for PART I violent crimes. The goal was missed by .78. The DOJ sponsored COPS program reduced funding for approximately 200 officers for FY 2004 and BIA was unable to identify funding for replacement of these billets.<br><br>FY 2001 Actual: 19.0 (BIA)<br>FY 2002 Actual: 19.0 (BIA)<br>FY 2003 Actual: 16.8 (BIA) |
| Law enforcement facilities in fair to good condition as measured by the Facilities Condition Index | 0.113 | 0.169 | | Goal Not Met. We decreased our building count from 58 to 50. In the latest Law Enforcement effort, a number of the buildings were put into a not-in-use status. For the purpose of the FCI, we only consider occupied buildings: 14 Buildings - Good Condition 25%; 6 Buildings Fair Condition - 12%; 30 Buildings - Poor Condition 60% |
| ***Intermediate Strategy - Promote Indian and Alaska Native Self-Governance and Self-Determination*** | | | | |
| No GPRA Measures | | | | |
| ***End Outcome Goal - Increase Economic Self-Sufficiency of Insular Areas*** | | | | |
| Ratio of Federal revenue to total revenues in insular areas | .25 | .26 | √ | Goal Met. |
| ***Intermediate Strategy - Improve Insular Governments' Financial Management Practices*** | | | | |
| Total average months late for all insular general fund financial statements | 20 months | 8 months | √ | Goal Exceeded. American Samoa did an excellent job of improving its reporting which was a primary factor in surpassing our target. Other insular areas also improved their reporting time. |
| ***Intermediate Strategy - Increase Economic Development*** | | | | |
| Ratio of private sector jobs to total employment | .70 | 0.76 | √ | Goal Met. |
| ***Intermediate Strategy - Increase Federal Responsiveness to Unique Needs of Island Communities Striving for Economic Self-Sufficiency*** | | | | |
| No GPRA Measures | | | | |

TABLE 2-3

| Strategic Goal - Management Excellence: Manage the Department to be Highly Skilled, Accountable, Modern, Functionally Integrated, Citizen-Centered, and Result-Oriented. | | | | |
|---|---|---|---|---|
| **Performance Measures** | **FY 04 Plan** | **FY 04 Actual** | **Goal Met?** | **Performance Report and Discussion** |
| ***End Outcome Goal - Workforce has Job-Related Knowledge and Skills Necessary to Accomplish Organizational Goals*** | | | | |
| Percent of managers who indicate that their workforce has the job-relevant knowledge and skills necessary to accomplish their organizational goals | 78% | | | No Report (No Data). Data will be reported in FY 2005 PAR, after surveys are completed. |
| ***End Outcome Goal - Accountability*** | | | | |
| Percent of managers satisfied with the availability and relevance of financial performance data | No Target | | | No Report (No Target). This measure is being excluded from this year's Performance and Accountability Report. The usefulness of this measure without defined targets for which there was no baseline established is being reconsidered due to a possible lack of viability and/or practicality. This measure might be refined or considered unmeasurable or too complicated and costly to measure relative to the benefits of the results. |
| Obtain unqualified audit for DOI's 8 bureaus, the Departmental offices | 9 of 9 | 9 of 9 | √ | Goal Met.<br><br>FY 2001 Actual: 7 of 9 (DOI)<br>FY 2002 Actual: 6 of 9 (DOI)<br>FY 2003 Actual: 9 of 9 (DOI) |
| Obtain unqualified audit for DOI's consolidated financial statements | Yes | Yes | √ | Goal Met.<br><br>FY 2001 Actual: Yes (DOI)<br>FY 2002 Actual: Yes (DOI)<br>FY 2003 Actual: Yes (DOI) |
| ***End Outcome Goal - Modernization*** | | | | |
| Improve the Department/bureau IT Management Process to reach Level 2 along GAO's ITM framework by FY 2005 | 25% | 25% (E) | √ | Goal Met (Estimated). Department and bureau processes are maturing and will be documented in FY 2005. A baseline value will be included in the FY 2005 Performance and Accountability Report. |
| Improve the Department/bureau IT Management Process to reach Level 3 along GAO's ITM framework by FY 2008 | 25% | 25% (E) | √ | Goal Met (Estimated). Department and bureau processes are maturing and will be documented in FY 2005. A baseline value will be included in the FY 2005 Performance and Accountability Report. |
| Percent of systems that will be certified and accredited by FY 2005, and will maintain accreditation on a 3-year recurring cycle | 10.0% | 97.6% | √ | Goal Exceeded. The DOI was able to make this outstanding progress by laying the groundwork over the past two years to assure our success. For example, we streamlined or collapsed over 600 systems into 157 systems as of July 21, 2004. |
| Percent of time that networks are operational for all users | 99.5% | 99.7% (E) | √ | Goal Met (Estimated). |
| ***End Outcome Goal - Integration*** | | | | |
| Percent of cost avoidance or efficiency improvement demonstrated in programs or work processes | No Target | | | No Report (No Target). Reliable methodology has not yet been established |

TABLE 2-3

**Strategic Goal - Management Excellence: Manage the Department to be Highly Skilled, Accountable, Modern, Functionally Integrated, Citizen-Centered, and Result-Oriented.**

| Performance Measures | FY 04 Plan | FY 04 Actual | Goal Met? | Performance Report and Discussion |
|---|---|---|---|---|
| Percent of business lines with shared processes, including systems, to eliminate redundancy and/or inefficiency | Establish Baseline | | √ | Baseline Established. The baseline is 156 shared processes. |
| ***End Outcome Goal - Customer Value*** | | | | |
| Percent of external customers satisfied with services provided by the Department | Establish Baseline | | | Baseline Not Established. This measure is being excluded from this year's Performance and Accountability Report. The usefulness of this measure, for which no baseline was established, is being reconsidered due to a possible lack of viability and/or practicability. The measure might be refined or considered unmeasurable or too complicated and costly to measure relative to the benefits of the results. |
| ***Intermediate Strategy - Human Capital Management*** | | | | |
| Human Capital Plan Implementation: Strategic Actions – Percent of strategic actions that are completed | 90% | 71.4% | | Goal Not Met. The goal under workforce planning to evaluate the relationship between succession planning for leadership and bureau workforce planning solutions was not fully met. Outcome goals still to be accomplished are identifying common definitions for and roles in leadership succession planning and sharing of information among bureaus within workforce planning solutions related to leadership succession planning. These outcome goals are partially met through the functional workforce plans and initiatives for law enforcement, financial management, IT, facilities management, and wildland fire management. These plans and initiatives are being implemented across bureau/office lines and provide a consistent approach to workforce and succession planning. Also, the goal under law enforcement to develop common law enforcement positions descriptions has not been fully met. |
| Human Capital Plan Implementation: Strategic Actions – Percent of strategic actions for which outcome goals have been identified | 80% | 100% | √ | Goal Exceeded. No historical data were available to establish a more accurate target value. Expected accomplishment was somewhat underestimated. |
| Human Capital Plan Implementation: Strategic Actions – Percent of completed strategic actions that lead to achieving specified outcome goals | 80% | 100% | √ | Goal Exceeded. No historical data were available to establish a more accurate target value. Expected accomplishment was somewhat underestimated. |
| Human Capital Plan Implementation: Performance-Based Management – Percent of SES executives and direct reports with program management or administrative responsibilities that have performance agreements containing GPRA, President's Management Agenda and Citizen-Centered Governance performance-based elements | 85% | | | No Report (Incomplete Data). Target has been met for SES employees but data for direct reports is not yet available or verified. Data will be reported no later than the FY 2005 Performance and Accountability Report. |

TABLE 2-3

| Strategic Goal - Management Excellence: Manage the Department to be Highly Skilled, Accountable, Modern, Functionally Integrated, Citizen-Centered, and Result-Oriented. | | | | |
|---|---|---|---|---|
| **Performance Measures** | **FY 04 Plan** | **FY 04 Actual** | **Goal Met?** | **Performance Report and Discussion** |
| Human Capital Plan Implementation: Enhanced Management Skills – Percent of all managerial / supervisory positions (SES/non-SES) with training involving the Secretary's 4C's (including use of volunteers) | No Target | | | No Report (No Target). This measure is being excluded from this year's Performance and Accountability Report. The usefulness of this measure without defined targets for which there was no baseline established is being reconsidered due to a possible lack of viability and/or practicality. This measure might be refined or considered unmeasurable or too complicated and costly to measure relative to the benefits of the results. |
| Diversity: Percent of workforce participation of women over baseline for FY 2003 | 39.6% | 39.0% | √ | Goal Met. Target substantially met despite budget constraints on hiring, voluntary separations, and retirements. |
| Diversity: Percent of workforce participation of minorities over baseline for FY 2003 | 26.0% | 25.3% | √ | Goal Met. |
| Diversity: Percent of workforce participation of persons with disabilities over baseline for FY 2003 | 7.4% | 6.3% | | Goal Not Met. Target not met due to being unable to keep up with voluntary separations and retirements. |
| Safety: Number of fatalities per 10,000 employees at DOI | 6% less than historical average | 4% less than historical average | √ | Goal Exceeded. Four fatalities represents an occurrence rate that is at the lower end of a ten year average. As a result of Departmental policies, practices and initiatives, fatalities have been kept to a relatively low level. In FY 2004, we were fortunate to avoid any major disasters and employees demonstrated great care and alertness on the job. The Department continues to explore new potential avenues for further reducing the incidence of fatalities and pursuing the goal of eliminating fatalities altogether. |
| Safety: Number of serious injuries per 10,000 employees at DOI | 270 (i.e., 3% less than FY 2003) | 268 | √ | Goal Met. |
| Safety: Percent reduction in the average number of days that employees are off the job on workmen's compensation | Establish Baseline | | √ | Baseline Established. Baseline is 15,113 days. |
| Volunteers: Number of volunteer hours per year supporting DOI mission activities | 9,800,000 hours | 8,948,782 hours (E) | | Goal Not Met (Estimated). Two factors contributed to the failure to meet the published FY 2004 target for volunteer hours. First, we discovered a transcription error that resulted in overstating the NPS portion of the target by about a million hours. Secondly, anticipated outside foundation funding of about $850,000 for volunteer activities did not materialize. A correct projection would have been in line with actual results.<br><br>FY 2001 Actual: 5.7 m hours (FWS=1.3 m; NPS=4.4 m)<br>FY 2002 Actual: 5.8 m hours (FWS=1.3 m; NPS=4.5 m)<br>FY 2003 Actual: 6.2 m hours (FWS=1.6 m; NPS=4.6 m) |
| ***Interrnediate Strategy - Improved Financial Management*** | | | | |
| Corrective actions: Percent of audited financial statements and Federal Managers' Financial Integrity Act material weaknesses that are corrected within one year | 100% | | | No Report (No Data). Data will be reported no later than in FY 2005 Performance and Accountability Report. |

TABLE 2-3

| Strategic Goal - Management Excellence: Manage the Department to be Highly Skilled, Accountable, Modern, Functionally Integrated, Citizen-Centered, and Result-Oriented. | | | | |
|---|---|---|---|---|
| **Performance Measures** | **FY 04 Plan** | **FY 04 Actual** | **Goal Met?** | **Performance Report and Discussion** |
| Corrective Actions: Percent of charge card accounts of current employees that are delinquent 60 days or more | ≤1% | 2.6% | | Goal Not Met. BIA, NPS and the Office of the Secretary each did not meet the target for FY 2004. BIA has the highest delinquency rate at 6.9%, although it is 2% less than a year ago. The BIA data drives the overall Department rate. Each bureau improved performance, but not sufficient to meet the target set. |
| ***Intermediate Strategy - Performance-Budget Integration*** | | | | |
| Cost Management: Percent of bureaus and offices fully implementing accurate, activity-based cost accounting systems in compliance with Departmental guidelines | 100% | 100% | √ | Goal Met. |
| ***Intermediate Strategy – Citizen-Centered E-Government and Information Technology Management*** | | | | |
| All enterprise architecture models are developed in concert with the Federal Enterprise Architecture by FY 2006 and maintained current through FY 2008 | 90% | 90% | √ | Goal Met. |
| Percent of IT investment with expenditures for which actual costs are within 90% of cost estimates established in the project or program baseline | 50% | 93.7% | √ | Goal Exceeded. There was no baseline on which to project future performance, consequently we exceeded initial year expectations. DOI plans to meet the new 90% target for all future reporting. |
| Percent of IT investment expenditures reviewed/approved though the CPIC process | 100% | 100% | √ | Goal Met. |
| Establish and implement a records disposition schedule for the Office of the Secretary by FY 2006 | 20% of bureaus/ offices | 20% of bureaus/ offices | √ | Goal Met. |
| Develop consistent records management policy in all bureaus and offices by FY 2005 | 30% of bureaus | 30% of bureaus | √ | Goal Met. |
| Implement electronic records system by FY 2008 | 100% of policies verified | 0% of policies verified | | Goal Not Met. Before records management policy verification could begin, it was first necessary to establish a Department Records Council to guide policy review and implementation. A DOI Records Council was established in FY 2004 with new records management policy being implemented. Council will assist in review of existing policy to be completed in FY 2005. |
| ***Intermediate Strategy - Competitive Reviews and Contracts Management*** | | | | |
| Number of commercial-type FTE in competitions studied | 2,055 FTEs | 402 FTEs | | Goal Not Met. Preliminary planning is a critical first step in any A-76 study. Based on the complexities of the functions being studied, this process has taken longer than projected. All remaining FTEs are currently in this planning phase. Steps are being taken to accomplish the remaining planning within the next few months without compromising the outcome of the study. |

**TABLE 2-3**

| Strategic Goal - Management Excellence: Manage the Department to be Highly Skilled, Accountable, Modern, Functionally Integrated, Citizen-Centered, and Result-Oriented. | | | | |
|---|---|---|---|---|
| **Performance Measures** | **FY 04 Plan** | **FY 04 Actual** | **Goal Met?** | **Performance Report and Discussion** |
| Percent of DOI new or renegotiated contracted dollars are covered under performance-based service agreements | 40% | 36% (P) | | No Report (Preliminary Data).<br><br>FY 2001 Actual: No Data<br>FY 2002 Actual: 42.9% (DOI)<br>FY 2003 Actual: 38.0% (DOI) |
| ***Intermediate Strategy - Performance/Process Improvement*** | | | | |
| Percent of facilities that have a calculated Facilities Condition Index | 90% | | | No Report (No Data).  Data will be reported no later than in FY 2005 Performance and Accountability Report. |

# Part 3. Financial Section

## Principal Financial Statements

The principal financial statements included in Interior's FY 2004 Annual Report on Performance and Accountability have been prepared in accordance with the requirements of the Chief Financial Officers Act of 1990, the Government Management Reform Act of 1994, and the Office of Management and Budget's (OMB) Bulletin No. 01-09, "Form and Content of Agency Financial Statements." These statements include the following:

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

The responsibility for the integrity of the financial information included in these statements rests with management of the Department of the Interior. The audit of Interior's principal financial statements was performed by an independent certified public accounting firm, selected by the Department's Office of Inspector General. The auditors' report issued by the independent certified public accounting firm is included in Part 4 of this report.

# Consolidated Balance Sheet
## as of September 30, 2004 and 2003
*(dollars in thousands)*

| | FY 2004 | FY 2003 |
|---|---|---|
| **ASSETS** | | |
| **Intragovernmental Assets:** | | |
| Fund Balance with Treasury (Note 2) | $ 30,866,144 | $ 28,698,208 |
| Investments, Net (Note 4) | 6,187,329 | 5,609,992 |
| Accounts and Interest Receivable, Net (Note 5) | 348,034 | 387,169 |
| Other | | |
| Advances and Prepayments | 1,211 | 3,624 |
| **Total Intragovernmental Assets** | 37,402,718 | 34,698,993 |
| Cash (Note 3) | 1,081 | 1,094 |
| Investments, Net (Note 4) | 191,844 | 182,637 |
| Accounts and Interest Receivable, Net (Note 5) | 1,347,641 | 1,226,984 |
| Loans and Interest Receivable, Net (Note 6) | 227,514 | 233,656 |
| Inventory and Related Property, Net (Note 7) | 324,319 | 338,714 |
| General Property, Plant, and Equipment, Net (Note 8) | 17,154,211 | 16,955,915 |
| Other | | |
| Advances and Prepayments | 126,579 | 126,866 |
| Other Assets, Net (Note 9) | 170,371 | 201,544 |
| Stewardship Assets (Note 1.I) | | |
| **TOTAL ASSETS (Note 10)** | $ 56,946,278 | $ 53,966,403 |
| **LIABILITIES** | | |
| **Intragovernmental Liabilities:** | | |
| Accounts Payable | $ 76,826 | $ 67,838 |
| Debt (Note 11) | 1,304,879 | 1,364,452 |
| Other | | |
| Accrued Payroll and Benefits | 171,092 | 185,437 |
| Advances and Deferred Revenue (Note 12) | 1,754,256 | 1,236,739 |
| Deferred Credits | 2,745 | 19,326 |
| Custodial Liability | 671,478 | 763,387 |
| Aquatic Resource Amounts Due to Others | 420,896 | 389,762 |
| Judgment Fund | 178,878 | 179,725 |
| Other Liabilities | 157,889 | 143,961 |
| **Total Intragovernmental Liabilities** | 4,738,939 | 4,350,627 |
| Accounts Payable | 1,024,845 | 965,509 |
| Loan Guarantee Liability (Note 6) | 60,081 | 52,185 |
| United States Park Police Pension Actuarial Liability (Note 27) | 604,640 | - |
| Federal Employees Compensation Act Liability (Note 13) | 664,855 | 712,250 |
| Environmental Cleanup Costs (Note 14) | 101,808 | 116,086 |
| Other | | |
| Accrued Payroll and Benefits | 535,277 | 434,225 |
| Advances and Deferred Revenue (Note 12) | 125,024 | 137,497 |
| Deferred Credits | 690,785 | 498,545 |
| Contingent Liabilities (Note 14) | 781,453 | 776,546 |
| Other Liabilities (Note 15) | 644,014 | 410,068 |
| **TOTAL LIABILITIES (Note 15)** | 9,971,721 | 8,453,538 |
| Commitments and Contingencies (Notes 14, 16, and 28) | | |
| **Net Position** | | |
| Unexpended Appropriations | 4,080,359 | 3,929,302 |
| Cumulative Results of Operations | 42,894,198 | 41,583,563 |
| **Total Net Position** | 46,974,557 | 45,512,865 |
| **TOTAL LIABILITIES AND NET POSITION** | $ 56,946,278 | $ 53,966,403 |

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

# Consolidated Statement of Net Cost
## for the years ended September 30, 2004 and 2003
*(dollars in thousands)*

| | Resource Protection | Resource Use | Recreation | Serving Communities | Reimbursable Activity and Other | FY 2004 |
|---|---|---|---|---|---|---|
| Cost - Services Provided to the Public | $ 2,941,070 | 3,384,911 | 2,138,937 | 6,398,034 | 381,059 | $ 15,244,011 |
| Revenue Earned from the Public | 511,134 | 941,325 | 238,306 | 407,603 | 109,317 | 2,207,685 |
| Net Cost of Services to the Public | 2,429,936 | 2,443,586 | 1,900,631 | 5,990,431 | 271,742 | 13,036,326 |
| Cost - Services Provided to Federal Agencies | 105,593 | 145,001 | 21,535 | 383,874 | 1,893,020 | 2,549,023 |
| Revenue Earned from Federal Agencies | 100,128 | 140,931 | 20,647 | 366,267 | 1,898,327 | 2,526,300 |
| Net Cost (Revenue) of Services Provided to Federal Agencies | 5,465 | 4,070 | 888 | 17,607 | (5,307) | 22,723 |
| Net Cost of Operations (Notes 17 & 18) | $ 2,435,401 | 2,447,656 | 1,901,519 | 6,008,038 | 266,435 | $ 13,059,049 |

| | Protect the Environment and Preserve Our Nation's Natural & Cultural Resources | Provide Recreation for America | Manage Natural Resources for a Healthy Environment and a Strong Economy | Provide Science for a Changing World | Meet Our Trust Responsibilities to Indian Tribes and Our Commitments to Island Communities | Reimbursable Activity and Other | Costs Not Associated with Programs | FY 2003 |
|---|---|---|---|---|---|---|---|---|
| Cost - Services Provided to the Public | $ 4,306,918 | 2,113,487 | 3,632,240 | 1,264,688 | 2,420,119 | 216,330 | - | $ 13,953,782 |
| Revenue Earned from the Public | 462,597 | 171,275 | 862,284 | 166,654 | 117,692 | 38,273 | - | 1,818,775 |
| Net Cost of Services to the Public | 3,844,321 | 1,942,212 | 2,769,956 | 1,098,034 | 2,302,427 | 178,057 | - | 12,135,007 |
| Cost - Services Provided to Federal Agencies | 118,870 | 31,197 | 130,943 | 186,508 | 204,025 | 1,394,950 | - | 2,066,493 |
| Revenue Earned from Federal Agencies | 114,846 | 29,723 | 127,841 | 176,478 | 201,491 | 1,392,827 | - | 2,043,206 |
| Net Cost (Revenue) of Services Provided to Federal Agencies | 4,024 | 1,474 | 3,102 | 10,030 | 2,534 | 2,123 | - | 23,287 |
| Costs Not Associated with Programs | - | - | - | - | - | - | 81,100 | 81,100 |
| Net Cost of Operations (Notes 17 & 18) | $ 3,848,345 | 1,943,686 | 2,773,058 | 1,108,064 | 2,304,961 | 180,180 | 81,100 | 12,239,394 |

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

# Consolidated Statement of Changes in Net Position
## for the years ended September 30, 2004 and 2003
*(dollars in thousands)*

| | | FY 2004 | | FY 2003 |
|---|---|---|---|---|
| **UNEXPENDED APPROPRIATIONS** | | | | |
| **Beginning Balances, as adjusted** | $ | 3,929,302 | $ | 3,846,318 |
| **Budgetary Financing Sources** | | | | |
| Appropriations Received, General Funds | | 10,061,570 | | 9,610,818 |
| Appropriations Transferred In/Out | | 89,861 | | 81,820 |
| Appropriations-Used | | (9,871,434) | | (9,519,709) |
| Other Adjustments | | (128,940) | | (89,945) |
| **Total Budgetary Financing Sources** | | 151,057 | | 82,984 |
| **Ending Balance - Unexpended Appropriations** | $ | 4,080,359 | $ | 3,929,302 |
| **CUMULATIVE RESULTS OF OPERATIONS** | | | | |
| **Beginning Balances, as adjusted** | $ | 41,583,563 | $ | 39,908,117 |
| **Cumulative Effect of Change in Accounting (Note 20)** | | (649,300) | | - |
| **Beginning Balances, as adjusted** | | 40,934,263 | | 39,908,117 |
| **Budgetary Financing Sources** | | | | |
| Appropriations-Used | | 9,871,434 | | 9,519,709 |
| Royalties Retained (Note 21) | | 3,491,208 | | 2,582,663 |
| Transfers In/Out without Reimbursement | | (40,424) | | 127,338 |
| Non-Exchange Revenue | | | | |
| Tax Revenue | | 717,364 | | 659,217 |
| Abandoned Mine Fees | | 286,160 | | 282,411 |
| Donations and Forfeitures of Cash and Cash Equivalents | | 29,710 | | 39,833 |
| Other Non-Exchange Revenue | | 153,466 | | 130,544 |
| Other Budgetary Financing Sources and Adjustments | | 2,422 | | 13,361 |
| **Other Financing Sources** | | | | |
| Imputed Financing From Costs Absorbed by Others (Note 19) | | 519,171 | | 570,544 |
| Transfers In/Out without Reimbursement | | (27,222) | | (57,643) |
| Donations and Forfeitures of Property | | 15,695 | | 46,863 |
| **Total Financing Sources** | | 15,018,984 | | 13,914,840 |
| **Net Cost of Operations** | | (13,059,049) | | (12,239,394) |
| **Ending Balance - Cumulative Results of Operations** | $ | 42,894,198 | $ | 41,583,563 |

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

# Combined Statement of Budgetary Resources
## for the years ended September 30, 2004 and 2003
*(dollars in thousands)*

| | FY 2004 | | FY 2003 | |
|---|---|---|---|---|
| | **Total Budgetary Accounts** | **Non-Budgetary Credit Program Financing Accounts** | **Total Budgetary Accounts** | **Non-Budgetary Credit Program Financing Accounts** |
| **Budgetary Resources:** | | | | |
| Budget Authority: | | | | |
| Appropriations Received | $ 14,712,390 | $ - | $ 14,003,754 | $ - |
| Borrowing Authority | - | 8,625 | - | 18,906 |
| Net Transfers, Current Year Authority | (139,167) | - | (70,350) | - |
| Unobligated Balance: | | | | |
| Beginning of Fiscal Year | 4,905,271 | 67,678 | 4,478,411 | 55,779 |
| Net Transfers, Unobligated Balance, Actual | 25,980 | - | (29,833) | - |
| Spending Authority From Offsetting Collections: | | | | |
| Earned | | | | |
| Collected | 4,722,696 | 26,240 | 4,784,999 | 8,322 |
| Receivable From Federal Sources | (4,537) | - | (146,516) | (475) |
| Change in Unfilled Customer Orders | | | | |
| Advance Received | 547,677 | - | 517,626 | - |
| Without Advance From Federal Sources | 28,869 | - | (159,721) | - |
| Subtotal: Spending Authority From Offsetting Collections | 5,294,705 | 26,240 | 4,996,388 | 7,847 |
| Recoveries of Prior Year Obligations | 393,579 | 26 | 304,691 | 137 |
| Temporarily Not Available Pursuant to Public Law | (2,249) | - | - | - |
| Permanently Not Available | (177,829) | (6,189) | (207,623) | 2,487 |
| **Total Budgetary Resources (Note 23)** | $ 25,012,680 | 96,380 | 23,475,438 | $ 85,156 |
| **Status of Budgetary Resources:** | | | | |
| Obligations Incurred: | | | | |
| Direct | $ 14,667,176 | $ 19,544 | $ 14,035,601 | $ 17,478 |
| Reimbursable | 5,136,048 | - | 4,534,566 | - |
| Total Obligations Incurred (Note 23) | 19,803,224 | 19,544 | 18,570,167 | 17,478 |
| Unobligated Balance: (Note 23) | | | | |
| Apportioned | 5,072,733 | 76,836 | 4,738,941 | 66,160 |
| Exempt From Apportionment | 39,444 | - | 41,349 | - |
| Unobligated Balance not Available (Note 23) | 97,279 | - | 124,981 | 1,518 |
| **Total Status of Budgetary Resources** | $ 25,012,680 | $ 96,380 | $ 23,475,438 | $ 85,156 |
| **Relationship of Obligations to Outlays:** | | | | |
| Obligations Incurred | $ 19,803,224 | $ 19,544 | $ 18,570,167 | $ 17,478 |
| Obligated Balance, Net, Beginning of Fiscal Year | 5,740,974 | 8,063 | 4,953,205 | 11,601 |
| Obligated Balance, Net, End of Fiscal Year: | | | | |
| Accounts Receivable | 326,657 | - | 331,195 | - |
| Unfilled Customer Orders From Federal Sources | 552,221 | - | 523,353 | - |
| Undelivered Orders | (6,288,774) | (3,952) | (5,345,138) | (8,063) |
| Accounts Payable | (1,359,920) | (3,823) | (1,250,384) | - |
| Total Obligated Balance, Net, End of Fiscal Year | (6,769,816) | (7,775) | (5,740,974) | (8,063) |
| Less: Spending Authority Adjustments | (417,910) | (26) | 1,546 | 338 |
| Outlays: | | | | |
| Disbursements | 18,356,472 | 19,806 | 17,783,944 | 21,354 |
| Collections | (5,270,374) | (26,240) | (5,302,624) | (8,322) |
| Subtotal | 13,086,098 | (6,434) | 12,481,320 | 13,032 |
| Less: Offsetting Receipts | (4,269,067) | - | (3,661,729) | - |
| **Net Outlays** | $ 8,817,031 | $ (6,434) | $ 8,819,591 | $ 13,032 |

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

# Consolidated Statement of Financing
## for the years ended September 30, 2004 and 2003
*(dollars in thousands)*

| | FY 2004 | FY 2003 |
|---|---|---|
| **Resources Used to Finance Activities:** | | |
| Budgetary Resources Obligated: | | |
| Obligations Incurred | $ 19,822,768 | $ 18,587,645 |
| Less: Spending Authority From Offsetting Collections/Recoveries | (5,714,550) | (5,309,063) |
| Obligations Net of Offsetting Collections and Recoveries | 14,108,218 | 13,278,582 |
| Less: Offsetting Receipts | (4,269,067) | (3,661,729) |
| Net Obligations | 9,839,151 | 9,616,853 |
| Other Resources: | | |
| Donations and Forfeitures of Property | 15,695 | 46,863 |
| Transfers In/Out Without Reimbursement | (27,222) | (57,643) |
| Imputed Financing From Costs Absorbed by Others | 519,171 | 570,544 |
| Net Other Resources Used to Finance Activities | 507,644 | 559,764 |
| Total Resources Used to Finance Activities | 10,346,795 | 10,176,617 |
| **Resources Used to Finance Items Not Part of the Net Cost of Operations:** | | |
| Change in Budgetary Resources Obligated for Goods, Services, and Benefits Ordered but Not Yet Provided | (391,696) | (47,223) |
| Resources That Fund Expenses Recognized in Prior Periods | 131,102 | (264,012) |
| Budgetary Offsetting Collections and Receipts That Do Not Affect Net Cost of Operations: | | |
| Credit Program Collections Which Increase Liabilities for Loan Guarantees or Allowances for Subsidy | 17,193 | 15,408 |
| Offsetting Receipts Not Part of the Net Cost of Operations | 2,832,565 | 2,547,888 |
| Resources That Finance the Acquisition of Assets | (819,203) | (870,147) |
| Other Resources or Adjustments to Net Obligated Resources That Do Not Affect Net Cost of Operations | 37,256 | (20,454) |
| Total Resources Used to Finance Items Not Part of the Net Cost of Operations | 1,807,217 | 1,361,460 |
| **Total Resources Used to Finance the Net Cost of Operations** | 12,154,012 | 11,538,077 |
| **Components of Net Cost of Operations That Will Not Require or Generate Resources in the Current Period:** | | |
| Components Requiring or Generating Resources in Future Periods: | | |
| Increase (Decrease) in Annual Leave Liability | 17,922 | 12,013 |
| Increase (Decrease) in Environmental and Disposal Liability | (15,777) | (102,365) |
| Upward/Downward Reestimates in Credit Subsidy Expense | (335) | 1,510 |
| Increase (Decrease) in Exchange Revenue Receivable From the Public | (1,166) | (10,978) |
| Other | 53,487 | (115,399) |
| Total Components of Net Cost of Operations That Will Require or Generate Resources in Future Periods | 54,131 | (215,219) |
| Components Not Requiring or Generating Resources: | | |
| Depreciation and Amortization | 460,946 | 455,939 |
| Revaluation of Assets or Liabilities | 44,791 | 81,100 |
| Components of Net Cost of Operations Related to Transfer Accounts Where Budget Amounts are Reported by Other Federal Entities (Note 24) | 358,936 | 367,938 |
| Other | (13,767) | 11,559 |
| Total Components of Net Cost of Operations That Will Not Require or Generate Resources in the Current Period | 850,906 | 916,536 |
| **Total Components of Net Cost of Operations That Will Not Require or Generate Resources** | 905,037 | 701,317 |
| **Net Cost of Operations** | $ 13,059,049 | $ 12,239,394 |

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

# Consolidated Statement of Custodial Activity
## for the years ended September 30, 2004 and 2003
*(dollars in thousands)*

| | | FY 2004 | | FY 2003 |
|---|---|---|---|---|
| **Revenues on Behalf of the Federal Government** | | | | |
| Mineral Lease Revenue | | | | |
| Rents and Royalties | $ | 7,498,235 | $ | 6,716,830 |
| Offshore Lease Sales | | 560,225 | | 485,841 |
| Strategic Petroleum Reserve (Note 22) | | 1,191,284 | | 1,044,350 |
| **Total Revenue** | $ | 9,249,744 | $ | 8,247,021 |

| | | FY 2004 | | FY 2003 |
|---|---|---|---|---|
| **Disposition of Revenue** | | | | |
| Distribution to Department of the Interior | | | | |
| National Park Service Conservation Funds | $ | 1,049,000 | $ | 1,049,000 |
| Bureau of Reclamation | | 924,486 | | 753,374 |
| Minerals Management Service | | 1,300,525 | | 1,070,294 |
| Bureau of Land Management | | 16,216 | | 72,843 |
| Fish and Wildlife Service | | 737 | | 2,909 |
| Distribution to Other Federal Agencies | | | | |
| Department of the Treasury | | 4,375,632 | | 4,208,092 |
| Department of Agriculture | | 25,232 | | 22,920 |
| Department of Energy (Note 22) | | 1,191,284 | | 1,044,350 |
| Distribution to Indian Tribes and Agencies | | 93,892 | | 79,544 |
| Distribution to States and Others | | 75,777 | | 65,488 |
| Change in Untransferred Revenue | | 196,963 | | (121,793) |
| **Total Disposition of Revenue** | $ | 9,249,744 | $ | 8,247,021 |

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

# U.S. Department of the Interior
# Notes to Principal Financial Statements
# As of September 30, 2004 and 2003

## NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
### A. Reporting Entity
The 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, the 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), Custodial Funds, and the Aquatic Resources Trust Fund. The financial statements, however, do not include non-federal trust funds, trust related deposit funds, or other related accounts that are administered, accounted for, and maintained by Interior's Office of the Special Trustee for American Indians on behalf of Native American Tribes and individuals. Interior prepares financial statements for these Tribal and Other Trust Funds and Individual Indian Monies under separate cover. A summary of the trust fund balances and changes in trust fund balances managed on behalf of Indian Tribes and individuals is included in Note 25. 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 the Interior.

### B. Organization and Structure of Interior
Interior is composed of the following nine operating bureaus and Departmental Offices (bureaus):

- National Park Service (includes the Land and Water Conservation Fund and Historic Preservation Fund)
- Fish and Wildlife Service (includes the Aquatic Resources Trust Fund)
- Bureau of Land Management
- Bureau of Reclamation
- Office of Surface Mining
- Minerals Management Service (includes the Environmental Improvement and Restoration Fund)
- U.S. Geological Survey
- Bureau of Indian Affairs
- Departmental Offices

An overview of the operating performance of Interior and its components is presented in the Management's Discussion and Analysis portion of this report. In addition, more detailed information about the bureaus may be found in the individual financial reports prepared by each bureau.

The U.S. Bureau of Mines (USBM) was closed in 1996. Although it no longer exists, certain transactions and data related to USBM programs and activities are reflected in the Interior's FY 2004 and FY 2003 financial statements and notes.

### C. Basis of Accounting and Presentation

These financial statements have been prepared to report the financial position, net cost, custodial activities, changes in net position, budgetary resources, and reconciliation of net cost to budgetary obligations of the 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 the Interior in accordance with generally accepted accounting principles (GAAP), OMB Bulletin No. 01-09, "Form and Content of Agency Financial Statements." GAAP for Federal entities are the standards prescribed by the Federal Accounting Standards Advisory Board (FASAB), which is the official standard-setting body for the Federal government. These financial statements present proprietary and budgetary information. Interior, pursuant to OMB directives, prepares additional financial reports that are used to monitor and control Interior's use of budgetary resources.

OMB financial statement reporting guidelines require the presentation of comparative financial statements for all of the principal financial statements. Interior has presented comparative FY 2004 financial statements for the Consolidated Balance Sheet, Consolidated Statement of Net Cost, Consolidated Statement of Changes in Net Position, the Combined Statement of Budgetary Resources, Consolidated Statement of Financing, and the Statement of Custodial Activity. Certain prior year amounts have been reclassified to conform to current year presentation.

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 Department of the Treasury (Treasury) except for imprest fund accounts. The account, 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. The types of funds are: (1) general funds are funds not earmarked by law for a specific purpose; (2) special funds are funds earmarked for specific purposes; (3) revolving funds are funds that conduct continuing cycles of business-like activity, in which the fund charges for the sale of products or services and uses the proceeds to finance its spending, usually without requirement for annual appropriations; (4) trust funds are funds that are designated by law as a trust fund where the receipt accounts collect earmarked receipts for specific purposes and the associated trust fund expenditure accounts track spending of the receipts; and (5) other funds include balances in deposit accounts, such as for collections pending litigation, awaiting determination of the proper accounting disposition, or being held by the entity in the capacity of a banker or agent for others.

Treasury processes cash receipts and disbursements and Interior's records are reconciled with those of Treasury on a regular basis.

Cash consists primarily of Federal funds held by private banks and investing firms for the Office of Trust Funds Management.

### 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 non-marketable par value or non-marketable market-based securities issued by the Federal Investment Branch of the Bureau of the Public Debt. Par value securities are special issue bonds or certificates of indebtedness that bear interest determined by legislation or Treasury. 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, bond, and bank notes. Mortgage instruments are with the Federal National Mortgage Association, the Government National Mortgage Association, and the Federal Home Loan Mortgage Corporation, the Private Export Funding Corporation, the Federal Farm Credit Banks Consolidated System, the Federal Agricultural Mortgage Corporation, and the Government National Real Estate Mortgage Investment Conduit. Bonds and bank notes are with the Federal Home Loan Bank and the Federal Judiciary.

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 as the sales price of the security multiplied by the bid price at year end.

### 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. 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

Loans are accounted for as receivables after the funds have been disbursed. For loans obligated after the effective date of the Credit Reform Act, October 1, 1990, 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, on September 30.

For loans obligated prior to October 1, 1990, 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.

### H. Inventory and Related Property

Interior's inventory and related property is primarily composed of published maps, gas and storage rights, airplane parts and fuel, operating supplies for the Working Capital Fund, and recoverable below-ground crude helium. These inventories were categorized based on Interior's major activities and 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. This inventory is valued at historical cost using a weighted average cost variation method, less an allowance, which is 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. A depletion allowance is computed annually to record gas consumed in the processing of helium for sale.

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, at which time the helium reserves will be sold.

Aircraft fuel and parts are held in inventory to be consumed or sold in future operations 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.

The 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 the Interior's standard forms functions.

### I. General Property, Plant, and Equipment, Net

***General Purpose Property, Plant, and Equipment.*** General purpose property, plant, and equipment 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 property, plant, and equipment 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 of from 20 to 50 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 5 to 20 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. For equipment, vehicles and aircraft, and capital leases, Interior has established a capitalization threshold of $15,000. There are no restrictions on the use or convertibility of the Interior's general purpose property, plant, and equipment.

In accordance with the implementation guidance for Statement of Federal Financial Accounting Standard (SFFAS) No. 6, Interior recorded certain general property, plant, and equipment 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 is used for the accumulation of the cost of construction or major renovation of fixed assets during the construction period. The assets are transferred out of construction in progress when the project is substantially completed.

***Internal Use Software.*** Internal use software includes purchased commercial off-the-shelf software (COTS), contractor-developed software, and software that was internally developed by agency employees. Internal use software is capitalized at cost if the acquisition cost is $100,000 or more. For COTS software, the capitalized costs include the amount paid to the vendor for the software; for contractor-developed software it includes the amount paid to a contractor to design, program, install, and implement the software. Capitalized costs for internally developed software include the full cost (direct and indirect) incurred during the software development stage. The estimated useful life is 2 to 5 years for calculating amortization of software using the straight-line method.

**Stewardship Assets.** Stewardship assets consists 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, archeological artifacts, and library and museum collections.

The stewardship land and heritage assets managed by Interior are considered priceless and irreplaceable. Because of this, Interior assigns no financial value to them and the property, plant, and equipment capitalized and reported on the Balance Sheet excludes these assets. This is in accordance with Federal accounting standards.

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

### J. Advances and Prepayment

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

### K. 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 the U.S. Congress, and the payment of all liabilities other than for contracts can be abrogated by Interior. 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 Cleanup Costs and Contingent Liabilities.*** Interior has responsibility to remediate its sites with 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 where losses are determined to be probable and the amounts can be estimated. In accordance with Federal accounting guidance, the liability for future cleanup of environmental hazards is "probable" when the government is legally responsible for creating the hazard or is otherwise related to it in such a way that it is legally liable to clean up the contamination.

When Interior is not legally liable, but chooses to accept financial responsibility, it is considered "Government-acknowledged." Government-acknowledged events are events that are of financial consequence to the Federal government because it chooses to respond to the event. When 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.

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 for departmental operations.

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

## L. Revenues and Financing Sources

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

***Appropriations.*** 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. For example, funds for general operations are generally made available for one fiscal year; funds for long-term projects such as major construction are generally available to Interior until expended; and funds used to establish revolving fund operations are generally available indefinitely (i.e., no year funds). The greater majority of operating funds for Interior are available for either multiple years or until expended. Appropriations are reflected as a financing source entitled "Appropriations Used" on the Consolidated Statement of Changes in Net Position once goods and services have been received. The Combined Statement of Budgetary Resources presents information about the resources appropriated to Interior.

***Exchange and Non-Exchange Revenue.*** Interior classifies revenues as either exchange revenue or non-exchange revenue. Exchange revenues are those that derive from transactions in which both the government and the other party receive value, including park entrance fees; map sales; reimbursements for services performed for other Federal agencies and the public; reimbursements for the cost of constructing and maintaining irrigation and water facilities; and other sales of goods and services. These revenues are presented on Interior's

Consolidated Statement of Net Cost and serve to reduce the reported cost of operations borne by the taxpayer. Interior does not anticipate any losses to occur. 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 the Interior's operations and are reported on the Consolidated Statement of Changes in Net Position.

With minor exceptions, all receipts of revenues by Federal agencies are processed through the Treasury central accounting system. Regardless of whether they derive from exchange or non-exchange transactions, all receipts that are not earmarked by congressional appropriation for immediate departmental use are deposited in the general or special funds of the Treasury. Amounts not retained for use by Interior are reported as transfers to other government agencies on Interior's Consolidated Statement of Changes in Net Position.

Reporting entities that provide goods and services to the public or another government entity should disclose specific information related to their pricing policies. In certain cases, the prices charged 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 No. 7, Interior reports these State amounts as "Royalties Retained" on the Consolidated Statement of Changes in Net Position rather than on the Consolidated Statement of Net Cost, because MMS incurred minimal costs in earning this revenue.

***Custodial Revenue.*** Interior's Minerals Revenue Management (MRM), administered by the MMS, collects royalties, rents, bonuses, and other receipts for Federal and Indian oil, gas, and mineral leases, and distributes the proceeds to the Treasury, other Federal agencies, and States, in accordance with legislated allocation formulas. MMS is authorized to retain a portion of the rental income collected as part of the custodial activity provided by the MRM Program to fund operating costs. BLM collects and remits to MMS first year bonuses and rents for on-shore mineral leases. 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 represents royalties on September oil and gas lease activity that Interior receives 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 (P.L. 97-451, 96 Stat. 2447, 30 U.S.C. 1701).

***Royalty-in-Kind (RIK).*** Interior, under the provisions of the Mineral Lands Leasing Act of 1920 and the Outer Continental Shelf Lands Act (OCSLA) of 1953, may take part or all of its oil and gas royalties in-kind (a volume of the commodity) as opposed to 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 royalty-in-kind as mineral lease revenue on the Statement of Custodial Activity.

Interior assists the Administration's initiative to fill the Strategic Petroleum Reserve. Interior transfers 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 and transfers to the DOE on the Statement of Custodial Activity.

***Aquatic Resources Trust Fund.*** Interior presents the Aquatic Resources Trust Fund (ARTF) in its financial statements in accordance with the requirements of Statement of Federal Financial Concepts No.2, "Entity and Display." The source of funding for the ARTF includes excise taxes levied on the sale of fishing tackle and equipment, certain motorboat and small engine gasoline, and interest earned on invested trust funds. These funds are used to make grants available to States for support projects that restore, conserve, manage, protect, and enhance sport fish resources and coastal wetlands and projects that provide for public use and benefit from sport fish resources. The ARTF also provides funding for boating safety programs conducted by the U.S. Coast Guard and coastal wetlands initiatives conducted by the U.S. Army Corps of Engineers. The Appropriations Act of 1951 authorized amounts equal to revenues credited during the year to be used in the subsequent fiscal year. This inflow is recorded as permanent appropriations to remain available until expended.

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

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

These transfers, and subsequent recoveries, are recorded in the Reclamation Fund, as transfers in/out without reimbursement on the Consolidated Statement of Changes in Net Position in accordance with SFFAS No. 7 Accounting for Revenue and Other Financing Sources and using current Treasury Standard General Ledger guidance. Transfers to Reclamation and other Federal agencies are recorded at the time appropriations are made. Cost recoveries are recorded in the Reclamation Fund as transfers in upon receipt.

During FY 2004, the Accounting and Auditing Policy Committee (AAPC) published an exposure draft for a new Federal financial accounting and auditing technical release, entitled, "Recognition of the Transfer of Funds Between Interior's Reclamation Fund and Energy's Western Area Power Administration: In Accordance with SFFAS 1, Accounting for Selected Assets and Liabilities and SFFAS 5, Accounting for Liabilities of the Federal Government." Interior has not completed its analysis of the impact of the technical release on projects other than those funded by the Reclamation Fund as of the date of this report. If the proposed technical release is passed as proposed, the Interior will need to record a receivable when funds are transferred out of the Reclamation Fund and reduce the receivable when funds are transferred back into the Reclamation Fund. Resolution of the exposure draft is not expected to occur until late FY 2005.

***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.

***Deferred Revenue.*** Unearned revenue is recorded as deferred revenue until earned.

### M. 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 future liability is recognized for these amounts, as employees do not vest in these benefits.

***Federal Employees Workers' Compensation Program.*** The Federal Employees Compensation Act (FECA) provides income and medical cost protection to covered Federal civilian employees injured on the job, to employees who have incurred work-related occupational diseases, and to beneficiaries of employees whose deaths are attributable to job-related injuries or occupational diseases. The 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. The projected annual benefit payments are discounted to present value using OMB's economic assumptions for 10-year Treasury notes and bonds. To provide for the effects of inflation on the liability, wage inflation factors (i.e., cost of living adjustments) and medical inflation factors (i.e., consumer price index medical adjustments) are applied to the calculation of projected future benefit payments. These factors are also used to adjust historical benefit payments to current-year constant dollars. A discounting formula is also used to recognize the timing of benefit payments as 13 payments per year instead of one lump sum payment per year.

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

***Federal Employees Group Life Insurance (FEGLI) Program.*** 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 pre-retirement portion of coverage, Interior has recognized the entire service cost of the post-retirement 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. Most 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 FERS employees, Interior contributes an amount equal to one percent of the employee's basic pay to the tax deferred Thrift Savings Plan and matches employee contributions up to an additional four percent of pay. FERS employees can contribute 14 percent of their gross earnings to the plan. CSRS employees are limited to a contribution of 9 percent of their gross earnings and 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 employees. 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 on or before December 31, 1983, by the NPS participate in the USPP Pension Plan, which is administered by the District of Columbia. Each in-service member contributes 7 percent of their 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.

Interior reports the USPP pension liability and associated expense in accordance with OMB guidance. An actuary estimates Interior's 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 as of the first day of the year, with a "roll-forward" or projection to the end of the year, in accordance with SFFAS Interpretation No. 3, Measurement Date for Pension and Retirement Health Care Liabilities. The "roll-forward" considers all major factors that affect the measurement that occurred during the reporting year, including any raises, cost of living allowances, and material changes in the number of participants.

### N. 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 the Interior's entities have been eliminated from the Consolidated Balance Sheet, the Consolidated Statement of Net Cost, and the Consolidated Statement of Changes in Net Position. As provided for by OMB Bulletin No. 01-09, the Combined Statement of Budgetary Resources is presented on a combined basis, therefore, intra-departmental transactions and balances have not been eliminated from this statement. In accordance with OMB Bulletin No. 01-09, intra-departmental transactions and balances have been eliminated from all the amounts on the Consolidated Statement of Financing, except for obligations incurred and spending authority from offsetting collections and adjustments, which are presented on a combined basis. Intra-departmental transactions have been eliminated within the Consolidated Statement of Custodial Activity. In order to present all custodial activity, the distributions to the Department's entities have not been eliminated on the Consolidated Statement of Custodial Activity and the Statement of Changes in Net Position. The distributions, however, are reported separately on the Consolidated Statement of Custodial Activity.

### O. 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.

### P. Estimates

Interior has made certain estimates and assumptions relating 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.

## NOTE 2. FUND BALANCE WITH TREASURY

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.

Fund Balance with Treasury by fund type as of September 30, 2004 and 2003 consists of the following:

| *(dollars in thousands)* | FY 2004 | FY 2003 |
|---|---|---|
| General Funds | $ 5,033,062 | $ 4,680,540 |
| Special Funds | 22,524,320 | 21,402,983 |
| Revolving Funds | 2,686,055 | 2,064,659 |
| Trust Funds | 199,996 | 155,973 |
| Other Fund Types | 422,711 | 394,053 |
| Total Fund Balance with Treasury by Fund Type | $ 30,866,144 | $ 28,698,208 |

Interior's fund types and purpose are described below:

***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. When collected, these receipts are available immediately for expenditure for special programs, such as providing housing for employees on field assignments; Land and Water Conservation and Historic Preservation Fund activities; sales of public lands, timber, mineral leases; cleanup associated with the Exxon Valdez oil spill; and operating science and cooperative programs.

***Revolving funds.*** These funds account for cash flows to and from the government resulting from operations of the helium operations, Interior franchise fund, and other bureau working capital funds. The revolving funds are restricted to the purposes set forth in the legislation that established the funds and related investment plans, and do not fund normal operating expenses of the bureau.

***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, and other activities such as maintaining the Boyhood Home of Abraham Lincoln; trust fund construction; highway maintenance and construction; and managing the Land and Resource Management trust fund, the Alaska Townsite Trustee fund, and the Aquatic Resources Trust Fund.

***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.

Status of Fund Balance with Treasury as of September 30, 2004 and 2003 consists of the following:

| *(dollars in thousands)* | | FY 2004 | | FY 2003 |
|---|---|---|---|---|
| Unobligated | | | | |
| Available | $ | 3,855,516 | $ | 3,975,260 |
| Unavailable | | 21,151,222 | | 19,958,000 |
| Obligated Not Yet Disbursed | | 5,859,406 | | 4,764,948 |
| Total Status of Fund Balance with Treasury | $ | 30,866,144 | $ | 28,698,208 |

The status of the Fund Balance may be classified as unobligated available, unobligated unavailable, and obligated. Unobligated funds, depending on budget authority, are generally available for new obligations in current operations. The unavailable amounts are primarily composed 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. 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.

Obligated and unobligated balances reported for the status of fund balance with Treasury do not agree with obligated and unobligated balances reported on the Combined Statement of Budgetary Resources because: (1) the budgetary balances include amounts supported by other than fund balance with Treasury, such as investments in Treasury Securities and allocation transfers (transferring agency); and (2) the fund balance with Treasury amounts include items for which budgetary resources are not recorded, such as deposit funds and unavailable collections and allocation transfers (receiving agency). Allocation transfers result in differences for both the transferring and receiving agency because the budgetary amounts are reported by the agency transferring the funds but the proprietary amounts are reported by the receiving agency.

## NOTE 3. CASH

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

Cash as of September 30, 2004 and 2003 consists of the following:

| *(dollars in thousands)* | | FY 2004 | | FY 2003 |
|---|---|---|---|---|
| Cash Not Yet Deposited to Treasury | $ | 417 | $ | 415 |
| Imprest Fund | | 664 | | 679 |
| Total Cash | $ | 1,081 | $ | 1,094 |

## NOTE 4. INVESTMENTS, NET

### A. Investments in Treasury Securities

The BIA, BLM, Departmental Offices, MMS, NPS, OSM, and FWS invest funds in securities on behalf of various Interior programs.

Investments as of September 30, 2004, consist of the following:

**FY 2004**

| *(dollars in thousands)* | Investment Type | Cost | Amortized (Premium)/ Discount | Investments, Net | Market Value Disclosure |
|---|---|---|---|---|---|
| U.S. Treasury Securities | | | | | |
| Bureau of Indian Affairs | Marketable | $ 68,565 | $ - | $ 68,565 | $ 68,565 |
| Bureau of Land Management | Non-Marketable, par value | 826,076 | 2,620 | 828,696 | 828,465 |
| Departmental Offices | | | | | |
| Utah Reclamation Mitigation and Conservation Account | Non-Marketable, market-based | 152,427 | (8,658) | 143,769 | 143,551 |
| Natural Resources Damage Assessment and Restoration Fund | Non-Marketable, market-based | 170,592 | (1,414) | 169,178 | 168,962 |
| Tribal Trust and Special Funds | Non-Marketable, market-based | 27,755 | - | 27,755 | 27,753 |
| | Marketable | 49,860 | (49) | 49,811 | 49,792 |
| Minerals Management Service - Conservation | Non-Marketable, market-based | 1,003,203 | (6,911) | 996,292 | 1,007,471 |
| Minerals Management Service - Custodial | Non-Marketable, market-based | 27,758 | 8 | 27,766 | 27,769 |
| National Park Service | Non-Marketable, market-based | 64 | 1 | 65 | 65 |
| Office of Surface Mining | Non-Marketable, market-based | 2,042,801 | 168 | 2,042,969 | 2,042,969 |
| U.S. Fish and Wildlife Service | Non-Marketable, market-based | 363,832 | (1,073) | 362,759 | 363,614 |
| U.S. Fish and Wildlife Service - Aquatic Resources Trust Fund | Non-Marketable, market-based | 1,455,389 | (4,045) | 1,451,344 | 1,446,897 |
| Total U.S. Treasury Securities | | 6,188,322 | (19,353) | 6,168,969 | 6,175,873 |
| Accrued Interest | | 18,360 | - | 18,360 | - |
| Total Non-Public Investments | | 6,206,682 | (19,353) | 6,187,329 | 6,175,873 |
| Public Securities | | | | | |
| Bureau of Indian Affairs | Marketable | 1,077 | - | 1,077 | 1,078 |
| Departmental Offices - Tribal Trust and Special Funds | Marketable | 188,966 | 476 | 189,442 | 189,679 |
| Total Public Securities | | 190,043 | 476 | 190,519 | 190,757 |
| Accrued Interest | | 1,325 | - | 1,325 | - |
| Total Public Investments | | 191,368 | 476 | 191,844 | 190,757 |
| Total Investments | | $ 6,398,050 | $ (18,877) | $ 6,379,173 | $ 6,366,630 |

Investments as of September 30, 2003, consist of the following:

FY 2003

| (dollars in thousands) | Investment Type | Cost | Amortized (Premium)/ Discount | Investments, Net | Market Value Disclosure |
|---|---|---|---|---|---|
| U.S. Treasury Securities | | | | | |
| Bureau of Indian Affairs | Marketable | $ 68,334 | $ - | $ 68,334 | $ 68,334 |
| Bureau of Land Management | Non-Marketable, par value | 369,097 | 1,218 | 370,315 | 370,400 |
| Departmental Offices | | | | | |
| Utah Reclamation Mitigation and Conservation Account | Non-Marketable, market-based | 139,874 | (946) | 138,928 | 139,694 |
| Natural Resources Damage Assessment and Restoration Fund | Non-Marketable, market-based | 156,025 | (713) | 155,312 | 155,552 |
| Tribal Trust and Special Funds | Non-Marketable, market-based | 29,966 | - | 29,966 | 29,966 |
| | Marketable | 45,875 | 45 | 45,920 | 46,150 |
| Minerals Management Service - Conservation | Non-Marketable, market-based | 977,236 | 285 | 977,521 | 977,595 |
| Minerals Management Service - Custodial | Non-Marketable, market-based | 25,071 | 3 | 25,074 | 25,074 |
| National Park Service | Non-Marketable, market-based | 64 | 1 | 65 | 65 |
| Office of Surface Mining | Non-Marketable, market-based | 1,926,867 | - | 1,926,867 | 1,926,867 |
| U.S. Fish and Wildlife Service | Non-Marketable, market-based | 454,807 | (1,083) | 453,724 | 454,998 |
| U.S. Fish and Wildlife Service - Aquatic Resources Trust Fund | Non-Marketable, market-based | 1,418,172 | (2,359) | 1,415,813 | 1,416,278 |
| Total U.S. Treasury Securities | | 5,611,388 | (3,549) | 5,607,839 | 5,610,973 |
| Accrued Interest | | 2,153 | - | 2,153 | - |
| Total Non-Public Investments | | 5,613,541 | (3,549) | 5,609,992 | 5,610,973 |
| Public Securities | | | | | |
| Bureau of Indian Affairs | Marketable | 1,097 | - | 1,097 | 1,099 |
| Departmental Offices - Tribal Trust and Special Funds | Marketable | 179,734 | 323 | 180,057 | 184,490 |
| Total Public Securities | | 180,831 | 323 | 181,154 | 185,589 |
| Accrued Interest | | 1,483 | - | 1,483 | - |
| Total Public Investments | | 182,314 | 323 | 182,637 | 185,589 |
| Total Investments | | $ 5,795,855 | $ (3,226) | $ 5,792,629 | $ 5,796,562 |

***Bureau of Indian Affairs.*** The BIA invests irrigation and power receipts in Treasury and public securities until the funds are required for project operations. Federal investments are purchased under the Treasury Overnighter Program and in marketable Treasury bills and notes. BIA's investments in public securities are discussed more fully below.

***Bureau of Land Management.*** The BLM is authorized to invest in special non-marketable par value Treasury securities. These securities include Treasury bills, notes, bonds, and one-day certificates that may be purchased and sold as necessary to meet operating needs and legislated requirements. The BLM invests in these securities of the Treasury pursuant to authorizing legislation for two accounts: (1) the proceeds of certain land sales as authorized by the Southern Nevada Public Land Management Act enacted in October 1998; and (2) the proceeds of certain oil and gas lease sales authorized by the Alaska Native Claims Settlement Act and the Alaska National Interest Lands Conservation Act, as amended July 17, 2000.

***Departmental Offices.*** Departmental Offices invest funds, contributed to the Utah Reclamation Mitigation and Conservation Account by the Utah Reclamation Mitigation and Conservation Commission, in non-marketable market-based securities issued by the Federal Investment Branch of the Bureau of the Public Debt. Departmental Offices invest funds, for the Natural Resources Damage Assessment and Restoration Fund (NRDAR), in non-marketable market-based securities issued by Treasury. Funds are invested in both long and short-term securities, depending upon the program's needs for their funds.

Departmental Offices invest a portion of Tribal Trust and Special Funds in marketable and non-marketable market-based securities issued by the Federal Investment Branch of the Bureau of the Public Debt. Investment instruments are continually reviewed for appropriateness in conjunction with current tribal needs.

***Minerals Management Service.*** Investments consist of non-marketable, market-based Treasury securities that are not traded on any securities exchange but mirror the prices of marketable securities with similar terms. The MMS has limited investment authority based on two categories: Environmental Improvement and Restoration and Custodial Investments.

The Environmental Improvement and Restoration Fund (EIRF) is available for investment under the Interior and Related Agencies Appropriations Act of 1998. Congress has permanently appropriated 20 percent of the prior fiscal year interest earned by the EIRF to the Department of Commerce. The remaining 80 percent of interest earned remains in the fund and may be appropriated by Congress to certain other agencies, as provided by the law. This investment was initially funded in 2000 by the settlement of the boundary dispute with the State of Alaska.

