

# Compliance With Legal and Regulatory Financial Requirements

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

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

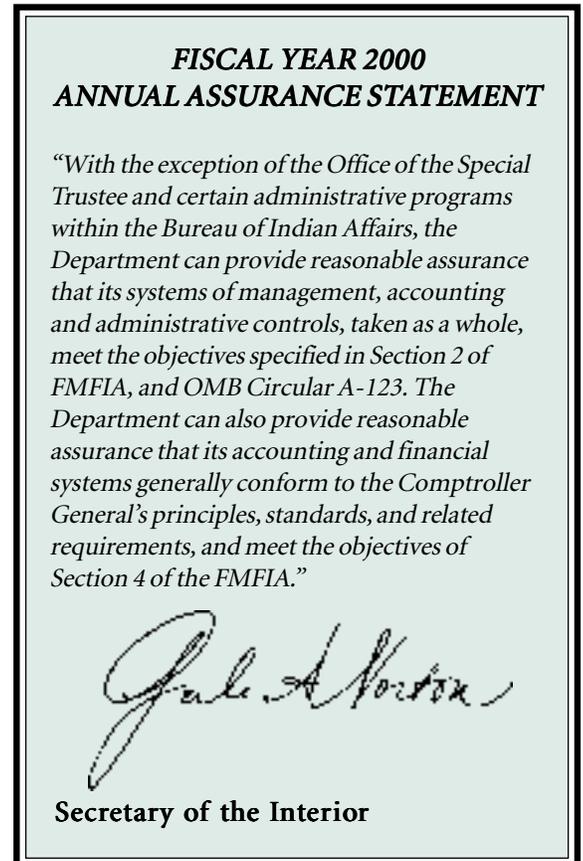
## Federal Managers' Financial Integrity Act (FMFIA)

The FMFIA requires agencies to annually provide a statement of assurance regarding the effectiveness of management, administrative and accounting controls, and financial management systems. The Secretary's 2000 Annual Assurance Statement is provided in *Figure 12*.

Interior 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 in our care; (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 their intended results efficiently and effectively;
- Resources are used in accordance with Interior's mission;
- Programs and resources are protected from waste, fraud, and mismanagement;
- Laws and regulations are followed; and
- Reliable, complete, and timely data is maintained and used for decisionmaking at all levels.

**Figure 12**



## Management Control Program

Interior's management control program ensures 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. Interior conducted its annual assessment of the effectiveness of its management, administrative, and accounting systems controls in accordance with the FMFIA and OMB guidelines. Interior conducted assessments of management controls in its programs and administrative functions, as well as relying on the findings and results of Office of Inspector General (OIG) internal program audit reports and General Accounting Office (GAO) program audit reports issued during the year. In addition, Interior relied on the results of the financial statement audits conducted by the OIG under the auspices of the Chief Financial Officers (CFO) Act of 1990 and the Government Management Reform Act of 1994.

In 2000, Interior conducted a total of 75 management control self-assessments, of which 31 (41 percent) were conducted using the new automated approach as well as relying on the findings and results in six OIG program audits, nine financial statement audits and six GAO program audits. The 75 management control assessments represent 78 percent of the total 96 assessments relied upon in reaching the Secretary's annual assurance statement. *Figure 13* summarizes the distribution of 2000 management control assessments.

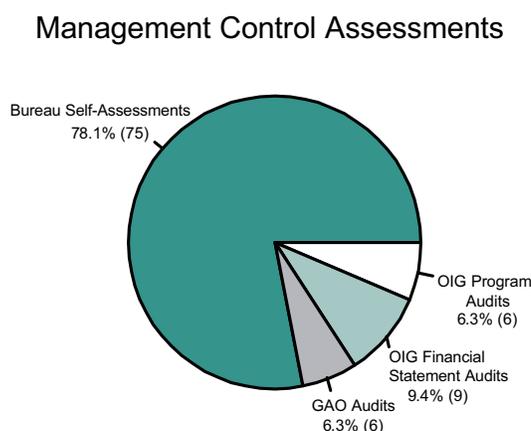
### **Automated Approach to Management Control Assessments**

The automated assessment approach is based on the results of a Management Control Reengineering Laboratory conducted by the Department in 1996 that, among other things, developed a new automated, less resource-intensive approach for targeting and conducting management control assessments. The automated assessment approach is built around seven management integrity measures that support the general and specific management control standards prescribed in OMB Circular A-123. A unique feature of the automated approach is that it provides for identifying areas of both potential material deficiencies and best practices. The automated assessment is conducted electronically over the Internet using an off-the-shelf surveying and analytical software tool and provides much improved diagnostic and executive-level reporting.

A pilot test of the automated assessment approach was conducted for 21 different bureau program and administrative functions between 1997 and 1999. The results exceeded expectations, including a 90 percent overall reduction in staff time required for planning, conducting, analyzing, and reporting the results of the assessment.

In 2000, the Department encouraged bureaus and offices to use an automated assessment approach for all management control self-assessments. Delays in acquiring the surveying and diagnostic software tool, the time required for vendor training of bureau staff, and the "learning curve" associated with using the automated assessment approach limited the number of automated assessments that could be conducted in 2000. However, bureaus and offices were still able to implement the automated assessment approach for 31 of 75 (41 percent) self-

**Figure 13**