MMS is also required by regulation to invest the 1/5 Outer Continental Shelf (OCS) bid amounts from the apparent high bidders for all OCS lease sales. Should any of the apparent high bids be later rejected, the 1/5 bid and actual interest earned are returned to the bidder. The investment earned on accepted bids reverts to Treasury when the bids are accepted.

***National Park Service.*** The NPS administers an endowment on behalf of the Lincoln Farm Association. Endowment funds are invested in non-marketable Treasury securities issued by the Federal Investment Branch of the Bureau of the Public Debt. Investment earnings from this endowment are used to provide for maintenance and upkeep of Abraham Lincoln's birthplace.

***Office of Surface Mining.*** Effective October 1, 1991, the OSM was authorized to invest available Abandoned Mine Land (AML) funds in non-marketable market based securities issued by the Federal Investment Branch of the Bureau of the Public Debt in the Treasury. The OSM has authority to invest AML trust funds in Treasury bills, notes, bonds, and one-day certificates. A portion of the AML investment interest earned is transferred to the United Mine Workers of America Combined Benefit Fund to provide health benefits for certain eligible retired coal miners and dependents.

***U.S. Fish and Wildlife Service.*** The FWS has investments in non-marketable market-based Treasury securities that consist of various bills purchased through the Federal Investment Branch of the Bureau of the Public Debt. The invested funds consist of excise tax receipts from the Federal Aid in Wildlife Restoration Fund, the Aquatic Resources Trust Fund, and the Multi-National Species Conservation Fund.

The Treasury collects, invests, and maintains on behalf of the FWS, the Aquatic Resources Trust Fund (ARTF), which includes FWS's Sport Fish Restoration Account. Although the FWS has advisory authority for ARTF investment decisions, the Treasury has legal responsibility for investing ARTF funds.

Consistent with authorizing legislation and Treasury fiscal investment policies, the Secretary of the Treasury invests such portions of the ARTF balance deemed by the program agencies not necessary to meet current withdrawals to cover program and related costs as defined by law. Such investments are in non-marketable par value or non-marketable market-based securities as authorized by legislation and are issued and redeemed by the Federal Investment Branch of the Bureau of the Public Debt, in the Treasury. These securities are held in the name of the Secretary of the Treasury for the ARTF.

### B. Investments in Public Securities

The BIA is authorized by law to invest irrigation and power receipts in marketable Treasury and public securities. Investments in public securities consist of certificates of deposit from insured institutions, various mortgage instruments, bank notes, and bonds. Mortgage instruments are issued by the Federal National Mortgage Association (Fannie Mae) and similar government-sponsored enterprises and government corporations. Bonds and bank notes are issued by Federal Home Loan Banks, the Federal Judiciary, and the Federal Farm Credit Banks. Investments in public securities reflect investments held by BIA's Power and Irrigation program and are recorded at cost.

Departmental Offices invest a portion of the Tribal Trust and Special Funds in marketable securities issued by government-sponsored entities. Investment instruments are continually reviewed for appropriateness in conjunction with current tribal needs.

## NOTE 5. 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 by MMS, from which royalties are then collected, the sale of water and hydroelectric power by BOR, and water testing and other scientific studies conducted for State and local governments by the USGS. Fines and penalties are imposed by OSM, MMS, FWS, and other bureaus 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.

Accounts Receivable from the Public consist of the following:

| *(dollars in thousands)* | FY 2004 | FY 2003 |
|---|---|---|
| Accounts Receivable from the Public | | |
| Current | $ 109,110 | $ 118,470 |
| 1 - 180 Days Past Due | 30,403 | 103,609 |
| 181 - 365 Days Past Due | 49,476 | 75,063 |
| Over 1 Year Past Due | 301,665 | 260,291 |
| Total Billed Accounts Receivable - Public | 490,654 | 557,433 |
| Unbilled Accounts Receivable | 1,172,570 | 1,016,261 |
| Total Accounts Receivable - Public | 1,663,224 | 1,573,694 |
| Allowance for Doubtful Accounts - Public | (315,583) | (346,710) |
| **Total Accounts Receivable - Public Net of Allowance** | $ 1,347,641 | $ 1,226,984 |

| | | |
|---|---|---|
| **Change in Allowance for Doubtful Accounts - Public** | | |
| Allowance for Doubtful Accounts, beginning | $ 346,710 | $ 350,582 |
| Additions | 9,274 | 19,555 |
| Deletions | (40,401) | (23,427) |
| **Allowance for Doubtful Accounts - Public** | $ 315,583 | $ 346,710 |

***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 Receivable from Federal entities consist of the following:

| *(dollars in thousands)* | | FY 2004 | | FY 2003 |
|---|---|---|---|---|
| Accounts Receivable from Federal Agencies | | | | |
| Current | $ | 40,963 | $ | 66,035 |
| 1 - 180 Days Past Due | | 519 | | 5,728 |
| 181 - 365 Days Past Due | | 399 | | 197 |
| Over 1 Year Past Due | | 307 | | 783 |
| Total Billed Accounts Receivable - Federal | | 42,188 | | 72,743 |
| Unbilled Accounts Receivable | | 305,846 | | 316,003 |
| Total Accounts Receivable - Federal | | 348,034 | | 388,746 |
| Allowance for Doubtful Accounts - Federal | | - | | (1,577) |
| **Total Accounts Receivable - Federal, Net of Allowance** | $ | 348,034 | $ | 387,169 |

| | | | | |
|---|---|---|---|---|
| **Change in Allowance for Doubtful Accounts - Federal** | | | | |
| Allowance for Doubtful Accounts, beginning | $ | 1,577 | $ | 5,170 |
| Additions | | - | | 1,577 |
| Deletions | | (1,577) | | (5,170) |
| **Allowance for Doubtful Accounts - Federal** | $ | - | $ | 1,577 |

***Recovery of Reimbursable Capital Costs.*** The 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 allocated to the construction of reimbursable irrigation and M&I 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 (mainly power, irrigation, M&I water, fish and wildlife enhancement, recreation, and flood control) 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 the Congress.

Unmatured repayment contracts are recognized on the Consolidated 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, 2004 and 2003, amounts not yet earned under unmatured repayment contracts were $2.7 billion and $2.6 billion respectively.

***Transfers to Western Area Power Administration.*** As discussed in Note 1.L., funds are transferred from the Reclamation Fund to the Western Area Power Administration (Western) to fund power project operation and maintenance and capital investment activities. As Western sells power to customers, it transfers funds back into the Reclamation Fund. Interior reports these transactions as transfers in and out without reimbursement on the Consolidated Statement of Changes in Net Position.

The net (unrecovered) transfers betweeen the Reclamation Fund and Western as of September 30, 2004 and 2003 are approximately $2.3 to $3.1 billion and $2.1 to $3.0 billion, respectively.

## NOTE 6. LOANS AND INTEREST RECEIVABLE, NET

Direct loans and loan guarantees made prior to FY 1992 were funded by congressional appropriation from the general or special funds. These loans, referred to as liquidating loans, are reported net of an allowance for estimated uncollectible loans. BOR's loan programs are authorized under the Small Reclamation Projects Act of 1956, the Distribution System Loans Act, the Rural Policy Development Policy Act of 1980, and the Rehabilitation and Betterment Act.

Direct loans and loan guarantees made after FY 1991 are accounted for in accordance with the requirements of the Credit Reform Act of 1990 and are referred to as credit reform loans. 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. The Act 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. In FY 2004, there were no changes in economic conditions, other risk factors, legislation, credit policies, and subsidy estimation methodologies and assumptions that have had a significant and measurable effect on subsidy rates, subsidy expense, and subsidy reestimates.

Included in the financial statements is a subsidy re-estimate 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.

BIA and BOR administer loan programs while the Departmental Offices and NPS provide loans on an individual basis under special circumstances. An analysis of the loans and the nature and amounts of the subsidy and associated administrative costs are provided in the following tables.

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

| A. Direct Loan and Loan Guarantee Program Names | FY 2004 | FY 2003 |
|---|---|---|
| Bureau of Indian Affairs - Direct Liquidating Loans (Pre-Credit Reform) | $ 22,826 | $ 25,334 |
| Bureau of Indian Affairs - Direct Loans (Credit Reform) | 9,920 | 11,291 |
| Bureau of Indian Affairs - Guaranteed Liquidating Loans (Pre-Credit Reform) | 558 | 658 |
| Bureau of Indian Affairs - Guaranteed Loans (Credit Reform) | 254 | 760 |
| Bureau of Reclamation - Direct Loans (Pre-Credit Reform) | 56,753 | 59,846 |
| Bureau of Reclamation - Direct Loans (Credit Reform) | 110,147 | 106,775 |
| Departmental Offices - Virgin Island (Pre-Credit Reform) | 7,824 | 9,834 |
| Departmental Offices - American Samoa Government (Credit Reform) | 15,274 | 14,841 |
| National Park Service - Wolf Trap Foundation (Pre-Credit Reform) | 3,958 | 4,317 |
| Total Loans and Interest Receivable, Net | $ 227,514 | $ 233,656 |

**Direct Loans (dollars in thousands)**

**B. Direct Loans Obligated Prior to FY 1992:**

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

| | Direct Loan Programs | Loans Receivable, Gross | Interest Receivable | Allowance For Loan Losses | Foreclosed Property | Value of Assets Related to Direct Loans |
|---|---|---|---|---|---|---|
| | Bureau of Indian Affairs - Direct Liquidating Loans (Pre-Credit Reform) | $ 21,529 | $ 7,281 | $ (5,984) | $ - | $ 22,826 |
| | Bureau of Reclamation - Direct Loans (Pre-Credit Reform) | 63,929 | 79 | (7,255) | - | 56,753 |
| | Departmental Offices - Virgin Island (Pre-Credit Reform) | 7,640 | 184 | - | - | 7,824 |
| | National Park Service - Wolf Trap Foundation (Pre-Credit Reform) | 3,958 | - | - | - | 3,958 |
| **FY 2004** | Total | $ 97,056 | $ 7,544 | $ (13,239) | $ - | $ 91,361 |
| | Bureau of Indian Affairs - Direct Liquidating Loans (Pre-Credit Reform) | $ 27,153 | $ 8,685 | $ (10,504) | $ - | $ 25,334 |
| | Bureau of Reclamation - Direct Loans (Pre-Credit Reform) | 67,131 | 933 | (8,218) | - | 59,846 |
| | Departmental Offices - Virgin Island (Pre-Credit Reform) | 9,605 | 229 | - | - | 9,834 |
| | National Park Service - Wolf Trap Foundation (Pre-Credit Reform) | 4,317 | - | - | - | 4,317 |
| **FY 2003** | Total | $ 108,206 | $ 9,847 | $ (18,722) | $ - | $ 99,331 |

**C. Direct Loans Obligated After FY 1991:**

| | Direct Loan Programs | Loans Receivable, Gross | Interest Receivable | Foreclosed Property | Allowance for Subsidy Cost (Present Value) | Value of Assets Related to Direct Loans |
|---|---|---|---|---|---|---|
| | Bureau of Indian Affairs - Direct Loans (Credit Reform) | $ 9,528 | $ 685 | $ - | $ (293) | $ 9,920 |
| | Bureau of Reclamation - Direct Loans (Credit Reform) | 119,624 | - | - | (9,477) | 110,147 |
| | Departmental Offices - American Samoa Government (Credit Reform) | 17,142 | 695 | - | (2,563) | 15,274 |
| **FY 2004** | Total | $ 146,294 | $ 1,380 | $ - | $ (12,333) | $ 135,341 |
| | Bureau of Indian Affairs - Direct Loans (Credit Reform) | $ 20,781 | $ 5,638 | $ - | $ (15,128) | $ 11,291 |
| | Bureau of Reclamation - Direct Loans (Credit Reform) | 121,134 | - | - | (14,359) | 106,775 |
| | Departmental Offices - American Samoa Government (Credit Reform) | 17,324 | 415 | - | (2,898) | 14,841 |
| **FY 2003** | Total | $ 159,239 | $ 6,053 | $ - | $ (32,385) | $ 132,907 |

**D. Total Amount of Direct Loans Disbursed (Post 1991):**

| Direct Loan Programs | **FY 2004** | **FY 2003** |
|---|---|---|
| Bureau of Reclamation - Direct Loans (Credit Reform) | $ 4,111 | $ 800 |
| Departmental Offices - American Samoa Government (Credit Reform) | - | 3,100 |
| Total | $ 4,111 | $ 3,900 |

**E. Subsidy Expense for Direct Loans by Program and Component:**

Subsidy Expense for New Direct Loans Disbursed:

| | Direct Loan Programs | Interest Differential | Defaults | Fees and Other Collections | Other | Total |
|---|---|---|---|---|---|---|
| | Bureau of Reclamation - Direct Loans (Credit Reform) | $ 2 | $ - | $ - | $ - | $ 2 |
| **FY 2004** | Total | $ 2 | $ - | $ - | $ - | $ 2 |

| | Direct Loan Programs | Interest Differential | Defaults | Fees and Other Collections | Other | Total |
|---|---|---|---|---|---|---|
| | Bureau of Reclamation - Direct Loans (Credit Reform) | $ 438 | $ - | $ - | $ - | $ 438 |
| | Departmental Offices - American Samoa Government (Credit Reform) | (6) | 481 | - | - | 475 |
| **FY 2003** | Total | $ 432 | $ 481 | $ - | $ - | $ 913 |

Modifications and Reestimates

| | Direct Loan Programs | Total Modifications | Interest Rate Reestimates | Technical Reestimates | Total Reestimates |
|---|---|---|---|---|---|
| | Bureau of Indian Affairs - Direct Loans (Credit Reform) | $ - | $ - | $ 267 | $ 267 |
| | Bureau of Reclamation - Direct Loans (Credit Reform) | - | - | 2 | 2 |
| | Departmental Offices - American Samoa Government (Credit Reform) | - | (1,297) | 962 | (335) |
| **FY 2004** | Total | $ - | $ (1,297) | $ 1,231 | $ (66) |
| | Bureau of Indian Affairs - Direct Loans (Credit Reform) | $ - | $ - | $ 1,608 | $ 1,608 |
| | Bureau of Reclamation - Direct Loans (Credit Reform) | - | - | (13,868) | (13,868) |
| **FY 2003** | Total | $ - | $ - | $ (12,260) | $ (12,260) |

Total Direct Loan Subsidy Expense:

| Direct Loan Programs | **FY 2004** | **FY 2003** |
|---|---|---|
| Bureau of Indian Affairs - Direct Loans (Credit Reform) | $ 267 | $ 1,608 |
| Bureau of Reclamation - Direct Loans (Credit Reform) | 2 | (13,430) |
| Departmental Offices - American Samoa Government (Credit Reform) | (335) | 475 |
| Total | $ (66) | $ (11,347) |

**F. Subsidy Rates for Direct Loans by Program and Component:**

Budget Subsidy Rates for Direct Loans for the Cohorts:

| | Direct Loan Programs | Interest Differential | Defaults | Fees and Other Collections | Other | Total |
|---|---|---|---|---|---|---|
| | Bureau of Reclamation - Direct Loans (Credit Reform) | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% |
| | Departmental Offices - American Samoa Government (Credit Reform) | -0.2% | 13.8% | 0.0% | 0.0% | 13.6% |
| **FY 2004** | Total | -0.2% | 13.8% | 0.0% | 0.0% | 13.6% |

| | Direct Loan Programs | Interest Differential | Defaults | Fees and Other Collections | Other | Total |
|---|---|---|---|---|---|---|
| | Bureau of Reclamation - Direct Loans (Credit Reform) | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% |
| | Departmental Offices - American Samoa Government (Credit Reform) | -0.2% | 15.8% | 0.0% | 0.0% | 15.6% |
| **FY 2003** | Total | -0.2% | 15.8% | 0.0% | 0.0% | 15.6% |

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

| | FY 2004 | FY 2003 |
|---|---|---|
| Beginning balance of the subsidy cost allowance | $ 32,385 | $ 48,452 |
| | | |
| Add: Subsidy expense for direct loans disbursed during the reporting years by component: | | |
| (a) Interest rate differential costs | 2 | 432 |
| (b) Default costs (net of recoveries) | - | 481 |
| Total of the above subsidy expense components | 2 | 913 |
| | | |
| Adjustments: | | |
| (a) Loans written off | (15,410) | (25) |
| (b) Subsidy allowance amortization | (4,406) | (4,695) |
| (c) Other | (170) | - |
| Ending balance of the subsidy cost allowance before reestimates | 12,401 | 44,645 |
| | | |
| Add or subtract subsidy reestimates by component: | | |
| (a) Interest rate reestimate | (1,297) | - |
| (b) Technical/default reestimate | 1,229 | (12,260) |
| Total of the above reestimate components | (68) | (12,260) |
| | | |
| Ending balance of the subsidy cost allowance | $ 12,333 | $ 32,385 |

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

**Defaulted Guaranteed Loans (dollars in thousands)**

**H. Defaulted Guaranteed Loans from Pre-1992 Guarantees (Allowance for Loss Method):**

| | Loan Guarantee Programs | Defaulted Guaranteed Loans Receivable, Gross | Interest Receivable | Foreclosed Property | Allowance For Loan Losses | Value of Assets Related to Defaulted Guaranteed Loans, Receivable, Net |
|---|---|---|---|---|---|---|
| | Bureau of Indian Affairs - Guaranteed Liquidating Loans (Pre-Credit Reform) | $ 11,087 | $ 7,503 | $ - | $ (18,032) | $ 558 |
| **FY 2004** | Total | $ 11,087 | $ 7,503 | $ - | $ (18,032) | $ 558 |
| | Bureau of Indian Affairs - Guaranteed Liquidating Loans (Pre-Credit Reform) | $ 16,963 | $ 11,725 | $ - | $ (28,030) | $ 658 |
| **FY 2003** | Total | $ 16,963 | $ 11,725 | $ - | $ (28,030) | $ 658 |

**I. Defaulted Guaranteed Loans from Post-1991 Guarantees (Present Value Method):**

| | Loan Guarantee Programs | 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 |
|---|---|---|---|---|---|---|
| | Bureau of Indian Affairs - Guaranteed Loans (Credit Reform) | $ 2,148 | $ 779 | $ - | $ (2,673) | $ 254 |
| **FY 2004** | Total | $ 2,148 | $ 779 | $ - | $ (2,673) | $ 254 |
| | Bureau of Indian Affairs - Guaranteed Loans (Credit Reform) | $ 6,148 | $ 3,027 | $ - | $ (8,416) | $ 760 |
| **FY 2003** | Total | $ 6,148 | $ 3,027 | $ - | $ (8,416) | $ 760 |

**Loan Guarantees (dollars in thousands)**

**J. Guaranteed Loans Outstanding as of September 30, 2004:**

Guaranteed Loans Outstanding

| Loan Guarantee Programs | Outstanding Principal of Guaranteed Loans, Face Value | Amount of Outstanding Principal Guaranteed |
|---|---|---|
| Pre-1992 | $ 9,181 | $ 8,226 |
| FY 1992 | 1,917 | 1,712 |
| FY 1993 | 3,412 | 3,004 |
| FY 1994 | 16,488 | 14,810 |
| FY 1995 | 4,147 | 3,468 |
| FY 1996 | 10,790 | 9,546 |
| FY 1997 | 9,835 | 8,696 |
| FY 1998 | 8,334 | 7,183 |
| FY 1999 | 34,840 | 31,058 |
| FY 2000 | 49,933 | 44,730 |
| FY 2001 | 34,502 | 25,615 |
| FY 2002 | 47,750 | 42,280 |
| FY 2003 | 48,446 | 43,384 |
| FY 2004 | 55,855 | 49,850 |
| Total | $ 335,430 | $ 293,562 |

New Guaranteed Loans Disbursed (Current reporting year):

| | Loan Guarantee Programs | Outstanding Principal of Guaranteed Loans, Face Value | Amount of Outstanding Principal Guaranteed |
|---|---|---|---|
| | Amount Paid in FY 2004 for Prior Years | $ 32,315 | $ 29,083 |
| | Amount Paid in FY 2004 for 2004 Guarantees | 55,855 | 49,850 |
| **FY 2004** | Total | $ 88,170 | $ 78,933 |
| | Amount Paid in FY 2003 for Prior Years | $ 27,951 | $ 25,156 |
| | Amount Paid in FY 2003 for 2003 Guarantees | 28,249 | 25,255 |
| **FY 2003** | Total | $ 56,200 | $ 50,411 |

**K. Liability for Loan Guarantees:**

Liability for Loan Guarantees (Estimated Future Default Claims for pre-1992 guarantees):

| | Loan Guarantee Programs | 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 |
|---|---|---|---|---|
| **FY 2004** | Bureau of Indian Affairs - Guaranteed Liquidating Loans (Pre-Credit Reform) | $ - | $ (60,081) | $ (60,081) |
| | Total | $ - | $ (60,081) | $ (60,081) |
| | Bureau of Indian Affairs - Guaranteed Liquidating Loans (Pre-Credit Reform) | $ - | $ (52,185) | $ (52,185) |
| **FY 2003** | Total | $ - | $ (52,185) | $ (52,185) |

**L. Subsidy Expense for Loan Guarantees by Program and Component:**

Subsidy Expense for New Loan Guarantees:

| | Loan Guarantee Programs | Interest Supplements | Defaults | Fees and Other Collections | Other | Total |
|---|---|---|---|---|---|---|
| **FY 2004** | Bureau of Indian Affairs - Guaranteed Loans (Credit Reform) | $ 3,976 | $ 3,220 | $ (1,592) | $ - | $ 5,604 |
| | Total | $ 3,976 | $ 3,220 | $ (1,592) | $ - | $ 5,604 |
| **FY 2003** | Bureau of Indian Affairs - Guaranteed Loans (Credit Reform) | $ 1,841 | $ 2,021 | $ (821) | $ - | $ 3,041 |
| | Total | $ 1,841 | $ 2,021 | $ (821) | $ - | $ 3,041 |

Modifications and Reestimates:

| | Loan Guarantee Programs | Total Modifications | Interest Rate Reestimates | Technical Reestimates | Total Reestimates |
|---|---|---|---|---|---|
| | Bureau of Indian Affairs - Guaranteed Loans (Credit Reform) | $ - | $ - | $ 451 | $ 451 |
| **FY 2004** | Total | $ - | $ - | $ 451 | $ 451 |
| | Bureau of Indian Affairs - Guaranteed Loans (Credit Reform) | $ - | $ - | $ 377 | $ 377 |
| **FY 2003** | Total | $ - | $ - | $ 377 | $ 377 |

Total Loan Guarantee Subsidy Expense:

| Loan Guarantee Programs | **FY 2004** | **FY 2003** |
|---|---|---|
| Bureau of Indian Affairs - Guaranteed Loans (Credit Reform) | $ 6,055 | $ 3,418 |
| Total | $ 6,055 | $ 3,418 |

**M. Subsidy Rates for Loan Guarantees by Program and Component:**

Budget Subsidy Rates for Loan Guarantees for the Current Year's Cohorts:

| | Loan Guarantee Programs | Interest Supplements | Defaults | Fees and Other Collections | Other | Total |
|---|---|---|---|---|---|---|
| | Bureau of Indian Affairs - Guaranteed Loans (Credit Reform) | 4.7% | 3.3% | -1.8% | 0.0% | 6.1% |
| **FY 2004** | Total | 4.7% | 3.3% | -1.8% | 0.0% | 6.1% |
| | Bureau of Indian Affairs - Guaranteed Loans (Credit Reform) | 4.6% | 4.1% | -1.8% | 0.0% | 6.9% |
| **FY 2003** | Total | 4.6% | 4.1% | -1.8% | 0.0% | 6.9% |

**N. Schedule for Reconciling Loan Guarantee Liability Balances**

| | **FY 2004** | **FY 2003** |
|---|---|---|
| Beginning balance of the loan guarantee liability | $ 52,185 | $ 49,097 |
| Add: Subsidy expense for guaranteed loans disbursed during the reporting years by component: | | |
| (a) Interest supplement costs | 3,976 | 1,841 |
| (b) Default costs (net of recoveries) | 3,220 | 2,021 |
| (c) Fees and other collections | (1,592) | (821) |
| Total of the above subsidy expense components | 5,604 | 3,041 |
| Adjustments: | | |
| (a) Fees received | 1,422 | 972 |
| (b) Interest supplements paid | (1,564) | (1,788) |
| (c) Claim payments to lenders | (1,281) | (706) |
| (d) Interest accumulation on the liability balance | 3,264 | 1,192 |
| Ending balance of the loan guarantee liability before reestimates | 59,630 | 51,808 |
| Add or subtract subsidy reestimates by component: | | |
| (a) Technical/default reestimate | 451 | 377 |
| Total of the above reestimate components | 451 | 377 |
| Ending balance of the loan guarantee liability | $ 60,081 | $ 52,185 |

**O. Administrative Expense:**

| | Direct Loan Programs | | | Loan Guarantee Programs | | |
|---|---|---|---|---|---|---|
| | Bureau of Reclamation - Direct Loans (Credit Reform) | $ | 113 | Bureau of Indian Affairs - Guaranteed Loan Programs | $ | 4,405 |
| | Departmental Offices - American Samoa Government (Credit Reform) | | 836 | | | |
| **FY 2004** | Total | $ | 949 | | $ | 4,405 |
| | Bureau of Reclamation - Direct Loans (Credit Reform) | $ | 119 | Bureau of Indian Affairs - Guaranteed Loan Programs | $ | 303 |
| | Departmental Offices - American Samoa Government (Credit Reform) | | 783 | | | |
| **FY 2003** | Total | $ | 902 | | $ | 303 |

***Bureau of Indian Affairs.*** The BIA provides guaranteed loans to Indian Tribes and organizations, Indian individuals, and Alaska Natives for economic development purposes. The BIA loan program includes the Indian Direct Loan Program (which ceased providing loans in 1995), the Indian Loan Guarantee Program under the Credit Reform Act, 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 pre-credit 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.*** The 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, and the Rehabilitation and Betterment Act. The loan programs are classified into two categories, credit reform loans and other loans made prior to the Credit Reform Act.

Other loans consist primarily of drought relief and repayment loans. The other loans receivable balances represent amounts due to Reclamation, net of an allowance for estimated uncollectible loan balances. The allowance amount is determined by reviewing a loans receivable aging report to identify loan balances that are considered uncollectible based on various factors, including age, past experience, present market 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 2003 also includes modifications and reestimates. In FY 2003, a technical reestimate of FY 1992-2002 cohorts resulted in a net downward reestimate of the subsidy allowance. The technical reestimate adjusted for differences between the original projections of cash flows that were expected based on actual experience.

***Departmental Offices.*** Departmental Offices has two loans, one pre-credit reform loan to the U.S. Virgin Islands and one post-credit reform loan to the American Samoa Government (ASG).

In 1977, a loan was extended to the Virgin Islands. The loan receivable from the Virgin Islands has an offsetting liability to the Federal Financing Bank. It has a final payment due date of January 2, 2007. Principal and interest are due in January and July of each year. Interest is based on the amortization schedule for the loan with the Federal Financing Bank. The interest is accrued at year end based upon the period of July - September.

In 2001, a loan was extended to the American Samoa Government. The total has been approved for $18.6 million and made available to the ASG bearing interest at a rate equal to the Treasury cost of borrowing for obligations of similar duration. The proceeds of the loan will be used by the ASG for debt reduction and fiscal reform. As payments become due, they shall be secured and accomplished with funds from the Escrow Account. The Escrow Account was established under the terms and conditions of the Tobacco Master Settlement Agreement and a judgment granted by the High Court of American Samoa on January 5, 1999. The parties entered into the Agreement on November 23, 1998.

***National Park Service.*** The NPS has a single non-interest bearing loan with the Wolf Trap Foundation for the Performing Arts with an original loan principal totaling $8.5 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, except for the first three annual payments of $215,000 per year. 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 2004 and 2003, the NPS granted the full $60,000 credit to Wolf Trap. The monies received for repayment of this loan may be retained until expended by the Secretary of Interior in consultation with the Wolf Trap Foundation for the maintenance of structures, facilities, and equipment of the park.

## NOTE 7. INVENTORY AND RELATED PROPERTY, NET

Inventory and Related Property as of September 30, 2004 and 2003 consists of the following:

| *(dollars in thousands)* | FY 2004 | FY 2003 |
|---|---|---|
| Inventory | | |
| Published Maps Held for Current/Future Sale | $ 11,322 | $ 11,915 |
| Gas and Storage Rights, Held for Current/Future Sale | 1,055 | 1,070 |
| Airplane Parts Held for Use | 73 | 477 |
| Aviation Fuel Held for Use | 494 | 46 |
| Operating Materials | | |
| Working Capital Fund: Inventory, Held for Use | 444 | 350 |
| Stockpile Materials | | |
| Recoverable Below-Ground Crude Helium, Held for Sale | 319,821 | 334,376 |
| Total Inventory and Related Property | 333,209 | 348,234 |
| Allowance for Inventory and Related Property | (8,890) | (9,520) |
| Net Inventory and Related Property | $ 324,319 | $ 338,714 |

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

General Property, Plant, and Equipment, consists of that property which is used in operations and, with some exceptions, consumed over time.

Construction in Progress is used for the accumulation of cost of construction or major renovation of fixed assets during the construction period. The assets are transferred out of Construction in Progress when the project is substantially complete. Construction in Progress includes investigations and development which represent funds appropriated by the Congress that have been expended for such activities as general engineering studies and surveys that are directly related to project construction. Investigations and development as of September 30, 2004 and 2003 were $75 million and $70 million, respectively.

Construction in Progress also includes projects in abeyance. In past years, the Interior, through the BOR, began the planning of and construction on various features included in 10 projects located in California, Colorado, Arizona, Washington, North Dakota, and South Dakota, for which activities have been 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 weather and time and to keep the asset ready for completion.

Property, Plant, and Equipment categories, with corresponding accumulated depreciation, as of September 30, 2004 and 2003, are shown in the following tables.

| *(dollars in thousands)* | Gross | Accumulated Depreciation | **FY 2004** Net |
|---|---|---|---|
| Land and Land Improvements | $ 2,035,912 | $ 58,184 | $ 1,977,728 |
| Buildings | 2,685,764 | 1,107,695 | 1,578,069 |
| Structures and Facilities | 19,595,462 | 8,729,097 | 10,866,365 |
| Leasehold Improvements | 34,104 | 3,449 | 30,655 |
| Construction in Progress | | | |
| Construction in Progress - General | 1,332,970 | - | 1,332,970 |
| Construction in Progress in Abeyance | 557,054 | - | 557,054 |
| Equipment, Vehicles, and Aircraft | 1,780,236 | 1,095,542 | 684,694 |
| Assets Under Capital Lease | 28,185 | 2,185 | 26,000 |
| Internal Use Software: | | | |
| In Use | 121,564 | 50,924 | 70,640 |
| In Development | 30,036 | - | 30,036 |
| Total Property, Plant, and Equipment | $ 28,201,287 | $ 11,047,076 | $ 17,154,211 |

| *(dollars in thousands)* | Gross | Accumulated Depreciation | **FY 2003** Net |
|---|---|---|---|
| Land and Land Improvements | $ 2,046,277 | $ 53,522 | $ 1,992,755 |
| Buildings | 2,529,076 | 1,051,546 | 1,477,530 |
| Structures and Facilities | 19,284,074 | 8,579,158 | 10,704,916 |
| Leasehold Improvements | 29,733 | 48 | 29,685 |
| Construction in Progress | | | |
| Construction in Progress - General | 1,344,981 | - | 1,344,981 |
| Construction in Progress in Abeyance | 556,879 | - | 556,879 |
| Equipment, Vehicles, and Aircraft | 1,726,156 | 1,021,360 | 704,796 |
| Assets Under Capital Lease | 31,199 | 755 | 30,444 |
| Internal Use Software: | | | |
| In Use | 90,275 | 38,317 | 51,958 |
| In Development | 61,971 | - | 61,971 |
| Total Property, Plant, and Equipment | $ 27,700,621 | $ 10,744,706 | $ 16,955,915 |

## NOTE 9. OTHER ASSETS, NET

Other Assets were $170.4 million and $201.5 million as of September 30, 2004 and 2003, respectively. Other Assets primarily consists of BOR costs for power rights. Net power rights were $140.6 million and $151.4 million as of September 30, 2004 and 2003, respectively. Power rights were subject to annual amortization amounts of $10.8 million as of September 30, 2004 and 2003.

Included in this category for FY 2003 is Fractional Land Interest Pending Disposition, which contains the cost of fractional interests in Indian land allotments acquired under the Indian Land Consolidation Act of 2000. The Indian Land Consolidation Act of 2000 provides for BIA to purchase fractional shares of Trust property to be held in trust for eventual transfer to tribal entities after revenues produced provide funds to repay Treasury for the purchase. Disposition includes sale at purchase price to tribal members holding interest in tract, transfer to Tribe upon recovery of purchase price from income produced from the interest, or transfer to the Tribe based on a Secretarial finding. Fractional Land Interest Pending Disposition was $23 million on September 30, 2003. In FY 2004, BIA created a reserve for the entire amount of the asset as the recoverability was in question.

## NOTE 10. ASSETS ANALYSIS

Assets of Interior include entity assets (unrestricted and restricted) and non-entity assets. Unrestricted assets are those available for use by Interior. Restricted assets, as defined by Interior, are certain large unavailable receipt funds that are only available for Interior use when appropriated by Congress. Non-entity 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 portion of the Aquatic Resources Trust Fund not designated for other Federal agencies, the Environmental Improvement and Restoration Fund, the Reclamation Fund, and other unavailable receipt funds. See Note 26, Dedicated Collections, for additional information on some of these funds.

Non-entity assets, restricted by nature, consist of MMS's custodial royalty activity, a portion of the Aquatic Resources Trust Fund that is held for others, amounts in deposit, miscellaneous receipts, special receipts, and budget clearing accounts held for others.

The Interior's assets as of September 30, 2004 and 2003, are summarized into the following categories:

| *(dollars in thousands)* | Entity Unrestricted | Entity Restricted | Non Entity Restricted | **FY 2004** |
|---|---|---|---|---|
| **Intragovernmental Assets:** | | | | |
| Fund Balance with Treasury | $ 10,170,437 | $ 20,251,642 | $ 444,065 | $ 30,866,144 |
| Investments, Net | 3,937,294 | 1,642,228 | 607,807 | 6,187,329 |
| Accounts and Interest Receivable, Net | 120,358 | 9,827 | 217,849 | 348,034 |
| Other Assets | | | | |
| Advances and Prepayments | 1,211 | - | - | 1,211 |
| **Total Intragovernmental Assets** | 14,229,300 | 21,903,697 | 1,269,721 | 37,402,718 |
| Cash | 1,081 | - | - | 1,081 |
| Investments, Net | 191,844 | - | - | 191,844 |
| Accounts and Interest Receivable, Net | 157,582 | 3,780 | 1,186,279 | 1,347,641 |
| Loans and Interest Receivable, Net | 170,761 | 35,804 | 20,949 | 227,514 |
| Inventory and Related Property, Net | 324,319 | - | - | 324,319 |
| General Property, Plant, and Equipment, Net | 17,154,211 | - | - | 17,154,211 |
| Other | | | | |
| Advances and Prepayments | 126,579 | - | - | 126,579 |
| Other Assets, Net | 170,371 | - | - | 170,371 |
| Stewardship Assets | | | | |
| **TOTAL ASSETS** | $ 32,526,048 | $ 21,943,281 | $ 2,476,949 | $ 56,946,278 |

| *(dollars in thousands)* | Entity Unrestricted | Entity Restricted | Non Entity Restricted | **FY 2003** |
|---|---|---|---|---|
| **Intragovernmental Assets:** | | | | |
| Fund Balance with Treasury | $ 9,112,736 | $ 19,315,217 | $ 270,255 | $ 28,698,208 |
| Investments, Net | 3,436,549 | 1,600,043 | 573,400 | 5,609,992 |
| Accounts and Interest Receivable, Net | 190,369 | 1,700 | 195,100 | 387,169 |
| Other | | | | |
| Advances and Prepayments | 3,624 | - | - | 3,624 |
| **Total Intragovernmental Assets** | 12,743,278 | 20,916,960 | 1,038,755 | 34,698,993 |
| Cash | 1,094 | - | - | 1,094 |
| Investments, Net | 182,637 | - | - | 182,637 |
| Accounts and Interest Receivable, Net | 183,101 | 2,483 | 1,041,400 | 1,226,984 |
| Loans and Interest Receivable, Net | 173,810 | 37,648 | 22,198 | 233,656 |
| Inventory and Related Property, Net | 338,714 | - | - | 338,714 |
| General Property, Plant, and Equipment, Net | 16,955,915 | - | - | 16,955,915 |
| Other | | | | |
| Advances and Prepayments | 126,866 | - | - | 126,866 |
| Other Assets, Net | 201,544 | - | - | 201,544 |
| Stewardship Assets | | | | |
| **TOTAL ASSETS** | $ 30,906,959 | $ 20,957,091 | $ 2,102,353 | $ 53,966,403 |

## NOTE 11. INTRAGOVERNMENTAL DEBT

Interior's debt to Treasury consists of: (1) the helium production fund; (2) borrowings to finance the credit reform loan programs; and (3) borrowings to finance loans under the Federal Financing Bank.

Intragovernmental debt to Treasury activity as of September 30, 2004 and 2003, is summarized as follows:

| (dollars in thousands) | FY 2003 Beginning Balance | Borrowing / (Repayments) | **FY 2003** Ending Balance | Borrowing / (Repayments) | **FY 2004** Ending Balance |
|---|---|---|---|---|---|
| Helium Fund | $ 1,309,204 | $ (110,000) | $ 1,199,204 | $ (60,000) | $ 1,139,204 |
| Credit Reform Borrowings | 134,332 | 21,311 | 155,643 | 2,391 | 158,034 |
| Federal Financing Bank | 11,426 | (1,821) | 9,605 | (1,964) | 7,641 |
| Total Loans Due to Treasury | $ 1,454,962 | $ (90,510) | $ 1,364,452 | $ (59,573) | $ 1,304,879 |

### 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. However, subsequent changes in the market price of helium and the need of government users for the commodity made the repayment of the capital and subsequent accrued interest impractical. Given the intragovernmental nature of the loan, unless the loan is forgiven, the funds for repayment to Treasury must come from the Treasury, either in the form of appropriations to the helium fund to repay the loan or in the form of appropriations to other government users of helium to pay the higher prices necessary to permit loan repayment.

Net Worth Debt reported in the following table reflects the amount recorded by Treasury for the net worth capital and retained earnings of the Helium Fund. It also includes any monies expended thereafter by Interior from funds provided in the Supplemental Appropriation Act of 1959 for construction of a helium plant at Keyes, Oklahoma. Additional borrowing from Treasury represents funds borrowed for 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 debts described above, at rates determined by the Secretary of the Treasury taking into consideration the current average market yields of outstanding marketable obligations of the United States having maturities comparable to investments authorized. The interest rate was determined at the time of each borrowing. 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 the 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 is planning to repay at least $50 million each year, with exact 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.

Debt as of September 30, 2004 and 2003, is summarized as follows:

| (dollars in thousands) | FY 2004 | FY 2003 |
|---|---|---|
| Principal: | | |
| Net Worth Debt | $ - | $ - |
| Additional Borrowing from Treasury | 251,651 | 251,650 |
| Total Principal | 251,651 | 251,650 |
| Interest: | | |
| Beginning Balance | 947,553 | 1,029,562 |
| Repayments | (60,000) | (82,009) |
| Ending Balance | 887,553 | 947,553 |
| Loan Due to Treasury - Helium Fund | $ 1,139,204 | $ 1,199,203 |

## B. Intragovernmental Debt to Treasury under Credit Reform

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

***Bureau of Indian Affairs.*** The Credit Reform Act authorizes the BIA to borrow from Treasury the amount of a direct loan disbursement, less the subsidy. The Act 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.

Interest is accrued daily on the outstanding principal balance of direct and assigned loans based on 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 and ranges from 4.87 percent to 11.12 percent. These loans have various maturity dates from 2004 to 2028.

***Bureau of Reclamation.*** As discussed in Note 6, Reclamation makes loans that are subject to the provisions of Credit Reform. Under the Credit Reform Act, loans consist of two components - the part borrowed from the Treasury and the appropriated part 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 6.01 percent to 6.88 percent.

***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 5.4 percent. The loan has a final payment date of September 30, 2027.

## C. Intragovernmental Debt to Treasury under Federal Financing Bank

Departmental Offices (Office of Insular Affairs) has borrowed funds from Treasury in accordance with the Federal Financing Bank Act of 1973 for the purpose of operating a direct loan and loan guarantee program. Interest is based on the amortization schedule for the loan with the Federal Financing Bank. Principal and interest payments are due in January and July of each year. Interest is accrued at year end based upon the July to September period. The interest rate charged on each loan ranges from 7.85 percent to 12.7 percent. The loan has a final payment due date of January 2, 2007.

## NOTE 12. ADVANCES AND DEFERRED REVENUE

The majority of the advances and deferred revenue received from the public represents upfront funding received from certain power customers who benefit from current and future power deliveries. The repayments are recognized as revenue incrementally as power benefits are provided.

The majority of the advances and deferred revenue received from Federal agencies represents cash advances to the Interior Franchise Fund (IFF) and the National Business Center (NBC). The IFF and NBC provide shared administrative services and commonly required products to Federal agencies.

Advances and Deferred Revenue as of September 30, 2004 and 2003, are shown below:

| *(dollars in thousands)* | FY 2004 | FY 2003 |
|---|---|---|
| Received from Federal Agencies | $ 1,754,256 | $ 1,236,739 |
| Received from the Public | 125,024 | 137,497 |
| Total Advances and Deferred Revenue | $ 1,879,280 | $ 1,374,236 |

## NOTE 13. FEDERAL EMPLOYEE COMPENSATION ACT LIABILITY DUE TO THE PUBLIC

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

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

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

As of September 30, 2004 and 2003, Interior recorded an estimated, unfunded actuarial liability for the expected future cost for death, disability, and medical claims under FECA of approximately $665 million and $712 million, respectively.

## NOTE 14. ENVIRONMENTAL CLEANUP COSTS AND CONTINGENT LIABILITIES

Interior has responsibility to remediate sites with 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 liabilities where losses are determined to be probable and the amounts can be estimated. Interior has disclosed contingent liabilities where the conditions for liability recognition are not met and the likelihood of unfavorable outcome is more than remote.

The accrued and potential Environmental Cleanup Costs and Contingent Liabilities as of September 30, 2004 and 2003, are summarized in the categories below:

| *(dollars in thousands)* | FY 2004 | FY 2003 |
|---|---|---|
| Environmental Cleanup Cost | $ 101,808 | $ 116,086 |
| Contingent Liabilities | 781,453 | 776,546 |
| Total Environmental and Contingent Liabilities - Accrued | $ 883,261 | $ 892,632 |

| | Additional Potential Liabilities | | | |
|---|---|---|---|---|
| | FY 2004 | | FY 2003 | |
| *(dollars in thousands)* | Lower End of Range | Upper End of Range | Lower End of Range | Upper End of Range |
| Environmental Cleanup Cost | $ 71,286 | $ 378,641 | $ 44,338 | $ 396,529 |
| Contingent Liabilities | 393,138 | 2,452,010 | 443,199 | 1,394,297 |
| Total Environmental and Contingent Liabilities - Potential | $ 464,424 | $ 2,830,651 | $ 487,537 | $ 1,790,826 |

***Environmental Cleanup Costs.*** 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 (CERCLA), the Resource Conservation and Recovery Act (RCRA), Oil Pollution Act (OPA), Clean Water Act (CWA), Clean Air Act (CAA), Safe Drinking Water Act (SDWA), and Asbestos Hazard Emergency Response Act (AHERA). Responsible parties, which may include Federal agencies under certain circumstances, are required to remove releases of hazardous substances at or 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.

Interior has recognized an estimated liability of $102 million and $116 million as of September 30, 2004 and 2003, respectively. This estimate includes the expected future cleanup costs, and for those sites where future liability is unknown, the cost of studies necessary to evaluate response requirements.

Interior's contingent liability for potential environmental remediation of sites that are considered reasonably estimable but do not meet the requirement for accrual, ranges from $71 million to $379 million and $44 million to $396 million as of September 30, 2004 and 2003, respectively. This estimate includes the expected future response costs, and for those sites where future cleanup costs are unknown, the cost of studies necessary to evaluate cleanup 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., non-friable asbestos), are not subject to cleanup under applicable law. Only if they become friable or otherwise released to the environment would they be considered contaminants requiring cleanup or abatement. Under normal circumstances, remediation or abatement is limited to situations such as the remodeling or demolition of a building containing these materials where the materials could be released and cause contamination of the environment. Unless and until the materials become friable or otherwise capable of causing contamination, the costs for monitoring or other management of these materials in an undisturbed or encapsulated state are not to be accrued as environmental cleanup. Any cost for remediation or abatement would only accrue if the material becomes friable or is otherwise released into the environment. Such costs would then be reported in the same manner as any other environmental liability.

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

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

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

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

***Other Contingent Liabilities.*** Numerous lawsuits and claims that have been filed against Interior and its bureaus are awaiting adjudication, and other potential claims may be asserted. For cases in which payment has been deemed probable and for which the amount of potential liability has been estimated, including certain judgments that have been issued against Interior and which have been appealed, $781 million and $777 million has been accrued in the financial statements as of September 30, 2004 and 2003, respectively. These amounts exclude contingent liabilities reported on prior year financial statements regarding cases won on appeal. The majority of cash settlements are expected to be paid out of the Judgment Fund maintained by Treasury rather than operating resources of Interior. In suits brought through the Contract Disputes Act of 1978, the Interior is required to reimburse the Judgment Fund from future agency appropriations.

The largest of the “probable” cases have estimated liability amounts exceeding $50 million. The plaintiffs in one of these cases claim damages exceeding $1 billion for alleged breach of contract under Federal oil and gas leases. In another case, landowner water-users have asserted that the Federal defendants are required to construct facilities to drain lands that they farm. And in another large “probable” case, the court has awarded the plaintiff damages for a physical taking of their coal interests, and the U.S. may owe a significant amount of compound interest, along with attorney fees and costs.

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. Interior’s potential liability for amounts that do not meet the requirements for accrual but are considered reasonably estimable, and where the likelihood of an unfavorable outcome is more than remote, may range from $393 million to $2.5 billion and $443 million to $1.4 billion for FY 2004 and FY 2003, respectively. About $732 million of the $2.5 billion FY

2004 potential liability relates to potential liability beyond accrued amounts in cases with probable likelihood of an unfavorable outcome.

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, including: (1) alleged failure to protect a Tribe's treaty rights; (2) a Tribe's allegation of title to lands as it seeks an injunction to prevent transfer of the lands; (3) claims of differing site conditions and defective specifications in a contract involving directional drilling; (4) claims of a municipal water conservation district regarding repayment obligation for costs of the Central Arizona Project and issues related to project operation; (5) a State's claim for contribution in a suit Tribes brought against the State for wrongfully depriving them of use and possession of Tribal land long ago sold to the State, allegedly without Federal approval; and (6) assertion by farmers of lost crops and reduced yields resulting from a subcontractors' application of allegedly wind-blown herbicide. 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.

***Liabilities Related to Capital Leases.*** Interior has recognized a non-Federal capital lease liability in the amount of $27 million, which is included in Other Liabilities rather than Contingent Liabilities. Of this amount, $26.9 million relates to a NPS 20-year capital lease for space for the Western Archeological and Conservation Center in Tucson, Arizona. NPS assumes an imputed interest rate of 5.07%. Interior's future minimum lease payments and net capital lease liability are shown in the table below.

| | FY 2004 | |
|---|---|---|
| Fiscal Year | Federal | Non-Federal |
| 2005 | $ - | $ 2,027 |
| 2006 | - | 2,023 |
| 2007 | - | 2,019 |
| 2008 | - | 2,102 |
| 2009 | - | 2,172 |
| After 5 years | - | 31,798 |
| Total Future Lease Payments | - | 42,141 |
| Less: Imputed Interest | - | (15,138) |
| Less: Executory Costs | - | - |
| FY 2004 Net Capital Lease Liability | $ - | $ 27,003 |
| FY 2003 Net Capital Lease Liability | $ - | $ 27,351 |

## NOTE 15. 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.

***Intragovernmental.*** Deferred Credits are amounts recorded in deposit and suspense accounts which include permit and civil penalty escrows, bonds, misapplied deposits pending correction, and excess fee payments due to be refunded or remitted to Treasury.

Custodial Liabilities represent amounts owed to royalty recipients, other Federal agencies, and offset custodial assets.

Aquatic Resource Amounts Due to Others are amounts due to the U.S. Coast Guard for boating safety programs and to the U.S. Army Corps of Engineers from coastal wetlands initiatives. The funds are also paid to States to support projects that restore sport fish resources. The amounts as of September 30, 2004 and 2003 are $421 million and $390 million, respectively.
Other Liabilities to Federal Agencies include receipts transferable to Treasury ($26 million and $30.6 million as of September 30, 2004 and 2003, respectively) and other miscellaneous amounts.

***Public.*** Interior anticipates that the liabilities listed below will be funded from future budgetary resources when required. Interior receives budgetary resources for the Federal Employees Compensation Act liability, the Environmental Cleanup Costs liability and Contingent liabilities when they are needed for disbursements. The unfunded Accrued Payroll and Benefits due to the public represents annual leave. Budgetary resources are generally provided for annual leave when it is taken.

Deferred credits represent deposits received from customers, including monies paid to the BOR for construction of facilities, monies paid to Departmental Offices for payroll services, and monies paid to the BLM for the purchase of land. These deposits are classified as a liability until services are rendered or sales are consummated.

Advances and Deferred Revenue involves mostly power customers who benefit from current and future power deliveries.

Other Liabilities to the Public consist of the following:

| *(dollars in thousands)* | | **FY 2004** | **FY 2003** |
|---|---|---|---|
| BIA | Settled legal cases | $ 27,851 | $ 4,481 |
| BLM | Payable due to the Secure Rural Schools Act | 102,387 | 106,492 |
| BOR | Pre-credit reform loans provided to the Public | 115 | 115 |
| FWS | Grant accrual | - | 22 |
| MMS | Payments due to States | 412,881 | 234,416 |
| MMS | Custodial payables to Indian Tribes and Agencies | 24,681 | 35,992 |
| NPS | Miscellaneous receipts fund | - | 18 |
| USGS | Contractor holdbacks | 1,037 | 1,181 |
| Capital leases | | 27,003 | 27,351 |
| Storm Damage | | 48,059 | - |
| Total Other Liabilities to the Public | | $ 644,014 | $ 410,068 |

The Interior's liabilities covered and not covered by budgetary resources as of September 30, 2004 and 2003, are as follows:

| | Covered by Budgetary Resources | | Not Covered by Budgetary Resources | | |
|---|---|---|---|---|---|
| *(dollars in thousands)* | Current | Non-Current | Current | Non-Current | **FY 2004** |
| **Intragovernmental Liabilities:** | | | | | |
| Accounts Payable | $ 76,826 | $ - | $ - | $ - | $ 76,826 |
| Debt | 51,065 | 1,245,989 | 1,501 | 6,324 | 1,304,879 |
| Other | | | | | |
| Accrued Payroll and Benefits | 32,953 | - | 50,562 | 87,577 | 171,092 |
| Advances and Deferred Revenue | 1,754,256 | - | - | - | 1,754,256 |
| Deferred Credits | 2 | - | 1,629 | 1,114 | 2,745 |
| Custodial Liability | - | - | 671,478 | - | 671,478 |
| Aquatic Resource Amounts Due to Others | - | - | - | 420,896 | 420,896 |
| Judgment Fund | - | - | - | 178,878 | 178,878 |
| Other Liabilities | - | - | 77,642 | 80,247 | 157,889 |
| **Total Intragovernmental Liabilities** | 1,915,102 | 1,245,989 | 802,812 | 775,036 | 4,738,939 |
| **Public Liabilities:** | | | | | |
| Accounts Payable | 1,024,845 | - | - | - | 1,024,845 |
| Loan Guarantee Liability | - | 60,081 | - | - | 60,081 |
| United States Park Police Pension Liability | - | - | - | 604,640 | 604,640 |
| Federal Employees Compensation Act Liability | - | - | - | 664,855 | 664,855 |
| Environmental Cleanup Costs | - | 6,007 | - | 95,801 | 101,808 |
| Other | | | | | |
| Accrued Payroll and Benefits | 158,619 | - | 37,743 | 338,915 | 535,277 |
| Advances and Deferred Revenue | 125,024 | - | - | - | 125,024 |
| Deferred Credits | 143,252 | - | 384,236 | 163,297 | 690,785 |
| Contingent Liabilities | - | - | 762 | 780,691 | 781,453 |
| Other Liabilities | - | - | 563,266 | 80,748 | 644,014 |
| Total Public Liabilities | 1,451,740 | 66,088 | 986,007 | 2,728,947 | 5,232,782 |
| **Total Liabilities** | $ 3,366,842 | $ 1,312,077 | $ 1,788,819 | $ 3,503,983 | $ 9,971,721 |

| | Covered by Budgetary Resources | | Not Covered by Budgetary Resources | | |
|---|---|---|---|---|---|
| *(dollars in thousands)* | Current | Non-Current | Current | Non-Current | **FY 2003** |
| **Intragovernmental Liabilities:** | | | | | |
| Accounts Payable | $ 67,838 | $ - | $ - | $ - | $ 67,838 |
| Debt | 102,195 | 1,252,423 | 3,059 | 6,775 | 1,364,452 |
| Other | | | | | |
| Accrued Payroll and Benefits | 51,601 | - | 48,470 | 85,366 | 185,437 |
| Advances and Deferred Revenue | 1,236,739 | - | - | - | 1,236,739 |
| Deferred Credits | 17,283 | - | 1,943 | 100 | 19,326 |
| Custodial Liability | - | - | 763,387 | - | 763,387 |
| Aquatic Resource Amounts Due to Others | - | - | - | 389,762 | 389,762 |
| Judgment Fund | - | - | - | 179,725 | 179,725 |
| Other Liabilities | - | - | 59,922 | 84,039 | 143,961 |
| **Total Intragovernmental Liabilities** | 1,475,656 | 1,252,423 | 876,781 | 745,767 | 4,350,627 |
| **Public Liabilities:** | | | | | |
| Accounts Payable | 965,509 | - | - | - | 965,509 |
| Loan Guarantee Liability | - | 52,185 | - | - | 52,185 |
| Federal Employees Compensation Act Liability | - | - | - | 712,250 | 712,250 |
| Environmental Cleanup Costs | - | 4,507 | - | 111,579 | 116,086 |
| Other | | | | | |
| Accrued Payroll and Benefits | 112,881 | - | 2,720 | 318,624 | 434,225 |
| Advances and Deferred Revenue | 137,497 | - | - | - | 137,497 |
| Deferred Credits | 48,556 | - | 296,391 | 153,598 | 498,545 |
| Contingent Liabilities | - | - | 693 | 775,853 | 776,546 |
| Other Liabilities | 643 | - | 376,951 | 32,474 | 410,068 |
| **Total Public Liabilities** | 1,265,086 | 56,692 | 676,755 | 2,104,378 | 4,102,911 |
| **Total Liabilities** | $ 2,740,742 | $ 1,309,115 | $ 1,553,536 | $ 2,850,145 | $ 8,453,538 |

## NOTE 16. OPERATING LEASES

***Real Property.*** Most of Interior's facilities are rented from the General Services Administration (GSA), which charges rent that is intended to approximate commercial rental rates. The terms of Interior's rental 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 does not execute an agreement with GSA or enters into cancelable agreements, some of which do not have a formal lease 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 leases frequently exceed one year, although a definite lease period is not always specified.

For real and personal property, future operating lease payments are calculated based on the terms of the lease or if the lease is silent, an annual inflationary factor of 1% to 3% for years 2005 through 2009. The inflationay factors are applied against the actual 2004 rental expense.

The aggregate of Interior's future payments due under operating leases are presented in the table below:

*(dollars in thousands)*

| | Real Property | | Personal Property | | |
|---|---|---|---|---|---|
| Fiscal Year | Federal | Non-Federal | Federal | Non-Federal | Total |
| 2005 | $ 291,553 | $ 35,536 | $ 45,982 | $ 4,423 | $ 377,494 |
| 2006 | 280,181 | 32,597 | 47,003 | 4,187 | 363,968 |
| 2007 | 269,730 | 30,595 | 48,052 | 4,035 | 352,412 |
| 2008 | 262,417 | 27,508 | 49,125 | 4,074 | 343,124 |
| 2009 | 241,567 | 26,652 | 48,336 | 4,154 | 320,709 |
| Thereafter | 360,145 | 221,326 | 16,263 | - | 597,734 |
| Total Future Lease Payments | $ 1,705,593 | $ 374,214 | $ 254,761 | $ 20,873 | $ 2,355,441 |

## NOTE 17. NET COST BY RESPONSIBILITY SEGMENT

The tables on the following pages present Interior's earned revenues for sales of goods and services to Federal agencies and to the public, gross costs associated with sales of goods and services to Federal agencies, gross costs associated with providing goods and services to the public (with or without reimbursement), and net cost of operations by program and by responsibility segment.

***Responsibility Segment Presentation.*** The Government Performance Results Act (GPRA) requires that Federal agencies formulate Strategic Plans, identify major strategic goals, and report performance and costs related to these goals. Under GPRA, Strategic Plans are to be revised and updated every 3 years. Accordingly, Interior updated the Strategic Plan in FY 2004 and replaced the five Interior GPRA Goals applicable in FYs 2001 through 2003 with four Interior GPRA Mission Goals. The Mission Goals, which are applicable beginning FY 2004, are: Resource Protection, Resource Use, Recreation, and Serving Communities. In addition, costs are reported for "Reimbursable Activity and Other." These Mission Goals are supported by 17 Department-level end outcome goals identified in the FY 2004 Strategic Plan.

OMB Bulletin No. 01-09 "Form and Content of Agency Financial Statements" requires that the presentation of the Statement of Net Cost align directly with the goals and outcomes identified in the Strategic Plan. Accordingly, Interior presented the earned revenues and gross costs in FY 2004 by the Mission Goals in the FY 2004 Strategic Plan and the earned revenues and gross costs for FY 2003 by the GPRA Goals in the FY 2001 Strategic Plan. As a result, the FY 2004 Consolidated Statement of Net Cost is not comparable to the FY 2003 Consolidated Statement of Net Cost. The most significant change from FY 2003 to FY 2004 is the allocation of revenues and costs related to the FY 2003 "Providing Science for a Changing World" GPRA Goal among the FY 2004 Mission Goals.

***Intragovernmental Costs.*** Cost of services provided to Federal agencies represent the costs incurred to generate the related intragovernmental revenue. Interior estimated intragovernmental costs as intragovernmental revenue plus an allocated portion of the retirement costs paid by OPM on behalf of Interior. Interior does not bill intragovernmental customers for costs paid by OPM.

***Asset Impairment.*** The USGS owns a Landsat 7 Global Survey satellite to monitor changes in the earth's land surface and associated environment. In addition, this satellite was expected to contribute to the development of mapping products sold by USGS. On May 31, 2003, the Landsat 7 suffered a component failure that affected its ability to acquire and distribute data collected. Subsequent tests and a recovery attempt confirmed that only 75% of the satellite functionality can be expected in the future. Based on these results, an analysis of the diminished capacity of the asset and the reduction in the potential marketability of the product sales generated by the asset, Interior estimates that the component failure caused an economic impairment of $81.1 million during FY 2003. This impairment is reported as Costs not Associated with Programs on the FY 2003 Statement of Net Cost.

| (dollars in thousands) | Bureau of Indian Affairs | Bureau of Land Management | Bureau of Reclamation | Departmental Offices and Other |
|---|---|---|---|---|
| **Resource Protection** | | | | |
| Cost - Services Provided to the Public | $ - | 364,777 | 16,228 | 20,190 |
| Revenue Earned from the Public | - | 402,509 | (209) | - |
| Net Cost of Services to the Public | - | (37,732) | 16,437 | 20,190 |
| Cost - Services Provided to Federal Agencies | - | 13,541 | 11,347 | - |
| Revenue Earned from Federal Agencies | - | 13,032 | 11,122 | - |
| Net Cost of Services Provided to Federal Agencies | - | 509 | 225 | - |
| Net Program Costs | - | (37,223) | 16,662 | 20,190 |
| **Resource Use** | | | | |
| Cost - Services Provided to the Public | - | 317,047 | 1,202,553 | 15,446 |
| Revenue Earned from the Public | - | 195,271 | 629,147 | 78 |
| Net Cost of Services to the Public | - | 121,776 | 573,406 | 15,368 |
| Cost - Services Provided to Federal Agencies | - | 1,669 | 138,711 | 2,402 |
| Revenue Earned from Federal Agencies | - | 1,587 | 135,055 | 2,386 |
| Net Cost of Services Provided to Federal Agencies | - | 82 | 3,656 | 16 |
| Net Program Costs | - | 121,858 | 577,062 | 15,384 |
| **Recreation** | | | | |
| Cost - Services Provided to the Public | - | 129,757 | 22,270 | - |
| Revenue Earned from the Public | - | 21,152 | 24,214 | - |
| Net Cost of Services to the Public | - | 108,605 | (1,944) | - |
| Cost - Services Provided to Federal Agencies | - | 2,023 | 270 | - |
| Revenue Earned from Federal Agencies | - | 1,941 | 265 | - |
| Net Cost of Services Provided to Federal Agencies | - | 82 | 5 | - |
| Net Program Costs | - | 108,687 | (1,939) | - |
| **Serving Communities** | | | | |
| Cost - Services Provided to the Public | 2,979,822 | 962,460 | - | 725,215 |
| Revenue Earned from the Public | 118,384 | 92,917 | - | 15,622 |
| Net Cost of Services to the Public | 2,861,438 | 869,543 | - | 709,593 |
| Cost - Services Provided to Federal Agencies | 223,542 | 293,104 | - | 7,037 |
| Revenue Earned from Federal Agencies | 221,869 | 285,828 | - | 6,896 |
| Net Cost of Services Provided to Federal Agencies | 1,673 | 7,276 | - | 141 |
| Net Program Costs | 2,863,111 | 876,819 | - | 709,734 |
| **Reimbursable Activity and Other** | | | | |
| Cost - Services Provided to the Public | - | - | 120,801 | 179,079 |
| Revenue Earned from the Public | - | - | 56,128 | 14,489 |
| Net Cost of Services to the Public | - | - | 64,673 | 164,590 |
| Cost - Services Provided to Federal Agencies | - | - | 373,082 | 966,898 |
| Revenue Earned from Federal Agencies | - | - | 373,082 | 954,056 |
| Net Cost (Revenue) of Services Provided to Federal Agencies | - | - | - | 12,842 |
| Net Program Costs | - | - | 64,673 | 177,432 |
| **Total** | | | | |
| Cost - Services Provided to the Public | 2,979,822 | 1,774,041 | 1,361,852 | 939,930 |
| Revenue Earned from the Public | 118,384 | 711,849 | 709,280 | 30,189 |
| Net Cost of Services to the Public | 2,861,438 | 1,062,192 | 652,572 | 909,741 |
| Cost - Services Provided to Federal Agencies | 223,542 | 310,337 | 523,410 | 976,337 |
| Revenue Earned from Federal Agencies | 221,869 | 302,388 | 519,524 | 963,338 |
| Net Cost (Revenue) of Services Provided to Federal Agencies | 1,673 | 7,949 | 3,886 | 12,999 |
| Net Program Costs | $ 2,863,111 | 1,070,141 | 656,458 | 922,740 |

| Minerals Management Service | National Park Service | Office of Surface Mining | U.S. Fish and Wildlife Service | U.S. Geological Survey | Elimination of Intradepartment Activity | FY 2004 |
|---|---|---|---|---|---|---|
| - | 788,966 | 72,131 | 1,475,445 | 203,333 | - | $ 2,941,070 |
| - | 54,661 | - | 45,715 | 8,458 | - | 511,134 |
| - | 734,305 | 72,131 | 1,429,730 | 194,875 | - | 2,429,936 |
| - | 7,228 | - | 83,305 | 63,602 | (73,430) | 105,593 |
| - | 6,956 | - | 81,226 | 61,222 | (73,430) | 100,128 |
| - | 272 | - | 2,079 | 2,380 | - | 5,465 |
| - | 734,577 | 72,131 | 1,431,809 | 197,255 | - | 2,435,401 |
| 1,624,640 | - | 105,883 | 30,445 | 88,897 | - | 3,384,911 |
| 115,669 | - | 105 | 414 | 641 | - | 941,325 |
| 1,508,971 | - | 105,778 | 30,031 | 88,256 | - | 2,443,586 |
| - | - | 1,154 | 110 | 6,024 | (5,069) | 145,001 |
| - | - | 1,119 | 107 | 5,746 | (5,069) | 140,931 |
| - | - | 35 | 3 | 278 | - | 4,070 |
| 1,508,971 | - | 105,813 | 30,034 | 88,534 | - | 2,447,656 |
| - | 1,523,946 | - | 462,964 | - | - | 2,138,937 |
| - | 184,919 | - | 8,021 | - | - | 238,306 |
| - | 1,339,027 | - | 454,943 | - | - | 1,900,631 |
| - | 13,825 | - | 14,489 | - | (9,072) | 21,535 |
| - | 13,305 | - | 14,208 | - | (9,072) | 20,647 |
| - | 520 | - | 281 | - | - | 888 |
| - | 1,339,547 | - | 455,224 | - | - | 1,901,519 |
| 31,314 | 505,747 | 137,373 | 132,976 | 923,127 | - | 6,398,034 |
| 9,632 | 2,760 | 4 | 674 | 167,610 | - | 407,603 |
| 21,682 | 502,987 | 137,369 | 132,302 | 755,517 | - | 5,990,431 |
| - | 4,635 | 22 | 3,161 | 210,872 | (358,499) | 383,874 |
| - | 4,477 | 22 | 3,072 | 202,602 | (358,499) | 366,267 |
| - | 158 | - | 89 | 8,270 | - | 17,607 |
| 21,682 | 503,145 | 137,369 | 132,391 | 763,787 | - | 6,008,038 |
| 129 | 38,354 | 42,696 | - | - | - | 381,059 |
| 448 | 38,252 | - | - | - | - | 109,317 |
| (319) | 102 | 42,696 | - | - | - | 271,742 |
| 1,365,015 | 40,222 | - | - | - | (852,197) | 1,893,020 |
| 1,383,164 | 40,222 | - | - | - | (852,197) | 1,898,327 |
| (18,149) | - | - | - | - | - | (5,307) |
| (18,468) | 102 | 42,696 | - | - | - | 266,435 |
| 1,656,083 | 2,857,013 | 358,083 | 2,101,830 | 1,215,357 | - | 15,244,011 |
| 125,749 | 280,592 | 109 | 54,824 | 176,709 | - | 2,207,685 |
| 1,530,334 | 2,576,421 | 357,974 | 2,047,006 | 1,038,648 | - | 13,036,326 |
| 1,365,015 | 65,910 | 1,176 | 101,065 | 280,498 | (1,298,267) | 2,549,023 |
| 1,383,164 | 64,960 | 1,141 | 98,613 | 269,570 | (1,298,267) | 2,526,300 |
| (18,149) | 950 | 35 | 2,452 | 10,928 | - | 22,723 |
| 1,512,185 | 2,577,371 | 358,009 | 2,049,458 | 1,049,576 | - | $ 13,059,049 |

| (dollars in thousands) | | Bureau of Indian Affairs | Bureau of Land Management | Bureau of Reclamation | Departmental Offices and Other |
|---|---|---|---|---|---|
| **Protect the Environment and Preserve Our Nation's Natural & Cultural Resources** | | | | | |
| Cost - Services Provided to the Public | $ | 427,653 | 596,896 | 137,318 | 11,385 |
| Revenue Earned from the Public | | 427 | 248,106 | 47,881 | - |
| Net Cost of Services to the Public | | 427,226 | 348,790 | 89,437 | 11,385 |
| Cost - Services Provided to Federal Agencies | | 2,575 | 12,688 | 19,768 | - |
| Revenue Earned from Federal Agencies | | 2,544 | 12,276 | 19,566 | - |
| Net Cost of Services Provided to Federal Agencies | | 31 | 412 | 202 | - |
| Net Program Costs | | 427,257 | 349,202 | 89,639 | 11,385 |
| **Provide Recreation for America** | | | | | |
| Cost - Services Provided to the Public | | - | 98,007 | 33,362 | - |
| Revenue Earned from the Public | | - | 17,581 | 2,876 | - |
| Net Cost of Services to the Public | | - | 80,426 | 30,486 | - |
| Cost - Services Provided to Federal Agencies | | - | 1,735 | 148 | - |
| Revenue Earned from Federal Agencies | | - | 1,667 | 144 | - |
| Net Cost of Services Provided to Federal Agencies | | - | 68 | 4 | - |
| Net Program Costs | | - | 80,494 | 30,490 | - |
| **Manage Natural Resources for a Healthy Environment and a Strong Economy** | | | | | |
| Cost - Services Provided to the Public | | - | 1,258,306 | 1,207,907 | 26,058 |
| Revenue Earned from the Public | | - | 202,498 | 542,036 | - |
| Net Cost of Services to the Public | | - | 1,055,808 | 665,871 | 26,058 |
| Cost - Services Provided to Federal Agencies | | - | 54,258 | 134,251 | 4,197 |
| Revenue Earned from Federal Agencies | | - | 52,965 | 132,456 | 4,183 |
| Net Cost of Services Provided to Federal Agencies | | - | 1,293 | 1,795 | 14 |
| Net Program Costs | | - | 1,057,101 | 667,666 | 26,072 |
| **Provide Science for a Changing World** | | | | | |
| Cost - Services Provided to the Public | | - | 89,675 | - | - |
| Revenue Earned from the Public | | - | 481 | - | - |
| Net Cost of Services to the Public | | - | 89,194 | - | - |
| Cost - Services Provided to Federal Agencies | | - | 14,464 | - | - |
| Revenue Earned from Federal Agencies | | - | 13,894 | - | - |
| Net Cost of Services Provided to Federal Agencies | | - | 570 | - | - |
| Net Program Costs | | - | 89,764 | - | - |
| **Meet Our Trust Responsibilities to Indian Tribes and Our Commitments to Island Communities** | | | | | |
| Cost - Services Provided to the Public | | 1,904,078 | - | - | 516,041 |
| Revenue Earned from the Public | | 105,947 | - | - | 11,745 |
| Net Cost of Services to the Public | | 1,798,131 | - | - | 504,296 |
| Cost - Services Provided to Federal Agencies | | 205,808 | - | - | 5,308 |
| Revenue Earned from Federal Agencies | | 203,312 | - | - | 5,270 |
| Net Cost of Services Provided to Federal Agencies | | 2,496 | - | - | 38 |
| Net Program Costs | | 1,800,627 | - | - | 504,334 |
| **Reimbursable Activity and Other** | | | | | |
| Cost - Services Provided to the Public | | - | 12 | 27,528 | 188,691 |
| Revenue Earned from the Public | | - | - | 28,132 | 10,042 |
| Net Cost of Services to the Public | | - | 12 | (604) | 178,649 |
| Cost - Services Provided to Federal Agencies | | - | - | 336,916 | 632,175 |
| Revenue Earned from Federal Agencies | | - | - | 327,220 | 622,237 |
| Net Cost (Revenue) of Services Provided to Federal Agencies | | - | - | 9,696 | 9,938 |
| Net Program Costs | | - | 12 | 9,092 | 188,587 |
| **Costs Not Associated with Programs** | | | | | |
| Asset Impairment | | - | - | - | - |
| **Total** | | | | | |
| Cost - Services Provided to the Public | | 2,331,731 | 2,042,896 | 1,406,115 | 742,175 |
| Revenue Earned from the Public | | 106,374 | 468,666 | 620,925 | 21,787 |
| Net Cost of Services to the Public | | 2,225,357 | 1,574,230 | 785,190 | 720,388 |
| Cost - Services Provided to Federal Agencies | | 208,383 | 83,145 | 491,083 | 641,680 |
| Revenue Earned from Federal Agencies | | 205,856 | 80,802 | 479,386 | 631,690 |
| Net Cost (Revenue) of Services Provided to Federal Agencies | | 2,527 | 2,343 | 11,697 | 9,990 |
| Costs Not Associated with Programs | | - | - | - | - |
| Net Cost of Operations | $ | 2,227,884 | 1,576,573 | 796,887 | 730,378 |

| Minerals Management Service | National Park Service | Office of Surface Mining | U.S. Fish and Wildlife Service | U.S. Geological Survey | Elimination of Intradepartmental Activity | **FY 2003** |
|---|---|---|---|---|---|---|
| - | 902,592 | 344,731 | 1,886,343 | - | - | $ 4,306,918 |
| - | 114,963 | 204 | 51,016 | - | - | 462,597 |
| - | 787,629 | 344,527 | 1,835,327 | - | - | 3,844,321 |
| - | 34,482 | 1,077 | 110,948 | - | (62,668) | 118,870 |
| - | 33,146 | 1,062 | 108,920 | - | (62,668) | 114,846 |
| - | 1,336 | 15 | 2,028 | - | - | 4,024 |
| - | 788,965 | 344,542 | 1,837,355 | - | - | 3,848,345 |
| | | | | | | |
| - | 1,807,779 | - | 174,339 | - | - | 2,113,487 |
| - | 146,441 | - | 4,377 | - | - | 171,275 |
| - | 1,661,338 | - | 169,962 | - | - | 1,942,212 |
| - | 41,882 | - | 10,350 | - | (22,918) | 31,197 |
| - | 40,862 | - | 9,968 | - | (22,918) | 29,723 |
| - | 1,020 | - | 382 | - | - | 1,474 |
| - | 1,662,358 | - | 170,344 | - | - | 1,943,686 |
| | | | | | | |
| 1,091,720 | - | 48,249 | - | - | - | 3,632,240 |
| 117,750 | - | - | - | - | - | 862,284 |
| 973,970 | - | 48,249 | - | - | - | 2,769,956 |
| - | - | - | - | - | (61,763) | 130,943 |
| - | - | - | - | - | (61,763) | 127,841 |
| - | - | - | - | - | - | 3,102 |
| 973,970 | - | 48,249 | - | - | - | 2,773,058 |
| | | | | | | |
| - | - | - | - | 1,175,013 | - | 1,264,688 |
| - | - | - | - | 166,173 | - | 166,654 |
| - | - | - | - | 1,008,840 | - | 1,098,034 |
| - | - | - | - | 265,378 | (93,334) | 186,508 |
| - | - | - | - | 255,918 | (93,334) | 176,478 |
| - | - | - | - | 9,460 | - | 10,030 |
| - | - | - | - | 1,018,300 | - | 1,108,064 |
| | | | | | | |
| - | - | - | - | - | - | 2,420,119 |
| - | - | - | - | - | - | 117,692 |
| - | - | - | - | - | - | 2,302,427 |
| - | - | - | - | - | (7,091) | 204,025 |
| - | - | - | - | - | (7,091) | 201,491 |
| - | - | - | - | - | - | 2,534 |
| - | - | - | - | - | - | 2,304,961 |
| | | | | | | |
| 99 | - | - | - | - | - | 216,330 |
| 99 | - | - | - | - | - | 38,273 |
| - | - | - | - | - | - | 178,057 |
| 1,909,023 | - | - | - | - | (1,483,164) | 1,394,950 |
| 1,926,534 | - | - | - | - | (1,483,164) | 1,392,827 |
| (17,511) | - | - | - | - | - | 2,123 |
| (17,511) | - | - | - | - | - | 180,180 |
| | | | | | | |
| - | - | - | - | 81,100 | - | 81,100 |
| | | | | | | |
| 1,091,819 | 2,710,371 | 392,980 | 2,060,682 | 1,175,013 | - | 13,953,782 |
| 117,849 | 261,404 | 204 | 55,393 | 166,173 | - | 1,818,775 |
| 973,970 | 2,448,967 | 392,776 | 2,005,289 | 1,008,840 | - | 12,135,007 |
| 1,909,023 | 76,364 | 1,077 | 121,298 | 265,378 | (1,730,938) | 2,066,493 |
| 1,926,534 | 74,008 | 1,062 | 118,888 | 255,918 | (1,730,938) | 2,043,206 |
| (17,511) | 2,356 | 15 | 2,410 | 9,460 | - | 23,287 |
| - | - | - | - | 81,100 | - | 81,100 |
| 956,459 | 2,451,323 | 392,791 | 2,007,699 | 1,099,400 | - | $ 12,239,394 |

## NOTE 18. GROSS COST AND EARNED REVENUES BY BUDGET SUBFUNCTION CLASSIFICATION

The following tables reflect data provided to Treasury by Budget Subfunction (BSF) Classification for inclusion in the Consolidated Financial Statements of the Federal government, based on the guidance and direction from Treasury. These BSF codes are established by OMB and Treasury for government wide reporting purposes and differ from the classifications used for Interior's segment reporting.

Interior's gross cost and earned revenues by Budget Subfunction Classification as of September 30, 2004 and 2003, are presented below:

| *(dollars in thousands)* | Gross Cost | Earned Revenue | **FY 2004** |
|---|---|---|---|
| Natural Resources and Environment | $ 13,935,532 | $ 4,384,917 | $ 9,550,615 |
| Transportation | 263,730 | - | 263,730 |
| Community and Regional Development | 2,711,820 | 332,261 | 2,379,559 |
| Education and Training | 109,599 | 12 | 109,587 |
| General Government | 772,353 | 16,795 | 755,558 |
| Total | $ 17,793,034 | $ 4,733,985 | $ 13,059,049 |

| *(dollars in thousands)* | Gross Cost | Earned Revenue | **FY 2003** |
|---|---|---|---|
| Natural Resources and Environment | $ 12,904,395 | $ 3,536,502 | $ 9,367,893 |
| Transportation | 255,991 | - | 255,991 |
| Community and Regional Development | 2,085,287 | 309,111 | 1,776,176 |
| Education and Training | 107,834 | 266 | 107,568 |
| General Government | 747,868 | 16,102 | 731,766 |
| Total | $ 16,101,375 | $ 3,861,981 | $ 12,239,394 |

The intragovernmental costs and related net costs presented in the schedules below represent transactions with other Federal agencies. These amounts are different than those reported in Note 17, Net Cost by Responsibility Segment and the Statement of Net Cost, which report costs to generate intragovernmental revenues.

| *(dollars in thousands)* | Gross Cost | Earned Revenue | **FY 2004** |
|---|---|---|---|
| Natural Resources and Environment | $ 1,992,693 | $ 2,311,536 | $ (318,843) |
| Transportation | 12,173 | - | 12,173 |
| Community and Regional Development | 251,344 | 214,005 | 37,339 |
| Education and Training | 4,447 | - | 4,447 |
| General Government | 65,220 | 759 | 64,461 |
| Total | $ 2,325,877 | $ 2,526,300 | $ (200,423) |

| *(dollars in thousands)* | Gross Cost | Earned Revenue | **FY 2003** |
|---|---|---|---|
| Natural Resources and Environment | $ 1,947,530 | $ 1,840,211 | $ 107,319 |
| Transportation | 11,201 | - | 11,201 |
| Community and Regional Development | 218,531 | 202,700 | 15,831 |
| Education and Training | 4,910 | - | 4,910 |
| General Government | 56,074 | 295 | 55,779 |
| Total | $ 2,238,246 | $ 2,043,206 | $ 195,040 |

## NOTE 19. 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 No. 4, "Managerial Cost Accounting," 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 Consolidated Statement of Changes in Net Position. Expenses paid by other agencies on behalf of Interior were $519 million and $571 million for the years ended September 30, 2004 and 2003, respectively. Interior also receives donated heritage assets such as stewardship land, cultural landscapes, and library and museum objects. These donations are received from the public or from non-profit conservation organizations and have an estimated value of $163 million and $2.5 million for FY 2004 and FY 2003, respectively.

The costs associated with acquiring, constructing, and renovating heritage assets were $118 million and $80 million for the fiscal years ended September 30, 2004 and 2003, respectively. The costs associated with acquiring and improving stewardship lands were $200 million and $263 million for the fiscal years ended September 30, 2004 and 2003, respectively. The costs associated with acquiring and improving stewardship lands decreased in part due to the decline in the amounts appropriated for land acquisitions over the past several years.

## NOTE 20. CHANGES IN ACCOUNTING PRINCIPLE

Effective October 1, 2003, OMB directed NPS to account for the liability of the USPP Pension Plan. This resulted in a change of accounting principle and the recognition of the USPP Pension Plan liability for future benefits. A liability was not previously recognized because NPS does not administer the pension plan. As a result of the change in accounting principle, an adjustment of $649 million was recorded to establish the liability. This adjusting entry also decreased the beginning balance of the Cumulative Results of Operations of the Net Position.

## NOTE 21. ROYALTIES RETAINED

Royalties Retained include minerals receipts transferred to the Interior totaling approximately $3,491 and $2,583 million for the fiscal years ended September 30, 2004 and 2003, respectively. These amounts include transfers to the Land and Water Conservation Fund and to MMS for distribution to States, and to offset costs incurred by MMS related to royalty collections, and to the Reclamation Fund. These amounts are presented on the Consolidated Statement of Changes in Net Position in accordance with Federal accounting standards.

During FY 2004, Interior made payments to States for the amount of $1,168 million, which are included in the "Resource Use" goal of the Consolidated Statement of Net Cost. In FY 2003, payments to States totaled $953 million, which are included in the "Manage Natural Resources for a Healthy Environment and a Strong Economy " goal.

## NOTE 22. STRATEGIC PETROLEUM RESERVE

Interior received approximately 38.4 and 38.2 million barrels of petroleum as in-kind mineral lease revenues for the fiscal years ended September 30, 2004 and 2003, respectively. Interior transferred this petroleum to the DOE to increase the strategic petroleum reserve. The value of the petroleum received and transferred was $1,191 million and $1,044 million for the fiscal years ended September 30, 2004 and 2003, respectively.

## NOTE 23. STATEMENT OF BUDGETARY RESOURCES

The Combined 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 generally accepted accounting principles for the Federal government. The total Budgetary Resources of $25,109 million and $23,561 million for FYs 2004 and 2003, respectively, includes new budget authority, unobligated balances at the beginning of the year and transferred in/out during the year, spending authority from offsetting collections, recoveries of prior year obligations and any adjustment to these resources. Interior's unobligated balance available at September 30, 2004 and 2003, was $5,189 million and $4,846 million, respectively.

***Apportionment Categories of Obligations Incurred.*** Interior's obligations incurred during FY 2004 and FY 2003 by apportionment category are shown in the following table:

*(dollars in thousands)*

| | Apportioned | | Not Subject to | |
|---|---|---|---|---|
| **FY 2004** | Category A | Category B | Apportionment | Total |
| Obligations Incurred: | | | | |
| Direct | $ - | $ 14,614,681 | $ 72,039 | $ 14,686,720 |
| Reimbursable | - | 5,136,048 | - | 5,136,048 |
| Total Obligations Incurred | $ - | $ 19,750,729 | $ 72,039 | $ 19,822,768 |

| | Apportioned | | Not Subject to | |
|---|---|---|---|---|
| **FY 2003** | Category A | Category B | Apportionment | Total |
| Obligations Incurred: | | | | |
| Direct | $ - | $ 13,979,361 | $ 73,718 | $ 14,053,079 |
| Reimbursable | - | 4,534,566 | - | 4,534,566 |
| Total Obligations Incurred | $ - | $ 18,513,927 | $ 73,718 | $ 18,587,645 |

Reclamation Trust Funds and Colorado River Dam Fund - Boulder Canyon Project are the only funds classified as not subject to apportionment.

***Repayment Requirements, Financing Sources for Repayment, and other Terms of Borrowing Authority Used.*** BOR's borrowing authority is provided under the Credit Reform Act of 1990 (see Note 6, Loans and Interest Receivable, Net for additional information on Credit Reform loans). 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 these loans 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.

BIA receives borrowing authority from Treasury for its loan programs in accordance with the Federal 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 reestimates, or the interest on prior Treasury borrowings. The balance in this account as of September 30, 2004 and 2003, was $6.7 million and $2.2 million, respectively.

BIA'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, 2004 and 2003, were $22.9 million.

In 2001, the Bureau of the Public Debt extended a loan to the Departmental Offices for the purpose of operating a direct loan to the American Samoa Government. 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 refer to the appropriations that come from permanent public laws, which authorize Interior to retain certain receipts, rather than the annual appropriations process and the amount appropriated depends upon the amount of the receipts rather than a specific amount. All Interior bureaus use one or more permanent no-year appropriations to finance operating costs and the purchase of property, plant, and equipment.

Interior has approximately 70 permanent indefinite appropriations, which are primarily for special programs and projects. The more significant appropriations for each bureau are as follows:

- BIA has several permanent indefinite appropriations, which are primarily for special projects and loan programs, such as Claims and Treaty Obligations, Indian Loan Guaranty Financing and Insurance Fund Liquidating Account, Revolving Fund for Loans Liquidating Account, Operation and Maintenance of Quarters, Indian Irrigation Systems, Indian Power Systems, Alaska Resupply Program, and Indian Direct Loan Program Account.

- BLM has 23 permanent indefinite appropriations, which are primarily used for special programs and projects. Some examples include the Southern Nevada Public Land Management Act, Federal Land Transaction Facilitation Act, Recreation Fee Demonstration Program, and Timber Pipeline Restoration Fund.

- BOR has 2 major permanent indefinite appropriations. The Colorado River Dam Fund - Boulder Canyon Project is funded by various operating revenues of the Hoover Dam, mainly from the sale of power generated at the dam. The Reclamation Trust Funds include amounts received from public benefactors that are used to finance restoration and other activities.

- FWS has 12 permanent indefinite appropriations which are primarily utilized to administer endangered species and wildlife and sport fish restoration grants to States and other non-Federal entities, and to fund land acquisition for the National Wildlife Refuge System.

- MMS permanent indefinite appropriations include minerals revenue with the States resulting from the leasing of mineral leases within their borders, Forest Fund Payments to a State based on National Forest acreage within that State, and flood control payments to States to be expended as the State legislature may prescribe for the benefit of the public schools and roads in the county government.

- NPS has 12 permanent indefinite appropriations. The majority of funding is from the Fee Demonstration Program, but funding sources also include the Park Concessions Franchise Fees, the National Park Passport Program, the Operation and Maintenance of Quarters, Transportation System Fund, Glacier Bay National Park Resource Protection, Educational Expenses, Children of Employees, Yellowstone National Park, Delaware Water Gap, National Maritime Heritage Grants, and the USPP Pension.

- OSM appropriates a portion of the Abandoned Mine Land Fund in an amount equal to the annual transfer to the United Mine Workers Combined Benefit Fund. This appropriated transfer can be classified as a permanent indefinite appropriation, i.e., the budget authority is a permanent authorization in the Surface Mining Control and Reclamation Act and is of an indefinite amount determined on an annual basis to comply with the provisions of the law.

- USGS has 3 permanent indefinite appropriations. The majority of funding is from the Surveys, Investigations, and Research appropriation used to conduct operations in topography, geology, hydrology, biology, and mineral and water resources.

These funds do not require annual appropriation action by Congress as they are subject to the authorities of the permanent law.

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

***Legal Arrangements Affecting Use of Unobligated Balances.*** Interior's unobligated unavailable balances for FYs 2004 and 2003 are $97.3 million and $126.5 million, respectively, and consist of:

| *(dollars in thousands)* | FY 2004 | FY 2003 |
|---|---|---|
| Unapportioned amounts available for future apportionments | $ 6,356 | $ 5,839 |
| Expired Authority | 90,923 | 119,142 |
| Total Budgetary Accounts | 97,279 | 124,981 |
| Non-Budgetary Credit Program Financing Accounts | - | 1,518 |
| Unobligated Balance Unavailable | $ 97,279 | $ 126,499 |

Unobligated balances, whose period of availability has expired are not available to fund new obligations but are available to pay for adjustments to obligations incurred prior to expiration. For a fixed appropriation account, the balance can be carried forward for 5 fiscal years after the period of availability ends. At the end of the fifth fiscal year, the account is closed and any remaining balance is canceled. For a no-year account, the unobligated balance is carried forward indefinitely until: (1) specifically rescinded by law; or (2) the head of the agency concerned or the President determines that the purposes for which the appropriation was made have been carried out and disbursements have not been made against the appropriation for 2 consecutive years.

The appropriation law, Public Law 108-7, is the major source of funding for the BLM's operating programs and directs that a definite sum of the BLM's wildland firefighting authority be applied to the construction of fire facilities. These authorizations also direct how BLM must treat other assets it may acquire as a result of executing its operating programs. Also, BIA receives contract authority from DOT's Highway Trust Fund for the maintenance and construction of roads and bridges on BIA and Trust property.

All appropriation language contains specific and/or general authorizations. These authorizations may be defined as legislative parameters that frame the funding and Federal agency policy for executing programs. These authorizations also direct how Interior must treat other assets it may acquire as a result of executing operating programs. Since both specific and general authorizations are integral components of all legislation, Interior does not view them as restrictions or legal encumbrances on available funding.

***Explanation of Differences between the Combined Statement of Budgetary Resources (SBR) and the Budget of the United States Government.*** The Combined 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 2003 amounts was released on February 3, 2004, and the President's Budget with the FY 2004 amounts is estimated to be released in February 2005, and both can be located at the OMB Web site (http://www.whitehouse.gov/omb). As such, the actual amounts for FY 2004 in the President's Budget have not been published at the time these financial statements were prepared.

Budgetary resources and the status of those resources presented in the Combined SBR for the period ended September 30, 2003, differ from the amounts presented as 2003 Actuals in the President's FY 2005 Budget. A portion of the differences are due to expired accounts being included in the Statement of Budgetary Resources, but not in the President's Budget. Additionally, certain specific differences exist as presented on the table following A - E explanations.

***A. Departmental Offices' Tribal Trust and Special Funds.*** Differences exist between the Departmental Office SBR and actual amounts in the President's Budget as a result of the treatment of pass through appropriations and payments to Tribal trust fund accounts. These differences impact Appropriations Received, Obligations Incurred, and Disbursements lines on the SBR. In addition, amounts related to the Utah Reclamation Mitigation and Conservation (CUPCA) Commission fund are treated as available in the FY 2003 SBR and unavailable in the President's Budget. This difference impacted Appropriations Received and Unobligated Balances. [Budget Accounts 5265, 8030, and 5174]

***B. National Park Service.*** (1) The Concession Improvement account is reported in the President's Budget and is not reported on the Combined SBR due to differing interpretations as to the extent of NPS's jurisdiction over these funds, and the related receipts and expenditures. It is the opinion of the Solicitor of the Interior that the funds contained in Concession Improvement accounts are owned by the concessionaire and are not receipts of the United States [Budget Account 9928]; and (2) The Land Acquisition and State Assistance Payments account includes $30 million of Contract Authority and Permanently Not Available. This amount of contract authority is included in the annual Appropriation Act; however, it is always rescinded in the same Act before it is passed. Accordingly, it was not appropriated to NPS or apportioned by NPS. It will, however, show in the President's Budget because it is a part of the appropriation Act itself. [Budget Account 5035]

***C. Bureau of Indian Affairs.*** Advances from the Department of Education of $133.2 million are reported as Unobligated Balances at the Beginning of the Fiscal Year on the Combined SBR. This amount is not included on that line on the President's Budget due to differences in the treatment of deposit fund activity.

***D. Fish and Wildlife Service.*** The budget accounts for Private Stewardship Grants and the Landowner Incentive Program include a total of $50 million as temporarily not available. These amounts are presented by FWS as permanently not available. [Budget Accounts 5495 and 5496]

Differences are presented and labeled on the following table:

| (dollars in millions) | Amount per Statement of Budgetary Resources | Amount per President's Budget | Difference | |
|---|---|---|---|---|
| **Budgetary Resources:** | | | | |
| Budget Authority: | | | | |
| Appropriations Received | $ 14,004 | $ 14,241 | $ (237) | A, B |
| Contract Authority | - | 30 | (30) | B |
| Net Transfers, Current Year Authority | (70) | (106) | 36 | |
| Unobligated Balance: | | | | |
| Beginning of Fiscal Year | 4,534 | 4,438 | 96 | A, C |
| Net Transfers, Unobligated Balance, Actual | (30) | (1) | (29) | |
| Spending Authority From Offsetting Collections: | 5,004 | 5,039 | (35) | |
| Recoveries of Prior Year Obligations | 305 | 262 | 43 | |
| Temporarily Not Available Pursuant to Public Law | - | (105) | 105 | B, D |
| Permanently Not Available | (205) | (150) | (55) | D |
| **Status of Budgetary Resources:** | | | | |
| Obligations Incurred: | 18,588 | 18,829 | (241) | A |
| Unobligated Balance: | 4,846 | 4,907 | (61) | B |
| **Relationship of Obligations to Outlays:** | | | | |
| Obligated Balance, Net, Beginning of Fiscal Year | 4,965 | 4,905 | 60 | |
| Obligated Balance, Net, End of Fiscal Year: | (5,749) | 5,616 | (133) | C |
| Less: Spending Authority Adjustments | 2 | - | 2 | |
| Outlays: | | | | |
| Disbursements | 17,805 | 17,973 | (168) | A, B, C |
| Collections | (5,311) | (5,201) | (110) | C |

## NOTE 24. CONSOLIDATED STATEMENT OF FINANCING ALLOCATION TRANSFERS

Interior provides budget resources to and receives budget resources from other Federal entities in the form of “allocation transfer accounts.” The activity in these allocation transfer accounts is reported in the Consolidated Balance Sheet, Consolidated Statement of Net Cost, and Consolidated Statement of Changes in Net Position of the recipient agency. However, the budgetary activity for these allocation transfer accounts is reported by the providing agency on its Combined Statement of Budgetary Resources. This treatment creates a reconciling item between the proprietary statements (the Consolidated Balance Sheet, Consolidated Statement of Net Cost, and Consolidated Statement of Changes in Net Position) and the Combined Statement of Budgetary Resources. The adjustment shown in the Consolidated Statement of Financing for this line represents this reconciliation amount.

The major Interior allocation transfers made internally include those from the Wildland Fire Management Account, the Central Hazardous Material Fund, the Office of Special Trust Funds, the Natural Resources Damage Assessment and Restoration Fund, and BIA's Construction Fund.

The major Interior allocation transfers made outside Interior include those from the Department of Transportation, U.S. Corps of Engineers, Department of Labor, and Department of Health and Human Services.

The transfers made outside the Interior result in reconciling differences for the Consolidated Statement of Financing. The following table summarizes the allocation transfers and the related amounts that are reported as reconciling differences in the Consolidated Statement of Financing:

| Trading Partner | Nature and Purpose of Transfer | FY 2004 | FY 2003 |
|---|---|---|---|
| **Transfer of Appropriations where Interior is the recipient (i.e., Child) and therefore reports the proprietary activity, but not the budgetary activity:** | | Reconciling Differences (dollars in thousands) | |
| Department of Transporation - Highway Trust Fund | Maintenance of Highways on Interior Land | $ 269,237 | $ 268,292 |
| Department of Labor - Job Corps | Employee and Training services | 69,414 | 70,002 |
| Health and Human Services | Child Development and Employment Programs | 40,173 | 37,578 |
| Other | | 14,827 | 7,387 |
| **Total resources transferred in** | | 393,650 | 383,259 |
| **Transfer of Appropriations where Interior is the transferor (i.e., Parent) and therefore reports the budgetary activity, but not the proprietary activity:** | | | |
| Department of Transportation | Highway Construction | 339 | 1,265 |
| U.S. Corps of Engineers | Land Acquisition and State Assistance | 34,147 | 6,409 |
| Department of Agriculture | To fund Soil Conservation Programs | 228 | 254 |
| Other | | - | 7,394 |
| **Total resources transferred out** | | 34,714 | 15,321 |
| **Net Reconciling Difference of appropriations transferred to or from other Federal agencies** | | $ 358,936 | $ 367,938 |

***Change in Unfunded Liabilities.*** The Consolidated Statement of Financing includes a section depicting the change in certain unfunded liabilities. The amounts in this section do not necessarily correlate to the change in liabilities not covered by budgetary resources as shown in Note 15, Liabilities Analysis. Differences are primarily the result of certain Treasury requirements related to changes in various liabilities which are reported on the Consolidated Statement of Financing. These requirements are dependent upon whether the change results in an increase or decrease to the liability account. Additionally, some liability accounts not covered by budgetary resources are not included in the Consolidated Statement of Financing.

## NOTE 25. INDIAN TRUST FUNDS

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

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

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

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

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

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

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

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

***Financial Statements and Basis of Accounting.*** 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, 2004 and 2003. The independent auditors indicated that the financial statements were prepared on the cash or modified cash basis of accounting, which is a comprehensive basis of accounting other than GAAP. In addition, the independent auditors' reports were qualified as a result of the following:

- It was not practicable for the independent auditors to extend audit procedures sufficiently to satisfy themselves as to the fairness of the trust fund balances and changes in trust fund balances reflected in the financial statements due to inadequacies in certain Interior trust-related systems and processes, which provide required trust financial management information to OST.

- Regarding the Tribal and Other Trust Funds, certain parties for whom OST holds monetary assets in trust do not agree with the trust fund balances reflected by OST, and certain of these parties have filed, or are expected to file, claims against the U.S. government.
- Regarding the IIM Trust Funds, certain parties for whom OST holds monetary assets in trust do not agree with the trust fund balances reflected by OST, and certain of these parties have filed a class action lawsuit for an accounting of the individuals' trust funds, which may or may not lead to claims against the U.S. government.

For more information on contingencies, see Note 14.

Tribal and Other Trust Funds
Statement of Assets and Trust Fund Balances - Cash Basis
as of September 30, 2004 and 2003
*(dollars in thousands)*

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

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

Tribal and Other Trust Funds
Statement of Changes in Trust Fund Balances - Cash Basis
For the Years Ended September 30, 2004 and 2003
*(dollars in thousands)*

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

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

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

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

Individual Indian Monies Trust Funds
Statement of Changes in Trust Fund Balances - Modified Cash Basis
For the Years Ended September 30, 2004 and 2003
*(dollars in thousands)*

| | FY 2004 | FY 2003 |
|---|---|---|
| Receipts | $ 183,776 | $ 170,996 |
| Interest Earned on Investment Funds | 20,216 | 22,817 |
| Gain on Disposition of Investments, Net | 590 | 436 |
| Disbursements To and On Behalf of Account Holders | (220,953) | (192,526) |
| Increase (Decrease) in Trust Fund Balances, Net | (16,371) | 1,723 |
| Trust Fund Balances - Beginning of Year | 413,068 | 411,345 |
| Trust Fund Balances - End of Year | $ 396,697 | $ 413,068 |

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

## NOTE 26. DEDICATED COLLECTIONS

Dedicated collections as of September 30, 2004 and 2003 consist of the following:

***Conservation Funds.*** Conservation Funds consist of the Land and Water Conservation Fund and the Historic Preservation Fund.

The Land and Water Conservation Fund (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. The fund is accounted for by the information provided by MMS and is reported as a restricted asset.

Annually, $904 million for the LWCF and $150 million for the Historic Preservation Fund (HPF) under Public Law 89-665, are transferred from MMS to the NPS, the majority of which are from royalties from Outer Continental Shelf oil deposits. Each year, amounts from the LWCF and the HPF are warranted to some of the bureaus within Interior and the rest to the Department of Agriculture's Forest Service.

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 their historic preservation activities nationwide. HPF grants serve as a catalyst and "seed money" to preserve and protect our Nation's irreplaceable heritage for current and future generations.

***Abandoned Mine Land Fund.*** Public Law 95-87 established the OSM, a component of Interior, and authorized the collection of a fee from Coal Mine Operators. Fees of 35 cents per ton of surface mined coal, 15 cents per ton of coal mined underground, and 10 cents per ton of lignite are collected from active mining operations. The fees are deposited in the Abandoned Mine Land (AML) Reclamation Fund, which is used to fund abandoned mine land reclamation projects. The Surface Mining Law specifies that 50 percent of the reclamation fees collected in each State with an approved reclamation program, or within Indian lands where the Tribe has an approved reclamation program, are to be allocated to that State or Tribe. This 50 percent is designated as the State or tribal share of the fund. The remaining 50 percent (the Federal share) is used by Interior to complete high priority and emergency projects, to fund the Small Operator Assistance Program, to fund additional projects directly through State reclamation programs, and to pay collection, audit, and administration costs.

Expenditures from the AML Fund may only be made as a consequence of appropriations or other Laws. AML reclamation is accomplished primarily by States and Tribes and is funded by grants. Grant funding levels are determined by Interior's annual appropriation and consider the individual State or Tribe's needs, the State and Federal shares, as well as emergency and special funding requirements.

Under authority of Public Law 101-509, Interior began investing AML funds in U.S. Treasury Securities. Beginning in 1996, under a requirement of the Energy Policy Act of 1992 (Public Law 102-486), Interior began an annual transfer from the investment interest earned to the United Mine Workers of America Combined Benefit Fund (UMWA CBF). This transfer is used to defray anticipated health care costs for eligible union coal mine workers who retired on or before July 20, 1992, and their dependents.

Payments to the UMWA CBF are made in advance based on the number of beneficiaries and an estimate of their benefit costs. Under current practice, the estimate is then adjusted to actual costs as health benefits are paid in subsequent years.

AML program expenses approximate the net cost for the Environmental Restoration GPRA program activity with the addition (+/-) of a pro rata share of allocated costs. The Environmental Restoration GPRA is included in Strategic Goal 1: Resource Protection -- Protect the Nation's Natural, Cultural, and Heritage Resources.

***Environmental Improvement and Restoration Fund.*** The Environmental Improvement and Restoration Fund (EIRF) was a distribution of the Alaska Escrow Fund in which half of the principal was invested in Treasury Securities. The purpose of EIRF is to invest the monies and earn interest until there is further congressional action. Congress has permanently appropriated 20% of the prior fiscal year interest earned by the EIRF to the Department of Commerce each year for marine research activities. The remaining 80% remains in the fund to earn interest and may be appropriated by Congress to certain other agencies, as provided by the law. No assets are available to Interior unless appropriated by Congress.

***Aquatic Resources Trust Fund and Sport Fish Restoration.*** The Aquatic Resources Trust Fund (ARTF) receives excise tax revenues from the sale of fishing tackle and equipment, certain motorboat and small engine gasoline, and interest earned on invested trust funds. These funds are subsequently distributed to the FWS Sport Fish Restoration Account (SFRA), the U.S. Coast Guard Boat Safety Program, and the Army Corps of Engineers Coastal Wetlands Program. Although the ARTF is managed and maintained by Treasury (per Title 26 of the U.S. Code, Section 9602), Interior reports the ARTF as they have the preponderance of the fund activity (the SFRA received approximately 79% of the ARTF transfers for both FY 2004 and FY 2003). The SFRA makes grants available to States to restore, conserve, manage, protect, and enhance sport fish resources and coastal wetlands, and also to enhance public use and benefits from sport fish resources.

***Wildlife Restoration.*** The Federal Aid in Wildlife Restoration Program is a key component of the Nation's cooperative conservation work for wildlife and their habitats. It implements the Interior's Resource Protection Goal of sustaining biological communities on Interior managed and influenced lands and waters by providing financial and technical assistance to States to restore, conserve, manage, and enhance wild bird and mammal populations; acquiring and managing their habitats; providing public use and benefit from wildlife resources; educating hunters; and developing shooting ranges.

The Federal Aid in Wildlife Restoration Act of 1937, also called the Pittman-Robertson Wildlife Restoration Act, as amended (16 U.S.C.669-669k) authorizes the Secretary of the Interior to implement a multi-State conservation grant program and a firearm and bow hunter education and safety program that provides grants to States.

The Wildlife Restoration program is funded by an 11% excise tax on sporting firearms and ammunition, a 12.4% tax on archery equipment, and a 10% tax on handguns. These tax receipts are appropriated to FWS through a permanent-indefinite appropriation for use in the fiscal year following collection. The total of receipts apportioned directly contributes to the Interior's Resource Protection Goal of sustaining biological communities on Interior Managed and Influenced Lands and Waters.

The Wildlife Restoration program operates on a cost reimbursement basis. Each State pays the costs of approved projects up front and applies intermittently for reimbursement of up to 75 percent of the costs incurred. The State must provide at least 25 percent of the project costs from a non-Federal source. However, Puerto Rico, the U.S. Virgin Islands, Guam, the Northern Mariana Islands, and American Samoa are not required to provide matching shares. The source of funds for the Federal Aid in Wildlife Restoration program is public, and the source of funds for the Wildlife and Sport Fish Restoration program is government.

***Office of the Special Trustee for American Indians.*** Established by the American Indian Trust Fund Management Reform Act of 1994 (Public Law 103-412), the Office of the Special Trustee for American Indians (OST) was created to improve the accountability and management of Indian funds held in trust by the Federal government. OST develops and implements the policies and procedures governing the management of Indian trust funds. OST manages and is accountable for Tribal Trust and Special Funds that are reported in these financial statements. Financing sources for these funds are from judgment/award monies from Federal sources and other lease and rental income from the public.

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

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

***Southern Nevada Public Land Management Act.*** The Southern Nevada Public Land Management Act (SNPLMA), 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 invest 85 percent of the sales in interest-bearing Treasury securities, while 10 percent of the proceeds go to the Southern Nevada Water Authority and 5 percent goes to the State of Nevada's Education Fund. The revenues generated from the land sales and investments enable 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.

***Other Dedicated Collections.*** Other dedicated collections consist of the following:

***Donations.*** The purpose of this fund is to record cash donations provided to the NPS. The fund is accounted for and reported as donated revenue financing source. The source of revenue for this fund is from public donations and is considered an inflow of resources to the government. Under 16 U.S.C. 6, NPS has the authority to use funds as collected.

***Priority Land Acquisition.*** Funds under the Priority Land Acquisitions, Land Exchanges and Maintenance account are from the Land and Water Conservation Fund for priority land acquisitions and exchanges. Interior accounts for and reports on these funds through the Title V Priority Land Acquisitions, Land Exchanges, and Maintenance Fund and the Title VI Priority Land Acquisitions and Land Exchanges Fund. These funds are available for the high priority land acquisitions and exchanges and for reducing maintenance backlogs.

***Reclamation Trust Funds.*** The Reclamation Trust Funds receive monies from the State of California per Public Law 102-575, Title XXXIV, Central Valley Project Improvement Act, to accomplish the following purposes: (a) to protect, restore, and enhance fish, wildlife, and associated habitats in the Central Valley and Trinity River basins of California; (b) to address impacts of the Central Valley Project on fish, wildlife, and associated habitats; (c) to improve the operational flexibility of the Central Valley Project; (d) to increase water-related benefits provided by the Central Valley Project to the State of California through expanded use of voluntary water transfers and improved water conservation; (e) to contribute to the State of California's interim and long-term efforts to protect the San Francisco Bay/Sacramento-San Joaquin Delta Estuary; and (f) to achieve a reasonable balance among competing demands for use of the Central Valley Project water, including the requirements of fish and wildlife, agricultural, municipal and industrial, and power contractors.

Reclamation has established unique cost centers within the accounting system for each of the specified activities under the Act. Once the activity is completed, a report is prepared for the State of California showing the monies collected and the costs incurred.

***Everglades.*** Interior also administers a small portion of the funds available for the Everglades restoration effort. Section 390 of the Federal Agriculture Improvement and Reform Act (Farm Bill) of 1996 (Public Law 104-217), authorized the establishment of an "Everglades Restoration Account" consisting of funds deposited to a special Treasury account derived from the sale of surplus Federal property located in the State of Florida. Although the authority to receive these funds was abolished by the Water Resources Development Act (Public Law 106-541) passed on December 11, 2000, funds deposited to the account prior to that date remain available to support the restoration effort. Interior accounts for and reports on this fund through the Everglades Restoration Account Fund. These funds are to be utilized for "the acquisition of real property … within the Everglades ecosystem; and … the funding of resource protection and resource maintenance activities in the Everglades ecosystem." This legislation also provided $200 million in appropriated funds that have been used primarily for land acquisitions and exchanges necessary to further the restoration effort. These funds have been fully obligated.

***Construction Trust Fund.*** The purpose of this fund is to record NPS trust fund construction. The fund is accounted for and reported as contract authority-allocation transfer account where NPS is the "child". The source of financing for this fund is from the Department of Transportation – Federal Highways as a result of intragovernmental flows. Under Public Law 106-113, NPS has the authority to obligate funds in advance of funds transfer.

***National Indian Gaming Commission.*** The National Indian Gaming Commission (NIGC) was created in 1988 when Congress enacted the Indian Gaming Regulatory Act. Interior accounts for and reports on this fund through the National Indian Gaming Commission fund. The primary mission of the NIGC is to regulate gaming activities on Indian lands for the purposes of shielding Indian tribes from organized crime and other corrupting influences; ensuring that Indian tribes are the primary beneficiaries of gaming revenues; and assuring that gaming is conducted fairly and honestly by both operators and players. To effect these goals, NIGC is authorized to conduct investigations; undertake enforcement actions, including the assessment of fines and the issuance of closure orders; conduct background investigations; conduct audits; review and approve tribal gaming ordinances and management contracts; and issue such regulations as necessary to meet its responsibilities. The NIGC is funded by an assessment of less than one-tenth of one percent of the gross revenues of Indian gaming operations.

***Birthplace of Abraham Lincoln.*** The purpose of this fund is to maintain the boyhood home of Abraham Lincoln. The fund is accounted for and reported as interest income. The source of revenue for this fund is from interest income on a U.S. Treasury Security and is a result of intragovernmental flows. Under 16 U.S.C. 212, NPS has the authority to use funds as earned and collected.

FY 2004 dedicated collections are shown in the following table:

| (dollars in thousands) | Land and Water Conservation Fund | Historic Preservation Fund | Abandoned Mine Land Fund | Environmental Improvement and Restoration Fund | Southern Nevada Public Land Management Act | Aquatic Resources Trust Fund |
|---|---|---|---|---|---|---|
| **ASSETS** | | | | | | |
| Fund Balance with Treasury | $ 13,859,218 | $ 2,453,491 | $ 583 | $ 2 | $ 841 | $ 24,941 |
| Investments, Net | - | - | 2,051,301 | 1,001,652 | 793,693 | 1,451,344 |
| Accounts Receivable, Net | - | - | 6,578 | - | - | 8,127 |
| General Property, Plant, and Equipment, Net | - | - | - | - | 675 | - |
| Other Assets | - | - | 21 | - | - | - |
| **TOTAL ASSETS** | $ 13,859,218 | $ 2,453,491 | $ 2,058,483 | $ 1,001,654 | $ 795,209 | $ 1,484,412 |
| **LIABILITIES** | | | | | | |
| Aquatic Resource Amounts Due to FWS | $ - | $ - | $ - | $ - | $ - | $ 920,993 |
| Aquatic Resource Amounts Due to Coast Guard | - | - | - | - | - | - |
| Aquatic Resource Amounts Due to Corps of Engineers | - | - | - | - | - | - |
| Accounts Payable | - | - | 15,286 | - | 7,532 | - |
| Other Liabilities | - | - | 648 | - | 136,207 | - |
| **TOTAL LIABILITIES** | - | - | 15,934 | - | 143,739 | 920,993 |
| **Total Net Position** | 13,859,218 | 2,453,491 | 2,042,549 | 1,001,654 | 651,470 | 563,419 |
| **TOTAL LIABILITIES AND NET POSITION** | $ 13,859,218 | $ 2,453,491 | $ 2,058,483 | $ 1,001,654 | $ 795,209 | $ 1,484,412 |
| **CHANGE IN NET POSITION** | | | | | | |
| **Net Position, Beginning of Fiscal Year** | $ 13,443,816 | $ 2,377,575 | $ 1,952,634 | $ 977,522 | $ 283,190 | $ 554,415 |
| **Change in Net Position:** | | | | | | |
| Non-exchange Revenue | | | | | | |
| Taxes | - | - | - | - | - | 455,828 |
| AML Fee Revenue | - | - | 286,160 | - | - | - |
| Investment Interest | - | - | 54,625 | 24,132 | - | 16,551 |
| Royalties Retained | 903,516 | 150,164 | - | - | - | - |
| Other Non-Exchange Revenue | - | - | 26 | - | 395 | - |
| Transfers In/Out without Reimbursement | (488,114) | (74,248) | - | - | (100) | (463,375) |
| Exchange Revenue - Services Provided and Other | - | - | 26 | - | 447,507 | - |
| Program Expenses | - | - | (235,955) | - | (79,522) | - |
| UMWA-CBF Expenses | - | - | (14,967) | - | - | - |
| **Net Position, End of Fiscal Year** | $ 13,859,218 | $ 2,453,491 | $ 2,042,549 | $ 1,001,654 | $ 651,470 | $ 563,419 |

| Sportfish Restoration | Wildlife Restoration | Office of the Special Trustee for American Indians | Central Utah Project Completion Act | Natural Resource Damage Assessment and Restoration Fund | Other Dedicated Collections | **FY 2004** |
|---|---|---|---|---|---|---|
| $ 14,255 | $ 120,209 | $ (34) | $ 35,273 | $ 617 | $ 121,883 | $ 16,631,279 |
| - | 364,889 | 268,481 | 145,066 | 169,524 | 65 | 6,246,015 |
| 921,021 | - | - | - | 5,754 | 9 | 941,489 |
| - | - | - | 4,147 | - | 42,919 | 47,741 |
| - | 107 | - | - | - | 1,570 | 1,698 |
| $ 935,276 | $ 485,205 | $ 268,447 | $ 184,486 | $ 175,895 | $ 166,446 | $ 23,868,222 |
| | | | | | | |
| $ - | $ - | $ - | $ - | $ - | $ - | $ 920,993 |
| 68,351 | - | - | - | - | - | 68,351 |
| 352,546 | - | - | - | - | - | 352,546 |
| 22,991 | 14,613 | - | 774 | 5 | 2,586 | 63,787 |
| 988 | 781 | - | 214 | - | 44,191 | 183,029 |
| 444,876 | 15,394 | - | 988 | 5 | 46,777 | 1,588,706 |
| 490,400 | 469,811 | 268,447 | 183,498 | 175,890 | 119,669 | 22,279,516 |
| $ 935,276 | $ 485,205 | $ 268,447 | $ 184,486 | $ 175,895 | $ 166,446 | $ 23,868,222 |
| | | | | | | |
| $ 463,439 | $ 453,673 | $ 257,479 | $ 174,006 | $ 161,802 | $ 121,603 | $ 21,221,154 |
| | | | | | | |
| - | 238,807 | - | - | - | - | 694,635 |
| - | - | - | - | - | - | 286,160 |
| - | 10,255 | 8,230 | 10,201 | 2,024 | 40 | 126,058 |
| - | - | - | - | - | - | 1,053,680 |
| 177 | 198 | 3,051 | (755) | 34,088 | 18,133 | 55,313 |
| 345,405 | (173) | 8,189 | 6,163 | (19,354) | (2,148) | (687,755) |
| - | - | - | 2,250 | - | 20,886 | 470,669 |
| (318,621) | (232,949) | (8,502) | (8,367) | (2,670) | (38,845) | (925,431) |
| - | - | - | - | - | - | (14,967) |
| $ 490,400 | $ 469,811 | $ 268,447 | $ 183,498 | $ 175,890 | $ 119,669 | $ 22,279,516 |

FY 2003 dedicated collections are shown in the following table:

| (dollars in thousands) | Land and Water Conservation Fund | Historic Preservation Fund | Abandoned Mine Land Fund | Environmental Improvement and Restoration Fund | Southern Nevada Public Land Management Act | Aquatic Resources Trust Fund |
|---|---|---|---|---|---|---|
| **ASSETS** | | | | | | |
| Fund Balance with Treasury | $ 13,443,816 | $ 2,377,575 | $ 543 | $ 1 | $ 465 | $ 22,074 |
| Investments | - | - | 1,926,867 | 977,521 | 335,508 | 1,415,812 |
| Accounts Receivable | - | - | 34,965 | - | - | 273 |
| General Property, Plant, and Equipment | - | - | - | - | 18 | - |
| Other Assets | - | - | 40 | - | 176 | - |
| **TOTAL ASSETS** | $ 13,443,816 | $ 2,377,575 | $ 1,962,415 | $ 977,522 | $ 336,167 | $ 1,438,159 |
| **LIABILITIES** | | | | | | |
| Aquatic Resource Amounts Due to FWS | $ - | $ - | $ - | $ - | $ - | $ 883,661 |
| Aquatic Resource Amounts Due to Coast Guard | - | - | - | - | - | - |
| Aquatic Resource Amounts Due to Corps of Engineers | - | - | - | - | - | - |
| Aquatic Resource Amounts Due to Others | - | - | - | - | - | 83 |
| Accounts Payable | - | - | 9,304 | - | 6,527 | - |
| Other Liabilities | - | - | 477 | - | 46,450 | - |
| **TOTAL LIABILITIES** | - | - | 9,781 | - | 52,977 | 883,744 |
| **Total Net Position** | 13,443,816 | 2,377,575 | 1,952,634 | 977,522 | 283,190 | 554,415 |
| **TOTAL LIABILITIES AND NET POSITION** | $ 13,443,816 | $ 2,377,575 | $ 1,962,415 | $ 977,522 | $ 336,167 | $ 1,438,159 |
| **CHANGE IN NET POSITION** | | | | | | |
| **Net Position, Beginning of Fiscal Year** | $ 13,073,662 | $ 2,298,127 | $ 1,886,154 | $ 967,274 | $ 123,262 | $ 538,979 |
| **Change in Net Position:** | | | | | | |
| Non-exchange Revenue | | | | | | |
| Taxes | - | - | - | - | - | 426,376 |
| AML Fee Revenue | - | - | 282,411 | - | - | - |
| Investment Interest | - | - | 23,610 | 10,248 | 1,651 | 40,949 |
| Royalties Retained | 899,020 | 150,000 | - | - | - | - |
| Other Non-Exchange Revenue | - | - | 110 | - | (1,367) | - |
| Transfers In/Out without Reimbursement | (528,866) | (70,552) | - | - | (20,201) | (451,889) |
| Exchange Revenue - Services Provided and Other | - | - | 103 | - | 241,831 | - |
| Program Expenses | - | - | (191,505) | - | (61,986) | - |
| UMWA-CBF Expenses | - | - | (48,249) | - | - | - |
| **Net Position, End of Fiscal Year** | $ 13,443,816 | $ 2,377,575 | $ 1,952,634 | $ 977,522 | $ 283,190 | $ 554,415 |

| Sportfish Restoration | Wildlife Restoration | Office of the Special Trustee for American Indians | Central Utah Project Completion Act | Natural Resource Damage Assessment and Restoration Fund | Other Dedicated Collections | **FY 2003** |
|---|---|---|---|---|---|---|
| $ (6,938) | $ 18,098 | $ (34) | $ 30,379 | $ 404 | $ 132,820 | $ 16,019,203 |
| - | 453,148 | 257,513 | 140,134 | 155,695 | 65 | 5,662,263 |
| 883,688 | 1 | - | - | 5,706 | 139 | 924,772 |
| - | 7 | - | 4,170 | - | 38,174 | 42,369 |
| - | 116 | - | - | - | 2,764 | 3,096 |
| $ 876,750 | $ 471,370 | $ 257,479 | $ 174,683 | $ 161,805 | $ 173,962 | $ 22,651,703 |
| | | | | | | |
| $ - | $ - | $ - | $ - | $ - | $ - | $ 883,661 |
| 62,515 | - | - | - | - | - | 62,515 |
| 327,164 | - | - | - | - | - | 327,164 |
| - | - | - | - | - | - | 83 |
| 22,284 | 17,073 | - | 446 | 3 | 3,637 | 59,274 |
| 1,348 | 624 | - | 231 | - | 48,722 | 97,852 |
| 413,311 | 17,697 | - | 677 | 3 | 52,359 | 1,430,549 |
| 463,439 | 453,673 | 257,479 | 174,006 | 161,802 | 121,603 | 21,221,154 |
| $ 876,750 | $ 471,370 | $ 257,479 | $ 174,683 | $ 161,805 | $ 173,962 | $ 22,651,703 |
| | | | | | | |
| $ 462,309 | $ 490,489 | $ 224,898 | $ 161,442 | $ 151,620 | $ 121,518 | $ 20,499,734 |
| | | | | | | |
| - | 214,337 | - | - | - | - | 640,713 |
| - | - | - | - | - | - | 282,411 |
| - | 8,501 | 8,839 | 2,593 | 2,116 | (162) | 98,345 |
| - | - | - | - | - | - | 1,049,020 |
| 358 | 245 | 3,373 | 8,668 | 32,359 | 17,084 | 60,830 |
| 329,816 | (243) | 28,877 | 6,061 | (22,184) | (276) | (729,457) |
| - | - | - | 4,027 | - | 17,089 | 263,050 |
| (329,044) | (259,656) | (8,508) | (8,785) | (2,109) | (33,650) | (895,243) |
| - | - | - | - | - | - | (48,249) |
| $ 463,439 | $ 453,673 | $ 257,479 | $ 174,006 | $ 161,802 | $ 121,603 | $ 21,221,154 |

## NOTE 27. U.S. PARK POLICE PENSION ACTUARIAL LIABILITY

During FY 2004, Interior began recording a liability for the USPP Pension Plan. Previously, no liability had been recorded because Interior was not considered the administrator of the pension plan. As a result of a policy change, Interior's FY 2004 net position beginning balance was adjusted downward by approximately $649 million.

Interior adopted OMB's guidance for recording the liability at the actuarial present value of the future benefits of the pension plan. Economic assumptions are applied to historical cost information to estimate the cost of pension benefits. 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 following table presents the significant economic assumptions used to estimate the USPP Pension Plan liability and corresponding expense:

| Economic Assumptions Used | FY 2004 |
|---|---|
| Interest Rate | 6.75% |
| Inflationary Rate | 3.75% |
| Projected Salary Increase | 4.25% |

The following table presents the components of the USPP Pension Plan expense:

| USPP Pension Plan Expense | | FY 2004 |
|---|---|---|
| Normal Costs | $ | 1,600 |
| Interest | | 41,500 |
| Assumption Changes at Beginning of Year | | (25,305) |
| Total Pension Expenses | $ | 17,795 |

The following table presents the change in the USPP Pension Plan liability:

| USPP Pension Plan Liability | | FY 2004 |
|---|---|---|
| Beginning Balance | $ | 649,300 |
| Total Pension Expense | | 17,795 |
| Less Benefit Payments | | (27,595) |
| Ending Balance | $ | 639,500 |

The long term portion of the pension liability totaling $604,640 million is presented separately on the balance sheet and the short term portion totaling $34,860 million is presented as part of the accrued payroll and benefits to the public.

## NOTE 28. POSSESSORY INTEREST AND LEASEHOLD SURRENDER INTEREST

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 concessionaires have a possessory interest or leasehold surrender interest (PI/LSI) in certain real property construction or improvements that the concessionaire pays for and Interior approves.

A concessionaire's interest may be extinguished provided the concessionaire 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 concessionaire in most situations.

For concession contracts entered into prior to 1998, the value of the concessionaire's possessory interest is equal to the sound value of such structure, fixture, or improvement at the time of taking by the United States determined upon the basis of reconstruction cost less depreciation evidenced by its condition and prospective serviceability in comparison with a new unit of like kind, but not to exceed fair market value.

For concession contacts entered into during 1998 and thereafter, the value of the concessionaire's leasehold surrender interest is equal to the initial value (construction cost of the capital improvement), increased (or decreased) in the same percentage increase (or decrease) as the percentage increase (or decrease) in the Consumer Price Index, from the date of making the investment in the capital improvement by the concessionaire to the date of payment of the value of the leasehold surrender interest, less depreciation of the capital improvement as evidenced by the condition and prospective serviceability in comparison with a new unit of like kind.

Interior does not report the real property construction or improvements made by the concessionaire or the related PI/LSI on its financial statements. In October 2004, the Federal Accounting Standards Advisory Board (FASAB) agreed to review the accounting and reporting of these transactions and issue future guidance. That guidance may result in a future change to Interior's accounting and reporting for these transactions.

As of September 30, 2004 Interior has approximately 600 concession contracts, and approximately 195 of these Contracts have PI/LSI provisions. Of these concession contracts with PI/LSI provisions, Interior has 40 contracts that include PI/LSI amounts totaling approximately $350 million. The remaining 155 contracts do not include PI/LSI amounts as these amounts have not been negotiated or arbitrated.

# Required Supplementary Information (Unaudited, See Auditors' Report)

This section includes the Combining Statement of Budgetary Resources (Budgetary Accounts), deferred maintenance information, intragovernmental transaction disclosures, and supplemental statements for combined working capital and franchise funds.

# Combining Statement of Budgetary Resources
## for the year ended September 30, 2004
### (in thousands)

| | Interior Franchise Fund | Water and Related Resources | National Park Service Operations | National Park Service Construction | Management of Land and Resources |
|---|---|---|---|---|---|
| **Budgetary Resources:** | | | | | |
| Budget Authority: | | | | | |
| Appropriations Received | $ - | 851,803 | 1,629,641 | 355,820 | 865,744 |
| Net Transfers, Current Year Authority | - | (85,601) | 10,067 | 43,456 | 15 |
| Unobligated Balance: | | | | | |
| Beginning of Fiscal Year | 720,543 | 266,624 | 69,027 | 341,172 | 36,763 |
| Net Transfers, Unobligated Balance, Actual | - | 1,346 | 21 | 14,006 | - |
| Spending Authority From Offsetting Collections: | | | | | |
| Earned | | | | | |
| Collected | 1,396,541 | 215,667 | 20,266 | 108,247 | 274,026 |
| Receivable From Federal Sources | (17,054) | 9,757 | (139) | 9,829 | (1,816) |
| Change in Unfilled Customer Orders | | | | | |
| Advance Received | 264,506 | 4,934 | - | (1,160) | (12) |
| Without Advance From Federal Sources | (65,871) | 1,493 | - | 32,077 | 3,332 |
| Subtotal: Spending Authority From Offsetting Collections | 1,578,122 | 231,851 | 20,127 | 148,993 | 275,530 |
| Recoveries of Prior Year Obligations | - | 25,901 | 7,439 | 7,414 | 24,533 |
| Temporarily Not Available Pursuant to Public Law | - | - | - | - | - |
| Permanently Not Available | - | (5,059) | (25,172) | (4,107) | (10,478) |
| **Total Budgetary Resources (Note 23)** | $ 2,298,665 | 1,286,865 | 1,711,150 | 906,754 | 1,192,107 |
| **Status of Budgetary Resources:** | | | | | |
| Obligations Incurred: | | | | | |
| Direct | $ - | 798,907 | 1,603,055 | 384,088 | 902,363 |
| Reimbursable | 1,563,704 | 219,125 | 20,839 | 122,054 | 254,994 |
| Total Obligations Incurred (Note 23) | 1,563,704 | 1,018,032 | 1,623,894 | 506,142 | 1,157,357 |
| Unobligated Balance: (Note 23) | | | | | |
| Apportioned | 734,961 | 268,833 | 67,612 | 400,612 | 34,730 |
| Exempt From Apportionment | - | - | - | - | - |
| Unobligated Balance not Available (Note 23) | - | - | 19,644 | - | 20 |
| **Total Status of Budgetary Resources** | $ 2,298,665 | 1,286,865 | 1,711,150 | 906,754 | 1,192,107 |
| **Relationship of Obligations to Outlays:** | | | | | |
| Obligations Incurred | $ 1,563,704 | 1,018,031 | 1,623,894 | 506,142 | 1,157,357 |
| Obligated Balance, Net, Beginning of Fiscal Year | 442,008 | 339,185 | 299,641 | 330,507 | 218,149 |
| Obligated Balance, Net, End of Fiscal Year: | | | | | |
| Accounts Receivable | 6,366 | 19,677 | 339 | 28,068 | 4,675 |
| Unfilled Customer Orders From Federal Sources | 177,436 | 29,859 | - | 97,605 | 9,773 |
| Undelivered Orders | (605,109) | (308,706) | (269,461) | (279,570) | (188,347) |
| Accounts Payable | (237,363) | (107,084) | (69,455) | (149,652) | (50,957) |
| Total Obligated Balance, Net End of Fiscal Year | (658,670) | (366,254) | (338,577) | (303,549) | (224,856) |
| Less: Spending Authority Adjustments | 82,925 | (37,150) | (7,300) | (49,320) | (26,049) |
| Outlays: | | | | | |
| Disbursements | 1,429,967 | 953,812 | 1,577,658 | 483,780 | 1,124,601 |
| Collections | (1,661,047) | (220,601) | (20,267) | (107,087) | (274,014) |
| Subtotal | (231,080) | 733,211 | 1,557,391 | 376,693 | 850,587 |
| Less: Offsetting Receipts | - | (120) | - | - | - |
| **Net Outlays** | $ (231,080) | 733,091 | 1,557,391 | 376,693 | 850,587 |

# Combining Statement of Budgetary Resources
## for the year ended September 30, 2004
### (in thousands)

| Wildland Fire Management | Fish and Wildlife Resource Management | Minerals Leasing and Associated Payments | Operation of Indian Programs | Survey, Investigation and Research | Other Budgetary Accounts | Total Budgetary Accounts |
|---|---|---|---|---|---|---|
| 892,725 | 963,352 | 1,162,955 | 1,916,317 | 949,686 | 5,124,347 | $ 14,712,390 |
| (126,625) | 5,200 | - | - | - | 14,321 | (139,167) |
| 101,691 | 30,365 | - | 484,472 | 78,629 | 2,775,985 | 4,905,271 |
| - | 15,296 | - | 6,488 | - | (11,177) | 25,980 |
| 16,500 | 137,397 | - | 229,269 | 438,941 | 1,885,842 | 4,722,696 |
| 6,016 | (3,044) | - | (6,868) | (31,514) | 30,296 | (4,537) |
| 908 | (344) | - | 3,074 | (1,165) | 276,936 | 547,677 |
| (285) | 71,794 | - | (16,264) | (16,761) | 19,354 | 28,869 |
| 23,139 | 205,803 | - | 209,211 | 389,501 | 2,212,428 | 5,294,705 |
| 25,758 | 16,212 | - | 63,232 | 10,744 | 212,346 | 393,579 |
| - | - | - | - | - | (2,249) | (2,249) |
| (9,132) | (11,932) | - | (23,613) | (17,131) | (71,205) | (177,829) |
| 907,556 | 1,224,296 | 1,162,955 | 2,656,107 | 1,411,429 | 10,254,796 | $ 25,012,680 |
| 808,505 | 957,186 | 1,162,955 | 2,038,657 | 979,877 | 5,031,583 | $ 14,667,176 |
| 9,648 | 203,682 | - | 242,263 | 385,253 | 2,114,486 | 5,136,048 |
| 818,153 | 1,160,868 | 1,162,955 | 2,280,920 | 1,365,130 | 7,146,069 | 19,803,224 |
| 89,403 | 59,831 | - | 349,285 | 21,101 | 3,046,365 | 5,072,733 |
| - | - | - | - | - | 39,444 | 39,444 |
| - | 3,597 | - | 25,902 | 25,198 | 22,918 | 97,279 |
| 907,556 | 1,224,296 | 1,162,955 | 2,656,107 | 1,411,429 | 10,254,796 | 25,012,680 |
| 818,153 | 1,160,868 | 1,162,955 | 2,280,921 | 1,365,130 | 7,146,069 | $ 19,803,224 |
| 314,242 | 269,263 | - | 218,728 | 26,311 | 3,282,940 | 5,740,974 |
| 9,347 | 27,253 | - | 6,136 | 142,793 | 82,003 | 326,657 |
| 12,727 | 113,164 | - | 3,094 | 42,714 | 65,849 | 552,221 |
| (264,649) | (340,205) | - | (214,996) | (162,251) | (3,655,480) | (6,288,774) |
| (29,439) | (59,141) | - | (75,342) | (113,727) | (467,760) | (1,359,920) |
| (272,014) | (258,929) | - | (281,108) | (90,471) | (3,975,388) | (6,769,816) |
| (31,490) | (84,962) | - | (40,100) | 37,531 | (261,995) | (417,910) |
| 828,891 | 1,086,240 | 1,162,955 | 2,178,441 | 1,338,501 | 6,191,626 | 18,356,472 |
| (17,407) | (137,053) | - | (232,343) | (437,777) | (2,162,778) | (5,270,374) |
| 811,484 | 949,187 | 1,162,955 | 1,946,098 | 900,724 | 4,028,848 | 13,086,098 |
| - | - | (1,162,955) | - | - | (3,105,992) | (4,269,067) |
| 811,484 | 949,187 | - | 1,946,098 | 900,724 | 922,856 | 8,817,031 |

# Combining Statement of Budgetary Resources for the year ended September 30, 2003
**(in thousands)**

| | | Interior Franchise Fund | Water and Related Resources | National Park Service Operations | National Park Service Construction | Management of Land and Resources |
|---|---|---|---|---|---|---|
| **Budgetary Resources:** | | | | | | |
| Budget Authority: | | | | | | |
| Appropriations Received | $ | - | 832,509 | 1,574,565 | 303,043 | 831,444 |
| Net Transfers, Current Year Authority | | - | (73,150) | 162 | 15,598 | 78 |
| Unobligated Balance: | | | | | | |
| Beginning of Fiscal Year | | 378,456 | 256,269 | 66,404 | 386,805 | 34,203 |
| Net Transfers, Unobligated Balance, Actual | | - | (425) | - | 1 | 400 |
| Spending Authority From Offsetting Collections: | | | | | | |
| Earned | | | | | | |
| Collected | | 2,037,822 | 186,366 | 16,424 | 122,008 | 55,026 |
| Receivable From Federal Sources | | (118,682) | (9,725) | 50 | 2,927 | 2,709 |
| Change in Unfilled Customer Orders | | | | | | |
| Advance Received | | 499,680 | 9,379 | - | (30,781) | (37) |
| Without Advance From Federal Sources | | (186,789) | (9,869) | - | 14,100 | 1,721 |
| Subtotal: Spending Authority From Offsetting Collections | | 2,232,031 | 176,151 | 16,474 | 108,254 | 59,419 |
| Recoveries of Prior Year Obligations | | - | 24,130 | 9,302 | 2,832 | 19,248 |
| Permanently Not Available | | - | (4,789) | (18,058) | (2,116) | (5,367) |
| **Total Budgetary Resources (Note 23)** | $ | 2,610,487 | 1,210,695 | 1,648,849 | 814,417 | 939,425 |
| **Status of Budgetary Resources:** | | | | | | |
| Obligations Incurred: | | | | | | |
| Direct | $ | - | 776,563 | 1,562,187 | 350,554 | 871,885 |
| Reimbursable | | 1,889,943 | 167,506 | 17,635 | 122,691 | 30,778 |
| Total Obligations Incurred (Note 23) | | 1,889,943 | 944,069 | 1,579,822 | 473,245 | 902,663 |
| Unobligated Balance: (Note 23) | | | | | | |
| Apportioned | | 720,544 | 266,626 | 47,473 | 341,172 | 36,750 |
| Exempt From Apportionment | | - | - | - | - | - |
| Unobligated Balance not Available (Note 23) | | - | - | 21,554 | - | 12 |
| **Total Status of Budgetary Resources** | $ | 2,610,487 | 1,210,695 | 1,648,849 | 814,417 | 939,425 |
| **Relationship of Obligations to Outlays:** | | | | | | |
| Obligations Incurred | $ | 1,889,943 | 944,069 | 1,579,822 | 473,245 | 902,663 |
| Obligated Balance, Net, Beginning of Fiscal Year | | 48,974 | 335,076 | 318,406 | 303,091 | 231,470 |
| Obligated Balance, Net, End of Fiscal Year: | | | | | | |
| Accounts Receivable | | 23,421 | 9,922 | 478 | 18,238 | 6,491 |
| Unfilled Customer Orders From Federal Sources | | 243,307 | 28,366 | - | 65,528 | 6,441 |
| Undelivered Orders | | (416,358) | (265,211) | (250,545) | (309,780) | (191,982) |
| Accounts Payable | | (292,378) | (112,261) | (49,574) | (104,493) | (39,099) |
| Total Obligated Balance, Net, End of Fiscal Year | | (442,008) | (339,184) | (299,641) | (330,507) | (218,149) |
| Less: Spending Authority Adjustments | | 305,471 | (4,536) | (9,351) | (19,860) | (23,678) |
| Outlays: | | | | | | |
| Disbursements | | 1,802,380 | 935,425 | 1,589,236 | 425,969 | 892,306 |
| Collections | | (2,537,502) | (195,745) | (16,425) | (91,227) | (54,989) |
| Subtotal | | (735,122) | 739,680 | 1,572,811 | 334,742 | 837,317 |
| Less: Offsetting Receipts | | - | (408) | - | - | - |
| **Net Outlays** | $ | (735,122) | 739,272 | 1,572,811 | 334,742 | 837,317 |

# Combining Statement of Budgetary Resources
## for the year ended September 30, 2003
**(in thousands)**

| Wildland Fire Management | Fish and Wildlife Resource Management | Minerals Leasing and Associated Payments | Operation of Indian Programs | Survey, Investigation and Research | Other Budgetary Accounts | Total Budgetary Accounts |
|---|---|---|---|---|---|---|
| | | | | | | |
| 879,406 | 922,429 | 947,006 | 1,867,009 | 925,287 | 4,921,056 | $ 14,003,754 |
| (16,182) | 18,113 | - | - | - | (14,969) | (70,350) |
| 119,529 | 52,121 | - | 451,204 | 53,724 | 2,679,696 | 4,478,411 |
| (13,397) | 645 | - | (2,929) | - | (14,128) | (29,833) |
| 34,768 | 132,343 | - | 198,405 | 391,699 | 1,610,138 | 4,784,999 |
| 275 | 1,989 | - | 4,692 | (2,103) | (28,648) | (146,516) |
| 1,550 | (8,385) | - | 27,907 | (27,781) | 46,094 | 517,626 |
| 2,205 | (8,279) | - | 1,302 | 35,864 | (9,976) | (159,721) |
| 38,798 | 117,668 | - | 232,306 | 397,679 | 1,617,608 | 4,996,388 |
| 39,841 | 19,433 | - | 32,415 | 10,766 | 146,724 | 304,691 |
| (4,254) | (6,038) | - | (19,465) | (11,420) | (136,116) | (207,623) |
| 1,043,741 | 1,124,371 | 947,006 | 2,560,540 | 1,376,036 | 9,199,871 | $ 23,475,438 |
| | | | | | | |
| 917,158 | 969,541 | 947,006 | 1,854,661 | 905,127 | 4,880,919 | $ 14,035,601 |
| 24,893 | 124,465 | - | 221,404 | 392,280 | 1,542,971 | 4,534,566 |
| 942,051 | 1,094,006 | 947,006 | 2,076,065 | 1,297,407 | 6,423,890 | 18,570,167 |
| 101,690 | 28,798 | - | 454,077 | 32,927 | 2,708,884 | 4,738,941 |
| - | - | - | - | - | 41,349 | 41,349 |
| - | 1,567 | - | 30,398 | 45,702 | 25,748 | 124,981 |
| 1,043,741 | 1,124,371 | 947,006 | 2,560,540 | 1,376,036 | 9,199,871 | $ 23,475,438 |
| | | | | | | |
| 942,051 | 1,094,006 | 947,006 | 2,076,065 | 1,297,407 | 6,423,890 | $ 18,570,167 |
| 307,525 | 263,121 | - | 266,872 | 111,208 | 2,767,462 | 4,953,205 |
| 3,331 | 30,297 | - | 13,004 | 174,308 | 51,705 | 331,195 |
| 13,012 | 41,370 | - | 19,359 | 59,475 | 46,495 | 523,353 |
| (274,274) | (294,811) | - | (185,809) | (169,574) | (2,986,794) | (5,345,138) |
| (56,311) | (46,119) | - | (65,280) | (90,519) | (394,350) | (1,250,384) |
| (314,242) | (269,263) | - | (218,726) | (26,310) | (3,282,944) | (5,740,974) |
| (42,321) | (13,143) | - | (38,409) | (44,527) | (108,100) | 1,546 |
| 893,013 | 1,074,721 | 947,006 | 2,085,802 | 1,337,778 | 5,800,308 | 17,783,944 |
| (36,318) | (123,958) | - | (226,312) | (363,918) | (1,656,230) | (5,302,624) |
| 856,695 | 950,763 | 947,006 | 1,859,490 | 973,860 | 4,144,078 | 12,481,320 |
| - | - | (947,006) | - | - | (2,714,315) | (3,661,729) |
| 856,695 | 950,763 | - | 1,859,490 | 973,860 | 1,429,763 | $ 8,819,591 |

## Deferred Maintenance

The Department of the Interior owns, builds, purchases, and contracts services for assets such as schools, office buildings, roads, bridges, dams, irrigation systems, and reservoirs. These assets are used to support the Department's stated mission. Interior's assets include some deteriorating facilities for which repair and maintenance have not been adequately funded. Current and prior budgetary restraints require that repair and maintenance on the assets be postponed for future years. Interior refers to this unfunded repair and maintenance of facilities and infrastructure as deferred maintenance.

Inadequately funded maintenance may result from reduced budgets, reallocation of maintenance funds for emergency requirements, insufficient management systems or practices, and competition for resources from other program needs. Deterioration of facilities can adversely impact public health and safety, reduce employees' morale and productivity, and increase the need for costly major repair or early replacement of structures and equipment. Undue wear on facilities may not be immediately noticeable to users, but inadequate maintenance can require that a facility be replaced or undergo major reconstruction before the end of its expected useful life.

The SFFAS No. 6, "Accounting for Property, Plant and Equipment," requires annual disclosure of the estimated cost to remedy accumulated deferred maintenance on Interior plant, property, and equipment (PP&E). Both General PP&E and Stewardship PP&E are included.

Deferred maintenance information is accumulated when maintenance was not performed when it should have been or when it was scheduled and which, therefore, was put off or delayed for a future period. Deferred maintenance needs may be further categorized in two tiers, critical and non-critical. Delaying correction of non-critical needs may result in their becoming critical facility or equipment deficiencies at a future time. Code compliance (e.g. life safety, ADA, OSHA, environmental, etc.) and other regulatory or Executive Order compliance requirements not met on schedule are considered deferred maintenance.

The Department has developed a Five-Year Plan that provides a framework for improved planning and management to maintenance and construction programs and better defines accumulated deferred maintenance funding needs. In developing the Five-Year Plan, the Department established uniform criteria for critical health and safety and resource protection projects, and through rigorous screening, prioritized the projects based on these criteria. FASAB requires that all deferred maintenance be reported regardless of when it might be performed, not just that included in the Five-year Plans. The long-term goal is to have deferred maintenance backlog information based on condition assessments recorded in a facilities maintenance management information system. This information does not include annual maintenance or capital improvements as defined in the Department's Budget Formulation Guidance.

## Critical Deferred Maintenance

Categories of deferred maintenance for analytic purposes include (a) Critical Health and Safety Deferred Maintenance: A facility deferred maintenance need that poses a serious threat to public or employee safety or health; (b) Critical Resource Protection Deferred Maintenance: A facility deferred maintenance need that poses a serious threat to natural or cultural resources; (c) Critical Mission Deferred Maintenance: A facility deferred maintenance need that poses a serious threat to a bureau's ability to carry out its assigned mission; (d) Compliance and Other Deferred Maintenance: A facility deferred maintenance need that will improve public or employee safety, health, or accessibility; compliance with codes, standards, laws, complete unmet programmatic needs and mandated programs; protection of natural or cultural resources to a bureau's ability to carry out its assigned mission.

Critical Maintenance is the work prioritized for FY 2004 - FY 2009 in the Deferred Maintenance and Capital Improvement Plans for the Bureau of Land Management, the U.S. Geological Survey, the Fish and Wildlife Service, the National Park Service, and the Bureau of Indian Affairs. The Department prioritizes deferred maintenance through five year plans that identify the most critical needs. The Bureau of Reclamation has no critical maintenance.

## Estimated Deferred Maintenance

Generally, deferred maintenance is not estimated on equipment. If, however, the nature of operations is such that deferred maintenance on equipment is considered significant and meaningful, the Department may report this information.

Due to the scope, nature, and variety of the assets entrusted to the Department, as well as the nature of deferred maintenance itself, exact estimates of deferred maintenance are very difficult to determine. Interior has calculated estimates of deferred maintenance based on data from a variety of systems, procedures, and data sources. The accumulation of deferred maintenance cost estimates, however, is not the primary purpose of many of these sources. The Department acknowledges that the reliability of these sources as a basis for deferred maintenance estimates may vary from bureau to bureau. The Department has implemented a cyclic/recurring condition assessment process to monitor, at a minimum of every five years, the condition of buildings and other facilities. The FY 2004 process is similar to the process in place in FY 2003.

## Condition Assessment Surveys

The Department used 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 constructed assets with a current replacement value (CRV) 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 expert inspection of the facility and all component systems, a summary of deficiencies found, and a recalculation of the current replacement value.

Condition assessments provide the estimates of current replacement value of the facilities and the cost of the repairs in the Deferred Maintenance (DM) Backlog which are used to calculate the Facilities Condition Index (FCI). The FCI is a method for rating the condition of a facility or group of facilities by dividing the total calculated cost of deferred maintenance by the current replacement value of the facility or facilities. A score closer to 0.0 reflects better condition. For example, a building with a current replacement value of $100,000 and deferred maintenance of $20,000 would have an FCI of 0.20. The result of the calculation is compared to numerical ranges that represent specific conditions, e.g., good, fair, or poor. The industry standard FCI for general buildings is:

FCI=DM/CRV

- Good is less than .05
- Fair is equal to or greater than .05 and less than .10
- Poor is equal to or greater than .10

The Department's assessment of deferred maintenance is dependent upon the bureaus having accurate and complete facilities information. The accumulation of facility data provides the necessary information for compliance with the Federal Accounting Standard that requires annual reporting of deferred maintenance of fixed assets .

Facilities and items of equipment are categorized according to condition using terms such as those shown below:

Good "G" – Facility/equipment condition meets established maintenance standards, Operates efficiently, and has a normal life. There is no deferred maintenance on facilities/equipment in good condition.

Fair "F" – Facility/equipment condition meets minimum standards but requires additional maintenance or repair to prevent further deterioration, increase operating efficiency, and to achieve normal life expectancy. Poor/Unsatisfactory "P"– Facility/equipment does not meet most operating standards and requires frequent repairs to prevent accelerated deterioration and provide a minimal
level of operating function. In some cases, this includes condemned or failed facilities.

Based on periodic condition assessment surveys, an indicator of condition is the percent of facilities and items of equipment in each of the good, fair, or poor categories.
Interior's current estimate for deferred maintenance includes the following property categories of Roads, Bridges and Trails; Irrigation, Dams and Other Water Structures; Buildings (e.g., Administration, Education, Housing, Historic Buildings); and Other Structures (e.g. Recreation Sites, Hatcheries, etc.).

The estimate generally excludes vehicles and most other categories of operating equipment since on-going maintenance is performed on these assets and such assets would be disposed of before they resulted in a deferred maintenance condition.

## Deferred Maintenance Estimate

Deferred maintenance information from the Feasibility software system represents the full inventory of all the identified deficiencies, but does not represent a backlog of specific repairs to be undertaken. Bureaus are developing performance measures to improve assets to an acceptable condition. Once these measures are in place and costs associated with achieving acceptable condition determined, this will become the deferred backlog amounts. As such, the Department's current approach for estimating the amount needed to correct deferred maintenance for property, plant, and equipment ranges from approximately $8.9 billion to $15 billion as summarized in *Table 3-1*.

**TABLE 3-1**

**Estimated Range of FY 2004 Deferred Maintenance**
**(in thousands)**

| Type of Deferred Maintenance | General PP&E | | Stewardship PP&E | | Total | |
|---|---|---|---|---|---|---|
| | Low | High | Low | High | Low | High |
| Roads, Bridges, Trails* | $3,423,220 | $6,724,295 | $518,373 | $732,760 | $3,941,593 | $7,457,055 |
| Irrigation, Dams and Other Water Structures | 1,984,678 | 2,540,597 | 73,513 | 101,486 | 2,058,191 | 2,642,083 |
| Buildings * | 1,359,692 | 2,065,235 | 515,656 | 1,083,788 | 1,875,348 | 3,149,023 |
| Other Structures * | 1,045,703 | 2,004,161 | 16,858 | 36,018 | 1,062,561 | 2,040,179 |
| **DOI Total** | **$7,813,293** | **$13,334,288** | **$1,124,400** | **$1,954,052** | **$8,937,693** | **$15,288,340** |

*These totals include deferred maintenance on non-Bureau of Indian Affairs-owned (Tribal) assets for which the Bureau of Indian Affairs is responsible for maintenance (e.g., roads on Tribal lands).

## Intragovernmental Transaction Disclosures

Intragovernmental amounts represent transactions between Federal entities included in the Federal Government's annual financial report. These transactions include assets, liabilities, revenues, transfers, and expenses. Interior's FY 2004 intragovernmental transactions are shown in *Tables 3-2, 3-3, 3-4, and 3-5*.

TABLE 3-2

### Intragovernmental Assets

| (dollars in thousands) | Fund Balance with Treasury | Investments | Accounts and Interest Receivable | Advances and Prepayments |
|---|---|---|---|---|
| Department of the Treasury | $ 30,866,144 | $ 6,187,329 | $ 227,567 | $ - |
| Department of Agriculture | - | - | 18,212 | - |
| Department of the Army | - | - | 5,483 | - |
| Department of the Air Force | - | - | 5,130 | - |
| Environmental Protection Agency | - | - | 9,513 | - |
| Department of Transportation | - | - | 21,182 | 1,033 |
| National Aeronautics and Space Adm. | - | - | 24,738 | - |
| Department of Energy | - | - | 9,101 | - |
| U.S. Army Corps of Engineers | - | - | 13,063 | - |
| Other Federal Agencies | - | - | 14,045 | 178 |
| TOTAL | $ 30,866,144 | $ 6,187,329 | $ 348,034 | $ 1,211 |

TABLE 3-3

## Intragovernmental Liabilities

| | Accounts Payable | Debt | Accrued Payroll and Benefits | Deferred Revenue and Deferred Credits | Custodial Liability | Aquatic Resources | Judgment Fund | Other Liabilities | Total |
|---|---|---|---|---|---|---|---|---|---|
| Department of the Treasury | $ 3,180 | $ 1,304,879 | $ 15,996 | $ 10,601 | $ 671,478 | $ - | $ 178,878 | $ 134,293 | $ 2,319,305 |
| Executive Office of the President | 1,006 | - | - | 100,345 | - | - | - | - | 101,351 |
| Department of Agriculture | 4,394 | - | - | 52,359 | - | - | - | - | 56,753 |
| Department of Justice | 713 | - | - | 38,868 | - | - | - | - | 39,581 |
| Department of Labor | 1,750 | - | 133,252 | 610 | - | - | - | - | 135,612 |
| Department of the Navy | 569 | - | - | 247,257 | - | - | - | - | 247,826 |
| Department of the Army | 229 | - | - | 528,251 | - | - | - | - | 528,480 |
| Office of Personnel Management | 367 | - | 21,844 | 1,632 | - | - | - | - | 23,843 |
| General Services Administration | 32,574 | - | - | 4,380 | - | - | - | 23,596 | 60,550 |
| Department of the Air Force | - | - | - | 137,413 | - | - | - | - | 137,413 |
| Department of Homeland Security | 2 | - | - | 114,900 | - | 68,351 | - | - | 183,253 |
| Agency for International Development | - | - | - | 31,135 | - | - | - | - | 31,135 |
| Department of Health and Human Services | - | - | - | 195,474 | - | - | - | - | 195,474 |
| Department of Education | 414 | - | - | 144,770 | - | - | - | - | 145,184 |
| U.S. Army Corps of Engineers | 23,388 | - | - | 237 | - | 352,545 | - | - | 376,170 |
| Defense Agencies | 829 | - | - | 135,157 | - | - | - | - | 135,986 |
| Other Federal Agencies | 7,411 | - | - | 13,612 | - | - | - | - | 21,023 |
| TOTAL | $ 76,826 | $ 1,304,879 | $ 171,092 | $ 1,757,001 | $ 671,478 | $ 420,896 | $ 178,878 | $ 157,889 | $ 4,738,939 |

TABLE 3-4

## Intragovernmental Revenues, Transfers, and Expenses

| (dollars in thousands) | Transfers In | Transfers Out | Imputed Financing Source | Other Non-Exchange Revenue (1) | Sales of Goods and Services | Expenses (2) |
|---|---|---|---|---|---|---|
| Department of the Treasury | $ 126,793 | $ 182,261 | $ 131,494 | $ 109,347 | $ 90,171 | $ 373,832 |
| Executive Office of the President | - | - | - | - | 142,378 | 2,035 |
| Department of Agriculture | 2,351 | 135,864 | - | - | 55,428 | 42,258 |
| Department of the Navy | - | - | - | - | 281,121 | 3,500 |
| Department of the Army | - | - | - | - | 692,019 | 4,508 |
| Office of Personnel Management | - | - | 384,430 | - | 1,347 | 1,072,226 |
| General Services Administration | 350,894 | 347,982 | - | - | 10,607 | 489,539 |
| Department of the Air Force | - | - | - | - | 150,465 | 20,840 |
| Department of Transportation | 260,420 | 2,215 | - | - | 18,878 | 9,533 |
| Department of Health and Human Services | - | - | - | - | 114,989 | 7,881 |
| National Aeronautics and Space Adm. | - | - | - | - | 75,135 | 50,018 |
| Department of Energy | 176,041 | 170,093 | 3,020 | - | 111,054 | 61,462 |
| Department of Education | - | - | - | - | 202,561 | - |
| U.S. Army Corps of Engineers | - | 69,023 | 227 | - | 71,031 | 20,673 |
| Defense Agencies | - | - | - | - | 222,199 | 18,305 |
| Other Federal Agencies | 15,089 | 91,796 | - | - | 286,917 | 149,267 |
| TOTAL | $ 931,588 | $ 999,234 | $ 519,171 | $ 109,347 | $ 2,526,300 | $ 2,325,877 |

(1) Other Non-Exchange Revenue represents transactions with other Federal agencies. These revenues are different from those reported on the Consolidated Statement of Changes in Net Position, which reports transactions with other Federal agencies and the public.

(2) Expenses represent transactions with other Federal agencies. These expenses are different from those reported on the Consolidated Statement of Net Cost, which reports costs to generate intra-governmental revenue.

TABLE 3-5

## Intragovernmental Gross Cost to Generate Earned Revenue by Budget Functional Classification

| | BFC 300: Natural Resources and Environment | | BFC 450: Community and Regional Development | | BFC 800: General Government | | | |
|---|---|---|---|---|---|---|---|---|
| | Revenue | Cost associated with earning Revenue | Revenue | Cost associated with earning Revenue | Revenue | Cost associated with earning Revenue | TOTAL REVENUE | TOTAL COST ASSOCIATED WITH EARNING REVENUE |
| Department of the Treasury | $ 81,846 | $ 82,551 | $ 8,306 | $ 8,414 | $ 19 | $ 20 | $ 90,171 | $ 90,985 |
| Executive Office of the President | 142,378 | 143,606 | - | - | - | - | 142,378 | 143,606 |
| Department of Commerce | 21,827 | 22,015 | 28 | 29 | 723 | 727 | 22,578 | 22,771 |
| Department of the Navy | 281,121 | 283,545 | - | - | - | - | 281,121 | 283,545 |
| Department of the Army | 692,019 | 697,984 | - | - | - | - | 692,019 | 697,984 |
| Office of Personnel Management | 1,347 | 1,359 | - | - | - | - | 1,347 | 1,359 |
| General Services Administration | 10,607 | 10,699 | - | - | - | - | 10,607 | 10,699 |
| Department of the Air Force | 150,465 | 151,762 | - | - | - | - | 150,465 | 151,762 |
| Department of Transportation | 18,479 | 18,638 | 399 | 404 | - | - | 18,878 | 19,042 |
| Department of Health and Human Services | 113,556 | 114,534 | 1,433 | 1,452 | - | - | 114,989 | 115,987 |
| National Aeronautics and Space Adm. | 75,135 | 75,783 | - | - | - | - | 75,135 | 75,783 |
| Department of Energy | 110,240 | 111,190 | 814 | 825 | - | - | 111,054 | 112,014 |
| Department of Education | 1,026 | 1,034 | 201,535 | 204,166 | - | - | 202,561 | 205,200 |
| U.S. Army Corps of Engineers | 70,956 | 71,567 | 58 | 59 | 17 | 17 | 71,031 | 71,643 |
| Defense Agencies | 222,199 | 224,115 | - | - | - | - | 222,199 | 224,115 |
| Other Federal Agencies | 318,335 | 321,078 | 1,432 | 1,450 | - | - | 319,767 | 322,528 |
| TOTAL | $ 2,311,536 | $ 2,331,460 | $ 214,005 | $ 216,799 | $ 759 | $ 764 | $ 2,526,300 | $ 2,549,023 |

## Working Capital and Franchise Funds

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

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

The following summarizes information about the assets, liabilities, and net cost of Interior's working capital and franchise funds as of and for the years ended September 30, 2004, and 2003. The financial information presented includes intra-departmental transactions.

# Supplemental Balance Sheet
# Combined Working Capital and Franchise Funds
# as of September 30, 2004
### (in thousands)

| *(dollars in thousands)* | | Bureau of Land Management | Bureau of Reclamation | Departmental Offices | Interior Franchise Fund | U.S. Geological Survey | | FY 2004 |
|---|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | | |
| **Intragovernmental Assets:** | | | | | | | | |
| Fund Balance with Treasury | $ | 55,184 | 49,459 | 596,637 | 1,393,632 | 85,133 | $ | 2,180,045 |
| Accounts and Interest Receivable, Net | | - | 9,992 | 39,973 | 6,370 | - | | 56,335 |
| Other | | | | | | | | - |
| Advances and Prepayments | | - | 401 | 10,658 | 1,283 | - | | 12,342 |
| **Total Intragovernmental Assets** | | 55,184 | 59,852 | 647,268 | 1,401,285 | 85,133 | | 2,248,722 |
| Cash | | 55 | - | - | - | - | | 55 |
| Accounts and Interest Receivable, Net | | 4 | 70 | 755 | 292 | 5 | | 1,126 |
| Loans and Interest Receivable, Net | | - | 3,100 | - | - | - | | 3,100 |
| Inventory and Related Property | | 444 | - | 567 | - | - | | 1,011 |
| General Property, Plant and Equipment, Net | | 95,112 | 36,193 | 45,087 | - | 8,234 | | 184,626 |
| Other | | | | | | | | |
| Advances and Prepayments | | 131 | 225 | 5 | 2 | - | | 363 |
| **Total Assets** | $ | 150,930 | 99,440 | 693,682 | 1,401,579 | 93,372 | $ | 2,439,003 |
| **Liabilities** | | | | | | | | |
| Accounts Payable | $ | 8 | 7,962 | 3,012 | 2,821 | 263 | $ | 14,066 |
| Debt | | - | 3,100 | - | - | - | | 3,100 |
| Other | | | | | | | | |
| Accrued Payroll and Benefits | | 1 | 6,940 | 1,450 | 54 | 98 | | 8,543 |
| Advances and Deferred Revenue | | 3,650 | 1,736 | 488,658 | 1,136,984 | - | | 1,631,028 |
| **Total Intragovernmental Liabilities** | | 3,659 | 19,738 | 493,120 | 1,139,859 | 361 | | 1,656,737 |
| Accounts Payable | | 16 | 4,184 | 94,102 | 234,060 | 4,225 | | 336,587 |
| Federal Employees Compensation Act Liability | | - | - | 6,062 | - | - | | 6,062 |
| Environmental Cleanup Costs | | - | - | 1,300 | - | - | | 1,300 |
| Other | | | | | | | | |
| Accrued Payroll and Benefits | | 150 | 15,230 | 9,399 | 432 | 454 | | 25,665 |
| Advances and Deferred Revenue | | - | 782 | 4,731 | 2 | - | | 5,515 |
| **Total Liabilities** | | 3,825 | 39,934 | 608,714 | 1,374,353 | 5,040 | | 2,031,866 |
| **Net Position** | | | | | | | | |
| Unexpended Appropriations | | - | - | 4,827 | - | - | | 4,827 |
| Cumulative Results of Operations | | 147,105 | 59,506 | 80,141 | 27,226 | 88,332 | | 402,310 |
| **Total Net Position** | | 147,105 | 59,506 | 84,968 | 27,226 | 88,332 | | 407,137 |
| **Total Liabilities & Net Position** | $ | 150,930 | 99,440 | 693,682 | 1,401,579 | 93,372 | $ | 2,439,003 |

# Supplemental Balance Sheet
# Combined Working Capital and Franchise Funds
# as of September 30, 2003
### (in thousands)

| *(dollars in thousands)* | Bureau of Land Management | Bureau of Reclamation | Departmental Offices | Interior Franchise Fund | U.S. Geological Survey | **FY 2003** |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| **Intragovernmental Assets:** | | | | | | |
| Fund Balance with Treasury | $ 51,693 | 43,145 | 317,520 | 1,162,552 | 84,029 | $ 1,658,939 |
| Accounts and Interest Receivable, Net | - | 3,483 | 17,668 | 21,847 | - | 42,998 |
| Other | | | | | | |
| Advances and Prepayments | - | 400 | 5,179 | - | - | 5,579 |
| **Total Intragovernmental Assets** | 51,693 | 47,028 | 340,367 | 1,184,399 | 84,029 | 1,707,516 |
| Cash | 55 | - | - | - | - | 55 |
| Accounts and Interest Receivable,Net | 13 | 1,527 | 2,668 | 3 | 1 | 4,212 |
| Loans and Interest Receivable, Net | - | 3,630 | - | - | - | 3,630 |
| Inventory and Related Property | 350 | - | 523 | - | - | 873 |
| General Property, Plant and Equipment, Net | 94,039 | 35,156 | 31,059 | - | 3,421 | 163,675 |
| Other | | | | | | |
| Advances and Prepayments | 136 | - | 49 | - | - | 185 |
| **Total Assets** | $ 146,286 | 87,341 | 374,666 | 1,184,402 | 87,451 | $ 1,880,146 |
| **Liabilities** | | | | | | |
| Accounts Payable | $ 6 | 1,626 | 1,804 | 2,581 | 105 | $ 6,122 |
| Debt | - | 3,630 | - | - | - | 3,630 |
| Other | | | | | | |
| Accrued Payroll and Benefits | 5 | 3,815 | 1,675 | 31 | 71 | 5,597 |
| Advances and Deferred Revenue | - | 2,074 | 216,620 | 872,480 | - | 1,091,174 |
| Deferred Credits | 3,651 | - | - | - | - | 3,651 |
| **Total Intragovernmental Liabilities** | 3,662 | 11,145 | 220,099 | 875,092 | 176 | 1,110,174 |
| Accounts Payable | 551 | 4,941 | 59,019 | 289,484 | 390 | 354,385 |
| Federal Employees Compensation Act Liability | - | - | 7,165 | - | - | 7,165 |
| Environmental Cleanup Costs | - | - | 1,000 | - | - | 1,000 |
| Other | | | | | | |
| Accrued Payroll and Benefits | 124 | 14,070 | 7,724 | 286 | 329 | 22,533 |
| Contingent Liabilities | - | 150 | - | - | - | 150 |
| Other Liabilities | - | 729 | 4,689 | - | - | 5,418 |
| **Total Liabilities** | 4,337 | 31,035 | 299,696 | 1,164,862 | 895 | 1,500,825 |
| **Net Position** | | | | | | |
| Unexpended Appropriations | - | - | 6,201 | - | - | 6,201 |
| Cumulative Results of Operations | 141,949 | 56,306 | 68,769 | 19,540 | 86,556 | 373,120 |
| **Total Net Position** | 141,949 | 56,306 | 74,970 | 19,540 | 86,556 | 379,321 |
| **Total Liabilities & Net Position** | $ 146,286 | 87,341 | 374,666 | 1,184,402 | 87,451 | $ 1,880,146 |

# Supplemental Statement of Net Cost
# Combined Working Capital and Franchise Funds
# for the year ended September 30, 2004
**(in thousands)**

| *(dollars in thousands)* | FY 2004<br>Full Cost of Goods and Services Provided | Related Exchange Revenues | Excess of Full Cost Over Exchange Revenue |
|---|---|---|---|
| Bureau of Land Management | | | |
| Motorized Fleet Program | $ 24,568 | $ (29,604) | $ (5,036) |
| Total Bureau of Land Management | 24,568 | (29,604) | (5,036) |
| | | | |
| Bureau of Reclamation | | | |
| Engineering and Technical Services | 98,213 | (101,547) | (3,334) |
| Administrative Services | 220,218 | (226,405) | (6,187) |
| Computer and Related Services | 15,974 | (13,532) | 2,442 |
| Total Bureau of Reclamation | 334,405 | (341,484) | (7,079) |
| | | | |
| Departmental Offices | | | |
| Aircraft Services | 136,740 | (137,906) | (1,166) |
| Building Management/Rental | 38,368 | (38,996) | (628) |
| Charge Card Rebate | 7,748 | (6,307) | 1,441 |
| Federal Services | 741,154 | (744,860) | (3,706) |
| Y2K/Other | (49) | - | (49) |
| Intra-Bureau Eliminations | (138,106) | 138,106 | - |
| Total Departmental Offices | 785,855 | (789,963) | (4,108) |
| | | | |
| Interior Franchise Fund | | | |
| Government Works Acquisition Services | 1,330,907 | (1,349,056) | (18,149) |
| U.S. Films and Video Productions | 1,700 | (1,700) | - |
| Total Interior Franchise Fund | 1,332,607 | (1,350,756) | (18,149) |
| | | | |
| U.S. Geological Survey | | | |
| Reimbursable Services | 38,316 | (38,451) | (135) |
| Capital Investments | 13,854 | (107) | 13,747 |
| Total U.S. Geological Survey | 52,170 | (38,558) | 13,612 |
| | | | |
| Total Working Capital and Franchise Funds | $ 2,529,605 | $ (2,550,365) | $ (20,760) |

# Supplemental Statement of Net Cost
# Combined Working Capital and Franchise Funds
# for the year ended September 30, 2003
**(in thousands)**

| | FY 2003 | | |
|---|---|---|---|
| | Full Cost of Goods and Services Provided | Related Exchange Revenues | Excess of Full Cost Over Exchange Revenue |
| Bureau of Land Management | | | |
| Motorized Fleet Program | $ 21,566 | $ (27,292) | $ (5,726) |
| Total Bureau of Land Management | 21,566 | (27,292) | (5,726) |
| Bureau of Reclamation | | | |
| Engineering and Technical Services | 97,310 | (98,644) | (1,334) |
| Administrative Services | 222,254 | (205,487) | 16,767 |
| Computer and Related Services | 14,968 | (15,153) | (185) |
| Total Bureau of Reclamation | 334,532 | (319,284) | 15,248 |
| Departmental Offices | | | |
| Aircraft Services | 138,841 | (140,093) | (1,252) |
| Building Management/Rental | 29,850 | (31,279) | (1,429) |
| Charge Card Rebate | 5,297 | (6,246) | (949) |
| Federal Services | 436,774 | (418,611) | 18,163 |
| Y2K/Other | 8 | - | 8 |
| Intra-Bureau Eliminations | (109,565) | 109,565 | - |
| Total Departmental Offices | 501,205 | (486,664) | 14,541 |
| Interior Franchise Fund | | | |
| Government Works Acquisition Services | 1,119,461 | (1,136,973) | (17,512) |
| U.S. Films and Video Productions | 1,472 | (1,472) | - |
| Total Interior Franchise Fund | 1,120,933 | (1,138,445) | (17,512) |
| U.S. Geological Survey | | | |
| Reimbursable Services | 27,286 | (29,433) | (2,147) |
| Capital Investments | 9,514 | (1,633) | 7,881 |
| Total U.S. Geological Survey | 36,800 | (31,066) | 5,734 |
| Total Working Capital and Franchise Funds | $ 2,015,036 | $ (2,002,751) | $ 12,285 |

# Required Supplementary Stewardship Information (Unaudited, See Auditors' Report)

The Department of the Interior is the Federal government's largest land-controlling agency, administering over 500 million acres of America's land mass and serves as steward for the natural and cultural resources associated with these lands. Approximately 437 million acres of the 500 million acres are considered stewardship land. The approximately 437 million acres of stewardship land does not include an estimated 56 million acres of Tribally and individually-owned land held in trust by the Bureau of Indian Affairs. Interior also supervises mineral leasing and operations on an estimated 700 million acres of mineral estate that underlie both Federal and other surface ownerships. These stewardship assets are valued for environmental resources, recreational and scenic values, cultural and paleontological resources, vast open spaces, and the resource commodities and revenue provided to the Federal government, States, and counties.

## Stewardship Lands

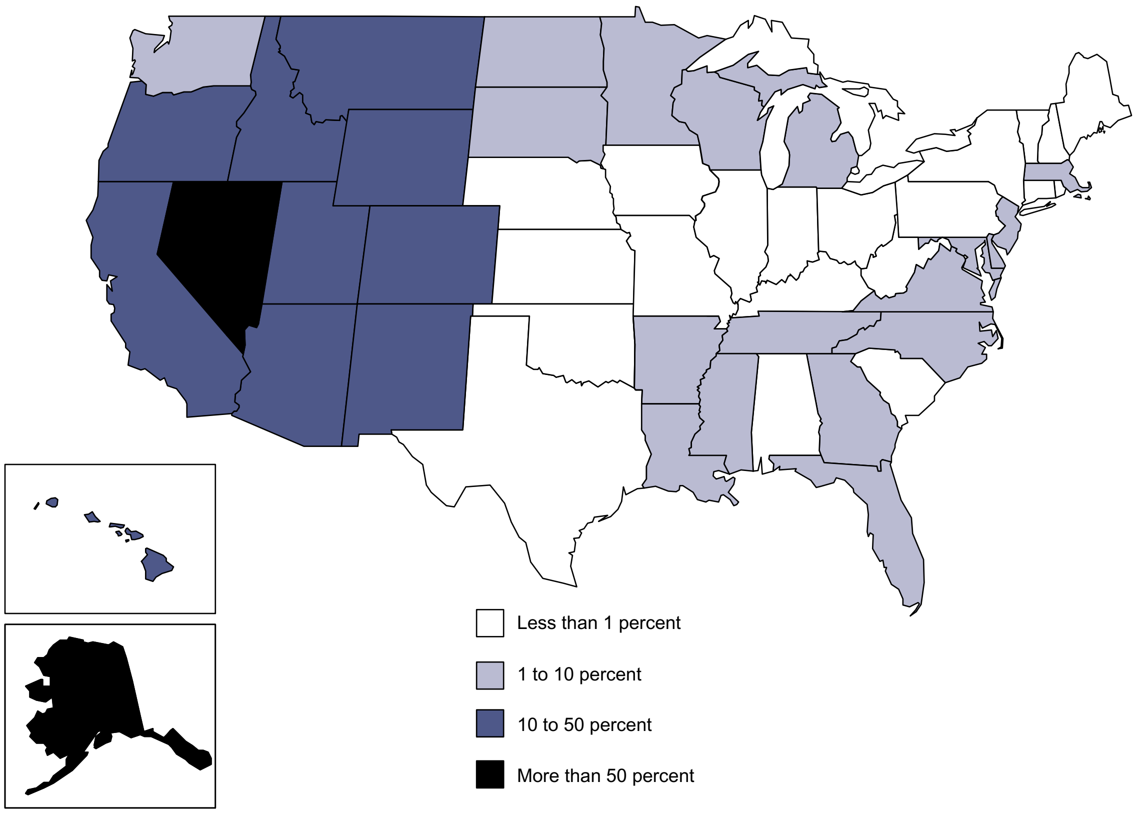
Most of the public lands managed by Interior were once a part of the 1.8 billion acres of public domain lands acquired by the Nation between 1781 and 1867. Each of America's 50 States, the District of Columbia, the Pacific Islands, the Virgin Islands, Guam, and Puerto Rico, contain lands that are managed by Interior (*Figure 3-1*).

Interior-administered stewardship lands are vast and encompass a wide range of activities, including recreation, conservation, and functions vital to the health of the economy and to the American people. These include National Parks, National Wildlife Refuges, Herd Management Areas, National Monuments, and many other lands of 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, 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,

FIGURE 3-1

**State Acreage Managed by Interior (as of September 30, 2004)**




scenic, scientific, and historical values; outdoor recreation; livestock grazing; timber; watersheds; and wildlife and fish habitat.

*Table 3-6* shows the major types of lands administered by each Interior bureau with stewardship responsibilities.

## Major Categories of Stewardship Lands

Interior's stewardship lands include a number of assets that are of special value to the Nation. Interior bureaus have stewardship responsibility for a variety of these stewardship lands. While there is variance between bureaus in the types of lands they are responsible for managing, some of the major categories of stewardship lands are:

### National Monuments

National Monuments are designated to protect objects of scientific and historic interest by public proclamation by the President (under the Antiquities Act of 1906) or by Congress for historic landmarks, historic and prehistoric structures, or other objects of scientific interest on public lands.

### National Trails System

The National Trails System, created by Congress in 1968, is composed of four types of trails: national scenic trails, national historic trails, national recreation trails, and connecting-and-side trails. National Recreation trails and connecting-and-side trails are recognition programs and do not require trail wide Federal administration. The assets associated with National Scenic Trails and National Historic Trails come under the jurisdiction of many different parties, including Federal and State agencies, local governments, Tribal councils, and private landowners. The National Trails Systems Act of 1968 made it Federal policy to recognize and promote trails by providing financial assistance, support of volunteers, and coordination with States.

## TABLE 3-6

# Interior Stewardship Lands as of September 30, 2004

| Category | Federal Acres: 2004 Beginning Acres | Federal Acres: Additions | Federal Acres: Withdrawals | Federal Acres: Ending Acres | Total Non-Federal Acres | Combined Total Acres | Condition 1/ | Number of Sites |
|---|---|---|---|---|---|---|---|---|
| ***Bureau of Land Management Presidential and Congressionally Designated Special Management Areas*** | | | | | | | | |
| National Monuments | 4,806,947 | - | - | 4,806,947 | - | 4,806,947 | See Narrative Section | 15 |
| National Conservation Areas | 13,976,146 | 18,029 | - | 13,994,175 | - | 13,994,175 | | 13 |
| Cooperative Management and Protection Areas | 425,550 | - | - | 425,550 | - | 425,550 | | 1 |
| White Mountain National Recreation Area | 998,772 | - | - | 998,772 | - | 998,772 | | 1 |
| Yaquina Head Outstanding Natural Area | 100 | - | - | 100 | - | 100 | | 1 |
| Wilderness Areas | 6,515,287 | - | - | 6,515,287 | - | 6,515,287 | | 161 |
| National Wild and Scenic Areas | 1,005,652 | - | - | 1,005,652 | - | 1,005,652 | | 38 |
| Headwaters Forest Reserve | 7,400 | - | - | 7,400 | - | 7,400 | | 1 |
| Multiple-Use Public Lands 2/ | 238,991,088 | 42,563 | (162,850) | 238,870,801 | - | 238,870,801 | | |
| Adjustment for Acres Falling in More Than One Management Area 3/ | (4,776,564) | | | (4,776,564) | - | (4,776,564) | | |
| Adjustment for Acres Transferred Between Listed Management Areas & Multiple[-] Use Lands 4/ | | (18,029) | 18,029 | | | | | |
| **Total** | 261,950,378 | 42,563 | (144,821) | 261,848,120 | | 261,848,120 | | 231 |
| ***Fish and Wildlife Service*** | | | | | | | | |
| National Wildlife Refuges | 89,313,000 | 37,600 | - | 89,350,600 | 1,384,377 | 90,734,977 | Acceptable | 544 |
| Refuge Coordination Areas | 197,000 | - | - | 197,000 | 63,544 | 260,544 | Acceptable | 50 |
| Waterfowl Productions Areas | 741,000 | 5,000 | - | 746,000 | 2,325,332 | 3,071,332 | Acceptable | 203 |
| Fish Hatcheries | 13,000 | - | - | 13,000 | 4,337 | 17,337 | Acceptable | 86 |
| **5/ Total** | 90,264,000 | 42,600 | - | 90,306,600 | 3,777,590 | 94,084,190 | | 883 |
| ***National Park Service*** | | | - | | | | | |
| National Parks | 49,671,908 | 214,483 | - | 49,886,391 | 2,075,000 | 51,961,391 | Acceptable | 58 |
| National Preserves | 22,030,287 | 2,428 | - | 22,032,715 | 2,123,183 | 24,155,898 | Acceptable | 18 |
| National Battlefields | 12,291 | 26 | (2) | 12,315 | 1,177 | 13,492 | Acceptable | 11 |
| National Battlefield Parks | 8,714 | 67 | - | 8,781 | 1,694 | 10,475 | Acceptable | 4 |
| National Historic Sites | 21,678 | 125 | - | 21,803 | 15,893 | 37,696 | Acceptable | 77 |
| National Historical Parks | 118,526 | 3,290 | - | 121,816 | 45,467 | 167,283 | Acceptable | 41 |
| National Lakeshores | 145,688 | 184 | - | 145,872 | 83,002 | 228,874 | Acceptable | 4 |
| National Military Parks | 36,478 | 243 | - | 36,721 | 4,051 | 40,772 | Acceptable | 9 |
| National Memorials | 8,082 | 111 | (3) | 8,190 | 2,352 | 10,542 | Acceptable | 29 |
| National Monuments | 2,151,941 | 7,079 | (61,965) | 2,097,055 | 179,956 | 2,277,011 | Acceptable | 73 |
| National Recreational Areas | 3,390,191 | 796 | - | 3,390,987 | 301,678 | 3,692,665 | Acceptable | 18 |
| National Reserves | 11,579 | 1,597 | - | 13,176 | 21,495 | 34,671 | Acceptable | 2 |
| National Rivers | 312,389 | 7,543 | - | 319,932 | 106,420 | 426,352 | Acceptable | 5 |
| National Scenic Trails | 167,121 | 2,380 | - | 169,501 | 68,522 | 238,023 | Acceptable | 3 |
| National Seashores | 479,056 | 233 | - | 479,289 | 115,790 | 595,079 | Acceptable | 10 |
| National Wild & Scenic Rivers | 73,887 | - | - | 73,887 | 246,117 | 320,004 | Acceptable | 10 |
| International Historic Sites | 28 | - | - | 28 | 16 | 44 | Acceptable | 1 |
| National Parkways | 164,977 | 864 | - | 165,841 | 10,504 | 176,345 | Acceptable | 4 |
| Other Stewardship Land | 38,003 | 370 | - | 38,373 | 1,755 | 40,128 | Acceptable | 11 |
| **Total** | 78,842,824 | 241,819 | (61,970) | 79,022,673 | 5,404,072 | 84,426,745 | | 388 |
| ***Bureau of Reclamation - Reclamation Project Lands-Withdrawn 6/*** | 5,861,154 | - | (136,156) | 5,724,998 | - | 5,724,998 | Acceptable | - |
| ***Bureau of Indian Affairs7/*** | | | | | | | Acceptable | |
| Cultural | 91 | - | - | 91 | - | 91 | | |
| Schools and Housing | 46,587 | | (149) | 46,438 | - | 46,438 | Acceptable | - |
| Offices/Industrial | 1,605 | 3 | - | 1,608 | - | 1,608 | Acceptable | |
| Reclamation and Irrigation | 150,483 | 462 | - | 150,945 | - | 150,945 | Acceptable | - |
| Agricultural | 6,439 | - | - | 6,439 | - | 6,439 | Acceptable | |
| **Total** | 205,205 | 465 | (149) | 205,521 | - | 205,521 | | - |
| ***Departmental Offices -Utah Reclamation Mitigation and Conservation Commission*** | 12,380 | 671 | (320) | 12,731 | - | 12,731 | 11,909 acres- 882 acres- needs intervention | 2 |
| **TOTAL ACRES** | **437,135,941** | **328,118** | **(343,416)** | **437,120,643** | **9,181,662** | **446,302,305** | | **1,504** |

1/ Land is categorized as "acceptable when it is adequate for operating needs and the Department has not identified any improvements that are necessary to prepare and/or sustain the land for its intended use. Land is categorized as "needs intervention" when the Department has identified improvements that are necessary to prepare and/or sustain the land for its intended use.

2/ Total acres for multiple-use lands excludes those acres falling within one or more of the special management areas listed above.

3/ Numerous Bureau of Land Management (BLM) managed acres fall within two or more special management area classifications. To avoid multiple counting of overlapping areas, this line adjusts for the sum of known overlapping acres within the reported special management areas.

4/ This line adjusts for transfers of land between the reported categories that result in decreases and increases between categories but do not represent actual changes in the BLM-managed acreage quantity.

5/ This total includes lands owned by the Fish and Wildlife Service (FWS) and excludes approximately 2 million acres of land for which FWS has a secondary interest.

6/ The difference of 136,156 acres is a result of an intensive land reconciliation effort to research, correct, and reconcile Bureau of Reclamation (BOR) land records with project financial records and does not represent actual acquistions or withdrawals of new withdrawn lands for project purposes.

7/ This total does not include approximately 56 million acres of tribally and individually owned land held in trust status by the Bureau of Indian Affairs; this acreage is not considered stewardship land.

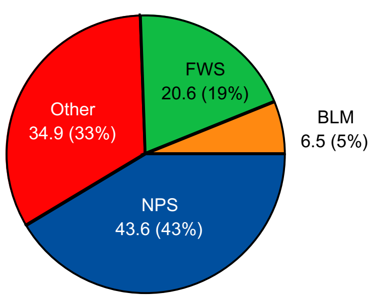
National Scenic Trails are to be continuous trails over 100 miles in length that provide "maximum (non-motorized) outdoor recreation potential." They also become corridors of conservation for the significant resources associated with the trail. National Historic Trails follow the original routes of nationally significant routes of travel; they need not be continuous. The routes and associated historic remnants are to be protected for public use and enjoyment. Together, these 23 trail corridors measure more than 40,000 miles in combined length and cross 56 national park areas and 96 national forests. In addition, almost 6,000 miles of trails cross lands under the administration of the Bureau of Land Management (BLM). NPS currently administers 16 of 23 scenic and historic trails in the National Trails System and administers two others jointly with BLM.

### National Wilderness Areas

Wilderness Areas are Federal lands that have been designated by Congress and are devoted to the public purposes of recreational, scenic, scientific, educational, conservation, and historical use (*Figure 3-2*). These areas, which are generally greater than 5,000 acres, appear 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.

FIGURE 3-2

**National Wilderness Preservation System (acres in millions)**



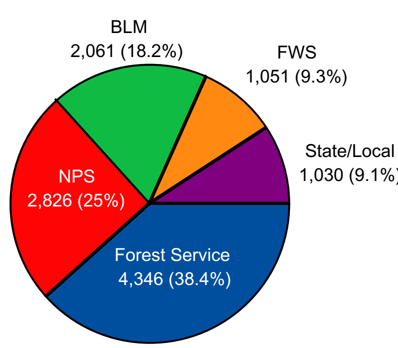

### National Wild and Scenic Rivers System

Rivers must meet eligibility criteria before being added to the National Wild and Scenic Rivers System (*Figure 3-3*). For a river to be eligible for the National System, it must be in a free-flowing condition and possess one or more of the following values to a remarkable degree: scenic, recreation, fish and wildlife, geologic, historic, cultural, or other similar values. When evaluating rivers for possible designation, Interior also considers whether the river meets suitability factors such as: the amount of public land acreage in the immediate environment of the river; funds required for acquisition, facility development and management; local or State interest in helping to manage the river; support for designation; and competing uses for the river. Studies to determine eligibility may be the responsibility of either the Department of the Interior (the National Park Service, the Fish and Wildlife Service, and the Bureau of Land Management), the Department of Agriculture (the U.S. Forest Service), or the shared responsibility of both agencies. Congress then decides whether to add the river to the National Wild and Scenic Rivers System. Only an Act of Congress may remove a river from the System.

A second method of designation, under Section 2(a)(ii) of the Wild and Scenic Rivers Act of 1968, is for a State Governor to request Federal designation of a State-designated, State-administered wild and scenic river and for the Secretary of the Interior, after study, to designate that river. Only 17 rivers have entered the National System by this method. Currently, there are 163 rivers in the National Wild and Scenic Rivers System.

FIGURE 3-3

**National Wild and Scenic Rivers System (in miles)**



## Bureau Stewardship Lands

### Bureau of Land Management

BLM has stewardship responsibility for the multiple-use management of natural resources on approximately 262 million acres of public land. BLM also has trust responsibilities on 56 million acres of Indian trust lands for mineral operations and cadastral (land) survey. BLM land management programs include major efforts in preserving significant cultural and natural features; creating opportunities for commercial activities; protecting endangered species; and developing opportunities for recreation and leisure activities. BLM is responsible for protecting public health, safety, and resources; managing wild horses and burros; managing wildlife habitat and fisheries; administering mining laws; managing rangelands, overseeing forest management, development, and protection; protecting wilderness; restoring riparian areas and wetlands; and managing wild and scenic rivers.

BLM is guided by the principles of multiple use and sustained yield in managing the public lands—principles that are shaped by both tradition and statute. Historically, multiple use has meant that the same area of land can be used simultaneously for two or more purposes, often by two or more different persons or groups. These uses may be complementary or, as is frequently the case, competitive with one another. This long-term BLM management practice was codified with the enactment of the Federal Land Policy and Management Act (FLPMA). Recognizing the value of the remaining public lands to the American people, Congress declared that these lands generally would remain in public ownership and defined multiple use as "management of the public lands and their various resource values so they are utilized in the combination that will best meet the present and future needs of the American people."

There was a net decrease in BLM-managed lands of 102,258 acres during FY 2004. This decrease resulted from the net effect of acquisitions (purchases), disposals (sales), exchanges (both transfers in and out, frequently together with an equalization payment by one of the parties), withdrawals, restoration transactions, and audits/reviews (corrections) of records.

On *Table 3-1*, the total sum of the special management area acres and multiple-use acres will not equal the total BLM acreage reported on this line. This is attributable to two factors. First, numerous BLM-managed acres fall under two or more special management area categories. To avoid multiple counting of overlapping special management area acres, the sum of special management area acres and multiple-use acres is adjusted to eliminate known overlapping. Second, newly designated special management areas do not necessarily result in an increase in BLM-managed acres, and rescinding a special management classification for certain acres does not necessarily result in a decrease in BLM-managed acres. Frequently, lands are merely transferred between special management areas and the multiple-use classification. These transfers result in decreases and increases between the classifications but do not represent an actual change in the BLM-managed acreage.

### Fish and Wildlife Service

Stewardship lands managed by the Fish and Wildlife Service (FWS) include the National Wildlife Refuge System, the National Fish Hatcheries Program, Refuge Coordination Areas, and Waterfowl Production Areas. 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 the following: the Migratory Bird Conservation Fund, the Land and Water Conservation Fund, and the North American Wetlands Conservation Act.

Lands managed within the National Wildlife Refuge System are used to conserve and manage fish, wildlife, and plant resources for the benefit of present and future generations. While the needs of fish and wildlife must take priority, refuges welcome those who want to enjoy the natural world, to observe or photograph wildlife, to hunt or fish, and to study and learn about wildlife.

Stewardship of the Nation's fishery and aquatic resources, through the National Fish Hatcheries System (NFHS) has been a core responsibility of FWS for more than 120 years. Although FWS does not own all the lands and facilities in the NFHS, it participates in managing units within the NFHS, which comprises National Fish Hatcheries, Fish Health Centers, and

Fish Technology Centers. In addition to conservation, restoration, and management of fish and wildlife resources and their habitats, the NFHS provides recreational opportunities to the public, such as fishing, hiking, and bird watching.

FWS safeguards the stewardship values of the lands it administers through management actions taken on individual refuges and hatcheries; such actions, however, take into consideration the needs and purposes of entire conservation systems. These conservation systems provide integrated habitat and life support for permanent resident populations as well as migratory populations needing temporary stopover sites to rest, breed, feed, and to survive their nationwide and, in some cases, worldwide seasonal migrations. While some individual units of stewardship lands can be improved at any time during their management cycles, the condition of the stewardship lands as a whole is sufficient to support the mission of FWS and the statutory purposes for which these conservation systems were authorized.

During FY 2004, FWS had a net increase of approximately 42,600 acres of stewardship lands. These lands provide permanent protection for valuable wetland, riparian, coastal and upland habitat for fish, wildlife and plant species, including threatened and endangered species. FWS added two sites to the number of units in the National Wildlife Refuge System, increasing the number of refuges from 542 to 544. The Theodore Roosevelt National Wildlife Refuge and the Holt Collier National Wildlife Refuge were both established in Mississippi. Both refuges were created from lands currently administered as part of the National Wildlife Refuge System. As the result of further research, FWS has determined that approximately 2.0 million acres reported as non-Federal acres in the FY 2003 report are actually owned by other Federal agencies and accordingly, are not included in this report.

## National Park System Lands

National Park Service (NPS) stewardship lands are used and managed in accordance with the statutes authorizing their acquisition or directing their use and management. Stewardship areas, such as wilderness areas, may encompass land owned by entities other than NPS. Changes in NPS boundaries occur only when authorized by Presidential Proclamation or by an Act of Congress.

The objective of acquiring land and interest in land is to preserve and protect, for public use and enjoyment, the historic, scenic, natural, and recreational values of congressionally authorized areas within the National Park System. Acquisition of land helps to meet the increasingly heavy visitor demand for Federal recreational use before the lands are converted to incompatible uses. Acquisition of land also preserves the Nation's natural and historic heritage. The 388 units of the National Park System contain approximately 84 million acres within their boundaries. Of this total, approximately 79 million acres are owned by the United States in fee simple title and approximately 253,000 acres in less-than-fee title (i.e., scenic easements). Non-Federal lands within the NPS system are either privately-owned (approximately 4.2 million acres) or owned by State and local governments (approximately 1.2 million acres). Subject to the availability of funds, privately-owned land will be acquired when opportunities for acquisition arise, or when an owner uses or threatens to use the property in a manner not compatible with park purposes. Through acquisitions, status changes, withdrawals, and error corrections, NPS added 241,819 acres and withdrew 61,970 acres.

Examples of recent land additions include:

- NPS purchased an undivided 8/11th interest in the 115,788 acre Kahuku Ranch in Hawaii Volcanoes National Park. This acquisition prevented the loss of threatened and endangered species and their habitats.

- NPS purchased from the Heartland Forestland Fund a tract containing 6,753 acres of undeveloped land at New River Gorge National River in West Virginia.

- At Jean Lafitte National Historical Park and Preserve in Louisiana, NPS acquired 2,809 acres from the Louisiana Land and Exploration Company.

- NPS accepted the donation of four tracts totaling 519.1 acres at Joshua Tree National Park in California. The tracts were donated by the Wildland Conservancy.

- P.L. 103-32 (May 25, 1993) authorized the American Battle Monuments.

- Commission to establish a World War II Memorial in Washington D.C., or its environs. The Memorial was officially dedicated on May 29, 2004. Because the site for the memorial was located on land already in Federal ownership, no land acquisition was necessary.

Land withdrawals or status changes occurred at several units:

- P.L. 108-108 (November 10, 2003) redesignated Congaree National Monument (21,535 acres) as a National Park.

- Oklahoma City National Memorial was redesignated as an affiliated area by P.L. 108-199 (January 24, 2004) and is no longer counted among the 388 units of the National Park System. The 3.12 acres of Federal land at the memorial is to be transferred to the Oklahoma City National Memorial Foundation.

- Pursuant to P.L. 106-530 (September 12, 2004) Great Sand Dunes National Monument (40,437 acres) was redesignated the Great Sand Dunes National Park.

NPS stewardship lands are used and managed in accordance with the statutes authorizing their acquisition 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 affect the natural state of the land.

### Bureau of Reclamation Project Lands

The Bureau of Reclamation (BOR) operates largely as a business-type entity whose primary stated mission is to manage, develop, and protect water and related resources in an environmentally and economically sound manner in the interest of the American public. BOR provides water and power throughout the 17 western States.

Reclamation lands are integral to project purposes, such as constructing and operating dams, reservoirs, water conveyance systems, and power facilities. Project lands were either acquired at a cost to the Reclamation project or withdrawn from the public domain in support of BOR's mandate to provide water for agricultural, municipal, and industrial uses, flood control, and power. While Reclamation lands are acquired or withdrawn for specific project purposes, other multipurpose uses of land occur. For example, if the use does not interfere with project purposes for which the land was withdrawn or acquired, other activities such as boating, camping, fishing, wildlife management, and livestock grazing may be authorized.

The term "Reclamation withdrawn lands" refers to those lands withdrawn from public entry and set aside for authorized Reclamation purposes. Of BOR's approximately 8,700,000 total acres of land, approximately 5,800,000 acres of withdrawn land were transferred to BOR from BLM and the U.S. Forest Service, at no cost to the project beneficiaries, for use in constructing authorized BOR projects. Of its approximately 8,700,000 acres of land, BOR considers only the approximately 5,800,000 acres of withdrawn land to be stewardship land because these lands were acquired at no cost to the Department.

### Bureau of Indian Affairs Land

Bureau of Indian Affairs (BIA) stewardship lands encompass a wide range of activities, including recreation, conservation, and functions vital to the culture and livelihood of American Indians and Alaska Natives. BIA stewardship lands also include cultural sites, which consist primarily of fishing sites where only Tribal members are provided access to rivers for fishing; schools and housing, which consists primarily of home sites both Tribal and non-Tribal, and land associated with numerous Indian schools; office and industrial sites which are used primarily for office space, water treatment plants, roads shops, and storage facilities; reclamation and irrigation lands used for numerous irrigation projects; and agricultural lands which are used primarily for farming and grazing. BIA stewardship land does not include approximately 56 million acres of Tribally and individually-owned land held in trust by the bureau.

### Departmental Offices Land - Utah Reclamation Mitigation and Conservation Commission

The Utah Reclamation Mitigation and Conservation Commission (Commission) was established by

Congress in 1994 under the Central Utah Project Completion Act. The Commission's mission is to replace or offset the loss in Utah of fish and wildlife resources and related recreational opportunities caused by the acquisition, construction, and operation of Reclamation project assets such as dams, power plants, roads, pipelines, aqueducts, operation and maintenance buildings, and visitor centers. Land acquired and investments made in order to mitigate for the loss of fish and wildlife resources caused by Reclamation project construction are not essential or integral parts of the dam, pipeline, etc., and are not "acquired for in connection with the construction" of the project assets, even if the fish and wildlife mitigation is achieved in the immediate vicinity of the project asset.

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

In FY 2004, the Commission acquired 260 acres of wetlands around Utah Lake and provided an additional 50 acres of angler access along the Strawberry River.

## Summary of Types of Stewardship Lands

Interior bureaus are responsible for managing a wide variety of stewardship lands including rangelands, forestlands, riparian areas, wetlands, lakes, reservoirs, streams, grasslands, swamps, marshes, and seashores. In addition to the lands administered by Interior bureaus, additional stewardship lands managed by the Department are not Federally-owned. The NPS contains approximately 5 million acres owned by State and local governments and private landowners. The NPS has no management responsibility for these lands except in cases where cooperative agreements with landowners authorize direct Federal land management.

Lands managed by BLM, the Department's largest land management bureau with approximately 262 million acres, represent 42% of the lands under Federal ownership. BOR's stewardship lands are unique in that large portions of these lands lie under water. BIA, bound by its responsibility to sovereign Indian Tribes and Alaska Natives, holds in trust status approximately 56 million acres of Tribally and individually-owned land that are not considered stewardship land.

## Condition of Stewardship Lands

The Department is required to report on the condition of stewardship land. The categories the Department uses in relation to the condition of stewardship land are "acceptable" or "needs intervention." Land is categorized as being in "acceptable" condition when it is adequate for operating needs and the bureau has not identified any improvements to the land that are necessary to prepare and/or sustain the land for its intended use. For example, park lands, wilderness lands, deserts, and lands that are under water due to dams and reservoirs would normally be in acceptable condition.

When a bureau has determined that improvements are necessary for the land itself to meet operating needs, the land is categorized as that which "needs intervention." This category would generally pertain to land that is used for special purposes, such as grazing.

BLM assesses the condition of the lands it manages based on the land type and the multiple use and sustained yield goals identified through the land use planning process. The categories of condition used by BLM for the land it manages are shown in *Table 3-7*.

FWS assesses the condition of its stewardship land and resources by monitoring habitat characteristics and determining whether management actions are needed to change those characteristics to benefit their usefulness to fish and wildlife resources. The condition of these stewardship lands is not static. Land or habitat condition may be changing, either through the application of management techniques or through natural stressors or processes acting on those lands. It is the goal of FWS to provide habitat that optimizes the usefulness of stewardship lands to benefit fish and wildlife resources. While

TABLE 3-7

## Condition of BLM Land by Type

| Land Type | Acres (millions) | Miles | Condition 1/ | % of Land |
|---|---|---|---|---|
| **Rangeland** | | 0 | Potential natural community (excellent) | 20% |
| a. Alaska Rangeland (Reindeer grazing permits: 1.2 million acres) | 5 | | Late seral | 80% |
| | | | *Total Acceptable* | 100% |
| b. Continental USA Rangelands | 159 | 0 | Potential natural community | 4% |
| | | | Late seral | 18% |
| | | | Mid seral | 22% |
| | | | *Subtotal Acceptable* | 44% |
| | | | Early seral | 8% |
| | | | *Subtotal Needs Intervention* | 8% |
| | | | Unknown/Uncategorized2/ | 48% |
| **Forested Land** | | | | |
| a. Forests | 11 | 0 | Acceptable -9 million acres | |
| b. Woodlands | 44 | 0 | Needs Intervention - 14 million acres 3/ | |
| | | | Unknown - 32 million acres | |
| | | | | |
| Riparian Areas and Wetlands | | | Alaska | |
| a. Riparian Areas | 10 | 144,000 | Properly Functioning | 100% |
| | | | Nonfunctional | trace |
| | | | Unknown | trace |
| | | | *Subtotal Acceptable* | 100% |
| | | | Lower 48 states | |
| | | | Properly Functioning | 44% |
| | | | *Subtotal Acceptable* | 44% |
| | | | Functioning but at risk | 40% |
| | | | Nonfunctional | 8% |
| | | | *Subtotal Needs Intervention* | 48% |
| | | | Unknown | 8% |
| | | | | |
| b. Wetlands | 13 | 0 | Alaska | |
| | | | Property Functioning | 98% |
| | | | *Subtotal Acceptable* | 98% |
| | | | Unknown | 2% |
| | | | | |
| | | | Lower 48 states | |
| | | | Properly Functioning | 67% |
| | | | *Subtotal Acceptable* | 67% |
| | | | Functioning but at Risk | 19% |
| | | | Nonfunctional | 2% |
| | | | *Subtotal Needs Intervention* | 21% |
| | | | Unknown | 12% |
| Aquatic Areas (Lakes,Reservoirs, and Streams) | 3 | 116,485 | Alaska - Good (Acceptable) | |
| | | | Lower 48 states - Unknown | |
| Other Habitat | 17 | 0 | Unclassified | |
| **Totals** | 262 | 260,485 | | |

1/ Explanation of types of condition: These descriptions are a composite of rangeland condition since nearly half of of the rangelands on public lands have not been classified under the newer ecologically based classification. The older range condition classifications as described on this table rate the rangelands ability to produce forage. Seral is a series of stages in ecological succession. A potential natural community means current vegetation is between 76 and 100 percent similar to the potential natural plant community.

2/ The "unknown/uncategorized" condition for "Rangeland" refers to lands that have not been inventoried for condition, have been inventoried under a non-ecologically based classification, or have been inventoried for condition but cannot be categorized to a seral status because they lack the ability to produce vegetation.

3/ The BLM estimates that approximately 14 million acres are in need of ecological restoration work, including mechanical forest thinning/fuel reduction, prescribed fire treatments, and tree species reintroduction.

some individual units of stewardship lands can be improved at any time during management cycles, the condition of the stewardship lands as a whole, which are protected by inclusion in both the National Wildlife Refuge System and the National Fish Hatcheries System, is sufficient to support the mission of FWS and the statutory purposes for which these conservation systems were authorized.

While individual units of stewardship land can be improved, the condition of NPS stewardship lands as a whole is generally sufficient to support the NPS mission and is considered to be in acceptable condition. NPS conducts various activities to preserve and protect land resources and to mitigate the effects of activities conducted previously on or near parks that adversely affect the natural state of the land.

BOR safeguards its withdrawn lands to protect them against waste, loss, degradation, and misuse. These lands are managed consistent with their intended use in accordance with Federal laws and regulations, and are not materially degraded under Federal care. BOR conducts site reviews on a 5-year cycle. Periodic reviews are performed; it is, however, not feasible or cost-effective to do full condition assessments of all Reclamation lands, a large portion of which lie under water or structures. Additionally, there are large tracts of inaccessible wilderness surrounding Reclamation reservoirs, which would be difficult and costly to assess. BOR, however, considers the condition of Reclamation lands to be acceptable. The lands are managed and protected in a manner sufficient to support the mission of BOR and in a manner that is consistent with the statutory purposes for which the lands were withdrawn or otherwise acquired.

## Heritage Assets

Interior is steward for a large, varied, and scientifically important body of heritage assets, both non-collectible and collectible in nature. Non-collectible heritage assets include archeological and historic sites, paleontological sites, historic and prehistoric structures, cultural landscapes, and other resources. Many are listed on the National Register of Historic Places, acknowledging their importance to American history. Some are National Historic Landmarks that are exceptional in illustrating the heritage of the United States. Cultural landscapes are complex resources that range in size from large rural tracts to small formal gardens. Collectible heritage assets include library and museum collections.

Heritage assets administered by the Department are unique in that many assets are interrelated and often overlap various categories of heritage assets, including stewardship lands. Some stewardship land assets are also considered to be non-collectible cultural and natural heritage assets, such as national parks and fish and wildlife refuges. Also, subsets of lands within the National Park System may have additional stewardship asset designations such as wilderness areas, wild and scenic rivers, trails, national battlefields, and national recreation areas; all of these assets may be listed separately on the National Register of Historic Places. Likewise, a national park may lie within cultural and natural heritage assets such as historic landmarks or monuments, or archeological and paleontological sites may lie within the boundaries of a national park. Congress may designate national monuments to protect historic landmarks, historic and prehistoric structures, or other objects of historic or scientific interest on public lands.

The National Register of Historic Places, which is administered by the National Park Service, includes heritage assets such as national monuments, archeological districts, trails, landscapes, historic districts, campsites, structures, paleontological sites, historic objects, fish hatcheries, petroglyphs, lighthouses, and cemeteries. Illustrative of the overlap and relationship between heritage assets is the fact that all historic areas within the National Park System are listed on the National Register. Over 2,300 National Historic Landmarks, which have been designated by the Secretary of the Interior because of their importance to the Nation, are among the approximately 78,000 listings that make up the National Register.

### Non-Collectible Cultural and Natural Heritage Assets

Interior's heritage assets come from public domain or acquired lands, historic properties under Interior's management, and donations. Interior has a responsibility to inventory, preserve, and interpret these resources for the benefit of the American public and does not normally dispose of such property.

TABLE 3-8

## Non-Collectible Cultural and Natural Heritage Assets (as of September 30, 2004)

| Category | Designation: [C=Cultural, N=Natural Heritage Asset] | Beginning balance (units) | Additions (units) | Withdrawals (units) | Ending balance (units) | Condition of Units (%) 1/ Good | Fair | Poor | Unknown |
|---|---|---|---|---|---|---|---|---|---|
| **Bureau of Land Management** | | | | | | | | | |
| Archeological and Historic Sites | C | 263,179 | 8,585 | (290) | 271,474 | | | | 100% |
| National Historic Landmarks | N | 22 | - | (1) | 21 | | | | 100% |
| Natural Heritage Special Management Areas | N | 2,278 | 49 | (22) | 2,305 | | | | 100% |
| Paleontological Sites | N | - | 61 | - | 61 | | | | 100% |
| National Register of Historic Places | | | | | | | | | |
| Listings | N | 293 | 110 | - | 403 | | | | 100% |
| Contributing Properties | N | 4,338 | 198 | (288) | 4,248 | | | | 100% |
| World Heritage Properties | N | 5 | - | - | 5 | | | | 100% |
| **Total 2/** | | **265,457** | **9,003** | **(601)** | **273,859** | | | | |
| **National Park Service** | | | | | | | | | |
| Archeological and Historic Sites | C | 57,752 | 3,765 | (662) | 60,855 | 24% | 17% | 7% | 52% |
| Cultural Landscapes 3/ | C | 2,830 | 6 | (2,656) | 180 | 33% | 58% | 9% | 0% |
| Historic and Prehistoric Structures 4/ | C | 26,501 | 380 | (296) | 26,585 | 45% | 38% | 13% | 4% |
| National Historic Landmarks | C | 153 | 27 | (3) | 177 | 85% | 0% | 15% | 0% |
| National Park System | C,N | 388 | 1 | (1) | 388 | 100% | 0% | 0% | 0% |
| Paleontological Sites (localities)5/ | N | 5,149 | 371 | (1,835) | 3,685 | 46% | 3% | 0% | 51% |
| **Total** | | **92,773** | **4,550** | **(5,453)** | **91,870** | | | | |
| **Bureau of Reclamation** | | | | | | | | | |
| Archeological and Historic Sites 6/ | C,N | 1,554 | 172 | (39) | 1,687 | 9% | 1% | 8% | 83% |
| National Historic Landmarks | C,N | 5 | - | - | 5 | 60% | 0% | 20% | 20% |
| National Register of Historic Places | C,N | 54 | 4 | - | 58 | 19% | 10% | 3% | 68% |
| Paleontological Sites 7/ | C,N | - | 175 | - | 175 | 0% | 1% | 0% | 99% |
| **Total** | | **1,613** | **351** | **(39)** | **1,925** | | | | |
| **Fish and Wildlife Service** | | | | | | | | | |
| Archeological and Historic Sites | C | 12,022 | - | - | 12,022 | 0% | 5% | 0% | 95% |
| National Historic Landmarks | C | 9 | - | - | 9 | 0% | 0% | 0% | 100% |
| National Register of Historic Places | C | 85 | - | - | 85 | 0% | 20% | 0% | 80% |
| Wildlife Refuges | N | 542 | 2 | - | 544 | 0% | 100% | 0 | 0% |
| **Total** | | **12,658** | **2** | **-** | **12,660** | | | | |
| **Bureau of Indian Affairs** | | | | | | | | | |
| Archeological and Historic Sites | N | - | 30 | - | 30 | | | | 100% |
| National Register of Historic Places | C,N | 17 | - | - | 17 | 35% | 12% | 53% | 0% |
| **Total** | | 17 | 30 | - | 47 | | | | |
| **TOTALS 8/** | | | | | | | | | |
| Archeological and Historical Sites | | 334,507 | 12,522 | (991) | 346,038 | | | | |
| Cultural Landscapes | | 2,830 | 6 | (2,656) | 180 | | | | |
| Historic and Prehistoric Structures | | 26,501 | 380 | (296) | 26,585 | | | | |
| Natural Heritage Special Management Areas | | 2,278 | 49 | (22) | 2,305 | | | | |
| National Historic Landmarks | | 189 | 27 | (4) | 212 | | | | |
| National Park System | | 388 | 1 | (1) | 388 | | | | |
| National Register of Historic Places | | 4,787 | 312 | (288) | 4,811 | | | | |
| Paleontological Sites | | 5,149 | 607 | (1,835) | 3,921 | | | | |
| Wildlife Refuges | | 542 | 2 | - | 544 | | | | |
| World Heritage Properties | | 5 | - | - | 5 | | | | |
| **Total** | | **377,176** | **13,906** | **(6,093)** | **384,989** | | | | |

1/ "Good" condition means a site shows no clear evidence of negative disturbance or deterioration by natural forces or human activities; "fair" means that a site shows clear evidence of negative disturbances or deterioration by natural forces and/or human activities; "poor" means that a site shows clear evidence of human activities and no corrective actions have been taken to protect and preserve the integrity of the site; "unknown" conditions may mean that, due to the nature of the site, such as underwater sites, the condition cannot be determined or that due to financial constraints, the condition of a site cannot be determined.

2/ To avoid double or triple counting of specific assets, the sum of the columns do not equal the reported total quantities. National Historic Landmarks are a subcategory of the National Register of Historic Places-Contributing Properties. In most cases, one or more Contributing Properties make up a National Register of Historic Places Listing, but in some cases a BLM listing does not have a contributing property(ies) because while the site land is owned by BLM, the structures(s) is (are) not owned by BLM. National Register of Historic Places - Contributing Properties and World Heritage Properties are subcategories of the Archeological and Historic Sites category. In addition, 46 of the 61 Paleontological Sites are reported in the Natural Heritage Special Management Areas category.

3/ In FY 2004, the NPS changed the way it reports the number of cultural landscapes. In previous years, the cultural landscapes reported included those potentially eligible and those determined eligible for the National Register, and those managed as cultural landscapes because of responsibilities established by legislation or decisions made through the park planning process. Beginning with FY 2004, the cultural landscapes reported will include only those determined eligible for the National Register and those managed as cultural landscapes because of responsibilities established by legislation or decisions made through the park planning process.

4/ In 2004, the NPS implemented a new strategic goal related to recording and reporting historic and prehistoric structures information consistent with established procedures and controls.

5/ Paleontological localities include additions from FY 2003 that were not previously reported and new FY 2004 discoveries.

6/ This category includes only archeological and historical properties that have been determined to be eligible for listing in the National Register of Historic Places.

7/ Paleontological sites were not reported for Reclamation in the FY 2003 PAR.

Interior's non-collectible heritage assets are described in *Table 3-8*.

***Archeological and Historic Sites.*** Archeological sites are locations that contain material remains or physical evidence of past human activity. Archeological sites include prehistoric structures, middens, and roadways, such as those found on many of the lands managed by the Department in the southwest. Sites also include the ancient earthen mounds in the Midwestern and southern parts of the Nation, many of them managed by Interior bureaus. Other archeological sites come from historic times and are associated with the settlement of the United States by Euro-Americans, African-Americans, and Asian-Americans.

The Historic Sites, Buildings and Antiquities Act of 1935 authorized the preservation for public use of historic sites, buildings, and objects of significance for the inspiration and benefit of the American people. The Act gives the Secretary of the Interior the authority to secure, collate, and preserve drawings, plans, photographs, and other data of historic and archeological sites, buildings, and objects. The Secretary is also authorized to survey historic and archeological sites, buildings, and objects to determine which sites, buildings, and objects possess exceptional value as commemorating or illustrating the history of the United States.

***Cultural Landscapes.*** A cultural landscape is a geographic area, including both natural and cultural resources, associated with an historic event, activity, or person. The Department recognizes four cultural landscape categories:

**1. Historic designed landscapes** – A landscape significant as a design or work of art; was consciously designed and laid out either by a master gardener, landscape architect, architect, or horticulturalist; or by an owner or other amateur according to a recognized style or tradition; has a historical association with a significant person, trend or movement in landscape or gardening or architecture; or a significant relationship to the theory or practice of landscape architecture.

**2. Historic vernacular landscapes** – A landscape whose use, construction, or physical layout reflects endemic traditions, customs, beliefs, or values; in which the expression of cultural values, social behavior, and individual actions over time is manifested in physical features and materials and their interrelationships, including patterns of spatial organization, land use, circulation, vegetation, structures, and objects; in which the physical, biological, and cultural features reflect the customs and everyday lives of people.

**3. Historic sites** – a landscape significant for its association with a historic event, activity, or person.

**4. Ethnographic landscapes** – areas containing a variety of natural and cultural resources that associated people define as heritage resources, including plant and animal communities, geographic features, and structures, each with their own special local names. These landscapes individually meet the criteria of the National Register of Historic Places, are contributing elements of sites or districts that meet National Register criteria, or have value to associated communities.

### Historic and Prehistoric Structures

Historic and prehistoric structures are constructed works consciously created to serve some human activity or purpose. These structures include buildings and monuments, dams, canals, stockades and fences, defensive works, temple mounds and kivas, ruins of all structural types, and outdoor sculptures. Structures are historic because they individually meet the criteria of the National Register of Historic Places or are contributing elements of sites or districts that meet National Register criteria. As such, historic structures are significant at the national, State, or local level, and are associated with the important people and history of the Nation. Prehistoric means of, pertaining to, or belonging to the era before recorded history.

### National Historic Landmarks

National Historic Landmarks are districts, sites, buildings, structures, or objects possessing exceptional value in commemorating or illustrating the history of the United States. 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 importance 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 as well as possessing a high degree of integrity of location, design, setting, materials, workmanship, feeling, and association.

### Paleontological Sites

A paleontological site is a spatially defined area from which a fossil (or fossils) is found or has been recovered and whose geologic context and attributes have been documented for the purpose of scientific study, management, and/or interpretation. Since the early 1800s, professional and amateur paleontologists have made discoveries that helped launch the new scientific discipline of paleontology in America, filling our Nation's museums of natural history with the remains of spectacular creatures that have captured the public's imagination. Today, the public lands continue to provide paleontological resources that fuel scientific discovery and evoke public wonder. Interior bureaus manage these fragile and nonrenewable resources as a public trust not only to assure preservation of scientific values, but also to see that educational and recreational values are realized.

Within NPS, there are 14 units in which paleontological resources are specifically mentioned in their organic legislation. The types of paleontological resources located on NPS-managed lands are diverse and include plants ranging from microscopic algae and pollen to fossil leaves and petrified logs, and animals ranging from marine shells to dinosaurs to Ice Age mammals, as well as trace fossils such as tracks, burrows, and coprolites (fossilized excrement). Many of the fossil resources protected and interpreted within NPS are of international significance and are critical to the understanding of the history of life on earth.

Significant paleontological resources can be found on BLM lands estimated to total over 20 million acres. Currently, 61 acres are managed either wholly or in part for paleontological values or contain paleontological values that may require special management strategies in the future. Most of the areas consist of areas of critical environmental concern, national natural landmarks, and research natural areas.

### Natural Heritage Special Management Areas

Although BLM manages natural heritage assets that are not specifically in designated areas, significant portions of the public lands have been congressionally or administratively designated as special management areas. These special management areas have been designated to preserve their natural heritage values and include the White Mountains National Recreation Area in Fairbanks, Alaska, which is managed by BLM to provide for multiple-use of public lands and encompasses approximately one million acres; the Yaquina Head Outstanding Natural Area, which is located on a narrow point of land jutting due west into the Pacific Ocean in Oregon and provides visitors with one of the most accessible wildlife and ocean viewing locations on the Pacific Coast; and the Steens Mountain Cooperative Management and Protection Area which consists of 425,550 acres of rugged landscape in southeastern Oregon and encompasses volcanic uplifts, deep glacial carved gorges, stunning scenic wilderness, wild rivers, and a rich diversity of plant and animal species.

### Collectible Heritage Assets

***Library Collection – Departmental Library.*** The Department of the Interior Library contains holdings that cover the broad range of matters related to the Department's mission to protect and provide access to the Nation's heritage. Specific collections include a comprehensive law collection, an extensive periodical collection, and a rare book collection consisting of 19th century monographs on Native Americans, American history, and zoology. The collections are augmented by online access with full-text capabilities. Departmental policy dictates that copies of publications produced for or by its bureaus and offices be deposited in the Departmental Library, thus assuring a continuing, reliable source of information. The Library serves Interior employees in the Washington, D.C area and field offices throughout the Nation, and enhances its ability to fulfill its responsibilities by providing an informative Web site at http://library.doi.gov, online access to the catalog of holdings over the Web site, and training sessions to familiarize Departmental staff with the treasures of the collection.

Departmental Library staff apply emerging technologies in the form of an integrated library system and the use of digital copies and microfilm

TABLE 3-9

**Library Collectible Heritage Assets as of September 30, 2004 (in thousands)**

| Library Collections | Beginning Units | Additions (units) | Withdrawals (units) | Ending Units | *Condition of Units (Percentage) Good | Fair | Poor |
|---|---|---|---|---|---|---|---|
| ***Departmental Library*** | 998 | 34 | (22) | 1,010 | 100% | 0% | 0% |
| ***US Geological Survey*** | | | | | | | |
| Library Services Group Library at the National Center | 1,701 | 23 | (1) | 1,723 | 80% | 15% | 5% |
| Denver Branch Library | 954 | 5 | - | 959 | 65% | 20% | 15% |
| Flagstaff Branch Library | 117 | 4 | - | 121 | 80% | 15% | 5% |
| Menlo Park Branch Library | 289 | 1 | (3) | 287 | 70% | 20% | 10% |
| USGS Total | 3,061 | 33 | (4) | 3,090 | 74% | 18% | 8% |
| **Total** | **4,059** | **67** | **(26)** | **4,100** | | | |

*Good means in usable condition; "Fair" means in need of minor repair or cleaning; "Poor" means in need of major conservation efforts.

reader-printers to expedite document delivery. The condition of the Library collection is rated as good. Good condition represents paper and bindings that are of good quality and which show no sign of deterioration and are free from blemishes, tears, or fraying of pages. The condition of the collection is subject to potential harm because it is housed in a facility where mold and water leaks are common. Publications are selected and de-selected from the collection according to the procedures established by library policy, the Aspen Collection Development Plan, and priorities as set by the Contracting Officer's Technical Representative (COTR). Publications are removed from the collection when they become out of date or out of scope.

***Library Collection – U.S. Geological Survey.*** The U.S. Geological Survey (USGS) Library system includes four libraries, contains over 1.2 million books and periodicals, and over 1.8 million non-book items, including maps, photographs, pamphlets, field record notebooks, digital media, and other collectible items, for a total of over 3 million items. Materials are acquired from extensive exchange agreements with institutions and agencies worldwide and from research projects and purchases from a wide variety of publishers and institutions. Items are withdrawn only after the professional library staff has made a critical analysis of the collection.

In addition to the annual purchases of serials, maps and books, the USGS Library has used other means to build the collection. Since its beginning, the Library has administered a major program of international and domestic exchange of earth science publications authorized by the legislation that established USGS. The exchange program, with national and foreign geological surveys and research organizations, has enabled the USGS Library to collect materials published in small numbers, never widely distributed, and never reprinted. USGS library holdings, collected during more than a century of providing library services, are an invaluable legacy to the Nation. While responding to the current and anticipated subject interests of USGS researchers, the USGS Library maintains its heritage collection of core science publications dating back to the 17th century, providing a unique historical record of the progress of natural science. Besides providing resources for scientific investigations, the USGS Library's multi-disciplinary collection provides access to geographical, technical, and historical literature in paper and electronic formats for the general public and industry. The USGS Library collection, originally located in Washington, D.C., currently is housed in four libraries across the country.

Interior's library collections are described in *Table 3-9.*

## Museum Collections

The Department of the Interior museum collections are intimately associated with the lands and cultural and natural resources for which Interior bureaus share stewardship responsibilities. The Department's museum collections contain over 130 million museum objects, including 58 million artifacts and specimens and 72 million documents. Disciplines represented include art, ethnography, archeology, documents, history, biology, paleontology, and geology. Archeology (40%) and documents (55%) account for 95 % (124.5 million items) of the total when documents are reported in number of objects. If converted to linear feet, the 72 million documents reported this year are equivalent to 44,972 linear feet of archival documents. The growth in total number of objects is due primarily to improved reporting rather than to new acquisitions. Bulk counts such as numbers of boxes are omitted from the summary data reported here.

Bureaus report 6,865,386 additions and 21,085,205 withdrawals since the FY 2003 report. The bulk of these changes are due to revised estimates of the number of uncataloged collection items and improved reporting of actual item counts as cataloging progress is achieved. Withdrawn from this report are 21,000,000 items reflecting BLM collections housed at 154 non-Federal locations. Data describing collections from these other locations, for which BLM last reported "best-available" estimates in 1993, are "withdrawn" from this report pending collection of current data for all BLM locations.

Highlights of the Department's museum program for FY 2004 include cataloging 4,122,774 objects, improving accountability, and increasing the availability of the collections for public access. Currently, 61,557,428 items (47%) are cataloged, leaving a backlog of 69.2 million (53%) items to be cataloged (plus the unquantified BLM collections). While the collections of smaller bureaus and offices are fully cataloged, the large bureaus consistently cite resource constraints as the primary factor preventing faster progress in establishing accountability through cataloging. Selected bureau-specific activities are described below.

The status of cataloging bureau collections and the condition of cataloged collections are summarized in *Table 3-10*.

The distribution of the Department's museum collections among bureaus and disciplines and the total additions and withdrawals by discipline during FY 2004 are summarized in *Table 3-11*.

Bureaus and offices may add (accession) items to the museum collections by donation, purchase, transfer, or field collection and, depending on bureau-specific authority, by exchange. Bureaus and offices may remove items from the museum collections in response to involuntary loss, theft, or destruction. Departmental offices and NPS also have congressional authority to remove (deaccession) items selectively following strict procedures to follow the highest ethical standards and to make every effort to keep the items in public ownership.

Museum collections are housed in both Federal and non-Federal institutions in an effort to maximize accessibility to the public while reducing costs to bureaus. Museum collections managed by Interior bureaus are important both for their intrinsic value and for their usefulness in support of Interior's mission of managing Federal land, cultural resources, and natural resources. Cataloging the collections continues to be a priority within Interior bureaus and continues to improve each year.

Facilities housing Department museum collections must meet specific environmental, security, fire protection, housekeeping, physical examination and conservation treatment, storage, and exhibit space standards as described in Departmental Manual Section 411, Chapter 3. The standards achieved by facilities that house collections are a good indicator of the status of collections for which item-level condition data are not available. Facilities that meet at least 70% of the Department's standards for managing museum collections (411 DM 3) are judged to be in "good" condition, those that meet between 50 and 70 percent of standards are in "fair" condition, and those that meet less than 50% of applicable standards are in "poor" condition. Conditions at locations housing Interior bureau museum collections are summarized in *Table 3-12*.

TABLE 3-10

## Status of Cataloging and Condition of Cataloged Bureau Museum Collections as of September 30, 2004

| Bureaus and Offices | Estimated Total Collection Size FY 2003 | Additions Since Last Report | Withdrawals Since Last Report | Estimated Total Collection Size FY 2004 | Total Number of Bureau Items Catalogued | Number of Cataloged Items with Item-level Condition Data | Number of Cataloged Items in Good, Fair, & Poor Condition 1/ Good | Fair | Poor |
|---|---|---|---|---|---|---|---|---|---|
| National Park Service 2/ | 100,049,116 | 5,263,069 | (8,152) | 105,304,033 | 50,046,996 | 47,344,306 | 61% | 31% | 8% |
| Bureau of Land Management 3/ | | | | | | | | | |
| BLM-three internal units w/2004 data | 6,973,784 | 121,467 | - | 7,095,251 | 2,577,187 | not available | - | - | - |
| BLM-1993 data for all other locations | 21,000,000 | - | (21,000,000) | - | - | not available | - | - | - |
| Bureau of Reclamation | 7,688,597 | 876,410 | (74,566) | 8,490,441 | 6,565,644 | 1,469,840 | 91% | 8% | <1% |
| Bureau of Indian Affairs | 5,261,069 | 9,284 | (1,439) | 5,268,914 | 567,477 | 40,419 | 94% | 5% | 1% |
| Fish and Wildlife Service | 3,991,847 | 596,647 | 6 | 4,588,500 | 1,743,487 | 210,031 | - | 100% | - |
| U.S. Geological Survey | 39,904 | 156 | - | 40,060 | 40,060 | 40,060 | 100% | <1% | <1% |
| Departmental Offices | | | | | | | | | |
| Indian Arts and Crafts Board | 11,052 | 9 | - | 11,061 | 10,891 | 8,029 | 94% | 4% | 2% |
| National Business Center | 6,463 | 126 | (1,048) | 5,541 | 5,541 | 5,200 | 78% | 16% | 6% |
| Office of the Special Trustee | 73 | 18 | - | 91 | 91 | 91 | 99% | - | 1% |
| Minerals Management Service | 54 | - | - | 54 | 54 | 54 | 100% | - | - |
| **Totals** | 145,021,959 | 6,867,186 | (21,085,199) | 130,803,946 | 61,557,428 | 49,118,030 | | | |

1/ Condition definitions: "Good" means in stable conditions; "Fair" means in need of minor repair or cleaning to bring to usable condition; "Poor" means in need of major conservation treatment to stablize.
2/ NPS data are from FY 2003, the most recent data available.
3/ BLM data are split between three administrative locations with current data and all other locations for which BLM last reported "best available" estimates in 1993. These data for external locations (rounded to 21 million) are "withdrawn" from this report pending collection of more current data for the 154 external repositories.

### Bureau Highlights

***National Park Service.*** NPS museum collections total over 105 million items, including 40 million artifacts and specimens, and 65 million archival documents. These collections foster understanding, appreciation and enjoyment of natural and cultural heritage and provide tangible and accessible evidence of the resources, significant events, and peoples associated with NPS lands.

Notable acquisitions in FY 2004 include a set of photograph albums documenting recreational trips to Grand Canyon National Park during the 1920s; military items associated with the Glorieta Battlefield at Pecos National Historical Park; 850 historical items associated with the 1846 McLaughlin House at Fort Vancouver National Historic Site; and 500,000 archeological artifacts excavated from a Mississippian culture (900-1200/1400 A.D.) temple mound at Shiloh National Military Park in Tennessee.

Access to and use of NPS collections continued to increase in parks and on-line. Since the FY 2003 report, NPS cataloged 3.9 million items and corrected 1,683 planning, environmental, storage, security, and fire protection deficiencies in parks. Parks meet 69.7% of applicable standards, but meeting preservation and protection standards continues to be a challenge, with deferred maintenance costs identified at $286 million.

Many parks improved museum storage conditions and developed new exhibits during FY 2004. For example, 12 major new exhibits were installed in park visitor centers; Yellowstone National Park moved its collections into a new 27,000 square foot Heritage and Research Center; Hubbell Trading Post National Historic Site moved into a new 5,500 square foot storage facility; John Day Fossil Beds National Monument moved its collections into the new 11,000 square foot Thomas Condon

TABLE 3-11

## FY 2004 Museum Collections by Discipline

| | Archeology 1/ | Art 2 | Ethnography | History | Documents | Botany 3/ | Zoology | Paleontology | Geology | Environmental Samples | Totals |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **2003 Totals** | 65,529,359 | 8,719 | 55,835 | 3,660,242 | 69,684,695 | 1,867,532 | 432,799 | 3,704,655 | 69,964 | 9,959 | 145,023,759 |
| 2004 Additions | 4,217,298 | 248 | 435 | 43,034 | 2,459,508 | 103,851 | 487 | 38,684 | 1,841 | - | 6,865,386 |
| 2004 Withdrawals | 17,223,947 | 1,264 | 3,375 | 54,069 | 148,430 | 39,841 | 208,649 | 3,393,793 | 2,095 | 9,742 | 21,085,205 |
| National Park Service 4/ | 34,532,979 | - | 28,342 | 3,394,360 | 65,074,331 | 1,915,148 | - | 290,031 | 68,842 | - | 105,304,033 |
| Bureau of Land Management 5/ | 3,744,077 | - | - | 29,027 | 3,289,600 | - | - | 32,547 | - | | 7,095,251 |
| Bureau of Reclamation | 7,229,932 | 293 | 6 | 2,776 | 1,243,985 | - | - | 13,032 | 415 | 2 | 8,490,441 |
| Bureau of Indian Affairs | 4,553,229 | 2,925 | 3,084 | 7,562 | 701,490 | 180 | 152 | 249 | 43 | - | 5,268,914 |
| Fish and Wildlife Service | 2,462,458 | 631 | 11,063 | 213,189 | 1,686,277 | 16,185 | 184,800 | 13,676 | - | 215 | 4,588,494 |
| Geological Survey | - | 62 | 1 | 393 | 3 | - | 39,601 | - | - | - | 40,060 |
| Departmental Offices | | | | | | | | | | | - |
| Indian Arts/Crafts Board | - | 2,883 | 8,178 | - | - | - | - | - | - | - | 11,061 |
| National Business Center | 35 | 814 | 2,218 | 1,895 | 75 | 29 | 84 | 11 | 380 | - | 5,541 |
| Office of the Special Trustee | - | 91 | - | - | - | - | - | - | - | - | 91 |
| Minerals Management Service | - | 4 | 3 | 5 | 12 | - | - | - | 30 | - | 54 |
| **2004 Totals** | 52,522,710 | 7,703 | 52,895 | 3,649,207 | 71,995,773 | 1,931,542 | 224,637 | 349,546 | 69,710 | 217 | 130,803,940 |

1/ In addition to the number of archeology items reported, the Bureau of Reclamation has 3,265 cubic feet of archeology materials and 3,230 cubic feet of paleontology materials.
2/ National Park Service (NPS) art items are included in the number for history.
3/ NPS numbers for botany include zoology specimens.
4/ NPS numbers are the most recent available-from 2003. NPS numbers for Environmental Samples are included under each appropriate discipline.
5/ Bureau of Land Management (BLM) data are split between three BLM facilities with current data and 154 external repositories for which BLM last reported "best available" estimates in 1993. The data previously reported for BLM (rounded to 21 million) are "withdrawn" from this report pending collection of current data.

TABLE 3-12

## FY 2004 Ratings of Locations Housing Bureau Collections and Estimated Deferred Maintenance Costs

| Bureaus and Offices | | Number of Locations Housing Bureau Museum Collections | Number of Locations Evaluated | Condition of Collections Based on the % of Departmental Standards Met by the Locations Evaluated 1/ | | | | Estimated Deferred Maintenance of Museum Collections ($) | |
|---|---|---|---|---|---|---|---|---|---|
| | | | | Good (Meet > 70%) | Fair (Meet 50 - 70%) | Poor (Meet < 50%) | Not Evaluated | Facilities Housing Collections | Other Collections Maintenance |
| National Park Service | NPS facilities | 315 | 315 | 155 | 93 | 67 | - | $274,748,407 | $11,842,622 |
| | Other facilities | 490 | 55 | 23 | 26 | 6 | 435 | 9,301,333 | 15,300 |
| Bureau of Land Management | BLM facilities | 3 | 3 | 3 | - | - | | 0 | - |
| | Other facilities | 154 | - | - | - | - | 154 | 0 | - |
| Bureau of Reclamation | BOR facilities | 20 | 7 | 3 | 4 | - | 13 | 101,000 | 0 |
| | Other facilities | 81 | 24 | 16 | 6 | 2 | 57 | 0 | 0 |
| Bureau of Indian Affairs | BIA facilities | 100 | 81 | 20 | 20 | 41 | 19 | 0 | 0 |
| | Other facilities | 75 | 31 | 11 | 18 | 2 | 44 | 0 | 0 |
| Fish and Wildlife Service | FWS facilities | 136 | 11 | 1 | 5 | 5 | 40 | 0 | 50,000 |
| | Other facilities | 325 | 35 | 16 | 19 | - | 239 | 0 | 350,000 |
| U.S. Geological Survey | USGS facilities | 4 | 2 | 2 | - | - | 2 | 0 | 0 |
| | Other facilities | 2 | 2 | 2 | - | - | - | 0 | 0 |
| Departmental Offices (DO) | IACB Facilities | 3 | 3 | 3 | - | - | - | 0 | 0 |
| | Other facilities | - | - | - | - | - | - | 0 | 0 |
| | NBC Facilities | 1 | 1 | - | 1 | - | - | 0 | 0 |
| | Other facilities | 4 | 3 | 3 | 1 | - | - | 0 | 0 |
| | OST Facilities | 3 | 3 | 3 | - | - | - | 0 | 0 |
| | Other facilities | - | - | - | - | - | - | 0 | 0 |
| Minerals Management Service | MMS facilities | 5 | 5 | 5 | - | - | - | 0 | 0 |
| | Other facilities | - | - | - | - | - | - | 0 | 0 |
| *2004 Departmental Totals* | Total Bureau/Office facilities | 590 | 431 | 195 | 124 | 113 | 74 | $274,849,407 | $11,892,622 |
| | Total Other facilities | 1131 | 150 | 71 | 69 | 11 | 929 | $9,301,333 | $365,300 |

1/ "Condition" of museum property is judged by the degree to which facilities housing Department property meet accepted museum standards adopted by the Department. Due to the nature of Department museum property, i.e., pottery shards, arrowheads, etc., condition assessment of individual items is not meaningful.

Paleontology Center; the Midwest Region completed security and fire protection surveys for all parks that lacked this information; and Golden Gate National Recreation Area developed, designed and presented a highly acclaimed exhibit to commemorate the 89th anniversary of the Panama-Pacific Exposition of 1915. NPS also continued revision and expansion of the Museum Management Program's Web site http://www.cr.nps.gov/museum, which provides broad access to NPS handbooks, Conserve O Grams, exhibits, and other information. An estimated 644,000 visitor sessions are reported for FY 2004. Park museum management staff responded to over 118,000 public research requests and over 16,000 research requests from within the parks. More than 331,000 NPS museum objects, specimens, and archival documents were exhibited.

***Bureau of Land Management.*** Most collections originating from BLM-managed land are housed in non-Federal facilities throughout the country. To date, BLM has identified 154 professional facilities in 33 States and Canada where millions of objects originating from BLM-managed land reside. The BLM maintains three museum institutions. In FY 2004, funding was provided under BLM's museum partnership program to the Museum of Northern Arizona for A Finder's Guide to BLM Collections Project; the Eastern Oregon University for the Oregon Trail Collections Project; the Utah Museum of Natural History for Conservation: A Look Behind the Scenes Project; and the Museum of the Rockies for the Collections Conservation Project. Information and links are located at www.blm.gov/heritage/sp.htm.

Full descriptions of BLM museum collections housed in non-Federal repositories are not available, but three internal facilities report a total of 7,095,251–3,805,651 objects and 3,289,600 (2,056 linear feet) documents. During FY 2004, the Anasazi Heritage Center and the Billings Curation Center cataloged 63,860 additional items, bringing the total number of items cataloged at the three BLM facilities to 2,577,187.

Projects that were funded during 2004 under the Museum Partnership Program and BLM field office programs are as follows:

- Museum Partnership Program: In FY 2004, funding was provided under the Museum Partnership Program to museum collections partners. Partners included the Museum of Northern Arizona for A Finder's Guide to BLM Collections Project; Eastern Oregon University for the Oregon Trail Collections Project; the Utah Museum of Natural History for Conservation: A Look Behind the Scenes Project; and the Museum of the Rockies for the Collections Conservation Project.

- BLM Field Office Funding and/or Assistance: In FY 2004, funding and/or assistance was provided by BLM field offices through Assistance Agreements, Cooperative Agreements, Facility Agreements, Memoranda of Understanding, and Purchase Orders. Partners included the University of Alaska Museum, Arizona State Museum, Museum of Northern Arizona, University of Arizona Laboratory of Paleontology, Museum of Western Colorado, University of Colorado Museum, Archaeological Survey of Idaho (Eastern and Western Repositories), Boise State University, Rocky Mountain College, Nevada State Museum, Museum of New Mexico, Maxwell Museum of Anthropology, Oregon State Museum of Anthropology, Southern Oregon University, South Dakota School of Mines, BYU Museum of Peoples and Culture, College of Eastern Utah Prehistoric Museum, Field House of Natural History State Park Museum, Edge of Cedars State Park Museum, Southern Utah University, University of Utah Museum of Natural History, Washington State University, University of Wyoming, Western Wyoming Community College, and Wyoming State Museum.

In 1991 and 1993, BLM reported an estimated 21 million objects in over 200 external facilities. Subsequent analysis of this data has demonstrated these estimates to be not accurate and the data have not been updated. To establish a reliable baseline, an internal audit was conducted by BLM in 1996. This audit, which included interviews with BLM field managers and program specialists, as well as museum and university professionals, verified that previously reported figures were not accurate. Accordingly, BLM has refined its analysis and developed an accurate list of 154 external facilities where collections are housed, but inventories of BLM collections in these facilities are not available. The non-Federal facilities are professional facilities and, as such, are providing expert curation for all of its collections, including BLM objects. The estimated 21 million objects in non-Federal repositories are "withdrawn" in this report because the data cannot be supported. To improve reporting, BLM is currently undertaking efforts to collect accurate data for non-Federal institutions.

***Bureau of Reclamation.*** Reclamation's FY 2004 achievements include working with a vendor to modify "off-the-shelf" collection management software for BOR use. Migration of data from multiple tracking systems will follow. Reclamation reports that 6,565,644 (77%) of its 8.5 million items of museum property meet the Department's cataloging standards.

BOR museum staff assessed 31 of 101 facilities for compliance with Departmental standards; of these, 19 are in "good" condition. Much progress in cataloging and other museum property management activities is achieved by BOR's partnership with the National Council for Preservation Education summer intern program, which employed 15 interns.

BOR opened a permanent exhibit, "Fifty Years of Reclamation Archeology," at the DOI Museum in Washington, DC. It highlights projects from each of five regions and provides episodic glimpses into thousands of years of human activity. Active research loans and expanded web pages increased access to BOR collections.

***Bureau of Indian Affairs.*** The Bureau of Indian Affairs is responsible for over 5,268,914 million items of museum property. Currently, 567,477 (10.8%) are cataloged at the item level. The bulk of BIA collections (5,090,060) are managed in partnership with 75 non-BIA facilities. The remaining collections (178,854 objects) are located within 100 BIA facilities. In FY 2004, 638 items were cataloged by BIA staff members; 115,798 items were cataloged through contracts with three non-Federal repositories. Additional cataloging will be completed only with additional resources dedicated to these activities.

Most of the collections in BIA facilities are displayed in administrative offices. Museum staffs curate collections at the BIA Central Office in Washington, DC; at Haskell Indian Nations University in Lawrence, Kansas; and at Sherman Indian School in Riverside, California. Collections at all other BIA facilities are managed as a collateral duty by administrative staff.

BIA added 9,284 objects during FY 2004 and withdrew 1,439 objects. Inventory clarification accounted for most of the adjustments, though a few items were acquired through purchase and field collections.

***Fish and Wildlife Service.*** FWS museum collections consist of 4,588,494 million objects, documents and specimens maintained in 136 offices or on loan to 325 non-Federal repositories for study and long-term care. Collections consist of archeological materials excavated from FWS managed cultural resources; paleontological collections; objects and documents associated with the bureau's history; wildlife art; wildlife, fisheries; and botanical specimens. FWS collections are used for educational and interpretive programs; research on changes to habitat and wildlife; and maintaining the history and traditions of the FWS programs and employees. Currently, 1,743,487 (38%) of the collection items are cataloged.

In FY 2004, FWS continued with its cooperative work with the Museum of the Rockies-Berkeley to survey and excavate dinosaur fossils from the Hell Creek Formation on the Charles M. Russell National Wildlife Refuge in Montana. The session was part of a 5-year program to survey the refuge's world-renowned fossil beds to identify the remains of mammals, invertebrates, dinosaurs, and plants. Collections from the excavations will be stored at the Museum of the Rockies in Bozeman, Montana, for study and possible future display.

FWS continues to accession new museum collections each year, primarily as a result of the scientifically controlled excavation of archeological sites on its lands. The overall condition of FWS museum collections is adequate to good. Over 82% of FWS's collections are maintained on loan by museums and other institutions. FWS ensures that these collections are safeguarded through compliance with the Secretary of the Interior's curation standards found in 36 CFR 79. Institutions must maintain the appropriate environmental, record-keeping, and security controls in order to qualify for maintaining Federal collections.

***U.S. Geological Survey.*** USGS uses its museum property collection to illustrate important achievements and challenges to the Earth Sciences, to document the history of USGS, and to enlighten those who use the collection. The collections also provide the public with an interpretive demonstration of the history and enterprise of USGS. All 40,060 items are cataloged. Additions during FY 2004 include 153 biological specimens, 2 historical objects, and one art object.

***Departmental Offices - Indian Arts and Crafts Board*** The Indian Arts and Crafts Board's (IACB) three museums achieved greater public access to their collections through participation in loans to institutions with high attendance. These included the Department of the Interior Museum in Washington, DC; the Heritage Center at Red Cloud Indian School in Pine Ridge, South Dakota; and the University of South Dakota Art Galleries in Vermillion.

All three IACB museums continued active exhibit programs in support of the Board's mission to promote authentic Native American arts and crafts. All but 170 of the IACB's 11,061 collection items are cataloged, establishing item-level accountability for and improving access to the collections. Currently, 94% of the collections with item-level condition data are in good condition.

During FY 2004 all catalog records were transferred to a new database; the Southern Plains Indian Museum completed a condition survey of its collections; the Sioux Indian Museum installed a new art storage system; and the Museum of the Plains Indian completed a general security survey. Nine items were added to the IACB collection during FY 2004 – seven by purchase, one by gift, and one by inventory adjustment.

***National Business Center.*** The NBC operates the Department of the Interior Museum and coordinates Office of the Secretary museum property. NBC staff worked with BIA, BLM, FWS, NPS, and BOR to plan temporary exhibits and upgrades. NBC increased the visibility of museum exhibitions through flyers, loans, upgraded web pages, and coordination with partners such as the Neighbors to the President Consortium of small museums and the Indian Craft Store which is located within the Main Interior Building. Attention was given to planning, inventory, and environmental monitoring in anticipation of scheduled building renovation activities. NBC is responsible for 5,541 museum items, all of which are cataloged. Exhibit and education programs continued to be active.

***Office of the Special Trustee for American Indians.*** The Office of the Special Trustee for American Indians (OST) acquired 18 additional art items in FY 2004, and now has a total of 91 items of museum property. OST personnel are successfully applying concepts of preventive conservation and basic property accountability to preserve, protect, reduce, and manage risks to the collections housed in administrative office spaces at three locations.

***Minerals Management Service.*** All MMS museum property is photographed, cataloged, and has temporary numbers assigned. MMS staff is planning an educational outreach to increase awareness and visibility of the collection. It is hoped that educational efforts will result in identification of more items associated with MMS history that may be suitable for management as museum property. No new items were identified during FY 2004.

## Investment in Research and Development

Interior is an important source for the Nation's natural resources research and development initiatives, and is a reliable source for credible, objective, and unbiased information needed by resource managers across the Nation, within and outside of the Department. 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 is 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 *Table 3-13* in three major categories:

***Basic Research*** - A systemic study to gain knowledge or understanding of the fundamental aspects of phenomena and of observable facts without specific applications toward processes 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; and

***Developmental*** - The systemic 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.

## Research and Development at Interior Bureaus

### U.S. Geological Survey

Research and development investments at USGS are a core part of fulfilling the bureau's mission and are integral to the work performed in all internal operating disciplines (biology, geography, geology, and water). The scope of USGS' research and development activities spans basic, applied, and developmental research, and produces direct outputs and outcomes associated with each activity that are a valuable part of the scientific research performed throughout the Nation. Total research and development investments were $882.9 million during FY 2004.

***Significant Outcomes/Accomplishments in the Biology Program (Applied Research).*** The Cooperative Research Unit Program is a unique cooperative partnership among Federal and State governments and academia, and provides one of the strongest partnership links between USGS and Federal and State management agencies. Federal scientists stationed at universities: (1) help identify and respond to natural resource information needs through the pooling of resources among agencies; (2) provide access to scientific expertise among unit scientists, university faculty, and other unit cooperators, especially where the required expertise is not readily available within Federal resource agencies; and (3) provide Federal and other natural resource managers access to a geographically dispersed science organization of units to meet information needs that transcend State and regional boundaries.

***Significant Output/Accomplishment Oregon Cooperative Research Unit.*** Conducted toxicological and physiological research on Columbia River white sturgeon to determine if body burdens of environmental toxicants are contributing to reduced growth and reproductive fitness in impounded areas of the river. USGS studies focus on understanding the effects of environmental contaminants on wildlife including threatened and endangered species. Environmental toxicants, such as pesticides, PCBs, and heavy metals, are persistent, fat-soluble, and tend to bioaccumulate in organisms over time. Many of these compounds can affect behavior, biochemistry, growth, reproduction, development, and survival in a wide variety of species. The lower Columbia River supports one of the most productive white sturgeon fisheries in North America. Fish trapped behind the dams of the hydroelectric system, however, have reduced growth and reproductive success when compared to animals in the free-flowing portion of the river. An understanding of whether contaminants are contributing to this problem is critical for management of this and other species as well as for ecological management of the Columbia River Basin.

These studies have been completed and results have been submitted for publication in peer-reviewed journals. Results have also been made available to the Oregon Department of Environmental Quality (DEQ). Findings reveal that there are strong negative correlations between a variety of physiological parameters that are indicative of growth and reproductive fitness, and body burdens of PCBs, pesticides, and mercury. This suggests that environmental contaminants could be playing a role in the reduced growth and reproductive fitness of sturgeon in impounded areas of the river. Results from this research could easily be applied to other major river systems in North America.

Results from this research will be used to develop management measures designed to protect and restore white sturgeon populations. This may be particularly important in areas of the Columbia Basin where sturgeon are now endangered. Findings from

TABLE 3-13

## Investment in Research and Devlopment
(in millions)

| Category | FY 2000 | FY 2001 | FY 2002 | FY 2003 | FY 2004 | TOTAL |
|---|---|---|---|---|---|---|
| ***US Geological Survey*** | | | | | | |
| Basic | $ 63.0 | $ 63.0 | $ 82.0 | $ 77.0 | $ 70.6 | $ 355.6 |
| Applied | 656.0 | 567.0 | 799.0 | 681.0 | 740.4 | 3,443.4 |
| Developmental | 53.0 | 53.0 | 83.0 | 101.0 | 71.9 | 361.9 |
| **Total** | **772.0** | **683.0** | **964.0** | **859.0** | **882.9** | **4,160.9** |
| ***National Park Service 1/*** | | | | | | |
| Basic | 0.5 | 1.6 | 5.0 | - | - | 7.1 |
| Applied | 37.6 | 28.0 | 30.2 | 21.1 | 27.5 | 144.4 |
| Developmental | - | 2.9 | 8.6 | 3.9 | 1.9 | 17.3 |
| **Total** | **38.1** | **32.5** | **43.8** | **25.0** | **29.4** | **168.8** |
| ***Minerals Management Service*** | | | | | | |
| Basic | - | - | - | - | - | - |
| Applied | 30.7 | 31.0 | 28.5 | 29.4 | 29.3 | 148.9 |
| Developmental | - | - | - | - | - | - |
| **Total** | **30.7** | **31.0** | **28.5** | **29.4** | **29.3** | **148.9** |
| ***Bureau of Reclamation*** | | | | | | |
| Basic | - | - | - | - | - | - |
| Applied | 16.1 | 17.4 | 19.0 | 18.3 | 19.8 | 90.6 |
| Developmental | - | - | - | - | - | - |
| **Total** | **16.1** | **17.4** | **19.0** | **18.3** | **19.8** | **90.6** |
| ***Departmental Offices**** | | | | | | |
| Basic | - | - | - | - | - | - |
| Applied | 15.2 | 4.6 | 4.6 | 7.5 | 5.9 | 37.8 |
| Developmental | - | 0.0 | 0.4 | 0.4 | 0.3 | 1.1 |
| **Total** | **15.2** | **4.6** | **5.0** | **7.9** | **6.2** | **38.9** |
| ***Bureau of Land Management 2/*** | | | | | | |
| Basic | - | - | - | - | - | - |
| Applied | 9.7 | 11.1 | 12.0 | 10.9 | 11.8 | 55.5 |
| Developmental | 1.7 | 1.4 | 0.4 | 1.5 | 1.9 | 6.9 |
| **Total** | **11.4** | **12.5** | **12.4** | **12.4** | **13.7** | **62.4** |
| ***TOTALS*** | | | | | | |
| Basic | 63.5 | 64.6 | 87.0 | 77.0 | 70.6 | 362.7 |
| Applied | 765.3 | 659.1 | 893.3 | 768.2 | 834.7 | 3,920.6 |
| Developmental | 54.7 | 57.3 | 92.4 | 106.8 | 76.0 | 387.2 |
| **TOTAL** | **$ 883.5** | **$ 781.0** | **$ 1,072.7** | **$ 952.0** | **$ 981.3** | **$ 4,670.5** |

*Central Utah Project Completion Act

1/ FY 2003 numbers have been revised based on updated natural resources data.
2/ Outlays are estimated for FY 2004

this USGS research will be used to identify the types of compounds that need to be regulated by DEQ or the Environmental Protection Agency (EPA) as well as for health alerts for people who consume fish from certain areas of the river. Results will also be used to determine point sources of pollution for cleanup and could lead to more efficient operation of the hydroelectric system to minimize toxicant effects on fish.

### National Park Service

Through appropriations for natural resource stewardship (encompassing natural resource research support and natural resource management, including the Natural Resource Preservation Program [NRPP]), and the Cultural Resource Preservation Program (CRPP), NPS performs a wide range of mission-oriented research in support of its natural and cultural resource stewardship responsibilities. This work constitutes either basic or applied research focusing on park-based needs for scientific and scholarly information necessary for park management.

The Cultural Resources Applied Research Program provides funding for comparable cultural resource research and resource management projects in the fields of archeology, ethnography, historical architecture, historic landscape architecture, history, and museum collections. Obligations and expenditures from both the NRPP and CRPP programs support park-based resource management, and when applicable, research needs. As a consequence, the obligations and expenditure levels for research from these two programs vary each year in response to the needs and priorities identified by the parks.

Accomplishments and benefits of the cultural resources applied research program include:

- The Pacific West Region expended funds for the preparation of cultural landscape analysis and treatment guidelines for Crater Lake National Park; an archeological overview and assessment of Craters of the Moon National Monument and Preserve; a photograph inventory and cataloging project at Lassen Volcanic National Park in California; and a cultural landscape inventory at San Juan Island National Historic Park in Puerto Rico.

NPS Natural Resources research and development obligation data are currently available for FY 2000 through FY 2003, with FY 2004 obligations reported as an estimate. The FY 2003 outlays that were previously reported as estimates are now finalized and update the values previously reported. Measures initially implemented with FY 2001 data collection significantly improved the scope and accuracy of annual natural resource research and development data.

### Minerals Management Service

Environmental studies and operational requirements for the leasing and development of natural gas and oil are mandated by the Outer Continental Shelf Lands Act (OCSLA). Through the Environmental Studies Program, MMS has funded over $600 million of research into the marine environments along the Gulf of Mexico, Alaska, and the Pacific and Atlantic coasts. The topics of this research include biological resources (fish, turtles, birds, whales), habitat resources (water quality, sediment quality), and socioeconomic resources (communities, archeology, fiscal impacts). MMS has an active program to evaluate the effects of the removal of sand and gravel from borrow sites. MMS funds studies of the different types of technology used by industry to extract offshore mineral resources to evaluate their safety and performance. Numerous studies have also been conducted to evaluate technologies used to prevent and clean up oil spills. MMS has staff scientists and engineers that evaluate data to determine the location of resources, technologies used in the recovery of resources, and safety measures to prevent accidents and spills.

Significant accomplishments during FY 2004 include:

- ***Environmental Justice Considerations in Lafourche Parish, Louisiana.*** Results of this study completed during FY 2004 provide the MMS with a characterization of environmental justice and the potential hazards and impacts of Outer Continental Shelf (OCS) related oil and gas extraction, transport, and processing in Lafourche Parish, Louisiana, a principal land-based supply center for the majority of the offshore oil and gas activity occurring in the Gulf of Mexico. The MMS must identify any disproportionate impacts of its activities on minority and/or low-income populations. The information provided by the project is used by MMS in environmental impact statements that seek to identify adverse environmental impacts. Using Geographical Information System techniques to integrate OCS-related activities, census data, and digital transportation data, the potential geographic and demographic impacts of OCS-related hazards on minority and low-income populations have been identified; these data provide MMS with a more rigorous empirical analysis.

### Bureau of Reclamation

BOR invests in applied research programs to aid in the water and energy management challenges facing the arid west. Programs focus on the improvement of water management, the development of solutions pertaining to flood hydrology, water quality, irrigation return flows, and the delivery of hydropower to the west. The information obtained through these programs provides water management solutions and techniques that yield future benefits to the entire Nation.

In FY 2004, research and development expenses incurred under the Water and Energy Management and Development Government Performance and Results (GPRA) program activity produced benefits which supported BOR's goals of increasing water availability, improving water quality, and managing water supplies. In addition, research and development expenses incurred under the Facility Operations and Facility Maintenance and Rehabilitation GPRA program activities, respectively, provided support and benefits, which enabled BOR to meet the goals of operating its facilities more cost-effectively and providing safe and reliable supplies of power and water to its customers.

### Departmental Offices – Central Utah Project Completion Act (CUPCA)

In order to provide for the completion of the Central Utah Project, P.L. 102-575 was enacted on October 30, 1992. Funds authorized pursuant to this Act are appropriated annually to the Secretary of the Interior and such appropriations are made immediately available in their entirety to the Central Utah Water Conservancy District (CUWCD). Examples of R&D investments are:

- ***Utah Lake Salinity Control.*** Feasibility study to reduce the salinity of Utah Lake.

- ***Conjunctive Use of Surface and Ground Water.*** Feasibility study and development by the Utah Division of Water Resources in coordination with the Jordan Valley Water Conservancy District to allow ground water recharge, management, and the conjunctive use of surface water and resources with ground water resources in Salt Lake, Utah, Davis, Wasatch, and Weber Counties in the State of Utah

### Departmental Offices - Utah Reclamation Mitigation and Conservation Commission

The Commission invests in either research calculated to determine the means by which mitigation measures or programs could be achieved (applied) or to determine the best method or design for an identified mitigation measure (developmental). For FY 2004, the Commission's research has focused primarily on:

- ***Sage Grouse.*** A Northern American bird threatened by loss and deterioration of sage-steppe grassland habitat and predation;

- ***June Sucker.*** A fish occurring naturally only in Utah Lake and the Provo River which is Federally listed as endangered.

### Bureau of Land Management

The ultimate objective of BLM's research and development program is to make better use of new data, information, and knowledge to improve the management of the Nation's lands and resources. BLM's research and development program supports improvements in organizational effectiveness as well as furthering the long-term goal of working with partners to identify scientific information needs and then communicating these needs to research agencies, universities, and other non-governmental organizations.

The Applications of Science Program was established by Congress in 2002 in order to assure that scientific information is current and can be made available to BLM managers. The Applications of Science Program is now an important component of BLM's research and development program, assisting the bureau in expanding its capacity to collect and use natural resource information.

In 2004, BLM began new and continued past research and development efforts, including:

- Initiating studies on salt loading into the Colorado River, a major concern since water is a primary source of irrigation and drinking water for the lower basin States.

- Initiating a study on Bonneville Salt Flats in Utah to determine why the salt crust is deteriorating and whether commercial potash production from nearby Federal leases and private lands is responsible for the deterioration of this unique and scenic geological resource.

- Continuing studies on the juniper invasion of shrub-steppe ecosystems in the Northern Great Basin and Pacific Northwest.

- Continuing a four-year study in Utah of symbiotic relationships between soil mycorrhizae and vegetative communities, and the importance of this relationship to the success of ecosystem restoration and rehabilitation efforts.

## 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.

The Department's investments in human capital are shown in *Table 3-14*.

### Bureau of Indian Affairs Education Programs

Within BIA, the Office of Indian Education Programs (OIEP) takes the lead in the area of education. The OIEP vision and long-range goal is to unite and promote healthy Indian communities through lifelong learning. This vision and goal is implemented through the commitment to provide quality education opportunities from early childhood throughout life.

***BIA Scholarship Program***

The BIA scholarship program is administered at either the regional or agency level, as well as operated by Tribes under self-determination contracts, grants, or self-governance compacts. The amount of awards under the program is based on each student's certified financial aid requirements for Title IV Federal assistance, such as the Federal Pell Grant, which is a grant that does not have to be repaid and is awarded only to undergraduate students who have not earned a bachelor's or professional degree. In FY 2004, Tribes expended $27.1 million for the Tribal Priority Scholarship Program.

**Number of Undergraduate Scholarships Granted**

| School Year | Grants Awarded | Avg Grant Per Student | Total Awards | No. of Graduates |
|---|---|---|---|---|
| 2003-2004 | 9,201 | $3,017 | $27,644 | 1,250 |
| 2002-2003 | 9,021 | $3,008 | $26,999 | 1,019 |

***Adult Education***

The adult education program provides opportunities for adult Indians and Alaska Natives to complete the General Equivalency Degree (GED). Completion of the GED increases adult Indians and Alaska Natives' economic competitiveness and reduces their economic dependence on Federal welfare programs. In FY 2004, Tribes expended $2.7 million to support adult education.

**Adult Education Contracts**

| Fiscal Year | Number of Contracts | Avg Contract Amount |
|---|---|---|
| 2004 | 81 | $33,269 |
| 2003 | 94 | $26,237 |

***Johnson-O'Malley Program***

The Johnson-O'Malley (JOM) program provides funding to education programs for eligible Indian students attending public schools and for pre-school children. JOM is the only BIA program that provides for the culturally related and supplementary academic needs of Indian children attending public schools. In FY 2004, Tribes expended a total of $16.4 million under the JOM program and 272,000 students were assisted.

TABLE 3-14

## Investment in Human Capital
(in millions)

| Category | FY 2000 * | FY 2001 * | FY 2002 | FY 2003 | FY 2004 | TOTAL |
|---|---|---|---|---|---|---|
| ***Bureau of Indian Affairs*** | | | | | | |
| School Operations | $ 401.2 | $ 419.2 | $ 377.4 | $ 424.8 | $ 444.5 | $ 2,067.1 |
| Adult Education | 2.4 | 2.7 | 2.7 | 2.5 | 2.7 | 13.0 |
| Post Secondary Education | 68.0 | 70.4 | 72.1 | 58.3 | 64.0 | 332.8 |
| Scholarships | 27.5 | 27.5 | 27.6 | 27.1 | 27.8 | 137.5 |
| Other Educational Programs 1 | 6.9 | 6.9 | 127.0 | 46.9 | 31.2 | 218.9 |
| 477 Program 2/ | - | - | 15.0 | 11.8 | 11.9 | 38.7 |
| **Total** | **506.0** | **526.7** | **621.8** | **571.4** | **582.1** | **2,808.0** |
| ***Bureau of Reclamation*** | | | | | | |
| Job Corps Program | **27.1** | **27.1** | **28.6** | **29.9** | **30.0** | **142.7** |
| ***National Park Service*** | | | | | | |
| Job Corps Program | **12.8** | **13.4** | **14.7** | **17.2** | **15.5** | **73.6** |
| ***Fish and Wildlife Service*** | | | | | | |
| Job Corps Program | **11.8** | **10.9** | **12.3** | **12.3** | **11.9** | **59.2** |
| ***TOTAL*** | | | | | | |
| School Operations | 401.2 | 419.2 | 377.4 | 424.8 | 444.5 | 2,067.1 |
| Adult Education | 2.4 | 2.7 | 2.7 | 2.5 | 2.7 | 13.0 |
| Post-Secondary Education | 68.0 | 70.4 | 72.1 | 58.3 | 64.0 | 332.8 |
| Scholarships | 27.5 | 27.5 | 27.6 | 27.1 | 27.8 | 137.5 |
| Other Educational Programs | 6.9 | 6.9 | 127.0 | 46.9 | 31.2 | 218.9 |
| Job Corps Program | 51.7 | 51.4 | 55.6 | 59.4 | 57.4 | 275.5 |
| 477 Program | - | - | 15.0 | 11.8 | 11.9 | 38.7 |
| **TOTAL** | **$ 557.7** | **$ 578.1** | **$ 677.4** | **$ 630.8** | **$ 639.5** | **$ 3,083.5** |

* Some amounts are based on obligations rather than actual expenses.

1/ Beginning in FY FY 2002, Other Educational Programs includes educational facilities cost.

2/ Public Law 102-477-The Indian Employment, Training, and Related Services Act

| Johnson-O'Malley Student Program | | | | |
|---|---|---|---|---|
| School Year | Number of Contracts | Average Contract Amount | No. of Students Assisted | Average Funding Per Student |
| 2003-2004 | 249 | $65,655 | 272,000 | $60.10 |
| 2002-2003 | 245 | $67,208 | 272,000 | $60.54 |

***Post Secondary Education***

The Haskell Indian Nation University in Lawrence, Kansas, and the Southwestern Indian Polytechnic Institute (SIPI) in Albuquerque, New Mexico, provide educational opportunities for Indian students. Haskell University offers three associate degree programs in science, applied science, arts, and one baccalaureate degree program in elementary education. SIPI offers associate degrees in liberal arts and computer science as well as programs in environmental sciences, electronics, and other specialized technologies. In FY 2004, Haskell and SIPI expended a combined total of $15.6 million. For school year 2003-2004, the number of students enrolled at Haskell and SIPI was 2,704 with 270 graduates (10%).

| Post-Secondary Education | | | | |
|---|---|---|---|---|
| School Year | Facility | Number of Enrollees | Number of Graduates | Percentage |
| 2003-2004 | Haskell | 1,279 | 163 | 13% |
| | SIPI | 1,425 | 107 | 8% |
| 2002-2003 | Haskell | 1,255 | 129 | 10% |
| | SIPA | 1,326 | 86 | 6% |

***School Operations***

The Indian School Equalization Program (ISEP) provides formula-based funding for BIA operated grant, contract elementary, and secondary schools. For school year 2003-2004, a total of 184 schools were funded through BIA appropriations. Of this number, 64 were BIA-operated schools and 120 were contract/grant schools. A total of 18,702 students were enrolled at BIA-operated schools and 28,969 students were enrolled at contract/grant schools.

| School Operations | | | |
|---|---|---|---|
| School Year | School Operation | Number of Schools | Number of Students |
| 2003-2004 | Contract/Grant | 120 | 28,969 |
| | BIA-Operated | 64 | 18,702 |
| 2002-2003 | Contract/Grant | 120 | 29,292 |
| | BIA-Operated | 65 | 18,617 |

***The Indian Employment, Training, and Related Services Act (477 Program)***

P.L. 102-477, the Indian Employment, Training and Related Services Act, allows Federally-recognized Tribes to integrate funds from the Departments of Labor, Health and Human Services, and Interior for the purpose of employment, training, child care, welfare reform, and related services. Tribal governments can integrate the employment, training, and related services they provide in order to improve the effectiveness of those services, reduce joblessness in Indian communities, foster economic development on Indian lands and serve tribally determined goals consistent with the policies of self-determination and self-governance. Under this program, Tribes spend fewer funds on administration and more on client services through the reduction of administrative burdens. There are currently 48 Tribal grantees under the 477 program and amendments to P.L. 102-477 strengthened the initiative by providing flexibility to use a percentage of their existing funds for job creation.

In FY 2004, BIA expended $11.9 million in 477 program funds. In FY 2003, the BIA expended $11.8 million in 477 funds.

Although BIA has reported expenses for the Job Corps program in previous years, a review of Office of Indian Education Program files indicates FY 2003 was the final year a BIA-operated school received funds from the U.S. Department of Labor for the Job Corps Program.

***Job Corps Program***

Through the Job Corps Program, Interior provides residential education and job training to disadvantaged youth through program participation from Interior bureaus. The Job Corps, established in 1964, is the Nation's largest national job training and education program and offers job training, basic education, social skills training, and support services to young people ages 16-24 that face multiple barriers to employment. Job Corps Civilian Conservation Centers are operated by the Departments of the Interior and Agriculture and are located on National Wildlife Refuges, in National Parks, and in National Forests. Job Corps students perform valuable work to improve these public lands. In FY 2004, a total of approximately $57.4 million was expended by the Department for the Job Corps Program.

### Bureau Job Corps Program Highlights

***Bureau of Reclamation.*** Reclamation operates five Job Corps Centers to educate and train disadvantaged youth. In FY 2004, Reclamation expended $30 million in residential education and job training, including courses in computer technology, painting, woodworking, welding, culinary arts, and social and leadership development.

Post-program job placement services are available to Job Corps students. The following chart shows the numbers of Reclamation Center graduates as a percentage of the total Center enrollment and the number of graduates placed into jobs within 1 year of graduation as a percentage of the graduates in the placement pool.

**Reclamation Center Graduates**

| Center | Graduates | Enrollment | % | Graduates Placed | Graduate Placement Pool | % |
|---|---|---|---|---|---|---|
| Centennial | 269 | 270 | 99.6 | 301 | 340 | 88.5 |
| Columbia Basin | 195 | 235 | 83.0 | 221 | 263 | 84.0 |
| Ft. Simcoe | 191 | 228 | 83.8 | 215 | 267 | 80.5 |
| Weber Basin | 183 | 200 | 91.5 | 182 | 209 | 87.1 |
| Collbran | 144 | 213 | 67.6 | 175 | 198 | 88.4 |

***National Park Service.*** Job Corps Civilian Conservation Centers are residential, educational, training, and employment programs created as part of President Lyndon Johnson's "War on Poverty" via the Economic Opportunity Act of 1964. The 40th anniversary of NPS's involvement with Job Corps will occur during 2004. Job Corps Civilian Conservation Centers are operated by the NPS through an interagency agreement with the Department of Labor. NPS operates three Job Corps Civilian Conservation Centers: the Oconaluftee Center in North Carolina, the Great Onyx Center in Mammoth Cave, Kentucky, and the Harpers Ferry Center in Harpers Ferry, West Virginia. Student capacity is approximately 200 for each of the centers. The Centers offer a variety of vocational training programs, such as carpentry, plumbing, brick and cement masonry, health occupations, and landscaping. Students obtain jobs in various industries including transportation (trucking), plumbing, and building construction. Job Corps Centers are rated on the attainment of goals for graduation and student placement in jobs once students leave the program. For FY 2004, the graduates and placements for the three NPS centers are:

**NPS Graduates**

| Center | Graduates | Placements |
|---|---|---|
| Great Onyx | 237/290 = 82.0% | 197/233 = 84.5% |
| Harpers Ferry | 171/189 = 90.5% | 157/179 = 87.7% |
| Oconaluftee | 146/166 = 90.4% | 149/160 = 92.1% |

***U.S. Fish and Wildlife Service.*** FWS is provided operating funds by the Department of Labor for its participation in the Job Corps Program. The FWS operates two Job Corps Civilian Conservation Centers: Mingo, located at the Mingo Wildlife Refuge in Puxico, Missouri, and Treasure Lake, located at the Wichita Mountains Wildlife Refuge in Diahoma, Oklahoma. Job Corps Centers are rated on the attainment of goals for graduation and student placement in jobs once students leave the program. The FWS's ratings are as follows for the number of students served, graduates, placements, and percentage of graduates placed:

**FWS Graduates**

| Center | Students Served | Graduates | Percent | Placements | Percent of Graduate Placements |
|---|---|---|---|---|---|
| Mingo | 405 | 235 | 58% | 218 | 93% |
| Treasure Lake | 306 | 179 | 59% | 168 | 94% |

## 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 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 described in the *Table 3-10*.

***Bureau of Indian Affairs***

BIA's investments in non-Federal physical property include schools, dormitories, other infrastructures, and the Indian Reservation and Roads (IRRB) program. BIA's Office of Facility Management and Construction, in conjunction with BIA, owns or provides funds for a considerable number and broad variety of buildings and other associated facilities across the Nation, including buildings with historic and architectural significance. The education facilities serve a number of schools that provide educational opportunities for Indian students. BIA also provides funding for administrative buildings at a number of Tribal locations. Other facilities include dormitories, detention centers, irrigation facilities, and dams. Additionally, program sub-activities have elements that include minor improvement, repair and replacement, portable classrooms, emergency repairs, demolition and reduction of excess space, environmental projects, telecommunication improvements and repair, seismic safety, and emergency management systems.

The Indian Reservation and Roads Program (IRRP) is administered jointly with the Federal Highway Administration. The purpose of the program is to provide safe and adequate transportation and public road access to and within Indian reservations, Indian lands, and communities for Indians and Alaska Natives. The IRRP also provides safe and adequate transportation and public road access for program visitors, recreational users, resource users, and others, while contributing to economic development, self-determination, and employment of Indians and Alaska Natives. As of October 2003, the IRRP system consisted of approximately 25,700 miles of BIA and tribally-owned roads and 38,000 miles of State, county, and local government public roads, as well as an inventory of over 900 BIA-owned bridges.

The BIA's FY 2004 investment in the IRRP was $213.7 million, a decrease of $24.6 million compared to the FY 2003 total of $238.3 million. The BIA did not receive all of its FY 2004 funding for road construction and repair until after June 30, 2004. Consequently, the funds were obligated late in the fiscal year, resulting in fewer expenses incurred by September 30, 2004.

***Bureau of Reclamation***

BOR's investments in non-Federal physical property provide assistance through a variety of measures, all related to water and related resources management. BOR incurs expenses for specific programs to provide for the construction or improvement of structures and facilities used in State and local irrigation projects and water quality improvement projects. BOR-wide programs that improve State and local fish and wildlife habitats through activities such as the construction or betterment of structures or facilities are also included.

Assets constructed with Federal funding meet the criteria for non-Federal physical property at the time of transfer under BOR's title transfer program. In FY 2004, the net book value of assets transferred to State and local governments totaled approximately $63 million, of which $56.1 was completed plant net of accumulated depreciation of $75.1 million. Land costs associated with the transfers totaled approximately $6.9 million.

***Fish and Wildlife Service***

FWS's investments in non-Federal physical property include the purchase or improvement of physical assets for purposes of enhancing fish and wildlife management in States and for land restoration, species protection, recreational hunting and boating improvements, and habitat loss prevention. Expenses for maintenance and operations are not considered investments. In FY 2004, FWS estimates that it provided approximately $122 million in grants to State and local governments that resulted in the purchase, construction, or major renovation of physical property they own.

***National Park Service***

Congress may annually appropriate funds to the NPS for work on non-NPS facilities that is done by individuals who are not NPS employees. These funds are referred to as "Pass Through" appropriations because the role of NPS is limited primarily to preparing an agreement that allows the funds to be obligated and certifying and processing subsequent payments for the work. Typically, over 90% of the funds are obligated within the year they are

TABLE 3-10

## FY 2004 Investment in Non-Federal Physical Property (in millions)

| Category | FY 2000 | FY 2001 | FY 2002 | FY 2003 | FY 2004 | TOTAL |
|---|---|---|---|---|---|---|
| ***Bureau of Indian Affairs*** | | | | | | |
| Dams and Other Water Structures | $ - | $ 1.4 | $ 6.2 | $ 0.1 | $ 0.6 | $ 8.3 |
| Land | - | - | - | - | - | - |
| Roads and Bridges | 273.3 | 246.4 | 254.5 | 238.3 | 213.7 | 1,226.2 |
| Schools and Public Buildings | - | 24.8 | 41.3 | 18.9 | 44.7 | 129.7 |
| **Total** | **273.3** | **272.6** | **302.0** | **257.3** | **259.0** | **1,364.2** |
| ***Bureau of Reclamation 1/*** | | | | | | |
| Dams and Other Water Structures | 126.0 | 105.1 | 118.9 | 124.4 | 106.6 | 581.0 |
| Land | - | - | - | - | - | - |
| Roads and Bridges | - | - | - | - | - | - |
| Schools and Public Buildings | - | - | - | - | - | - |
| **Total** | **126.0** | **105.1** | **118.9** | **124.4** | **106.6** | **581.0** |
| ***Fish and Wildlife Service*** | | | | | | |
| Dams and Other Water Structures | - | - | - | 62.0 | 37.6 | 99.6 |
| Land 2/ | - | - | - | 52.0 | 84.6 | 136.6 |
| Roads and Bridges | - | - | - | - | - | - |
| Schools and Public Buildings | - | - | - | - | - | - |
| Not Classified | - | 178.0 | 169.0 | - | - | 347.0 |
| **Total** | **-** | **178.0** | **169.0** | **114.0** | **122.2** | **583.2** |
| ***National Park Service 3/*** | | | | | | |
| Dams and Other Water Structures | 4.0 | 14.6 | 29.7 | 44.0 | 57.9 | 150.2 |
| Land | 1.9 | 5.9 | 8.7 | 12.8 | 35.3 | 64.6 |
| Roads and Bridges | 1.1 | 1.5 | 1.7 | 2.5 | 2.3 | 9.1 |
| Schools and Public Buildings | 30.0 | 46.0 | 74.3 | 53.9 | 42.8 | 247.0 |
| **Total** | **37.0** | **68.0** | **114.4** | **113.2** | **138.3** | **470.9** |
| ***Dept.Offices-Insular Area Capital Investment*** | | | | | | |
| Dams and Other Water Structures | 10.6 | 12.9 | 13.7 | 15.0 | 8.7 | 60.9 |
| Land | - | - | - | - | - | - |
| Roads and Bridges | 4.0 | 5.9 | 2.6 | 1.0 | 2.0 | 15.5 |
| Schools and Public Buildings | 16.7 | 21.0 | 23.9 | 14.9 | 6.8 | 83.3 |
| **Total** | **31.3** | **39.8** | **40.2** | **30.9** | **17.5** | **159.7** |
| ***Dept. Offices-CUPCA/Commission4/*** | | | | | | |
| Dams and Other Water Structures | 0.3 | 0.4 | - | 0.4 | - | 1.1 |
| Land | - | - | 0.0 | 0.2 | - | 0.2 |
| Roads and Bridges | - | 0.1 | - | - | - | 0.1 |
| Schools and Public Buildings | 1.8 | 1.6 | 3.9 | 0.2 | 0.1 | 7.6 |
| **Total** | **2.1** | **2.1** | **3.9** | **0.8** | **0.1** | **9.0** |
| ***TOTAL*** | | | | | | |
| Dams and Other Water Structures | 140.9 | 134.4 | 168.5 | 245.9 | 211.4 | 901.1 |
| Land | 1.9 | 5.9 | 8.7 | 65.0 | 119.9 | 201.4 |
| Roads and Bridges | 278.4 | 253.9 | 258.8 | 241.8 | 218.0 | 1,250.9 |
| Schools and Public Buildings | 48.5 | 93.4 | 143.4 | 87.9 | 94.4 | 467.6 |
| Not Classified | - | 178.0 | 169.0 | - | - | 347.0 |
| **TOTAL** | **$ 469.7** | **$ 665.6** | **$ 748.4** | **$ 640.6** | **$ 643.7** | **$ 3,168.0** |

1/ Reclamation's investment includes fish and wildlife habitats and water management programs.
2/ The FY 2004 amount has been corrected from what was published in the FY 2003 PAR
3/ In FY 2003, NPS' expenditures were recorded in incorrect categories; the FY 2004 presentation is correct.
Also, the NPS includes "Other Structures" in the "Dams and Other Water Structures" category.
4/ CUPCA-Central Utah Project Completion Act/Commission-Utah Reclamation Mitigation & Conservation Commission

appropriated. Once obligated, fund expenditure is entirely dependent on the party receiving the funds. Only cash assets are associated with these projects. In FY 2004, $33.6 million has been expended for these pass through projects.

***Departmental Offices -The Office of Insular Affairs***
The Office of Insular Affairs (OIA) carries out the Secretary of the Interior's responsibilities for U.S. affiliated insular areas. These include the territories of American Samoa, Guam, the U.S. Virgin Islands, and the Commonwealth of the Northern Mariana Islands, as well as the three freely associated states of the Federated States of Micronesia, the Republic of the Marshall Islands, and the Republic of Palau. The OIA achieves its mission by improving the financial management practices of insular governments, increasing economic development, and increasing Federal responsiveness to the unique needs of island communities. OIA hopes to increase the resources available to the insular area governments while promoting economic self-sufficiency.

OIA provides capital improvement grants to the insular areas. These grants involve hospitals, public buildings, roads, schools, sewage facilities, and solid waste facilities. The capital investment in non-Federal physical property in the territories was approximately $17.5 million in FY 2004.

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

# Other Supplementary Information (See Auditors' Report)

Other Supplemental Information includes the Consolidating Balance Sheet and the Consolidating Statement of Changes in Net Position.

# Consolidating Balance Sheet
# as of September 30, 2004
*(in thousands)*

| | | Bureau of Indian Affairs | Bureau of Land Management | Bureau of Reclamation | Departmental Offices and Other |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| **Intragovernmental Assets:** | | | | | |
| Fund Balance with Treasury (Note 2) | $ | 1,468,919 | 1,252,381 | 5,233,607 | 1,047,353 |
| Investments, Net (Note 4) | | 68,565 | 829,445 | - | 392,303 |
| Accounts and Interest Receivable, Net (Note 5) | | 28,199 | 12,493 | 351,764 | 47,832 |
| Other | | | | | |
| Advances and Prepayments | | 1,732 | 1,090 | 1,236 | 22,718 |
| **Total Intragovernmental Assets** | | 1,567,415 | 2,095,409 | 5,586,607 | 1,510,206 |
| Cash (Note 3) | | 432 | 55 | 91 | - |
| Investments, Net (Note 4) | | 1,077 | - | - | 190,767 |
| Accounts and Interest Receivable, Net (Note 5) | | 26,388 | 20,691 | 32,179 | 8,231 |
| Loans and Interest Receivable, Net (Note 6) | | 33,558 | - | 166,900 | 23,098 |
| Inventory and Related Property, Net (Note 7) | | - | 321,319 | - | 567 |
| General Property, Plant, and Equipment, Net (Note 8) | | 1,328,541 | 355,621 | 13,065,549 | 298,728 |
| Other | | | | | |
| Advances and Prepayments | | 91,412 | 131 | 21,612 | 656 |
| Other Assets, Net (Note 9) | | - | - | 170,371 | - |
| Stewardship Assets (Note 1. I) | | | | | |
| **TOTAL ASSETS (Note 10)** | $ | 3,048,823 | 2,793,226 | 19,043,309 | 2,032,253 |
| **LIABILITIES** | | | | | |
| **Intragovernmental Liabilities:** | | | | | |
| Accounts Payable | $ | 43,240 | 24,895 | 25,711 | 5,608 |
| Debt (Note 11) | | 29,615 | 1,139,204 | 114,098 | 21,962 |
| Other | | | | | |
| Accrued Payroll and Benefits | | 27,172 | 24,997 | 21,100 | 4,516 |
| Advances and Deferred Revenue (Note 12) | | 146,882 | 16,221 | 10,360 | 476,185 |
| Deferred Credits | | 1,114 | - | 21 | (489) |
| Custodial Liability | | - | 73,376 | - | - |
| Aquatic Resource Amounts Due to Others | | - | - | - | - |
| Judgment Fund | | 117,248 | 12,224 | 46,958 | - |
| Other Liabilities | | 44,728 | 84,783 | 21,028 | - |
| **Total Intragovernmental Liabilities** | | 409,999 | 1,375,700 | 239,276 | 507,782 |
| Accounts Payable | | 94,146 | 31,436 | 196,000 | 113,603 |
| Loan Guarantee Liability (Note 6) | | 60,081 | - | - | - |
| United States Park Police Pension Actuarial Liability (Note 27) | | - | - | - | - |
| Federal Employees Compensation Act Liability (Note 13) | | 118,325 | 90,507 | 85,815 | 17,809 |
| Environmental Cleanup Costs (Note 14) | | 67,065 | 6,330 | 5,629 | 1,300 |
| Other | | | | | |
| Accrued Payroll and Benefits | | 44,379 | 81,214 | 44,818 | 31,207 |
| Advances and Deferred Revenue (Note 12) | | 7,550 | 340 | 91,240 | 4,729 |
| Deferred Credits | | 7,746 | 450,828 | 180,060 | 7,665 |
| Contingent Liabilities (Note 14) | | 58,070 | 3,650 | 62,625 | 712 |
| Other Liabilities | | 27,851 | 102,387 | 115 | - |
| **TOTAL LIABILITIES (Note 15)** | | 895,212 | 2,142,392 | 905,578 | 684,807 |
| Commitments and Contingencies (Note 14, 16, and 28) | | | | | |
| **Net Position** | | | | | |
| Unexpended Appropriations | | 1,177,903 | 461,140 | 325,934 | 403,845 |
| Cumulative Results of Operations | | 975,708 | 189,694 | 17,811,797 | 943,601 |
| **Total Net Position** | | 2,153,611 | 650,834 | 18,137,731 | 1,347,446 |
| **TOTAL LIABILITIES AND NET POSITION** | $ | 3,048,823 | 2,793,226 | 19,043,309 | 2,032,253 |

# Consolidating Balance Sheet
## as of September 30, 2004
*(in thousands)*

| Minerals Management Service | National Park Service | Office of Surface Mining | U.S. Fish and Wildlife Service | U.S. Geological Survey | Elimination of Intra-Department Activity | FY 2004 |
|---|---|---|---|---|---|---|
| 1,501,565 | 18,603,252 | 44,792 | 1,479,492 | 234,783 | - | $ 30,866,144 |
| 1,029,419 | 65 | 2,051,300 | 1,816,232 | - | - | 6,187,329 |
| 294,990 | 17,490 | 45 | 26,410 | 60,776 | (491,965) | 348,034 |
| 1,283 | 5,487 | 50 | 1,302 | 3,883 | (37,570) | 1,211 |
| 2,827,257 | 18,626,294 | 2,096,187 | 3,323,436 | 299,442 | (529,535) | 37,402,718 |
| - | 395 | - | 107 | 1 | - | 1,081 |
| - | - | - | - | - | - | 191,844 |
| 1,148,036 | 13,702 | 6,631 | 10,700 | 81,083 | - | 1,347,641 |
| - | 3,958 | - | - | - | - | 227,514 |
| - | - | - | - | 2,433 | - | 324,319 |
| 32,058 | 980,223 | 2,561 | 900,160 | 190,770 | - | 17,154,211 |
| 3 | 12,434 | - | 286 | 45 | - | 126,579 |
| - | - | - | - | - | - | 170,371 |
| 4,007,354 | 19,637,006 | 2,105,379 | 4,234,689 | 573,774 | (529,535) | $ 56,946,278 |
| 4,865 | 26,197 | 45 | 5,810 | 9,885 | (69,430) | 76,826 |
| - | - | - | - | - | - | 1,304,879 |
| 2,866 | 59,162 | 1,020 | 17,904 | 12,355 | - | 171,092 |
| 1,137,546 | 4,145 | 4 | 680 | 1,744 | (39,511) | 1,754,256 |
| - | 10 | 2 | 9 | 2,997 | (919) | 2,745 |
| 999,250 | - | - | - | - | (401,148) | 671,478 |
| - | - | - | 420,896 | - | - | 420,896 |
| - | 2,433 | - | 15 | - | - | 178,878 |
| - | 2,024 | 480 | 1,926 | 21,447 | (18,527) | 157,889 |
| 2,144,527 | 93,971 | 1,551 | 447,240 | 48,428 | (529,535) | 4,738,939 |
| 245,192 | 163,742 | 17,947 | 80,068 | 82,711 | - | 1,024,845 |
| - | - | - | - | - | - | 60,081 |
| - | 604,640 | - | - | - | - | 604,640 |
| 8,711 | 240,469 | 3,829 | 58,821 | 40,569 | - | 664,855 |
| - | 7,513 | - | 12,874 | 1,097 | - | 101,808 |
| 16,298 | 162,268 | 6,249 | 66,586 | 82,258 | - | 535,277 |
| 391 | 13,351 | - | 5,949 | 1,474 | - | 125,024 |
| 34,997 | 2,070 | 834 | 408 | 6,177 | - | 690,785 |
| 550,000 | 16,813 | 68,600 | 12 | 20,971 | - | 781,453 |
| 437,635 | 53,741 | - | 21,247 | 1,038 | - | 644,014 |
| 3,437,751 | 1,358,578 | 99,010 | 693,205 | 284,723 | (529,535) | 9,971,721 |
| 7,450 | 1,000,273 | 38,490 | 501,981 | 163,343 | - | 4,080,359 |
| 562,153 | 17,278,155 | 1,967,879 | 3,039,503 | 125,708 | - | 42,894,198 |
| 569,603 | 18,278,428 | 2,006,369 | 3,541,484 | 289,051 | - | 46,974,557 |
| 4,007,354 | 19,637,006 | 2,105,379 | 4,234,689 | 573,774 | (529,535) | $ 56,946,278 |

# Consolidating Balance Sheet
# as of September 30, 2003
*(in thousands)*

| | | Bureau of Indian Affairs | Bureau of Land Management | Bureau of Reclamation | Departmental Offices and Other |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| **Intragovernmental Assets:** | | | | | |
| Fund Balance with Treasury (Note 2) | $ | 1,339,871 | 857,881 | 4,719,708 | 901,066 |
| Investments, Net (Note 4) | | 68,334 | 370,316 | - | 371,802 |
| Accounts and Interest Receivable, Net (Note 5) | | 63,675 | 8,907 | 211,220 | 22,005 |
| Other | | | | | |
| Advances and Prepayments | | 557 | 1,498 | 1,759 | 9,788 |
| **Total Intragovernmental Assets** | | 1,472,437 | 1,238,602 | 4,932,687 | 1,304,661 |
| Cash (Note 3) | | 431 | 55 | 107 | - |
| Investments, Net (Note 4) | | 1,097 | - | - | 181,540 |
| Accounts and Interest Receivable, Net (Note 5) | | 15,288 | 14,936 | 18,211 | 10,420 |
| Loans and Interest Receivable, Net (Note 6) | | 38,042 | - | 166,621 | 24,675 |
| Inventory and Related Property, Net (Note 7) | | - | 335,796 | - | 523 |
| General Property, Plant, and Equipment, Net (Note 8) | | 1,322,636 | 332,762 | 13,055,281 | 241,008 |
| Other | | | | | |
| Advances and Prepayments | | 95,876 | 136 | 11,666 | 4,035 |
| Other Assets, Net (Note 9) | | 22,543 | - | 179,001 | - |
| Stewardship Assets (Note 1. I) | | | | | |
| **TOTAL ASSETS (Note 10)** | $ | 2,968,350 | 1,922,287 | 18,363,574 | 1,766,862 |
| **LIABILITIES** | | | | | |
| **Intragovernmental Liabilities:** | | | | | |
| Accounts Payable | $ | 26,307 | 13,742 | 18,617 | 10,342 |
| Debt (Note 11) | | 25,115 | 1,199,204 | 114,826 | 25,307 |
| Other | | | | | |
| Accrued Payroll and Benefits | | 28,581 | 23,359 | 19,643 | 20,945 |
| Advances and Deferred Revenue (Note 12) | | 144,401 | - | 9,364 | 216,819 |
| Deferred Credits | | 100 | 17,131 | 34 | 992 |
| Custodial Liability | | - | - | - | - |
| Aquatic Resource Amounts Due to Others | | - | - | - | - |
| Judgment Fund | | 116,697 | 12,224 | 48,797 | - |
| Other Liabilities | | 44,675 | 49,967 | 22,204 | 1,157 |
| **Total Intragovernmental Liabilities** | | 385,876 | 1,315,627 | 233,485 | 275,562 |
| Accounts Payable | | 60,185 | 43,332 | 220,986 | 73,852 |
| Loan Guarantee Liability (Note 6) | | 52,185 | - | - | - |
| Federal Employees Compensation Act Liability (Note 13) | | 127,268 | 95,344 | 93,468 | 20,750 |
| Environmental Cleanup Costs (Note 14) | | 73,523 | 17,568 | 5,804 | 1,000 |
| Other | | | | | |
| Accrued Payroll and Benefits | | 33,229 | 78,453 | 40,828 | 25,997 |
| Advances and Deferred Revenue (Note 12) | | 6,076 | - | 110,114 | 4,688 |
| Deferred Credits | | 12,807 | 115,296 | 176,051 | 160,998 |
| Contingent Liabilities (Note 14) | | 58,210 | 650 | 69,100 | 693 |
| Other Liabilities | | 4,481 | 106,492 | 115 | - |
| **TOTAL LIABILITIES (Note 15)** | | 813,840 | 1,772,762 | 949,951 | 563,540 |
| Commitments and Contingencies (Note 14, 16, and 28) | | | | | |
| **Net Position** | | | | | |
| Unexpended Appropriations | | 1,149,928 | 412,460 | 314,643 | 340,297 |
| Cumulative Results of Operations | | 1,004,583 | (262,935) | 17,098,979 | 863,025 |
| **Total Net Position** | | 2,154,511 | 149,525 | 17,413,622 | 1,203,322 |
| **TOTAL LIABILITIES AND NET POSITION** | $ | 2,968,351 | 1,922,287 | 18,363,573 | 1,766,862 |

# Consolidating Balance Sheet
# as of September 30, 2003
*(in thousands)*

| Minerals Management Service | National Park Service | Office of Surface Mining | U.S. Fish and Wildlife Service | U.S. Geological Survey | Elimination of Intra-Department Activity | FY 2003 |
|---|---|---|---|---|---|---|
| 1,259,599 | 18,095,406 | 42,763 | 1,276,656 | 205,258 | - | $ 28,698,208 |
| 1,002,594 | 65 | 1,926,867 | 1,870,014 | - | - | 5,609,992 |
| 216,782 | 14,240 | 30 | 21,596 | 81,089 | (252,375) | 387,169 |
| 4 | 6,469 | 161 | 755 | 2,654 | (20,021) | 3,624 |
| 2,478,979 | 18,116,180 | 1,969,821 | 3,169,021 | 289,001 | (272,396) | 34,698,993 |
| - | 383 | - | 116 | 2 | - | 1,094 |
| - | - | - | - | - | - | 182,637 |
| 1,024,164 | 6,691 | 35,010 | 10,832 | 91,432 | - | 1,226,984 |
| - | 4,318 | - | - | - | - | 233,656 |
| - | - | - | - | 2,395 | - | 338,714 |
| 36,361 | 880,327 | 2,978 | 862,436 | 222,126 | - | 16,955,915 |
| 8 | 14,795 | - | 271 | 79 | - | 126,866 |
| - | - | - | - | - | - | 201,544 |
| 3,539,512 | 19,022,694 | 2,007,809 | 4,042,676 | 605,035 | (272,396) | $ 53,966,403 |
| 4,739 | 25,093 | 259 | 12,191 | 8,939 | (52,391) | $ 67,838 |
| - | - | - | - | - | - | 1,364,452 |
| 2,504 | 57,044 | 1,137 | 16,927 | 15,297 | - | 185,437 |
| 872,973 | 5,690 | - | 680 | 2,835 | (16,023) | 1,236,739 |
| - | 3,846 | 151 | 7 | 7,262 | (10,197) | 19,326 |
| 948,605 | - | - | - | - | (185,218) | 763,387 |
| - | - | - | 389,762 | - | - | 389,762 |
| - | 2,007 | - | - | - | - | 179,725 |
| - | 5,765 | 563 | 1,926 | 26,271 | (8,567) | 143,961 |
| 1,828,821 | 99,445 | 2,110 | 421,493 | 60,604 | (272,396) | 4,350,627 |
| 301,806 | 121,714 | 12,053 | 69,157 | 62,424 | - | 965,509 |
| - | - | - | - | - | - | 52,185 |
| 9,376 | 256,635 | 4,440 | 62,154 | 42,815 | - | 712,250 |
| - | 5,332 | - | 12,352 | 507 | - | 116,086 |
| 13,791 | 107,413 | 5,535 | 57,614 | 71,365 | - | 434,225 |
| 67 | 9,119 | - | 6,292 | 1,141 | - | 137,497 |
| 25,738 | 1,137 | 575 | 1,430 | 4,513 | - | 498,545 |
| 550,000 | 8,755 | 68,500 | - | 20,638 | - | 776,546 |
| 270,459 | 27,318 | - | 22 | 1,181 | - | 410,068 |
| 3,000,058 | 636,868 | 93,213 | 630,514 | 265,188 | (272,396) | 8,453,538 |
| 6,969 | 983,029 | 36,299 | 498,236 | 187,441 | - | 3,929,302 |
| 532,485 | 17,402,797 | 1,878,297 | 2,913,926 | 152,406 | - | 41,583,563 |
| 539,454 | 18,385,826 | 1,914,596 | 3,412,162 | 339,847 | - | 45,512,865 |
| 3,539,512 | 19,022,694 | 2,007,809 | 4,042,676 | 605,035 | (272,396) | $ 53,966,403 |

# Consolidating Statement of Changes in Net Position
# for the fiscal year ended September 30, 2004
*(in thousands)*

| | | Bureau of Indian Affairs | Bureau of Land Management | Bureau of Reclamation |
|---|---|---|---|---|
| **UNEXPENDED APPROPRIATIONS** | | | | |
| **Beginning Balances** | $ | 1,149,927 | 412,460 | 314,643 |
| **Budgetary Financing Sources** | | | | |
| Appropriations Received, General Funds | | 2,332,793 | 2,002,596 | 168,998 |
| Appropriations Transferred In/Out | | 289,264 | (426,887) | 38,141 |
| Appropriations-Used | | (2,564,378) | (1,505,149) | (195,353) |
| Other Adjustments | | (29,705) | (21,879) | (495) |
| **Total Budgetary Financing Sources** | | 27,974 | 48,681 | 11,291 |
| **Ending Balance - Unexpended Appropriations** | $ | 1,177,901 | 461,141 | 325,934 |
| **CUMULATIVE RESULTS OF OPERATIONS** | | | | |
| **Beginning Balances** | $ | 1,004,583 | (262,935) | 17,098,978 |
| **Cumulative Effect of Change in Accounting (Note 20)** | | - | - | - |
| **Beginning Balances, adjusted** | | 1,004,583 | (262,935) | 17,098,978 |
| **Budgetary Financing Sources** | | | | |
| Appropriations-Used | | 2,564,378 | 1,505,149 | 195,353 |
| Royalties Retained (Note 21) | | - | 16,216 | 1,066,780 |
| Transfers In/Out without Reimbursement | | 218,845 | (71,693) | (5,449) |
| Non-Exchange Revenue | | | | |
| Tax Revenue | | - | - | - |
| Abandoned Mine Fees | | - | - | - |
| Donations and Forfeitures of Cash and Cash Equivalents | | 187 | 176 | 149 |
| Other Non-Exchange Revenue | | - | - | - |
| Other Budgetary Financing Sources and Adjustments | | 2,641 | 15 | - |
| **Other Financing Sources** | | | | |
| Imputed Financing From Costs Absorbed by Others (Note 19) | | 52,189 | 75,389 | 137,554 |
| Transfers In/Out without Reimbursement | | (4,005) | (2,479) | (25,181) |
| Donations and Forfeitures of Property | | - | - | 73 |
| **Total Financing Sources** | | 2,834,235 | 1,522,773 | 1,369,279 |
| **Net Cost of Operations** | | (2,863,111) | (1,070,143) | (656,460) |
| **Ending Balance - Cumulative Results of Operations** | $ | 975,707 | 189,695 | 17,811,797 |

# Consolidating Statement of Changes in Net Position
## for the fiscal year ended September 30, 2004
*(in thousands)*

| Departmental Offices and Other | Minerals Management Service | National Park Service | Office of Surface Mining | U.S. Fish and Wildlife Service | U.S. Geological Survey | FY 2004 |
|---|---|---|---|---|---|---|
| 340,299 | 6,969 | 983,029 | 36,299 | 498,236 | 187,440 | $ 3,929,302 |
| | | | | | | |
| 1,059,789 | 165,316 | 2,154,954 | 106,424 | 1,121,014 | 949,686 | 10,061,570 |
| (58,117) | - | 152,656 | - | 94,718 | 86 | 89,861 |
| (928,421) | (162,538) | (2,258,373) | (101,939) | (1,198,544) | (956,739) | (9,871,434) |
| (9,702) | (2,297) | (31,994) | (2,294) | (13,443) | (17,131) | (128,940) |
| 63,549 | 481 | 17,243 | 2,191 | 3,745 | (24,098) | 151,057 |
| 403,848 | 7,450 | 1,000,272 | 38,490 | 501,981 | 163,342 | $ 4,080,359 |
| | | | | | | |
| 863,025 | 532,485 | 17,402,797 | 1,878,297 | 2,913,926 | 152,407 | $ 41,583,563 |
| - | - | (649,300) | - | - | - | (649,300) |
| 863,025 | 532,485 | 16,753,497 | 1,878,297 | 2,913,926 | 152,407 | 40,934,263 |
| | | | | | | |
| 928,421 | 162,538 | 2,258,373 | 101,939 | 1,198,544 | 956,739 | 9,871,434 |
| - | 1,346,760 | 1,054,996 | - | 6,456 | - | 3,491,208 |
| (13,009) | (3,983) | (332,008) | - | 165,382 | 1,491 | (40,424) |
| | | | | | | |
| - | - | - | - | 717,364 | - | 717,364 |
| - | - | - | 286,160 | - | - | 286,160 |
| 3,156 | - | 19,442 | 31 | 4,840 | 1,729 | 29,710 |
| 47,393 | 24,132 | - | 54,738 | 27,203 | - | 153,466 |
| (1,791) | - | 1,387 | - | 170 | - | 2,422 |
| | | | | | | |
| 26,203 | 12,975 | 98,007 | 5,124 | 50,488 | 61,242 | 519,171 |
| (595) | (569) | 1,770 | (401) | 4,588 | (350) | (27,222) |
| 13,536 | - | 61 | - | - | 2,025 | 15,695 |
| 1,003,314 | 1,541,853 | 3,102,028 | 447,591 | 2,175,035 | 1,022,876 | 15,018,984 |
| | | | | | | |
| (922,738) | (1,512,185) | (2,577,370) | (358,009) | (2,049,457) | (1,049,576) | (13,059,049) |
| 943,601 | 562,153 | 17,278,155 | 1,967,879 | 3,039,504 | 125,707 | $ 42,894,198 |

# Consolidating Statement of Changes in Net Position
## for the fiscal year ended September 30, 2003
*(in thousands)*

| | | Bureau of Indian Affairs | Bureau of Land Management | Bureau of Reclamation |
|---|---|---|---|---|
| **UNEXPENDED APPROPRIATIONS** | | | | |
| **Beginning Balances, as adjusted** | $ | 987,332 | 480,277 | 338,509 |
| **Budgetary Financing Sources** | | | | |
| Appropriations Received, General Funds | | 2,288,723 | 2,173,723 | 151,924 |
| Appropriations Transferred In/Out | | 259,123 | (418,347) | 39,305 |
| Appropriations-Used | | (2,358,628) | (1,811,313) | (215,095) |
| Other Adjustments | | (26,622) | (11,880) | - |
| **Total Budgetary Financing Sources** | | 162,596 | (67,817) | (23,866) |
| **Ending Balance - Unexpended Appropriations** | $ | 1,149,928 | 412,460 | 314,643 |
| **CUMULATIVE RESULTS OF OPERATIONS** | | | | |
| **Beginning Balances, as adjusted** | $ | 612,563 | (572,912) | 16,743,925 |
| **Budgetary Financing Sources** | | | | |
| Appropriations-Used | | 2,358,628 | 1,811,313 | 215,095 |
| Royalties Retained (Note 21) | | - | 75,927 | 641,245 |
| Transfers In/Out without Reimbursement | | 212,073 | (72,417) | 103,215 |
| Non-Exchange Revenue | | | | |
| Tax Revenue | | - | - | - |
| Abandoned Mine Fees | | - | - | - |
| Donations and Forfeitures of Cash and Cash Equivalents | | 549 | 69 | 37 |
| Other Non-Exchange Revenue | | - | - | 151 |
| Other Budgetary Financing Sources and Adjustments | | 11,832 | 4,994 | - |
| **Other Financing Sources** | | | | |
| Imputed Financing From Costs Absorbed by Others (Note 19) | | 38,930 | 64,291 | 244,807 |
| Transfers In/Out without Reimbursement | | (5,509) | 2,373 | (52,665) |
| Donations and Forfeitures of Property | | 3,401 | - | 56 |
| **Total Financing Sources** | | 2,619,904 | 1,886,550 | 1,151,941 |
| **Net Cost of Operations** | | (2,227,884) | (1,576,573) | (796,887) |
| **Ending Balance - Cumulative Results of Operations** | $ | 1,004,583 | (262,935) | 17,098,979 |

# Consolidating Statement of Changes in Net Position
## for the fiscal year ended September 30, 2003
*(in thousands)*

| Departmental Offices and Other | Minerals Management Service | National Park Service | Office of Surface Mining | U.S. Fish and Wildlife Service | U.S. Geological Survey | FY 2003 |
|---|---|---|---|---|---|---|
| 377,871 | 6,316 | 961,876 | 36,038 | 478,161 | 179,938 | $ 3,846,318 |
| 684,971 | 165,321 | 2,043,311 | 105,092 | 1,072,465 | 925,288 | 9,610,818 |
| (9,657) | - | 126,429 | - | 84,348 | 619 | 81,820 |
| (709,475) | (162,550) | (2,121,646) | (103,609) | (1,130,272) | (907,121) | (9,519,709) |
| (3,413) | (2,118) | (26,941) | (1,222) | (6,466) | (11,283) | (89,945) |
| (37,574) | 653 | 21,153 | 261 | 20,075 | 7,503 | 82,984 |
| 340,297 | 6,969 | 983,029 | 36,299 | 498,236 | 187,441 | $ 3,929,302 |
| 784,007 | 486,061 | 16,822,223 | 1,856,818 | 2,880,832 | 294,600 | $ 39,908,117 |
| 709,475 | 162,550 | 2,121,646 | 103,609 | 1,130,272 | 907,121 | 9,519,709 |
| - | 812,765 | 1,049,817 | - | 2,909 | - | 2,582,663 |
| 13,745 | 6,065 | (279,994) | (271) | 143,939 | 983 | 127,338 |
| - | - | - | - | 659,217 | - | 659,217 |
| - | - | - | 282,411 | - | - | 282,411 |
| 4,128 | - | 30,388 | 112 | 4,163 | 387 | 39,833 |
| 46,686 | 10,248 | - | 23,712 | 49,747 | - | 130,544 |
| (13,505) | - | 5,403 | - | 1,909 | 2,728 | 13,361 |
| 17,724 | 11,525 | 87,966 | 4,784 | 44,277 | 56,240 | 570,544 |
| (4,023) | (270) | 8,431 | (87) | 4,360 | (10,253) | (57,643) |
| 35,166 | - | 8,240 | - | - | - | 46,863 |
| 809,396 | 1,002,883 | 3,031,897 | 414,270 | 2,040,793 | 957,206 | 13,914,840 |
| (730,378) | (956,459) | (2,451,323) | (392,791) | (2,007,699) | (1,099,400) | (12,239,394) |
| 863,025 | 532,485 | 17,402,797 | 1,878,297 | 2,913,926 | 152,406 | $ 41,583,563 |

# Part 4.
# Audit
# Section

# United States Department of the Interior

**OFFICE OF INSPECTOR GENERAL**
**Washington, D.C. 20240**

November 15, 2004

Memorandum

To: Secretary

From: Earl E. Devaney
Inspector General

Subject: Independent Auditors' Report on the Fiscal Year 2004 Annual Report on Performance and Accountability of the U.S. Department of the Interior (Report No. X-IN-MOA-0054-2004)

## INTRODUCTION

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

## FINDINGS

In its audit report dated November 15, 2004 (Attachment 1), KPMG issued an unqualified opinion on DOI's financial statements for fiscal years 2004 and 2003. As discussed in KPMG's report and Note 17 to the financial statements, DOI's fiscal year 2004 consolidated statement of net cost is not comparable to its fiscal year 2003 consolidated statement of net cost. This occurred because, in fiscal year 2004, DOI revised the presentation of costs and revenues to match the *Government Performance and Results Act* strategic plan applicable to fiscal year 2004, which is different from the plan applicable to fiscal year 2003. Also, as discussed in Note 20 to the financial statements, DOI changed its method of accounting for the liability related to the U.S. Park Police Pension Plan effective October 1, 2003, based upon guidance received from OMB.

In its report, KPMG also stated, based upon the limited procedures performed, that the required supplemental information for deferred maintenance and the required supplemental stewardship information for stewardship assets and investments are not presented in conformity with accounting principles generally accepted in the United States of America. In addition, the report noted that DOI did not reconcile intra-governmental transactions with its trading partners as required by OMB.

The report identified 14 internal control weaknesses over financial reporting, 2 internal control weaknesses over required supplementary information and required supplementary stewardship information, and 4 instances of noncompliance with laws and regulations, as detailed below.

## ✓ *INTERNAL CONTROLS OVER FINANCIAL REPORTING*

Deficiencies in internal controls are described as reportable conditions, with the most serious conditions identified as material weaknesses.

**Material weaknesses** are significant deficiencies in the design or operation of one or more components of internal controls which do not reduce to a relatively low level the risk that a material misstatement to the financial statements could occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. KPMG identified material internal control weakness in the following areas:

A. Controls over property, plant, and equipment
B. Process for year-end closing
C. Reconciliation of intra-governmental transactions and balances
D. Controls over Indian Trust funds

**Reportable conditions** are significant deficiencies in the design or operation of the internal control over financial reporting that could adversely affect an organization's ability to record, process, summarize, and report financial data consistent with the assertions by management in the financial statements. KPMG identified reportable conditions in the following areas:

E. Application and general controls over financial management systems
F. Controls over accruals
G. Controls over legal and environmental contingencies
H. Financial management at the Bureau of Indian Affairs
I. Controls over the revenue process and other financing sources
J. Controls over grants
K. Controls over payments in lieu of taxes
L. Controls over budgetary transactions
M. Controls over charge cards
N. Controls over benefit programs

### ✓ *INTERNAL CONTROLS OVER REQUIRED SUPPLEMENTARY INFORMATION AND REQUIRED SUPPLEMENTARY STEWARSHIP INFORMATION*

KPMG identified significant deficiencies in internal control over required supplementary information and required supplementary stewardship information, which it believes could adversely affect DOI's ability to collect, process, record, and summarize information pertaining to the following:

O. Deferred maintenance reporting
P. Stewardship reporting

### ✓ *NONCOMPLIANCE WITH LAWS AND REGULATIONS*

KPMG identified noncompliance with the following laws and regulations:

*Q. Single Audit Act Amendments of 1996*
*R. Debt Collection Improvement Act of 1996*
*S. Prompt Pay Act*
*T. Federal Financial Management Improvement Act (FFMIA) of 1996*

KPMG is responsible for the auditors' report and for the conclusions expressed in the report. We do not express opinions on the financial statements of DOI, conclusions on the effectiveness of internal control, conclusions on whether DOI's financial management systems substantially complied with FFMIA, or conclusions on compliance with laws and regulations.

## *DOI CORRECTIVE ACTIONS*

In its response (Attachment 2), DOI indicated general concurrence with the findings and recommendations. However, DOI did not concur that application and general controls over financial management systems constituted a reportable condition in internal controls. In its comments on this matter, KPMG acknowledged that DOI has made improvements in the security and controls over information systems. However, KPMG also indicated that it identified a number of conditions that could have affected DOI's ability to detect unauthorized changes to financial information, control electronic access to sensitive information, and protect its information. Therefore, KPMG concluded that the control weaknesses identified constitute a reportable condition.

## *REPORT DISTRIBUTION*

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

We appreciate the cooperation and assistance of DOI personnel during the audit. If you have any questions, please contact me at (202) 208-5745.

Attachments (2)

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

## Independent Auditors' Report

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

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

**Summary**

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

As discussed in Note 17 to the financial statements, Interior's fiscal year 2004 consolidated statement of net cost is not comparable to its fiscal year 2003 consolidated statement of net cost because, in fiscal year 2004, Interior revised the presentation of costs and revenues to match the *Government Performance and Results Act* strategic plan applicable to fiscal year 2004, which is different from the plan applicable to fiscal year 2003. Also, as discussed in Note 20 to the financial statements, Interior changed its method of accounting for the liability related to the U.S. Park Police Pension Plan effective October 1, 2003.

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

<u>Reportable Conditions that are Considered to be Material Weaknesses</u>

A. Controls over property, plant, and equipment

B. Process for year-end closing

C. Reconciliation of intragovernmental transactions and balances

D. Controls over the Indian Trust Funds

Other Reportable Conditions

E. Application and general controls over financial management systems

F. Controls over accruals

G. Controls over legal and environmental contingencies

H. Financial management at the Bureau of Indian Affairs

I. Controls over revenue and other financing sources

J. Controls over grants

K. Controls over payments in lieu of taxes

L. Controls over budgetary transactions

M. Controls over charge cards

N. Controls over benefit programs

We also noted the following significant deficiencies in internal control over Required Supplementary Information and Required Supplementary Stewardship Information that, in our judgment, could adversely affect Interior's ability to collect, process, record, and summarize this information:

O. Deferred maintenance reporting

P. Stewardship reporting

The results of our tests of compliance with certain provisions of laws, regulations, contracts, and grant agreements disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, issued by the Comptroller General of the United States, and Office of Management and Budget (OMB) Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements*:

*Q. Single Audit Act Amendments of 1996*

*R. Debt Collection Improvement Act of 1996*

*S. Prompt Payment Act*

*T. Federal Financial Management Improvement Act (FFMIA) of 1996*

The following sections discuss our opinion on the 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 consolidated balance sheets of the U.S. Department of the Interior as of September 30, 2004 and 2003, and the related consolidated statements of net cost, consolidated statements of changes in net position, combined statements of budgetary resources, consolidated statements of financing, and consolidated statements of 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 Interior as of September 30, 2004 and 2003, and its net costs, changes in net position, budgetary resources, reconciliation of net costs to budgetary obligations, and custodial activities for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 17 to the financial statements, Interior's fiscal year 2004 consolidated statement of net cost is not comparable to its fiscal year 2003 consolidated statement of net cost because, in fiscal year 2004, Interior revised the presentation of costs and revenues to match the *Government Performance and Results Act* strategic plan applicable to fiscal year 2004, which is different from the plan applicable to fiscal year 2003. Also, as discussed in Note 20 to the financial statements, Interior changed its method of accounting for the liability related to the U.S. Park Police Pension Plan effective October 1, 2003.

The information in the Management's Discussion and Analysis, Required Supplementary Stewardship Information, and Required Supplementary Information sections is not a required part of the financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America or OMB Bulletin No. 01-09, *Form and Content of Agency Financial Statements*. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of this information. However, we did not audit this information and, accordingly, we express no opinion on it. As a result of such limited procedures, we believe that the Required Supplementary Information for deferred maintenance and the Required Supplementary Stewardship Information (RSSI) for stewardship assets and investments are not presented in conformity with accounting principles generally accepted in the United States of America. The Required Supplementary Information disclosures for deferred maintenance are not complete or current, because Interior had not estimated deferred maintenance for all assets and did not consistently update deferred maintenance estimates. In addition, the Required Supplementary Stewardship Information disclosures for stewardship assets and investments are not current, complete, or consistently supported, because Interior did not consistently follow its established procedures and controls to accumulate and report the disclosure information. Finally, we determined that Interior did not reconcile intragovernmental transactions and balances with its trading partners, as specified by OMB requirements, because Interior did not reconcile transactions and balances throughout the year and because the trading partners did not consistently provide information by Interior component or Treasury fund symbol.

Our audits were conducted for the purpose of forming an opinion on the financial statements taken as a whole. The Performance Data and Analysis section and the Appendices are an integral part of Interior's *Fiscal Year 2004 Annual Report on Performance and Accountability*. However, this information is not a required part of the financial statements and is presented for purposes of additional analysis. The information in the Performance Data and Analysis section and the Appendices has not been subjected to the same auditing procedures and, accordingly, we express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The consolidating information in the Other Supplementary Information section is presented for purposes of additional analysis of the consolidated balance sheet and consolidated statement of changes in net position, rather than to present the financial position and changes in net position of

Interior's components individually. The consolidating information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole.

**Internal Control Over Financial Reporting**

Our consideration of internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be reportable conditions. Under standards issued by the American Institute of Certified Public Accountants, reportable conditions are matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Interior's ability to record, process, summarize, and report financial data consistent with the assertions by management in the financial statements.

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

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

**A. Controls Over Property, Plant, and Equipment**

Interior needs to improve controls over property, plant, and equipment to ensure transactions are promptly recorded, properly classified and accounted for, and to prepare timely and reliable financial reports. We noted control weaknesses in the following areas:

***1. Land and Land Rights***

Interior does not have a complete and accurate inventory system for $1.9 billion in land and land rights, such as right-of-ways. Interior is in the process of completing an inventory of land and land rights and expects to complete this project in fiscal year 2005. In addition, during fiscal year 2004, Interior did not have controls to ensure land transactions were properly recorded. As a result, Interior did not record several land disposals.

***2. Acquisitions***

Interior does not consistently record property, plant, and equipment transactions. We identified 25 exceptions in the 404 transactions tested at certain components. Specifically, we noted that Interior expensed certain costs that should have been capitalized and capitalized certain costs that should have been expensed. The primary cause of this condition was lack of staff training on classifying costs. In addition, Interior does not consistently review and approve property adjustments, as we identified that Interior incorrectly recorded adjustments of over $105 million related to construction costs and internal use software.

***3. Construction-in-Progress***

Interior needs to improve controls to monitor and reconcile the construction-in-progress account. We identified exceptions for 57 of the 167 construction projects tested at certain components. Specifically, we noted that Interior did not transfer construction projects from the construction-in-progress account to real property accounts at the time of completion, transfer costs from the construction-in-progress account to real property accounts prior to completion

KPMG

of the project, and classified costs as construction-in-progress that should have been expensed or classified as equipment.

***4. Leased Property***

Interior did not consistently review leases to determine if they were capital or operating leases, and had difficulty providing documentation supporting certain lease reviews. In addition, Interior did not effectively prepare lease information for disclosure in its financial statements. As a result of our observations, Interior analyzed and adjusted its schedule of future minimum lease payments by a total of approximately $82 million. Furthermore, Interior did not properly calculate the accumulated depreciation related to capital leases.

As a result of our observations, Interior expended a significant amount of time and resources analyzing and adjusting property, plant, and equipment balances and operating lease disclosures as of and for the year ended September 30, 2004.

***Recommendations***

We recommend that Interior implement the following recommendations to improve controls over its property, plant, and equipment:

***1. Land and Land Rights***

a. Complete its five-year action plan to establish a complete and accurate inventory of land and land rights and to reconcile the inventory records (i.e., subsidiary ledger) to the general ledger.
b. Establish controls to ensure land acquisitions and disposals are properly recorded in the general ledger.

***2. Acquisitions***

a. Periodically train personnel on how to distinguish between costs that should be capitalized versus expensed.
b. Require a second individual to review property transactions, expense transactions, and the related source documents to verify that transactions are properly expensed or capitalized.

***3 Construction-in-Progress***

a. Review its construction-in-progress accounts to identify completed projects that should be transferred to the appropriate property account and projects that are improperly classified as construction-in-progress. This review should be performed monthly.

***4. Leased Property***

a. Document the evaluation of whether leases should be classified as capital or operating leases and require a second individual to review and approve these evaluations.
b. Maintain the lease evaluation documentation, including the related present value calculations and fair market value assessments.
c. Develop and maintain a database of all real and personal property leases to assist in monitoring and reporting future minimum lease payments. This database should include lease number, type, term, payments, and other information that facilitates preparation of the future minimum lease payment disclosure.

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.

**B. Process for Year-End Closing**

Interior needs to improve controls over the recording and reporting of year-end transactions to ensure that transactions are promptly and properly recorded for timely and reliable financial reports, as follows:

***1. Year-End Adjustments***

Interior does not have adequate processes and controls to ensure that year-end transactions are recorded accurately or timely. For example, we determined that Interior incorrectly recorded approximately $390 million of cash received in September 2004 as custodial revenue rather than as a decrease to accounts receivable related to Minerals Management Service. As a result of our inquiries, Interior also determined that it had not recorded over $293 million of assets and custodial revenue related to Bureau of Land Management and Minerals Management Service transactions that occurred at the end of September 2004. In addition, Interior recorded several billion dollars in financial transactions after issuing trial balance reports on October 7, 2004, which management had certified as complete and accurate. Furthermore, Interior recorded several hundred million dollars of financial transactions subsequent to issuing component financial reports on October 18, 2004, which management had certified as complete and accurate.

***2. Offsetting Receipts***

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

As a result of our observations, Interior expended a significant amount of time and resources analyzing and adjusting its fiscal year 2004 financial statements.

***Recommendations***

We recommend that Interior implement the following recommendations to improve controls over the year-end closing process:

***1. Year-End Adjustments***

a. Implement procedures to ensure transactions are identified and recorded at the end of the year. This should include requiring the finance personnel to review and approve the procedures performed by the program personnel to identify and report transactions that occurred in September 2004.
b. Require individuals who certify the trial balance and financial reports to implement procedures to ensure transactions are recorded during the year rather than after management certifies the completeness and accuracy of the reports.

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2. ***Offsetting Receipts***

   a. Require a second individual to compare the offsetting receipts from the TFS-6655 *Receipt Account Trial Balance* and the SF-224 *Statement of Transactions* to the general ledger to ensure that offsetting receipts are properly recorded.
   b. Require a supervisor review and approve all journal entries.
   c. Train employees on reviewing and approving journal entries to ensure adjustments are properly recorded in the general ledger and properly supported.

***Management Response***

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

**C. Reconciliation of Intragovernmental Transactions and Balances**

Interior is required to reconcile transactions and balances with other Federal entities in accordance with OMB Bulletin No. 01-09, *Form and Content of Agency Financial Statements,* and U.S. Department of the Treasury's *Federal Intragovernmental Transactions Accounting and Policies Guide.* Interior has not fully reconciled its intragovernmental transactions and balances because Interior did not reconcile transactions and balances during the year, and because the trading partners did not consistently provide information by Interior component or Treasury fund symbol. As a result, Interior's transactions and balances with other Federal entities may not properly eliminate on the government-wide financial statements.

***Recommendation***

We recommend that Interior establish quarterly procedures to reconcile transactions and balances with other Federal entities. These procedures should include confirming amounts at the Interior component level with trading partners and meeting with trading partners to resolve any differences identified.

***Management Response***

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

**D. Control Over the Indian Trust Funds**

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

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

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

1. ***Trust Fund Balances***

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

2. ***Individual Indian Monies Subsidiary Ledger***

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

3. ***Special Deposit Accounts***

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

4. ***Undistributed and Unusual Balances***

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

5. ***Entering and Maintaining Trust Fund Information***

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

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

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

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

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

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

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

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

### *Recommendation*

We recommend that the Department of the Interior develop and implement procedures and internal controls to address the deficiencies in controls related to Indian Trust Funds.

### *Management Response*

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

## E. Application and General Controls Over Financial Management Systems

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

### *1. Entity-wide Information Technology (IT) Security Program*

An entity-wide security program, including security policies and a related implementation plan, is the foundation of an entity's security control structure and a reflection of senior management's commitment to addressing security risks. An effective security program includes a risk assessment process, certification and accreditation process, application-level security plans, training, and effective incident response and monitoring capabilities. Interior needs to improve assignment of security responsibilities, document and finalize certain security policies and procedures, enhance monitoring of the security program, monitor completion of security training, and consistently perform background investigations. In addition, Interior had not completed the certification and accreditation process for all applications and general support systems or classified certain resources according to their sensitivity or criticality.

### *2. Access Controls*

Access controls should provide reasonable assurance that computer resources such as data files, application programs, and computer-related facilities and equipment are protected against unauthorized modification, disclosure, and loss. Interior needs to document physical security plans and strengthen password policies at certain components. Interior also needs to improve controls over granting, terminating, and monitoring system access to applications. In addition, Interior did not consistently review security access profiles or generate and review security violation reports. Furthermore, Interior had not fully limited access to system information.

### *3. Segregation of Duties*

Proper segregation of duties should be ensured through the establishment of policies, procedures, and organizational structure, so that one individual cannot control key aspects of financial transactions, and thereby conduct unauthorized actions or gain unauthorized access to assets or records. Interior had not fully documented and segregated processing responsibilities. Certain system configurations provide individuals, who are involved with programming, testing and migrating changes to production, access to source code, test, and production libraries.

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4. ***System Software Controls***

Controls over the modification of system software change controls should provide reasonable assurance that operating system controls are not compromised. Without proper system software controls, unauthorized individuals using the system software could circumvent controls to read, modify, or delete critical or sensitive information or programs. Interior needed to document and finalize certain system software policies and procedures and improve controls over migration of programs to the production environment. Interior did not consistently test system software patches using a test environment before installing the patches in the production environment or consistently perform post-implementation reviews after installing emergency patches.

5. ***Software Development and Change Controls***

Establishing controls over the modification of application software programs helps ensure that only authorized programs and modifications are implemented. Without proper change controls, there is an increased risk that either intentional or unintended changes could be made to the system's processing functionality, the wrong version of a program could be implemented, a virus could be inserted, or built-in security features could be disabled. Interior had not formalized and approved policies for changes to certain applications. In addition, Interior did not consistently apply change management procedures. Interior also did not consistently maintain documentation for required aspects of the change management processes or system software change logs. Furthermore, Interior did not consistently use library management software.

6. ***Service Continuity***

Losing the capability to process, retrieve, and protect information maintained electronically could significantly affect Interior's ability to accomplish its mission. Consequently, procedures should be in place to protect information resources, minimize the risk of unplanned interruptions, and recover critical operations, should interruptions occur. However, Interior had not formalized an incident response capability to mitigate the risk of service interruptions. Interior needs to expand documentation and procedures for certain contingency plans and provide periodic training. Interior does not effectively maintain back up data and the related logs at certain components. In addition, Interior had not finalized, approved, or tested certain contingency plans. Furthermore, Interior had not consistently documented the test procedures, expectations, and testing results.

***Recommendation***

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

***Management Response***

Management has prepared an official response presented as a separate attachment to this report. In summary, management partially agreed with our findings. Management indicated that Interior has made substantial progress improving internal controls and believes that our findings did not constitute a reportable condition principally because of the increase in the percentage of systems certified and accredited to 98 percent by the end of fiscal year 2004.

*Auditors' Response to Management's Response*

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

**F. Controls Over Accruals**

In order to meet the accelerated reporting deadlines, Interior estimated certain accrual balances. However, Interior had to revise the accrual methodology related to its Departmental working capital funds at the end of the year as a result of our observations. In addition, the accrual calculation did not match the general ledger by approximately $22 million. As a result of our observations, Interior expended additional time and resources revising its accrual methodology, reconciling the calculations to the ledger, and adjusting the September 30, 2004 accrual balances to ensure the amounts were fairly stated.

***Recommendations***

We recommend that Interior perform the following:

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

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

***Management Response***

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

**G. Controls over Legal and Environmental Contingencies**

Interior has not properly designed controls or sufficiently trained staff to ensure that legal and environmental information is effectively identified, maintained, and reported as follows:

***1. Legal Contingencies***

Interior uses an automated system to capture the contingency information used to record liabilities and prepare disclosures in accordance with Federal accounting standards. However, the information in the automated system is not always sufficient to determine the accounting treatment for each claim or assessment. In addition, the BIA financial management office does not have formally documented procedures relating to legal contingencies and did not review the information provided by the solicitors during the year. Finally, BIA did not consistently decrease the legal liability by approximately $27 million for cases that are complete.

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2. *Environmental Contingencies*

Interior did not issue policies for estimating environmental liabilities to BIA offices in a timely manner. As a result, individuals did not consistently interpret and apply these policies or consistently prepare documentation supporting the environmental liability estimates.

As a result, Interior spent a significant amount of time revising the legal and environmental supporting documentation and determining which contingencies should be accrued and which should be disclosed in its fiscal year 2004 financial statements.

***Recommendations***

We recommend that Interior improve internal controls to ensure that legal and environmental contingencies are properly accrued or disclosed in the financial report as follows:

1. *Legal Contingencies*

   a. Continue to train the solicitors on entering sufficient information in the system to enable the financial management offices to determine the appropriate accounting treatment of each claim or assessment.
   b. Require financial management offices to develop and issue procedures for monitoring and recording contingencies.
   c. Review the quarterly analysis provided by the solicitor's office, meet periodically with the solicitor's office to discuss the status of and changes in the legal contingency information, and adjust the legal liability for these changes in this information.

2. *Environmental Contingencies*

   a. Develop and communicate future updates to policies for estimating environmental liabilities at the beginning of the fiscal year.
   b. Continue to provide periodic training to scientists, financial management staff, and others to ensure that they understand Interior policies and the Federal accounting standards related to estimating and recording environmental liabilities.

***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.

**H. Financial Management at the Bureau of Indian Affairs**

BIA needs to improve its financial management organization and processes. BIA does not have enough sufficiently trained financial staff to manage accounting operations and ensure financial transactions are properly recorded. BIA has attempted to compensate for staff departures by assigning additional responsibilities to the remaining personnel and subcontractors. However, assigning additional responsibilities to remaining personnel has not resulted in an effective and efficient management environment. In addition, the current service agreement with the Interior National Business Center does not provide for appropriate BIA management input and oversight of the transaction processing by the National Business Center.

We also found that BIA financial management policies and procedures are not fully developed or consistently applied throughout BIA. In addition, BIA does not reconcile several financial statement accounts, reconcile with its trading partners, or resolve certain differences between the general ledger and subsidiary ledgers until the end of the year. BIA also does not effectively review journal vouchers as BIA recorded adjustments twice, to the incorrect accounts, or without including the budgetary accounts. Furthermore, BIA does not effectively reconcile Fund Balance with Treasury. For example, we determined that BIA had not performed certain reconciliations or resolved over 1,100 differences netting to $5 million.

As a result, BIA expended a significant amount of time and resources reconciling its financial accounts, resolving differences between the general ledger and subsidiary ledgers, and adjusting the general ledger.

***Recommendations***

We recommend that Interior's Office of Financial Management work with BIA to perform the following:

1. Recruit additional accounting staff and continue to train existing staff to ensure that BIA has sufficiently trained resources to account for and report financial transactions.
2. Establish controls to review and approve the transactions processed by Interior's National Business Center.
3. Develop and communicate, to financial and program staff, financial management policies and procedures.
4. Enforce consistent application of financial management policies and procedures through internal control reviews.
5. Develop and implement formal month-end financial reporting processes to reconcile subsidiary ledgers to general ledgers, reconcile Treasury's records to the general ledger, reconcile balances and transactions with trading partners, and resolve differences. This should include having a supervisor review and approve the reconciliations.

***Management Response***

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

**I. Controls Over Revenue and Other Financing Sources**

Interior's revenue controls did not ensure that Interior consistently accounted for and classified revenue and other financing source transactions as follows:

***1. Recording Activity***

Interior did not effectively review over $155 million of revenue and financing source transactions to ensure that the transactions were properly presented in accordance with Federal accounting standards. Specifically, Interior improperly classified appropriation transfers, recorded exchange revenue as non-exchange revenue, recognized revenue in the improper period, erroneously recorded revenue as a reduction to expenses, incorrectly calculated and supported the allowance for doubtful accounts, and did not impute interest on lease bonus revenue due over a long-term period.

***2. Issuing Bills***

Interior did not issue bills or reduce advances in accordance with the agreements and prudent business practices for 42 of the 252 revenue transactions tested at one component and for $1.4

million at another component. In addition, Interior has not billed for all interest on late royalty payments. We identified approximately $22 million of unbilled interest on late royalty payments.

3. ***Monitoring Accounts***

Interior does not effectively analyze and reconcile accounts receivable and advances from others. Interior has not resolved over $196 million of aged account receivables that are substantially reserved. In addition, Interior has not properly designed the reconciliation of certain subsidiary ledgers to the general ledger, as Interior has reconciling items that are not cleared in a timely manner. Finally, Interior has agreements with both accounts receivable and deferred revenue balances, which should not occur.

As a result of our comments, Interior performed a detailed analysis of revenue transactions and adjusted the fiscal year 2004 financial statements accordingly.

***Recommendations***

We recommend that Interior implement the following recommendations to improve controls over the revenue and other financing sources:

1. ***Recording Activity***

Establish controls to ensure that transactions are recorded in the proper account, at the proper amount, and in the proper period. These controls should also include periodic inspections by a second individual to ensure transactions are properly recorded.

2. ***Issuing Bills***

a. Standardize customer agreements and implement billing policies that enable Interior to issue bills or reduce advances when the associated costs are incurred.
b. Bill for late interest on late royalty payments in a timely manner.

3. ***Monitoring Accounts***

a. Investigate and resolve all accounts over six-months old. This should include matching the agreement transactions, pursuing collections, and referring accounts to Treasury.
b. Implement formal month-end financial reporting processes to reconcile the subsidiary ledger to the general ledger, investigate and resolve reconciling items as they are identified, as well as identify and resolve customer agreements with both an accounts receivable and advance balance.

***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.

**J. Controls over Grants**

In accordance with *Single Audit Act Amendments of 1996* as well as Public Laws 93-638 and 100-297, Interior should monitor grantees to ensure grantees expend awards in accordance with the grant requirements and Federal regulations. However, Interior has not fully developed controls to monitor the grantees to detect and prevent misuse of federal awards. Specifically, we noted the following:

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1. ***Grant Database***

   Interior does not maintain a grant proposal and award database that includes information such as the proposal data, grantee name, grant number, date granted, award amount, funds expended, date the audit reports were received, period covered by the audit reports, findings in the audit reports, and management decisions on findings.

2. ***Progress Reports***

   Interior does not ensure that grantees submit grant progress reports, such as form SF-269, *Report for Status of Funds*; form SF-270, *Request for Advance or Reimbursement;* and/or form SF-272, *Report of Federal Cash Transactions.* Interior has not received the required forms for 20 of the 32 transactions tested at certain components.

3. ***Audit Reports***

   Interior does not ensure that grantees complete single audits and submit reports within nine months of the grantees' year end. Interior had not received single audit reports within the required time period for 19 of the 30 grants tested at certain components. In addition, Interior indicated that it had not received single audit reports from 239 grantees within the required deadline.

4. ***Findings***

   Interior does not issue management decisions on audit findings within six months after receipt of audit reports and does not ensure that grantees take appropriate and timely corrective action.

***Recommendations***

We recommend the Interior perform the following to improve the monitoring efforts of grantees as follows:

1. ***Grant Database***

   Ensure that bureaus and offices develop and maintain a proposal and grant database that enables the Interior to monitor the status of the proposals and/or grant awards, and to document the monitoring procedures completed. This database should include the proposal data, grantee name, grant number, date granted, award amount, funds expended, date audit reports are received, period covered by the audit reports, findings in the audit reports, and management decisions on findings.

2. ***Progress Reports***

   Require grantees to submit form SF-269, *Report for Status of Funds;* or form SF-270, *Request for Advance or Reimbursement* with funding requests; and submit form SF-272, *Report of Federal Cash Transactions,* when funds are paid in advance. In addition, Interior should require grantees that receive funds in advance to submit form SF-269, *Report for Status of Funds,* periodically and at the end of the project.

3. ***Audit Reports***

   Establish a monitoring and follow up process to verify receipt of single audits reports. Interior should utilize the Federal Clearinghouse web site on an ongoing basis to determine when an audit report has been submitted. If reports are not received, Interior should inquire of grantees and consider the need to limit future grant awards until reports are submitted.

4. ***Findings***

   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.

**K. Controls over Payments in Lieu of Taxes**

In accordance with legislation, Interior is required to provide payments in lieu of taxes of approximately $200 million annually to counties and other local governments for lands within their boundaries that are administered by the Bureau of Land Management, Forest Service, National Park Service, Fish and Wildlife Service, and certain other agencies. However, Interior has not properly designed controls over this program as follows:

1. ***Segregation of Duties***

   Interior did not properly segregate responsibilities. That is, the same Bureau of Land Management individual calculated, recorded, approved, and disbursed the payments in lieu of taxes.

2. ***Payment Calculations***

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

***Recommendations***

We recommend that Interior perform the following to improve controls over the payments in lieu of taxes:

1. ***Segregation of Duties***

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

2. ***Payment Calculations***

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

***Management Response***

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

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**L. Controls over Budgetary Transactions**

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

***1. Budgetary Resources***

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

***2. Unapportioned Authority***

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

***3. Recoveries of Prior Year Obligations***

The accounting system (i.e., Federal Financial System) incorrectly records recoveries of prior year obligations for reclassifications of obligations between program accounts, receipts, and other transactions, resulting in an overstatement of total budgetary resources and obligations incurred. Although Interior implemented new policies and procedures in fiscal year 2004 to investigate and correct invalid recoveries resulting from the system configuration, Departmental Offices and National Park Service did not consistently follow these policies and procedures. As a result, Interior incorrectly reported budgetary recoveries of over $13 million.

As a result of our observations, Interior expended additional time and resources analyzing, reconciling, and adjusting its budgetary balances to ensure the amounts were fairly stated for fiscal year 2004.

***Recommendations***

We recommend that Interior implement the following recommendations to improve internal controls to ensure that budgetary transactions are properly recorded in the financial report:

***1. Budgetary Resources***

a. Research the appropriation laws and regulations surrounding transactions to ensure that Interior properly records budgetary resources as unavailable or available.
b. Require the budget office to review and approve these determinations.

2. ***Unapportioned Authority***

   a. Reclassify unapportioned authority to apportioned authority at the time Interior receives customer orders.
   b. Require management to review the year-end unapportioned authority general ledger accounts to ensure that they are correct.

3. ***Recoveries of Prior Year Obligations***

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

***Management Response***

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

**M. Controls over Charge Cards**

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

However, Interior does not consistently follow these internal control procedures, as we identified 47 exceptions in the 286 statements tested at certain components. For example, cardholders did not always sign and date the charge card statements in a timely manner and did not consistently maintain charge card receipts to support the charges. In addition, approving officials did not consistently review and approve the charge card statements in a timely manner.

***Recommendation***

We recommend that Interior approving officials be more diligent in monitoring and enforcing compliance with Interior's charge card policies.

***Management Response***

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

**N. Controls over Benefit Programs**

Interior needs to improve controls over the benefit programs to ensure transactions are properly presented and recorded in the financial reports. We noted the following:

1. ***U.S. Park Police Pension Plan***

During fiscal year 2004, Interior adopted guidance from OMB that required Interior to change its method of accounting for the U.S. Park Police Pension Plan (USPP Pension Plan). OMB's guidance required Interior to determine and record a liability for the actuarial present value of the future benefits of the USPP Pension Plan. As Interior is not the plan administrator, Interior obtained the census data to calculate the liability from the District of Columbia, the plan administrator. As the plan administrator, the District of Columbia calculates and adjusts the annuity payments and disburses funds to the beneficiaries.

Interior recalculated a sample of annuity payments and identified several differences between its and the District of Columbia's calculations. As part of our testing of the USPP Pension Plan liability, we also recalculated a sample of the annuity payments and identified differences between our and the District of Columbia's calculations for 171 of the 191 annuity payments recalculated. These differences included both under and over payments. In addition, we compared the census data and personnel records for 253 participants and identified 11 differences in gender, age, and other factors. Interior in consultation with its specialists, evaluated the differences identified and concluded that the USPP Pension Plan liability was fairly stated as of September 30, 2004.

2. ***Imputed Costs and Unemployment Liabilities***

Interior's Office of Financial Management (PFM) performs the calculation and allocation of imputed costs, related financing sources, and the Federal Unemployment Compensation Act liabilities to Interior's components. However, PFM did not properly segregate responsibilities, as the same individual calculated and allocated the amounts to the Interior components. In addition, we noted that PFM used an incorrect rate to calculate the imputed costs and financing sources related to Civil Service Retirement System, and allocated these improper amounts to the individual Interior components. As a result of our inquiries, PFM subsequently recalculated the total amounts using the proper rates and re-allocated the correct amounts to the Interior components.

***Recommendations***

We recommend that Interior implement the following recommendations to ensure that benefit programs are properly presented in the financial report as follows:

1. ***U.S. Park Police Pension Plan***

   a. Work with the District of Columbia to investigate and resolve differences in the annuity payments and census data.
   b. Establish controls to verify that the census data and annuity payments are supported, maintained, and updated.

2. ***Imputed Costs and Unemployment Liabilities***

Require a second individual to review and approve the calculation and allocation of the imputed costs, related financing sources, and the Federal Unemployment Compensation Act liabilities.

*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.

A summary of the status of prior year reportable conditions is included as Exhibit I. We also noted other matters involving internal control over financial reporting and its operation that we have reported to the management of Interior in a separate letter dated November 15, 2004.

We have identified controls over property, plant, and equipment; year-end closing process; and intragovernmental reconciliations as material weaknesses that were not reported in Interior's *Federal Managers' Financial Integrity Act* report.

**Internal Controls Over Required Supplementary Information and Required Supplementary Stewardship Information**

We noted certain significant deficiencies in internal control over Required Supplementary Information and Required Supplementary Stewardship Information discussed in the following paragraphs that, in our judgment, could adversely affect Interior's ability to collect, process, record, and summarize this information.

**O. Deferred Maintenance Reporting**

Interior has not fully implemented the requirements of Statement of Federal Financial Accounting Standard (SFFAS) No. 6, *Accounting for Property, Plant, and Equipment,* as amended by SFFAS No. 14, *Amendments to Deferred Maintenance Reporting Amending SFFAS No. 6 and SFFAS No. 8*. SFFAS No. 6 requires Interior to estimate the deferred maintenance for its general, heritage, and stewardship assets using either the condition assessment survey or life cycle costing method. In addition, SFFAS No. 8 requires Interior to assess the condition of stewardship land as indicated in paragraph 81, which states: "Reporting at the entity level for stewardship land shall be more specific than at the government-wide level. Minimum reporting shall include the following…the condition of the stewardship land, unless it is already reported in deferred maintenance information included elsewhere, in which case a reference to the information will suffice. A reference to information if deferred maintenance is reported for the assets."

Interior has adopted the condition assessment survey method, which requires Interior to perform periodic inspections of assets to determine their current condition and estimate the cost to correct any deficiencies. However, Interior has not fully established controls over the condition assessments performed to determine deferred maintenance for all assets as follows:

1. ***General Property, Plant, and Equipment and Heritage Assets***

   Interior has not fully established policies and information systems to account for and report condition assessments and the related deferred maintenance at certain components. Interior also has not completed condition assessments and estimated deferred maintenance for all property and equipment. In addition, Interior has not completed condition assessments and estimated deferred maintenance for all known heritage assets, such as, historic structures, prehistoric structures, museum collections, paleontological sites, archeological sites, and National trails. Finally, Interior does not consistently adjust its deferred maintenance estimates for major repairs that occurred since the last assessment.

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**2. *Stewardship Land***

Interior does not have procedures for assessing the condition and estimating deferred maintenance of stewardship land and the related improvements to stewardship land, and does not have documented evidence that it completed condition assessments and the related deferred maintenance estimates for all stewardship land and related improvements. However, Interior incurs costs annually to improve and maintain stewardship land. Furthermore, in the Required Supplementary Stewardship Information section of the *Annual Report on Performance and Accountability,* Interior implied that improvements and maintenance are needed on stewardship land by stating that: "While individual units of stewardship land can be improved, the condition of National Park Service land as a whole is generally sufficient to support the NPS mission and is considered to be in acceptable condition…While some individual units of stewardship lands can be improved at any time during management cycles, the condition of the stewardship lands as a whole, which are protected by inclusion in both the National Wildlife Refuge System and the National Fish Hatcheries System, is sufficient to support the mission of Fish and Wildlife Service and the statutory purpose for which these conservation systems were established."

As a result, the Required Supplementary Stewardship Information disclosure on the condition of major classes of assets and the Required Supplementary Information disclosure on deferred maintenance amounts are not complete or current.

***Recommendations***

We recommend that Interior implement the following recommendations:

**1. *General Property, Plant, and Equipment and Heritage Assets***

a. Establish policies and systems to account for and report condition assessments and deferred maintenance at all components.
b. Perform condition assessments of all general, property, plant, and equipment; and heritage assets and estimate the related deferred maintenance.
c. Have supervisors review and approve condition assessments and deferred maintenance estimates to ensure they are performed consistently and in accordance with Interior's policies.
d. Periodically update deferred maintenance estimates.

**2. *Stewardship Land***

We recognize that Interior does not believe that it needs to perform condition assessments over stewardship land and report any related deferred maintenance. However, paragraph 83 of SFFAS No. 6 requires Interior to disclose deferred maintenance information for all categories of property, plant and equipment (general, stewardship, and heritage). In addition, paragraph 81 of SFFAS No. 8, *Supplementary Stewardship Reporting*, indicates that Interior is required to perform condition assessments of stewardship land and estimate the related deferred maintenance. Therefore, we recommend that Interior:

a. Meet with the Federal Accounting Standards Advisory Board to discuss its position.
b. Until FASAB provides new guidance, Interior should implement procedures to conduct condition assessments and estimate deferred maintenance related to stewardship land and disclose this information in the Performance and Accountability Report.

*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.

**P. Stewardship Reporting**

Interior does not consistently follow its established procedures and controls over recording Required Supplementary Stewardship Information. Specifically, we noted the following:

1. ***Stewardship Property, Plant, and Equipment – Physical Units***

   Interior does not consistently record stewardship property, plant, and equipment (stewardship asset) transactions accurately or in a timely manner. Interior recorded several adjustments in the current year for transactions that should have been identified and recorded in prior years, including 3,765 archeological site additions, 660 archeological site deletions, 3 stewardship land additions, and 5 stewardship land deletions. Interior does not consistently maintain documentation supporting the stewardship asset additions and deletions. For example, Interior was not able to provide us adequate supporting documentation for 678 of 716 stewardship asset transactions reported at certain components. In addition, a second individual does not consistently review and approve the stewardship asset transactions as required by Interior's policies. In addition, Interior has not completed annual inventories and verifications of several stewardship asset categories, including historic structures, prehistoric structures, and museum collections. Finally, Interior has provided millions of museum items to non-Federal facilities; however, Interior does not have an accurate or recent inventory of these museum items.

2. ***Stewardship Property, Plant, and Equipment – Condition Assessments***

   Interior has not completed condition assessments for all stewardship and heritage assets, including the National trail system, historic structures, prehistoric structures, stewardship land, museum collections, paleontological sites, and archeological sites. In addition, Interior components did not consistently follow the Department's five-year assessment policy, as we noted that some condition assessments are over five-years old. As a result, Interior has not disclosed condition assessments of all of its heritage assets in the Required Supplementary Stewardship Information section of the annual report as required by paragraph 81 of SFFAS No. 8.

3. ***Stewardship Investments***

   Interior reported obligations rather than expenses incurred for natural resource research and development investments, because Interior does not track actual expenses related to such investments. In addition, Interior does not consistently identify and report investments in non-Federal physical property.

As a result, the Required Supplementary Stewardship Information disclosures for stewardship assets and investments are not complete, current, or consistently supported.

*Recommendations*

We recommend that Interior strengthen internal controls over recording Required Supplementary Stewardship Information to:

1. ***Stewardship Property, Plant, and Equipment – Physical Units***

   Record and report stewardship property, plant, and equipment transactions at the time the event occurs, require supervisors to review and approve these transactions, maintain source documentation for these transactions, and perform periodic inventories of stewardship assets.

2. ***Stewardship Property, Plant, and Equipment – Condition Assessments***

   Perform and report condition assessments for all stewardship property, plant, and equipment.

3. ***Stewardship Investments***

   Accumulate and report actual expenses incurred for investments in research and development and non-Federal physical property.

***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.

**Compliance and Other Matters**

Our tests of compliance with certain provisions of laws, regulations, contracts, and grant agreements, as described in the Responsibilities section of this report, exclusive of those referred to in the FFMIA, disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and OMB Bulletin No. 01-02, and are described below.

***Q. Single Audit Act Amendments of 1996***

As discussed in the Internal Control over Financial Reporting section of this report, Interior does not perform adequate monitoring of grantees in accordance with the *Single Audit Act Amendments of 1996,* the related OMB Circular A-133, *Audits of States, Local Governments, and Non-profit organizations,* and Public Laws 93-638 and 100-297. Interior needs to develop and maintain a data-base to monitor grant proposals and awards. Interior also needs to ensure that grantees submit progress reports, complete single audits, and submit single audit reports in a timely manner. In addition, Interior needs to issue management decisions on findings in a timely manner.

***Recommendation***

We recommend that in fiscal year 2005, Interior improve its grantee monitoring process to ensure compliance with the reporting requirements of the *Single Audit Act Amendments of 1996* and the related OMB Circular A-133, *Audits of States, Local Governments, and Non-profit organizations*.

***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.

***R. Debt Collection Improvement Act of 1996***

In accordance with the *Debt Collection Improvement Act of 1996*, Interior is required to refer eligible receivables that are delinquent to the U.S. Department of the Treasury for collection or offset. Eligible receivables include those that are not the subject of litigation, related to foreclosure proceedings, or from organizations in bankruptcy. Interior did not consistently refer receivables that are over 180 days delinquent to the U.S. Department of the Treasury. Interior did not refer 2 of the 32 Minerals Management Services receivables tested or refer over $2.5 million in Bureau of Indian Affair receivables tested. In addition, Interior was unable to refer Bureau of Indian Affair receivables due to the age and lack of customer information. Interior has over $25 million of Bureau of Indian Affair receivables that were over 180 days past due as of September 30, 2004.

***Recommendation***

We recommend that the Interior establish a process, in fiscal year 2005, to ensure eligible receivables are referred to the U.S. Department of the Treasury in a timely manner.

***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.

**S. Prompt Payment Act**

In accordance with the *Prompt Payment Act,* Interior is required to pay interest penalties when payments are late. However, Interior did not comply with the Prompt Payment Act. Interior did not properly configure its Minerals Management Service accounting system to calculate prompt payment interest. As a result of the system configuration, Interior calculates and pays simple interest rather than the required compounded interest on invoices that are over a month past due and uses an incorrect interest rate to calculate and pay prompt payment interest for certain disbursements. In addition, Interior incorrectly included prompt payment interest on 1 of the 32 Mineral Management Service disbursements that we tested. Furthermore, Interior did not update its Departmental Offices accounting systems to properly reflect the semi-annual interest rate changes as published by the U.S. Department of the Treasury. As a result, Interior used an incorrect interest rate from January through September of 2004.

***Recommendations***

We recommend that in fiscal year 2005, Interior perform the following:

1. Modify the Mineral Management Service accounting system to calculate prompt pay interest using the appropriate interest rate and using the compound method. If this modification is not cost beneficial as Interior is in the process of implementing a new accounting system, Interior should consider implementing manual procedures to assess and adjust the prompt payment interest amounts to ensure compliance with the prompt payment act.
2. Provide periodic training to personnel responsible for entering the prompt payment information into the accounting system to ensure that they understand the requirements and properly enter information into the accounting system.
3. Update the accounting systems for the semi-annual interest rates published by the U.S. Department of the Treasury.

***Management Response***

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

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

### *T. Federal Financial Management Improvement Act of 1996*

The results of our tests of FFMIA disclosed instances, described below, where Interior's financial management systems did not substantially comply with Federal financial management systems requirements, Federal accounting standards, or the United States Standard General Ledger at the transaction level.

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

As discussed in the Internal Control over Financial Reporting section of this report, Interior has several weaknesses in its information technology general control environment that contribute to noncompliance with OMB Circular A-130. Interior needs to improve security policies, monitor the security program, strengthen access controls, segregate information technology duties, further develop and implement procedures for controlling system and other software, and improve its service continuity processes. As a result, Interior does not substantially comply with the Federal financial management system requirements.

#### *2. Federal Accounting Standards*

Interior is required to prepare its financial statements in accordance with Federal accounting standards. As discussed in the Internal Control over Financial Reporting section of this report, we identified weaknesses that affected Interior's ability to prepare its financial statements and related disclosures in accordance with Federal accounting standards. Specifically, Interior needs to improve controls over property, plant, and equipment; the year-end closing process, intragovernmental reconciliations, and the Indian Trust Funds. Also, as discussed in the Internal Control over Required Supplementary Information and Required Supplementary Stewardship Information section of this report, Interior needs controls over reporting deferred maintenance and stewardship asset and investment disclosures to comply with Federal accounting standards. The Required Supplementary Information disclosures for deferred maintenance are not complete or current, as Interior had not estimated deferred maintenance for all assets and did not consistently update deferred maintenance estimates. In addition, the Required Supplementary Stewardship Information disclosures for stewardship assets and investments are not current, complete, or consistently supported, as Interior did not consistently follow its established procedures and controls. As a result, Interior does not substantially comply with the accounting standard indicators of FFMIA.

#### *3. United States Standard General Ledger at the Transaction Level*

In accordance with OMB Circular A-127, *Financial Management Systems*, Interior is required to record financial events consistent with the applicable account descriptions and attributes reflected in the United States Standard General Ledger (SGL) at the transaction level. Interior records certain Bureau of Indian Affairs receivables as a total in its subsidiary ledgers rather than recording the individual transactions. As a result, Interior does not substantially comply with the SGL requirements.

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*Recommendations*

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

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

   Improve the security and general controls over its financial management systems to meet the requirements set forth in OMB Circular A-130.

2. ***Federal Accounting Standards***

   Improve procedures and internal controls to ensure that the financial statements and related disclosures are prepared in accordance with the Federal accounting standards.

3. ***United States Standard General Ledger at the Transaction Level***

   Revise the process for recording receivables to ensure that Interior records activity consistent with the SGL at the transaction level.

*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.

**Responsibilities**

*Management's Responsibilities*

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

Management is responsible for the financial statements, including:

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

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

*Auditors' Responsibilities*

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

01-02 require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit includes:

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

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

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

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

As further required by OMB Bulletin No. 01-02, with respect to internal control related to performance measures determined by management to be key and reported in the Management's Discussion and Analysis section, we obtained an understanding of the design of significant internal controls relating to the existence and completeness assertions. Our procedures were not designed to provide assurance on internal control over performance measures and, accordingly, we do not provide an opinion thereon.

As part of obtaining reasonable assurance about whether the Interior's fiscal year 2004 financial statements are free of material misstatement, we performed tests of the 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 financial statement amounts, and certain provisions of other laws and regulations specified in OMB Bulletin No. 01-02, including certain provisions referred to in FFMIA. We limited our tests of compliance to the provisions described in the preceding sentence, and we did not test compliance with all laws, regulations, contracts, and grant agreements applicable to the Interior. Accordingly, noncompliance may occur and not be detected by these tests and such testing may not be sufficient for other purposes. Providing an opinion on compliance with laws, regulations, contracts, and grant agreements was not an objective of our audit and, accordingly, we do not express such an opinion.

Under OMB Bulletin No. 01-02 and FFMIA, we are required to report whether the Interior's financial management systems substantially comply with (1) Federal financial management systems requirements, (2) applicable Federal accounting standards, and (3) the United States Government Standard General Ledger at the transaction level. To meet this requirement, we performed tests of compliance with FFMIA Section 803(a) requirements.

**Distribution**

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

KPMG LLP

November 15, 2004

**Exhibit I**

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

**Summary of the Status of Prior Year Findings**
**September 30, 2004**

| Ref | Fiscal Year 2003 Condition | Fiscal Year 2004 Status |
|---|---|---|
| **A** | Controls over property, plant, and equipment | This condition has not been corrected and is repeated at finding A. |
| **B** | Financial reporting controls | This condition has not been corrected and is repeated at finding B. |
| **C** | Intragovernmental reconciliation | This condition has not been corrected and is repeated at finding C. |
| **D** | Indian Trust Funds controls | This condition has not been corrected and is repeated at finding D. |
| **E** | Application and general controls over financial management systems | This condition has not been corrected and is repeated at finding E. |
| **F** | Controls over accruals | This condition has not been corrected and is repeated at finding F. |
| **G** | Controls for recording and disclosing legal contingencies | This condition has not been corrected and is repeated at finding G. |
| **H** | Controls over environmental liabilities | This condition has not been corrected and is repeated at finding G. |
| **I** | Controls over revenue process | This condition has not been corrected and is repeated at finding I. |
| **J** | Controls over grants | This condition has not been corrected and is repeated at finding J. |
| **K** | Intra-departmental reconciliation | This condition has been corrected. |
| **L** | Controls over budgetary transactions | This condition has not been corrected and is repeated at finding L. |
| **M** | Controls over charge cards | This condition has not been corrected and is repeated at finding M. |
| **N** | Deferred maintenance reporting | This condition has not been corrected and is repeated at finding O. |
| **O** | Stewardship assets and investments | This condition has not been corrected and is repeated at finding P. |

**Exhibit I**

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

**Summary of the Status of Prior Year Findings**
**September 30, 2004**

| Ref | Fiscal Year 2003 Condition | Fiscal Year 2004 Status |
|---|---|---|
| **P** | *Single Audit Act Amendments of 1996* | This condition has not been corrected and is repeated at finding Q. |
| **Q** | *Debt Collection Improvement Act of 1996* | This condition has not been corrected and is repeated at finding R. |
| **R** | *Prompt Payment Act* | This condition has not been corrected and is repeated at finding S. |
| **S** | *Federal Financial Management Improvement Act of 1996* | This condition has not been corrected and is repeated at finding T. |

ATTACHMENT 2

United States Department of the Interior

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

TAKE PRIDE IN AMERICA

NOV 1 5 2004

Memorandum

To: Earl E. Devaney
Inspector General

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

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

Subject: Management Response to Draft Independent Auditors' Report on Department Consolidated Financial Statement for Fiscal Year 2004 and 2003 (Assignment No. X-IN-MOA-0054-2004)

The Department has reviewed the subject report and provides its responses to the findings and recommendations. The Department appreciates the recognition noted in several findings and recommendations of the substantial improvement and progress achieved during fiscal 2004, and we are pleased that the result of the audit is an unqualified opinion on the Department Consolidated financial statements.

**INTERNAL CONTROL OVER FINANCIAL REPORTING**

**Reportable Conditions that are considered to be Material Weaknesses**

**A.** <u>**Controls over property, plant and equipment**</u>

**Management concurs.** Interior developed and commenced implementation of a strategy to communicate and ensure compliance with the new property policies developed in fiscal 2003. Web-based training modules on the new property policies were developed but the release of the training was postponed in order to assess policy changes necessitated by the Financial and Business Management System (FBMS) implementation. During fiscal 2005, Interior plans to release the web-based training modules and aggressively monitor bureau compliance with the new policy guidance. Corrective action plans to resolve the deficiencies noted in the audit will be developed at both the Department and bureau-level with the expectation that all corrective action milestones will be completed by the end of the third fiscal quarter. FBMS implementation will establish standard processes and property systems for use throughout Interior.

**B. Process for year-end closing**

**Management concurs.** During fiscal 2004, Interior implemented the second phase of its Transformation of Financial Management Project to address these and other financial management issues. The goal in fiscal 2004 was to continue progress made in the first year of Transformation and meet existing and new requirements like reducing year-end adjustments, issuing interim financial statements, improving interim and year-end financial analysis and reconciliations, and meeting the advanced due date for annual audited financial statements and Performance and Accountability Report (PAR). At the same time, Interior was transitioning from current practices and systems to an integrated, enterprise approach to financial management. Interior made substantial progress during fiscal 2004 in addressing these priorities, as well as other initiatives aimed at improving the year-end closing process and financial reporting, including reducing the number of year-end adjustments from 295 for fiscal 2003 to 124 for fiscal 2004 (a 58 percent reduction) and issuing bureau and Departmental financial statements at agreed times in the annual audit plan. Interior recognizes that until the implementation of FBMS is complete, many of the issues pertaining to the financial reporting and year-end closing processes will not be mitigated, but management is committed to continue improving its year-end closing processes.

**C. Reconciliation of intra-governmental transactions and balances**

**Management concurs.** The Federal government is implementing a new system which will track intra-governmental transactions. Interior is committed to using the new system when it becomes available government-wide and expects that the new system will assist Interior in future years to reconcile non-fiduciary transactions and balances on a quarterly basis with other agencies. In addition, Interior will improve trading partner coding of transactions within FBMS.

**D. Controls over the Indian Trust Funds**

**Management concurs.** Management concurs with the recommendations to develop and implement additional procedures and internal controls to address the issues noted in the audit. A variety of actions are underway within Interior to improve internal controls for non-Federal Indian Trust Funds, including providing an accounting for non-Federal accounts.

**Other Reportable Conditions**

**E. <u>Application and general controls over financial management systems</u>**

**Management partially concurs.** While management agrees that continued improvement is beneficial and has already implemented many of the recommendations, management does not concur that the finding rises to the level of a reportable condition. Interior has made substantial progress in improving controls over its systems in fiscal 2004. This is demonstrated by the increase in the percentage of systems that were certified and accredited from 6 percent in 2003 to more than 80 percent by July 2004, and 98 percent by the end of fiscal 2004. Interior will continue its efforts to improve and enhance application and general controls in fiscal 2005 to address the issues noted in the audit report.

**F. <u>Controls over accruals</u>**

**Management concurs.** During fiscal 2004, Interior revised its processes and controls to calculate accruals to prepare quarterly financial reports and meet the accelerated reporting deadlines. Interior is committed to continue its improvement of the accrual calculations process for fiscal 2005.

**G. <u>Controls over legal and environmental contingencies</u>**

**Management concurs.** In fiscal 2005 Interior will continue training personnel and enhancing its processes and systems for determining and tracking legal and environmental contingencies.

**H. <u>Financial management at the Bureau of Indian Affairs</u>**

**Management concurs.** Interior is committed to improving financial management and reporting in the Bureau of Indian Affairs. During fiscal 2005 Interior will establish a performance improvement plan to ensure that appropriate financial and program staffing and other resources are directed at financial management and reporting functions, improved processes and procedures are implemented to promote better financial analysis, and improved transaction entries and reconciliations are performed.

*Management Response to the Draft Independent Auditors' Report on the Department Consolidated Financial Statement for Fiscal Years 2004 and 2003*

I. **Controls over revenue and other financing sources**

**Management concurs.** This finding relates to billing, receivables and deferred revenue transactions in several bureaus. Interior intends to work with these bureaus to improve the billing and collections processes, record transactions appropriately, and monitor accounts to assure consistent processing of agreements between Federal entities.

J. **Controls over grants**

**Management concurs.** Interior will continue to work with its financial assistance programs to implement revised policies and improvements so that grantee monitoring processes comply with the requirements of the *Single Audit Act Amendments of 1996*. During fiscal 2004, improvements were implemented in several areas. Interior added additional staff resources to more aggressively monitor single audit reporting and grantee compliance. In addition, new policies were implemented which become effective in fiscal 2005 and will provide for capital improvement funding among insular area grantees based on project quality and the history of financial management and compliance with grant requirements. Further, Single Audit Act compliance for insular area grantees is now a "threshold requirement", meaning grants cannot be awarded until compliance is achieved or there is agreement on a schedule to achieve compliance.

K. **Controls over payment in lieu of taxes**

**Management concurs.** Interior has developed new procedures that segregate the duties for calculating, recording, approving, and disbursing payments. The required approval process has been expanded to include senior Department management. These officials now provide approval of payments prior to disbursement. The duties for disbursement are now segregated and will be performed by the National Business Center. In fiscal 2005, payment calculation will be determined by automated models accurately reflecting proper consumer price indices.

L. **Controls over budgetary transactions**

**Management concurs.** Interior bureaus and offices have made improvements in recording obligations and are committed to further improving and enhancing controls over budgetary transactions.

*Management Response to the Draft Independent Auditors' Report on the Department Consolidated Financial Statement for Fiscal Years 2004 and 2003*

**M. Controls over charge cards**

**Management concurs.** Interior believes it has a well-managed charge card program, although compliance issues are identified in several bureaus and offices. Interior will continue to monitor supervisory reviews and approval, train and otherwise educate cardholders and supervisors on charge card responsibilities, and monitor bureau enforcement of charge card policies. In addition, through quarterly reviews of the personnel/payroll system, Interior will continue to identify newly appointed supervisors who will have approving official responsibility. These efforts are expected to continue to improve the program.

**N. Controls over benefit programs**

**Management concurs.** During fiscal 2005, Interior will develop and implement appropriate policies, guidance and controls to ensure that benefit programs are properly determined and presented in financial reports.

**INTERNAL CONTROL OVER RSI AND RSSI**

**0. Deferred maintenance reporting.**

**Management concurs.** Interior has taken extensive steps in the past few years to improve deferred maintenance reporting. Interior has identified a Departmental mission critical FMFIA material weakness entitled "Maintenance Management Capability". Corrective actions for this material weakness are closely monitored and will be ongoing until Interior's maintenance management system is fully implemented, and the 5-year comprehensive condition assessment cycle is completed and used to better quantify the Department's deferred maintenance backlog. Interior believes that it is making good progress and these efforts will continue in fiscal 2005.

**P. Stewardship assets and investments**

**Management concurs.** Interior agrees that known and recorded archeological sites and paleontological sites, and museum collections should be periodically inventoried and condition assessments performed. We will continue to improve our processes to address these concerns. Interior will also continue to refine and improve a consistent approach for determining and reporting on the condition of Stewardship assets.

5

*Management Response to the Draft Independent Auditors' Report on the Department Consolidated Financial Statement for Fiscal Years 2004 and 2003*

Interior will consider seeking further guidance from the Federal Accounting Standards Advisory Board.

**COMPLIANCE AND OTHER MATTERS**

**Q. Single Audit Act Amendments of 1996**

**Management concurs.** Interior will continue the improvements initiated during Fiscal 2004 and will work with financial assistance programs and the Office of Inspector General to ensure compliance with the *Single Audit Act Amendments of 1996.*

**R. Debt Collection Improvement Act of 1996**

**Management concurs.** During fiscal 2004, Interior's Office of Financial Management worked closely with bureaus and offices to improve debt referral performance and address debt management issues. Interior believes that good progress was made in its debt management program during fiscal 2004. Excluding the Bureau of Indian Affairs, Interior referred approximately 96 percent of its eligible debt to Treasury, exceeding its internal goal of 94 percent established for fiscal 2004. However, the Bureau of Indian Affairs only referred 49 percent of its eligible debt to Treasury resulting in an overall Department referral rate of 62 percent. To attain the desired level of performance and achieve full compliance with the *Debt Collection Improvement Act of 1996* will require the resolution of issues identified in the audit concerning the Bureau of Indian Affairs and Minerals Management Service. Debt management improvements will again be a primary focus during Interior's next phase of the comprehensive Finance Transformation project.

**S. Prompt Payment Act**

**Management concurs.** Interior monitors on-time payments for all of its bureaus and offices. Most of the bureaus and offices were able to meet or exceed the Interior goal of 97 percent or better on-time payment performance. Several bureaus and offices were slow to improve payment processing issues. During fiscal 2005 Interior will focus on improving payment processing in these bureaus and offices, and address the deficiencies noted in the audit report 2005.

*Management Response to the Draft Independent Auditors' Report on the Department Consolidated Financial Statement for Fiscal Years 2004 and 2003*

**T. Federal Financial Management Improvement Act (FFMIA) of 1996**

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

We appreciate the value of the audit process and look forward to working with you to continue our marked improvement of financial management in the Department of the Interior.

U.S. Department of the Interior
Office of Inspector General

# MAJOR MANAGEMENT AND PERFORMANCE CHALLENGES FACING THE DEPARTMENT OF THE INTERIOR, AS IDENTIFIED BY THE OFFICE OF INSPECTOR GENERAL FISCAL YEAR 2004

United States Department of the Interior

Office of Inspector General
Washington, D.C. 20240

October 12, 2004

Memorandum

To: Secretary

From: Earl E. Devaney
Inspector General

Subject: Inspector General's Statement Summarizing the Major Management and Performance Challenges Facing the Department of the Interior, Fiscal Year 2004

In accordance with the Reports Consolidation Act of 2000, we submit the attached summaries of issues we have determined to be the most significant management and performance challenges facing the Department of the Interior (Department or DOI), to be included in the Department's Performance and Accountability Report for fiscal year 2004. The challenges listed reflect what the Office of Inspector General (OIG) considers to be significant impediments to the Department's efforts to promote economy, efficiency, and effectiveness in its agencies' management and operations.

We view these issues as DOI's top challenges because they are important to the Department's mission, involve large expenditures, require significant management improvements, or involve significant fiduciary relationships. The Department conducts a variety of activities that cut across bureau and program lines.

In our opinion, by developing strategies to identify and correct deficiencies, especially in cross-cutting activities, the Department can enhance and improve its overall operational effectiveness and efficiency. Our latest work in these areas is described in our recent Semiannual Reports to Congress.

Attachment

# Office of Inspector General Update for 2004 of the Top Management Challenges for the Department of the Interior

## 1. Financial Management

Sound financial management is critical to providing accurate financial information, managing for results, and ensuring operational integrity. Although the Department has made some progress, internal control weaknesses continue to hinder DOI financial management systems. As a result, tests performed by the auditors assigned to conduct the Departmental consolidated audit disclosed instances where the Department's financial management systems did not substantially comply with the Federal Financial Management Improvement Act.

The Department has several initiatives aimed at improving financial management including: the Financial and Business Management System (FBMS), Performance and Budget Integration, and Activity Based Costing (ABC). Although these initiatives should upgrade financial management in the future, they are placing increased demands on already stretched financial resources.

**Financial and Business Management System**

In 2003, DOI launched a comprehensive plan to transform its financial management functions and create a world-class financial management structure that links planning and budgeting with performance results; performs efficient and reliable transaction processing; recruits, trains, and rewards top financial management talent; and focuses on analysis to improve the business information available to program managers. The cornerstone of the Department's plan to transform financial management is the FBMS. FBMS will replace a variety of outdated, stand-alone, mainframe-based systems that are costly to operate and difficult to secure, cannot provide timely financial and performance information, and do not comply fully with all financial system standards. This system will ultimately host an ABC system Department-wide. Computer Labs have been set up to enable staff to test the new FBMS software. In addition, a capstone business case is being prepared for FBMS that will discuss other systems that will be retired. About 160 systems will be affected by the implementation of the FBMS, and currently, 80 of those systems have been identified for retirement.

FBMS will be phased into implementation over the coming years, starting in fiscal year 2005 and continuing through fiscal year 2008. Successful implementation of FBMS will be key to addressing DOI's financial management challenges.

**Budget and Performance Integration**

Better budget and performance integration is essential to results-oriented management and efficient allocation of scarce resources among competing needs. The variety and number of programs within DOI makes budget and performance integration particularly difficult.

DOI's Strategic Plan for Fiscal Years (FY) 2003-2008 made significant changes to DOI's goals and performance measures as part of an effort to aid in budget and performance integration. However, a number of challenges still remain. Of the 29 DOI programs in the FY 2005 budget that received Office of Management and Budget (OMB) Program Assessment Rating Tool evaluations, 12 had ratings of "Results Not Demonstrated" and most did not have efficiency measures. DOI needs to continue to focus on developing useful performance measures, especially measures of cost effectiveness.

**Activity Based Costing**

Activity Based Costing (ABC) comprises management tools that will help DOI better understand the costs of conducting business because it allows management to examine how program activities consume resources and produce outputs. In addition, ABC work processes are broken down into activities so that the cost and performance effectiveness of the activities and processes can be measured.

Formal Department-wide ABC implementation started in October 2003, when DOI employees began documenting their time, purchases, travel related costs, and training to the work activities they performed. Employees used the time and attendance systems, financial data recording processes, and methodologies specified by their bureaus/offices to capture time and expenses against work activities to record outputs.

Because DOI is so early in the implementation process, it is difficult to assess how effective the implementation of ABC has been. DOI needs to monitor the implementation of ABC and make modifications, as necessary, to ensure that ABC provides useful information.

## 2. Information Technology

The Department has made information technology (IT) security maintenance a high priority for all bureaus. As a result, DOI has significantly improved its information security program, as demonstrated by the increase in the percentage of systems that were certified and accredited from 6 percent in 2003 to more than 80 percent in 2004. To foster this effort, DOI has invested more than $100 million in its security program over the past 3 years. Based on these efforts, we believe that DOI's information security program generally meets the requirements of the Federal Information Security Management Act (FISMA) and that most of its information systems have levels of security to safeguard DOI information and assets. DOI has made further efforts to (1) improve the IT business cases; (2) prioritize IT investments; and (3) develop a strategy to fund enterprise IT investments. DOI is continuing to make progress in strengthening IT security. For example, DOI has developed an information technology security program that meets the requirements of FISMA. DOI evaluates the perimeter security of its computer systems on monthly basis and currently shows zero vulnerabilities when measured against an industry standard. Also, DOI has established security processes and documentation for its Indian Trust systems.

Although improvements have been made to information system security controls over financial management systems, more needs to be accomplished to ensure that all DOI entities fully comply with all Federal financial management systems requirements specified in Appendix III to OMB Circular A-130, "Management of Federal Information Resources." In its audit report on the Department's consolidated financial statements for fiscal year 2003, the independent certified public accounting firm of KPMG LLP identified a reportable conditions, which did not represent a material weakness, pertaining to the application and general controls over financial management systems. Therefore, as a whole, the Department does not fully comply with, or meet the objectives of, Section 4 of the Federal Financial Management Improvement Act and OMB Circular A- 127, "Financial Systems." The Department has implemented a remediation plan to resolve these weaknesses and expects to complete corrective actions in fiscal year 2005.

Our review, "Improvements Needed in Managing IT System Security, National Park Service (NPS)," dated March 29, 2004, stated that NPS's information technology systems were vulnerable despite improvements at the time. NPS lacked the complete foundation for an effective IT security program, which is necessary to ensure that issued IT security directives are consistently followed. Although NPS had previously established an agency Chief Information Officer and implemented an IT asset management system, NPS agreed the report's 18 recommendations would further improve its IT system security.

## 3. Health, Safety and Emergency Management

Annually, DOI has nearly 260 million visits to national parks, 68 million visits to public lands, and 39 million visits to national wildlife refuges. In addition, there are 90 million visitor days of use at 308 Bureau of Reclamation (BOR) recreation sites. Accordingly, DOI must protect these visitors, hundreds of thousands of employees and volunteers, thousands of facilities, and millions of acres of property from both internal and external threats. The physical isolation of some DOI lands and facilities increases their vulnerability to threats and inhibits DOI's response time. DOI continues to be slow to change its mission and priorities to reflect its new security responsibilities and commitment. Specifically, enhancements are needed in DOI's radio communications and NPS's structural fire program, hazardous material program, and security surrounding national icons.

**Radio Communications**

DOI reported that effective radio communications are critical to employee and public safety and the efficient management of the parks and public lands. The current wireless telecommunications program in some bureaus does not effectively support bureau and public safety operations, does not comply with Departmental management directives, and is not funded to achieve timely compliance. The Department will develop and implement a plan to meet employee and public safety objectives; restore program efficiency by reviewing bureau narrowband capital investment and implementation plans; revise plans to maximize radio system sharing, minimize supporting infrastructure requirements; and ensure maximum use of alternative wireless services by FY 2005.

**NPS's Structural Fire Program**

DOI also reported that NPS's Structural Fire Program does not provide adequate protection of employees and visitors, structures, and resources from the effects of fire as required by Director's Order No. 58. NPS will develop and implement a comprehensive structural fire program plan as directed by Congress. The plan will include specific milestones to address the operational, organizational, technical, and staffing deficiencies.

**NPS's Hazardous Material Program**

In fiscal year 2003, DOI reported that the lack of an adequate oil and hazardous material incident preparedness and response program seriously endangers the safety of the public, employees, and park resources. NPS will develop and implement a comprehensive corrective action plan to ensure full and complete compliance with applicable laws, regulations, executive orders, and policies to ensure the safety of the public, employees, concessionaires, and park resources.

**Security Surrounding National Icons**

Recently, we reported on several significant Department-wide issues that garnered extensive Congressional, media, and public attention. Of particular note, was our report on security surrounding national icons, which was our third in a series of assessments of the Department's Homeland Security efforts. This assessment focused on the status of security at the National Park Service's Icon Parks, which have been designated as key assets by the Department. Based on our report, the Office of Law Enforcement and Security (OLES) installed a security professional and has been involved with the implementation of homeland security and related Departmental policies. However, NPS has yet to put in place a security professional or embrace many of the recommendations presented by OLES to enhance security. We continue to find NPS officials somewhat nonchalant and lackadaisical in their approach to security and unconvinced of the necessity of security measures. Specifically, NPS delayed, postponed, or ignored steps to protect national icons because funding for enhanced security competes with other park projects.

**DOI Law Enforcement**

In response to our observation in 2001, that DOI's law enforcement activities were in a "disquieting state of disorder," OLES and the bureaus have been working towards implementing 25 Secretarial directives to improve law enforcement. There has been some progress in improving the oversight and coordination of the law enforcement programs. Each bureau now has senior-level law enforcement managers in place and an internal affairs office to address integrity-related issues. Also, a Department-wide policy to provide guidance on internal affairs will soon be issued. However, we continue to be disappointed with the overall pace of progress, especially in the area of officer safety.

## 4. Maintenance of Facilities

DOI owns, builds, purchases, and contracts services for assets such as visitor centers, schools, office buildings, roads, bridges, dams, irrigation systems, and reservoirs. These assets include some deteriorating facilities that lack adequate funding for repair and maintenance. According to the January 2003 Government Accountability Office (GAO) report titled, "Major Management Challenges and Program Risks, Department of the Interior," DOI needs to more aggressively address the deferred maintenance backlog. The report stated that the repair and maintenance on these assets has been postponed for years due to budgetary constraints and that the deterioration of facilities can adversely impact public health and safety, reduce employee morale and productivity, and increase the need for costly major repairs or early replacement of structures and equipment. In February 2002, DOI estimated that the deferred maintenance backlog was between $8.1 billion and $11.4 billion. The maintenance needs for the National Park Service and the Bureau of Indian Affairs (BIA) facilities alone account for over 85 percent of the DOI-wide deferred maintenance backlog.

In a December 2001 report (No. 2002-I-0008), OIG outlined a comprehensive approach to maintenance management within DOI. The report stated that DOI needs to implement a comprehensive maintenance management system to effectively plan, prioritize, conduct, and track the condition and maintenance of facilities within all bureaus, especially NPS. Also, DOI needs to provide long-term leadership to keep money available to address the long-standing issues of deferred maintenance. For example, in fiscal year 2003, DOI reported that it lacked consistent, reliable, and complete information to plan for, budget, and account for resources dedicated to maintenance activities.

By fiscal year 2005, DOI plans to:

- Identify and implement a comprehensive maintenance management system with an appropriate linkage to the accounting system;
- Conduct comprehensive condition assessments;
- Make determinations to repair, replace, or relocate facilities;
- Develop a 5-year Deferred Maintenance Plan and Capital improvement Plan;
- Repair, replace, and relocate facilities to good condition, and reduce deferred maintenance to established goals.

Currently, DOI has adopted a computer-based facilities maintenance management system, which it tested at multiple locations during fiscal year 2002. The Department has been assessing the condition of facilities, developing a 5-year maintenance plan, and establishing goals to reduce the deferred maintenance backlog. Also, DOI has established a Facilities Management Systems Partnership (FMSP) that provides a forum for the Department and its facilities managing bureaus to coordinate the development and use of facilities management systems. While the FMSP has made demonstrable strides in developing a framework within which to address facilities management issues, maintenance in the Department remains a material weakness and an enormous challenge to be managed.

The 2005 budget request of $724.7 million for park facilities continues the President's commitment to address the deferred maintenance backlog in national parks. Increases include $10.0 million for the park base operations to address facility maintenance, and $13.2 million for repair and rehabilitation priorities identified through the facility condition index performance measure. In addition, the President's budget assumes $310.0 million for park roads funding in the surface transportation reauthorization proposal and $77.5 million in recreation fee receipts obligated for maintenance. The 2005 budget will bring total investment in park facilities to $3.9 billion over the past four years, staying on track to meet the funding commitment of $4.9 billion over five years.

## 5. Responsibility to Indians and Insular Areas

According to the GAO report, "Major Management Challenges and Program Risks, Department of the Interior," DOI needs to address persistent management problems in programs for Indians and island communities. DOI is responsible for administering the Federal government's trust responsibilities to Indian tribes and individual Indians, and it provides more than $750 million annually for basic tribal services, such as social services, tribal courts, and natural resource management. Over the years, GAO and OIG have reported on DOI's poor management of Indian trust assets. Despite DOI's efforts, inadequate information systems and internal controls, as well as other weaknesses, prevent DOI from completely ensuring that trust assets are properly managed. In addition, DOI has various responsibilities to seven island communities - four U.S. territories and three sovereign island nations. The Insular Area governments have serious long-standing financial and program management deficiencies.

**Indian Affairs**

***Indian Trust Assets -*** Managing Indian fiduciary trust assets encompasses four overall activities: (1) accounting for trust fund collections, disbursements, and investments by the Office of Special Trustee for American Indians (OST), (2) managing trust land by the BIA, (3) processing probates and maintaining reliable and current ownership records by BIA and the Office of Hearing and Appeals, and (4) maintaining and preserving adequate trust records by DOI offices.

In its "Compliance with Legal and Regulatory Requirements," for FY 2002 and 2003, DOI reported that OST's conversion to a commercial trust fund accounting system and the implementation of enhanced OST management controls will help ensure that trust funds are properly accounted for. The most recent audit of the trust funds financial statements did not identify any significant deficiencies in the accounting for funds after they were deposited into trust fund accounts.

However, the independent certified public accounting firm of KPMG LLP, under contract with the OST, rendered qualified opinions on the fiscal year 2003 financial statements for the Tribal and other trust funds and Individual Indian Monies trust funds managed by OST. KPMG qualified its opinions because of inadequacies in certain DOI trust-related systems and processes. OST is dependent on BIA for timely and accurate billing and collection of trust funds derived for leasing trust land and for accurate land ownership information for the distribution of trust funds. KPMG also qualified its opinion because certain parties for whom OST holds monetary assets in trust do not agree with the balances recorded by OST, and have filed or are expected to file claims against the U.S. Government.

We believe that the remaining items to correct the material weakness in trust asset management at this time are to resolve historical accounting concerns, to improve internal controls over the billing and collection of lease revenue, to eliminate the backlog of unprocessed probates, to update land ownership records, and to complete a comprehensive records management program for BIA and OST. The Department plans to continue to improve its trust policies, procedures, systems, and internal controls and provide training to achieve the goals of the Comprehensive Trust Management Plan by FY 2006. The Comprehensive Trust Management Plan was developed to guide the design and implementation of integrated trust reform efforts. The OHTA plans to continue its reconciliation efforts for individual Indian money accounts during FY 2005-2006.

***Indian Country Detention Facilities -*** Our assessment of Indian Detention Facilities (Interim Report No. X-EV-BIA-0114-2003, issued in April 2004, and Report No. 2004-I-0056, issued in September 2004) informed the Department of the deplorable conditions existing at some of the detention facilities that may lead to life-threatening situations. We found multiple deaths, suicides, attempted suicides, and prisoner escapes that were either undocumented or not reported to BIA Office of Law Enforcement Services detention program. We believe it is imperative that BIA takes immediate action to alleviate potentially life-threatening situations at its detention facilities.

***Native American Schools -*** The Bureau of Indian Affairs funds or operates schools in 23 states, providing education services to nearly 48,000 students attending 183 elementary and secondary schools and dormitories, and supports 29 tribally controlled community colleges, universities, and post-secondary schools. Many of the schools, however, were built in the 1940s and 1950s and have been poorly maintained, with inadequate roofing and floors, plumbing, heating, and lighting. They are also obsolete and lack critical capabilities such as science and computer labs.

To address the problem of inadequate facilities, Congress increased funding to replace and repair Native American schools. This increased funding provides for about 6 replacement projects and 10 major repair projects each year. BIA's school construction program has proven beneficial to Native American communities and students. Six of the seven replacement projects funded from fiscal years 1998 through 2000 have been completed.

DOI reported that the fiscal year 2005 budget request includes $229.1 million for school construction to fund the remaining five replacement schools on the current priority list, as well as several major improvement and repair projects. BIA is making significant progress in addressing the Indian school maintenance backlog. Together with previous appropriations, the funds sought for 2005 will improve the facility condition index for BIA schools. Approximately 60 percent of schools will be in fair or good condition, as compared with 35 percent in 2001. The budget request also includes $522.4 million for elementary and secondary school operations and continues the President's commitment to "Leave No Child Behind."

***Funds Provided For Tribal Services -*** The majority of funds provided for tribal services are administered by Indian tribes under Indian Self-Determination Act contracts, grants, and compacts from BIA. According to the Act, the principal reporting requirement for tribes and the major monitoring tool for BIA is the single audit reporting package to the Federal Audit Clearinghouse. The single audit presents information on tribes' financial compliance with funding agreements and controls over Federal funds. During fiscal year 2003, OIG quality control reviews of single audit reporting packages revealed that about 70 tribes were delinquent in submitting their packages to the Federal Audit Clearinghouse during fiscal year 2001.

**Insular Affairs**
Insular Area governments generally lack the standard business practices essential to financial accountability. Most of our audits have identified serious administrative and accounting deficiencies, including property management practices that were not sufficient to satisfactorily account for and safeguard equipment purchased with grant funds; improper procurement practices that allowed purchases without competition; poor records management; inadequate accounting practices that resulted in questioned costs, incorrect grant balances, and poor reporting practices to the Office of Insular Affairs (OIA) that unnecessarily delayed projects.

A February 2003 OIG audit (No. 2003-I-0011) on the status of prior audit findings and recommendations pertaining to Insular Areas underscores a fundamental dilemma faced by DOI in correcting serious deficiencies. Although OIG is authorized to audit all revenues and expenditures of Insular Area governments, DOI does not have the authority to enforce audit findings and recommendations for funds provided by other Federal agencies or for funds provided by DOI that have Federally imposed entitlement conditions. While, OIA has taken steps to strengthen controls over its grants, OIG's follow-up audit highlighted the necessity of continuing to urge other Federal agencies providing funds to the Insular Areas to become more involved in monitoring these funds and ensuring their proper use.

We also examined the process used by the Office of Insular Affairs to award and monitor grants to Insular Areas. OIA awards over $50 million in grants each year that provide Insular Areas with technical and financial assistance to develop more dynamic economies and improve the quality of life for the citizens. While OIA properly processed grants, we found that weaknesses in monitoring grants resulted in public projects that were not completed on time, essential services that were delayed or not provided at all, and Federal monies that were wasted.

As with Indian programs, one of the major tools available for monitoring the use of Federal funding by Insular Areas is the single audit report. OIG has noted, however, that many Insular Areas are delinquent in submitting reports, and the reports that have been submitted disclosed serious financial management deficiencies. For example, the single audit report on the U.S. Virgin Islands for fiscal year 2001 documented 61 reportable conditions pertaining to Federal programs, of which 39 were classified as material weaknesses.

Currently, OIG is planning to determine whether the Republic of the Marshall Islands is able to comply with the new Compact provisions for procurement management. Also, OIG will continue to explore the potential for corruption in the U.S. Virgin Islands, American Samoa and Guam and continue our outreach program through training ventures to the Offices of the Public Auditor in the Insular Areas.

## 6. Resource Protection and Restoration

DOI resource managers face the challenge of balancing the competing interests for use of the nation's natural resources. DOI manages 507 million acres, or about one-fifth, of the land area of the United States and 700 million acres of subsurface minerals. Federal lands account for 30 to 35 percent of energy produced in the United States. DOI has jurisdiction over an additional 1.76 billion acres of the Outer Continental Shelf. In addition, DOI manages 542 national wildlife refuges, 388 units of the national park system, 70 national fish hatcheries, 15 national monuments in the national landscape conservation system, and 13 national conservation areas.

Major contributors to the challenge of effective resource management include increased population, environmental issues, shortages of resources such as water, oil and gas, and demands for more recreational areas. DOI faces challenges in implementing policy goals for repairing and maintaining ecosystems within budget limitations. Of special concern are wildfires, water allocations, a changing land and recreation base, and invasive (non-native) species.

According to the GAO report, "Major Management Challenges and Program Risks, Department of the Interior," DOI needs to improve management of ecosystem restoration efforts. To achieve its Department-wide mandate for protecting and preserving the natural resources under its management, DOI has developed long-term goals of restoring the health of public lands and maintaining ecosystems. To accomplish these goals, the Department will need to restore significant national ecosystems to health by (1) addressing the growing wild-land fire threat to communities and resources caused by the excessive buildup of fuels in forested ecosystems, such as those located in the interior Western states; (2) restoring the South Florida ecosystem, which includes the Everglades; and (3) controlling and eradicating invasive nonnative species.

## 7. Revenue Collections

Revenues collected annually vary from $6 to $11 billion, including revenues from energy, minerals, grazing, timber, lands sales, and other revenue producing activities. The highest revenue collector in DOI is by far the Minerals Management Service (MMS), which annually collects more than $6 billion in mineral revenues from more than 84,260 onshore and offshore Federal leases. Since 1982, the MMS Minerals Revenue Management Program has collected and distributed approximately $127 billion to Federal, state, and Indian accounts. The MMS also conducts a comprehensive compliance effort to ensure that royalty payments from lessees are on time and accurate.

A March 2003 OIG report entitled "Audit of the Minerals Management Service Audit Offices" (Report No. 2003-I-0023) concluded that MMS's systems and safeguards over its audit procedures needed improvement and that some of its audit work did not meet Government Auditing Standards. MMS audits represent a significant control over its efforts to detect and deter royalty underpayments. Also, investigations conducted by OIG with MMS assistance continue to uncover multi-million dollar royalty underpayments. One investigation resulted in a $49 million settlement agreement in 2003 with a major oil company for failure to pay royalties on natural gas production from offshore leases. Another investigation uncovered a scheme in which a lessee conspired with another company to underpay royalties on natural gas produced from Federal leases. In this case, the lessee accepted substantially less than it was entitled to for gas sales resulting in underpayments to MMS of about $7 million. Because of the amount of collections and the significant potential for underpayments, OIG believes that revenue collections should continue as a management challenge for the Department.

## 8. Procurement, Contracts and Grants

DOI spends substantial resources each year in contracting for goods and services and in providing Federal assistance to states and Indian organizations. Procurement has historically been an area subject to fraud and waste government-wide, and managing procurement activities is an unending challenge requiring constant attention. DOI has reported on the material inadequacy of BIA's acquisition management organization, policies, procedures, and guidelines since fiscal year 1991. OIG has also reported (No. 2002-I-0011) on a lack of management supervision by the bureaus and offices of the Department over purchases made with credit cards. OIG reported (No. 2003-I-0009) on poor business decisions by the former park superintendent and contracting officer in the administration of a contract for construction at the Bryce Canyon Visitor Center that led to excessive costs. Consequently, project costs increased almost a million dollars, from $3.9 to $4.8 million (23 percent). The excessive contract costs contributed to deficit balances in the park's recreation fee demonstration account in fiscal years 2000 and 2001.

In July 2004, OIG issued a report (No. W-EV-OSS-0075-2004) covering 12 procurements for interrogation, intelligence, logistics, and security services valued at $81 million. The procurements were placed by the Southwestern Branch of the National Business Center's Acquisition Services Division (NBC) and were made under General Services Administration (GSA) schedules for Information Technology and Professional Engineering Services. We concluded that 11 of the 12 procurements were outside the scope of GSA orders and should be terminated. In addition, our report noted that NBC was working with GSA and the Department of Defense to address this situation.

More recently, OIG reported (No. C-IN-BOR-0067-2002) that the Bureau of Reclamation, Contract Administration, Denver Office, did not fully comply with the Federal Acquisition Regulation and other guidance in each of the 15 contract actions audited. As a result of these deficiencies, the Government lacked assurance that it was acquiring goods and services at the most economical prices and that payments made to contractors were accurate.

# Part 5.
# Appendices

# Improper Payments Information Act Reporting Details

## Description of the Risk Assessment Process

Interior's Management Control Guidance for FY 2004 issued November 10, 2003, required managers to conduct risk assessments of all programs meeting OMB's definition of "program" (see *Table 1-22* in Part 1, Compliance with Legal and Regulatory Requirements section) to determine if any programs were risk-susceptible for making significant improper payments. The risk assessments were used to establish risk profiles for all bureau programs. In particular, three programs of the Department were initially thought to have potential for meeting the threshold of significant erroneous payments. This determination was based on prior audit and management control review efforts. The three programs are: (1) Bureau of Indian Affairs (BIA)- Indian Self-Determination and Education Act (PL 93- 638), (2) U.S. Fish and Wildlife Service (FWS) - Federal Aid Program, and (3) the Office of Insular Affairs (OIA) - Financial Assistance Program. The managers of these three programs were required to make a more in-depth risk assessment. *Table 5-1* summarizes these program reviews.

TABLE 5-1

**Summary of Programs Reviewed as Potentially High Risk**

| Bureau/Program | Annual Outlays (millions) | Major Review Component | High Risk Determination | Planned Enhancements Based on Review |
|---|---|---|---|---|
| BIA<br>PL 93-638 * | 1,725 | OMB A-133 and Single Audit Act | Not High Risk | • Quantify and describe the nature of services to be provided.<br>• Describe the award recipient population and method of program delivery.<br>• Identify appropriate performance metrics. |
| FWS<br>Federal Aid<br>(43 &50 CFR) | 466 | OMB A-133 and Single Audit Act | Not High Risk | • Approximately 50% of the States have "pre-audit" reviews. Increased emphasis will be placed on "pre-audit" reviews.<br>• Individual grantees determined to be "high risk" will be required to submit invoices for approval prior to drawdowns. |
| OIA<br>Annual Interior Appropriations | 397 | OMB A-133 and Single Audit Act | Not High Risk | Developed a financial assistance manual to ensure that funds are properly managed.<br><br>(See *http://www.doi.gov/oia*) |

* By statute, the Secretary has limited ability to monitor third-party payments made by Tribes and Tribal organizations.

## Description of the Departmental Functional Review (DFR) Process:

The Office of Financial Management (PFM) developed a DFR questionnaire based on requirements from Treasury, OMB, and IPIA. Questionnaires were developed for five different subject areas: finance, grants, payroll, time and attendance, and charge cards (for small purchases). Prior to issuance, the questionnaires were reviewed and refined by subject matter experts within the Department. Subject matter experts are employees with direct knowledge and/or hands-on experience in the above identified payment areas. The questionnaires were posted to a secure web site for employee access. PFM obtained a list of employee candidates to complete the questionnaires from the subject area experts. The questionnaires were completed in June 2004. The responses for all of the questionnaires were tabulated using the automated management control assessment tool.

The questionnaire for finance was the most detailed, covering all payment types including travel-related payments. The other four questionnaires were for specific payment types; i.e., grants, payroll, time and attendance, and charge cards. *Table 5-2* provides the number of questionnaires sent and the number of responses received.

As shown, 51% of the candidates responded. Over 85% of the respondents were non-supervisory and non-management personnel. An integrity score of 2.5 or greater indicates that the internal control processes are sufficient. An assessment score below 2.5 indicates a potential weakness. Bureaus are required to re-examine the areas that scored below 2.5 and adjust the processes and/or provide additional training as needed.

The results of the DFRs submitted by the bureau Finance Officers are illustrated in *Figure 5-1*. The diagram compares the collective scores from all the respondents in six payment processing areas assessed: control environment, vendor, travel, grants, charge card, and payroll. Each of the areas scored higher than the standard desirable level of 2.5.

Also examined were four specific payment types by the program offices: grants, charge card, payroll, and time and attendance. Each questionnaire contained three sections: Control Environment, Specific Payment Type – Subject Area Expert, and Miscellaneous Information (this section contained general information about the person responding – e.g., bureau, job series, etc.). Questionnaire responses were anonymous. Results of the scoring for the general control environment are summarized the sections that follow.

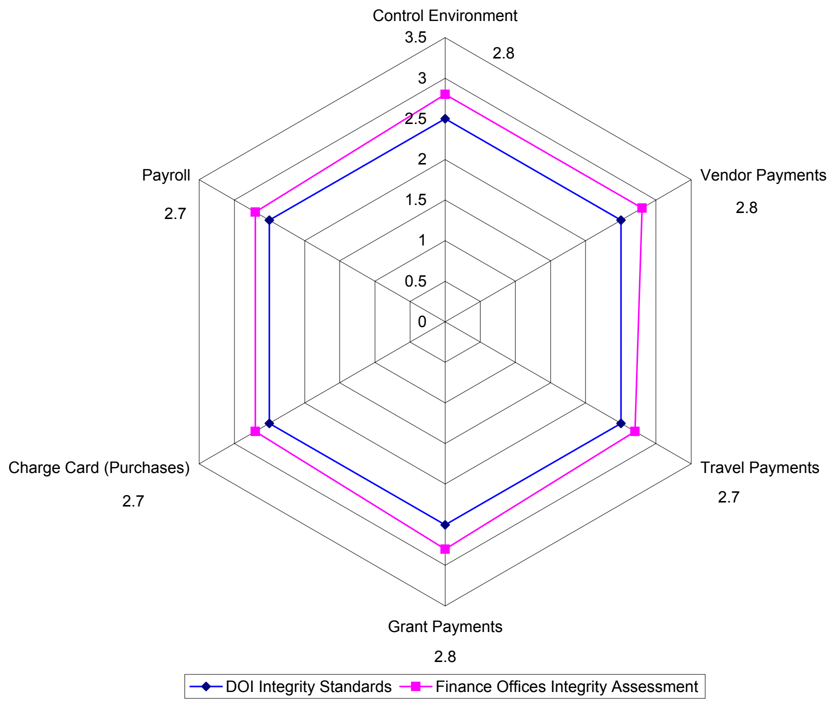
TABLE 5-2

**Department-Wide Functional Review Payment Processing**

| Payment Types | Surveys Sent | Surveys Received | Percent Received |
|---|---|---|---|
| Finance Offices | 11 | 7 | 65% |
| Time and Attendance | 83 | 46 | 55% |
| Grants | 82 | 34 | 41% |
| Charge Cards | 59 | 35 | 59% |
| Payroll Operations | 20 | 9 | 45% |
| Total | 255 | 130 | 51% |

FIGURE 5-1

**Finance Offices Integrity Scores**




### Control Environment

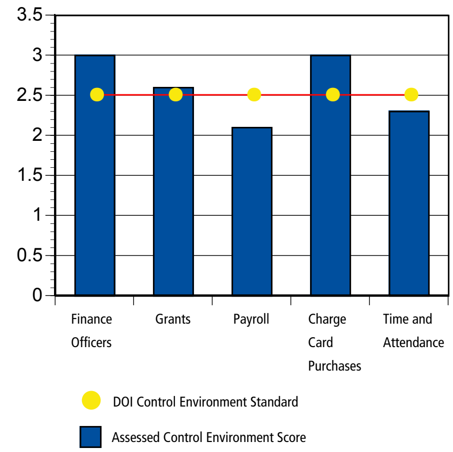
*Figure 5-2* shows a comparison of the responses by the various respondents. The lowest integrity scores were for Payroll, and Time and Attendance, which had scores of 2.1 and 2.3, respectively. As a result of the slightly lower scores in payroll and time and attendance, the Department recommended that a specific segment on internal controls be included in future training for these employees. We also recognize the need to continuously perform reviews and assessments of internal control processes as inevitable business process changes occur.

## Conclusion

Based on the results of the risk assessments and the DFR, the Department believes that sufficient internal control processes exist to minimize the occurent of improper payments and that processes are in place to perform recovery audits and recover overpayments.

FIGURE 5-2

**Comparisons of Control Environment**




## Recovery Audits

Toward the end of FY 2003 the Department selected PRG Schultz to perform recovery audit services. PRG Schultz started working with the Office of the Secretary and performed a pilot effort to set up its program. By the end of FY 2004, all bureaus had issued a task order engaging PRG Schultz to perform recovery auditing services. *Table 5-3* summarizes Interior's recovery audit activities during FY 2004.

All bureaus, except for the Office of the Secretary, began working with the contractor late in the fiscal year. The figures shown in *Table 5-3* relate primarily to the work that the contractor accomplished for the Office of the Secretary during the pilot effort started in early FY 2004.

The recovery audit contractor and the Department are reviewing payments identified in the "Amount Pending Resolution" column shown in *Table 5-3*. The recovery audit process includes a review step to reasonably confirm that the payments identified through data mining and other techniques are valid overpayments before recovery notices are issued.  In such cases, the recovery notices are issued within weeks after discovery and confirmation. This is an ongoing process and will continue until we reach a point where such activities are no longer cost-beneficial.

Since this was Interior's first year using a recovery auditor, we do not have a sound basis to project expected recoveries. The amounts recovered so far are almost exclusively the result of the pilot program conducted in the Office of the Secretary.  The remaining bureaus did not begin recovery audit efforts until late in FY 2004. However, we conservatively estimate that the amount of FY 2005 recoveries will exceed FY 2004 amounts by a factor of ten.

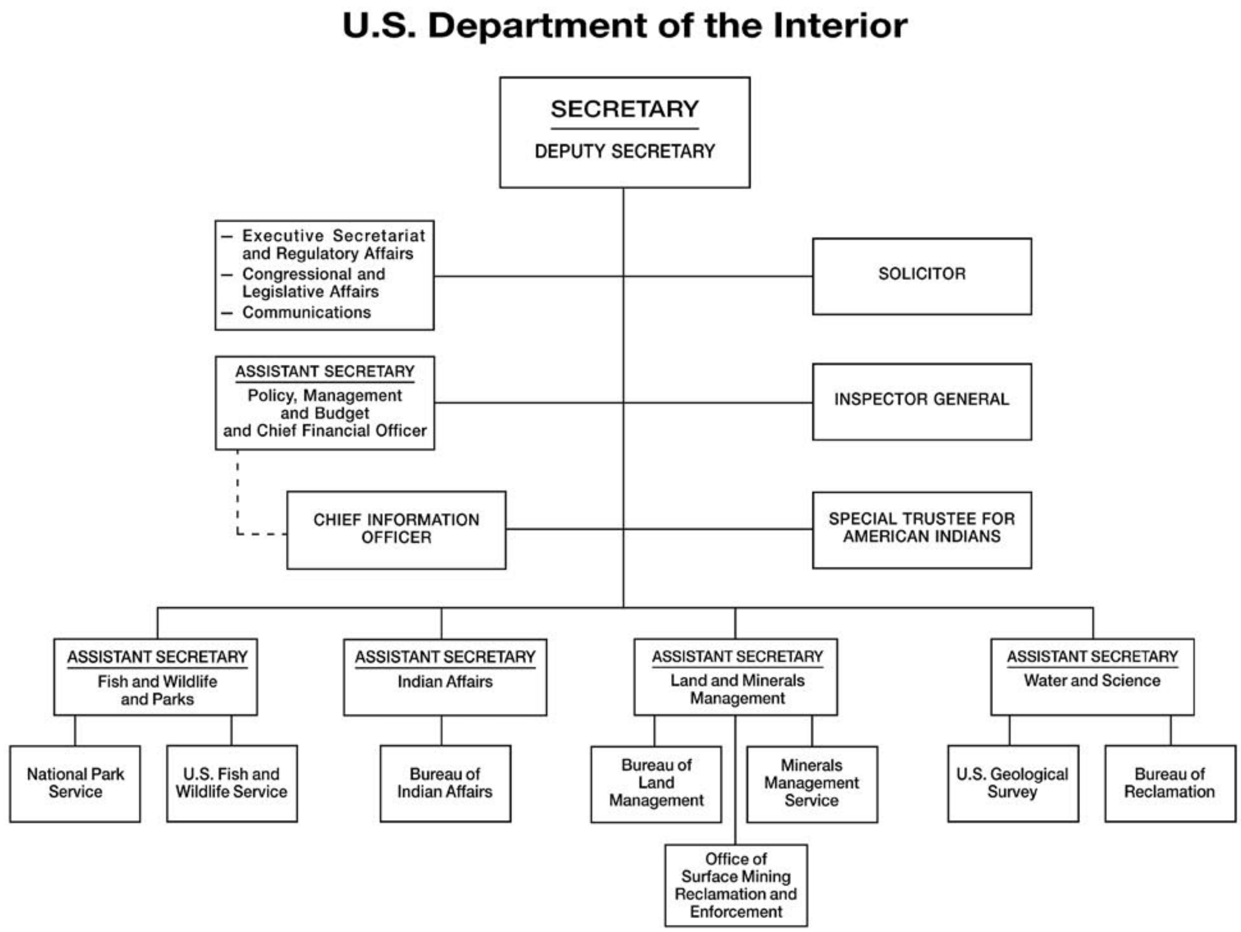
Most of Interior's funds are single year appropriations.  Consequently, most recoveries will be made after the funds have expired and must be returned to the General Fund of the U.S. Treasury. In accordance with applicable laws and regulations, the amounts returned to the U.S. Treasury are reduced by recovery contractor's fees and program administration costs. As a function of the contractor's efforts, we will be advised of the areas where our payment control processes can be strengthened.  As we gain additional experience in this effort, we will be able to formulate meaningful corrective actions. At this time, however, it is too early to have a clear understanding of the major causes.  These causes should become clear as a result of continuing and expanding recovery audit efforts in FY 2005.

TABLE 5-3

**FY 2004 Recovery Audit Activities**

| Amount of Payment Errors | Amount Deemed Not Recoverable | Amount Recovered | Amount Pending Resolution | Found by Internal Agency | Found by Recovery Auditor | Agency Costs | Amount Earned by Contractor |
|---|---|---|---|---|---|---|---|
| $231,188 | None | $39,875 | $191,313 | Not tracked | $39,875 | Not tracked but very minimal | $7,975 |

FIGURE 5-3


U.S. Department of the Interior
SECRETARY
DEPUTY SECRETARY
– Executive Secretariat and Regulatory Affairs
– Congressional and Legislative Affairs
– Communications
SOLICITOR
ASSISTANT SECRETARY
Policy, Management and Budget and Chief Financial Officer
INSPECTOR GENERAL
CHIEF INFORMATION OFFICER
SPECIAL TRUSTEE FOR AMERICAN INDIANS
ASSISTANT SECRETARY
Fish and Wildlife and Parks
ASSISTANT SECRETARY
Indian Affairs
ASSISTANT SECRETARY
Land and Minerals Management
ASSISTANT SECRETARY
Water and Science
National Park Service
U.S. Fish and Wildlife Service
Bureau of Indian Affairs
Bureau of Land Management
Minerals Management Service
U.S. Geological Survey
Bureau of Reclamation
Office of Surface Mining Reclamation and Enforcement

# Glossary of Acronyms

| | |
|---|---|
| AAPC | Accounting and Auditing Policy Committee |
| ABACIS | Advanced Budget/Accounting Control and Information System |
| ABC/PM | Activity-Based Costing |
| ACWI | Advisory Council for Water Information |
| AHERA | Asbestos Hazard Emergency Response Act |
| AMCR | Alternate Management Control Review |
| AML | Abandoned Mine Land |
| ARTF | Aquatic Resources Trust Fund |
| ASG | American Samoa Government |
| ASQ | Allowable Sale Quantity |
| AVS | Applicant/Violator System |
| BIA | Bureau of Indian Affairs |
| BLM | Bureau of Land Management |
| BOR | Bureau of Reclamation |
| BPA | Blanket Purchase Agreement |
| BSF | Budget Subfunction |
| C&A | Certification and Accreditation |
| C&MGP | Coastal and Marine Geology Progam |
| CAA | Clean Air Act |
| CAP | Corrective Action Plan |
| CCA | Candidate Conservation Agreement |
| CCAA | Candidate Conservation Agreement with Assurances |
| CCI | Cooperative Conservation Initiative |
| CERCLA | Comprehensive Environmental Response, Compensation, and Liability Act |
| CFO | Chief Financial Officer |
| CIO | Chief Information Officer |
| CISSP | Certified Information System Security Professional |
| COG | Continuity of Government |
| COOP | Continuity of Operations |
| COTS | Commercial Off-the-Shelf Software |
| CPIC | Capital Planning and Investment Control |
| CRPP | Cultural Resource Preservation Program |
| CRV | Current Replacement Value |
| CSRS | Civil Service Retirement System |
| CUPCA | Central Utah Project Completion Act |
| CWA | Clean Water Act |
| DCIA | Debt Collection Improvement Act |
| DEAR | Department Enterprise Architecture Repository |
| DEQ | Department of Environmental Qualify |
| DFR | Departmental Functional Review |
| DHS | Department of Homeland Security |
| DM | Departmental Manual |
| DMB | Deferred Maintenance Backlog |
| DOE | Department of Education |
| DOL | Department of Labor |
| DSS/EIS | Decision Support System/Executive Information System |
| EA | Enterprise Architecture |
| EFT | Electronic Fund Transfer |

| | |
|---|---|
| EHP | Earthquake Hazards Program |
| EIRF | Environmental Improvement and Restoration Fund |
| EPA | Environmental Protection Agency |
| ESN | Enterprise Services Network |
| FASAB | Federal Accounting Standards Advisory Board |
| FBMS | Financial and Business Management System |
| FBU | Funds Put to Better Use |
| FCI | Facilities Condition Index |
| FECA | Federal Employees Compensation Act |
| FEGLI | Federal Employee Group Life Insurance |
| FERS | Federal Employees Retirement System |
| FFMIA | Federal Financial Management Improvement Act |
| FFS | Federal Financial System |
| FIRM | Foundation Information for Real Property Management System |
| FISMA | Federal Information Security Management Act |
| FLPMA | Federal Land Policy and Management Act |
| FM | Financial Management |
| FMCIP | Financial Management Career Intern Program |
| FMFIA | Federal Managers' Financial Integrity Act |
| FMSP | Facilities Management System Partnership |
| FPPS | Federal Personnel/Payroll System |
| FTE | Full-Time Equivalent |
| FWS | Fish and Wildlife Service |
| FY | Fiscal Year |
| GAAP | Generally Accepted Accounting Principles |
| GAM | Geographic Analysis and Monitoring |
| GAO | General Accountability Office |
| GBL | Government Bill of Landing |
| GED | General Equivalency Diploma |
| GISRA | Government Information Security Reform Act |
| GMRA | Government Management Reform Act |
| GPRA | Government Performance and Results Act |
| GSA | General Services Administration |
| GSS | General Support Systems |
| HPF | Historic Preservation Fund |
| IACB | Indian Arts and Crafts Board |
| IDEAS | Interior Department Electronic Acquisition System |
| IEA | Interior's Enterprise Architecture |
| IFF | Interior Franchise Fund |
| IGET | Intra-Governmental Eliminations Taskforce |
| IIM | Individual Indian Monies |
| ILCP | Indian Land Consolidation Project |
| IMARS | Incident Management, Analysis, and Reporting System |
| IPIA | Improper Payments Information Act |
| IRB | Investment Review Board |
| IRRP | Indian Reservation and Roads Program |
| ISEP | Indian School Equalization Program |
| IT | Information Technology |
| JFMIP | Joint Financial Management Improvement Program |
| JOM | Johnson-O'Malley |

| | |
|---|---|
| LCS | List of Classified Structures |
| LEED | Leadership in Energy and Environmental Design |
| LHP | Landslide Hazards Program |
| LOB | Line of Business |
| LWCF | Land and Water Conservation Fund |
| | |
| M&I | Municipal and Industrial |
| MA | Major Applications |
| MAF | Million Acre Feet |
| MBF | Thousand Board Feet |
| MCR | Management Control Review |
| MMBF | Million Board Feet |
| MMS | Minerals Management Service |
| MRM | Minerals Revenue Management |
| MRMFS | Minerals Revenue Management Financial System |
| | |
| NBC | National Business Center |
| NCBA | National Cattlemen's Beef Association |
| NCIP | National Critical Infrastructure Program |
| NFHS | National Fish Hatcheries System |
| NFPORS | National Fire Plan Operations and Reporting System |
| NHL | National Historic Landmark |
| NIGC | National Indian Gaming Commission |
| NIIMS | National Irrigation Information Management System |
| NIST | National Institute of Standards and Technology |
| NPR | Notice of Proposed Rulemaking |
| NPS | National Park Service |
| NRC | National Resource Council |
| NRDAR | Natural Resources Damage Assessment and Restoration Fund |
| NRP | National Response Plan |
| NRPP | Natural Resource Preservation Program |
| | |
| O&M | Operation and Maintenance |
| OAS | Office of Aircraft Services |
| OCS | Outer Continental Shelf |
| OCSLA | Outer Continental Shelf Lands Act |
| OHA | Office of Hearings and Appeals |
| OHTA | Office of Historical Trust Accounting |
| OIA | Office of Insular Affairs |
| OIEP | Office of Indian Education Programs |
| OIG | Office of Inspector General |
| OLES | Office of Law Enforcement and Security |
| OMB | Office of Management and Budget |
| OMM | Onshore Minerals Management |
| OPA | Oil Pollution Act |
| OPM | Office of Personnel Management |
| OSM | Office of Surface Mining |
| OST | Office of the Special Trustee for American Indians |
| OTR | Office of Trust Records |
| | |
| PAR | Performance and Accountability Report |
| PART | Program Assessment Rating Tool |
| PFM | Office of Financial Management |
| PMA | President's Management Agenda |
| POA&M | Plan of Actions and Milestones |

| | |
|---|---|
| PP&E | Property, Plant, and Equipment |
| PPA | Prompt Payment Act |
| | |
| RCRA | Resource Conservation and Recovery Act |
| RIK | Royalty-in-Kind |
| RMIP | Records Management Improvement Project |
| ROW | Right-of-Way |
| RSSI | Required Supplementary Stewardship Information |
| | |
| SACAT | Standard Accounting Classification Advisory Team |
| SBR | Statement of Budgetary Resources |
| SDWA | Safe Drinking Water Act |
| SES | Senior Executive Service |
| SFFAS | Statement of Federal Financial Accounting Standards |
| SFRA | Sport Fish Restoration Account |
| SGL | Standard General Ledger |
| SIPI | Southwestern Indian Polytechnic Institute |
| SNPLMA | Southern Nevada Public Land Management Act |
| SPR | Strategic Petroleum Reserve |
| STIGS | Security Technical Implementation Guides |
| | |
| TAAMS | Trust Asset and Accounting Management System |
| TFAS | Trust Funds Accounting System |
| | |
| UMWA CBF | United Mine Workers of America Combined Benefit Fund |
| USBM | U.S. Bureau of Mines |
| USCERT | U.S. Computer Emergency Readiness Team |
| USGS | U.S. Geological Survey |
| USPP | U.S. Park Police |
| | |
| V&V | Validation and Verification |
| | |
| WAU | Whereabouts Unknown |
| WCF | Working Capital Fund |
| WUI | Wildland Urban Interface |

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## *Footnote Tables*

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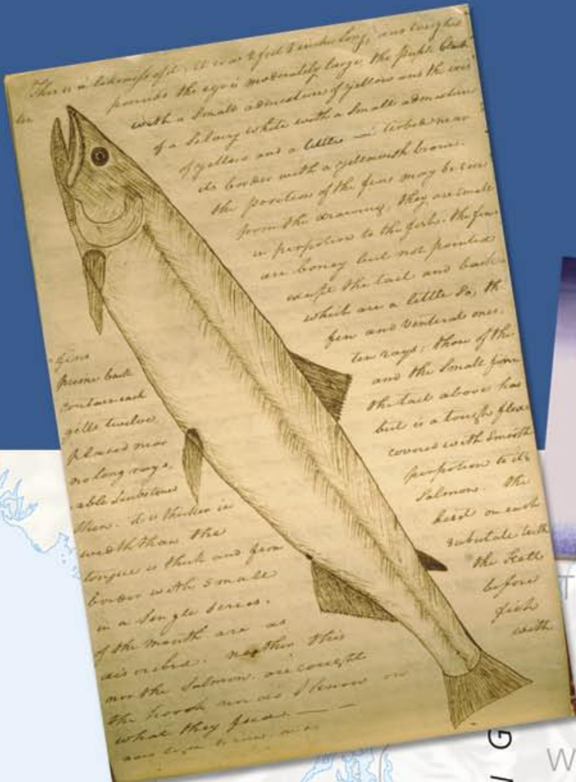

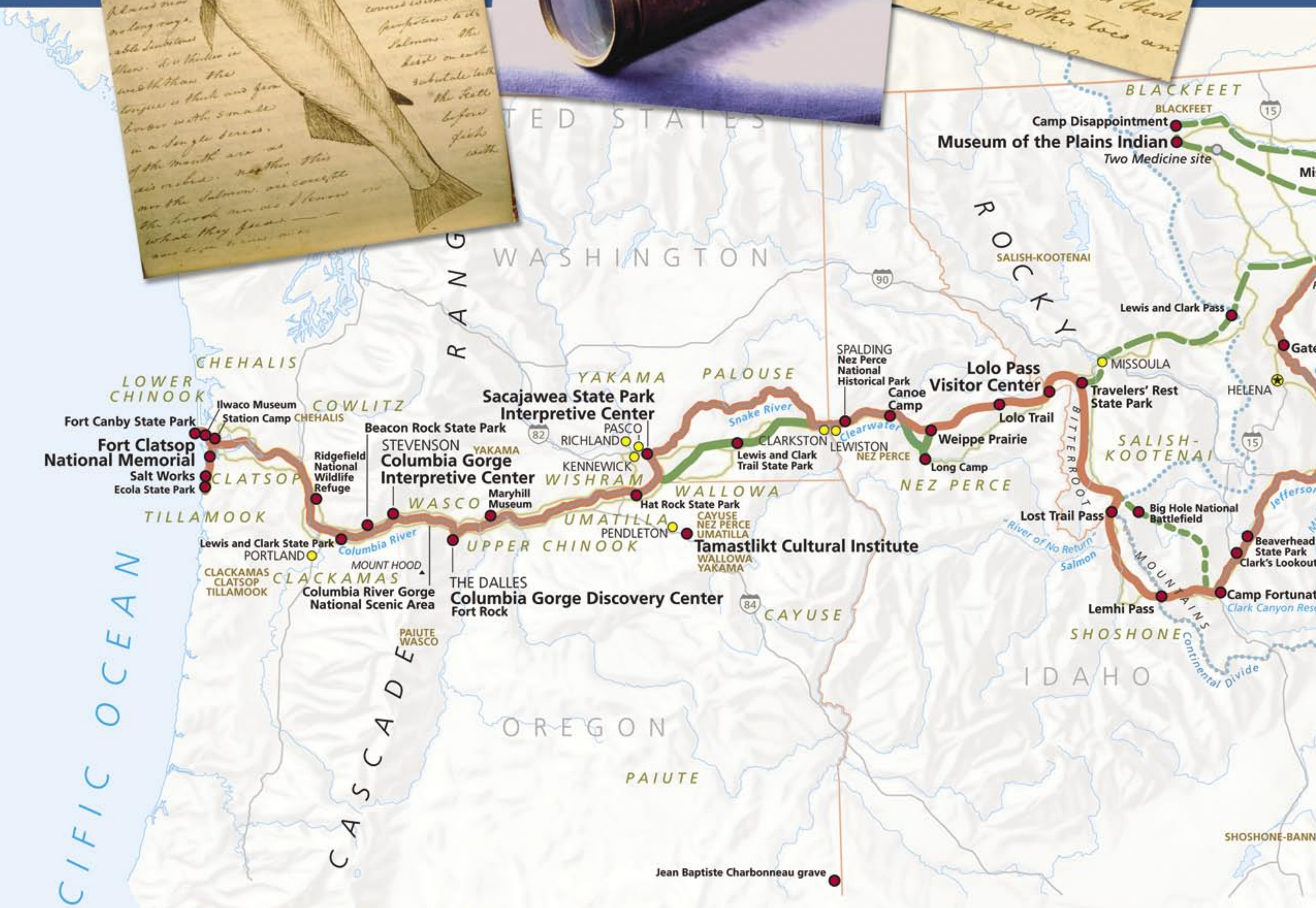


***Pictured above (left to right):***

***White Salmon Trout (coho salmon, Oncorhynchus kisutch). Entry of 16 Mar 1806. Voorhis #2. Clark Family Collection. William Clark Papers. Missouri Historical Society Archives.***

***Meriwether Lewis' telescope, made by William Cary, London, after 1790. Acc. #1936.30.4.***

***Head of a Vulture (California condor, Gymnogyps californianus). Entry of 17 Feb 1806. Voorhis #2. Clark Family Collection. William Clark Papers. Missouri Historical Society Archives.***

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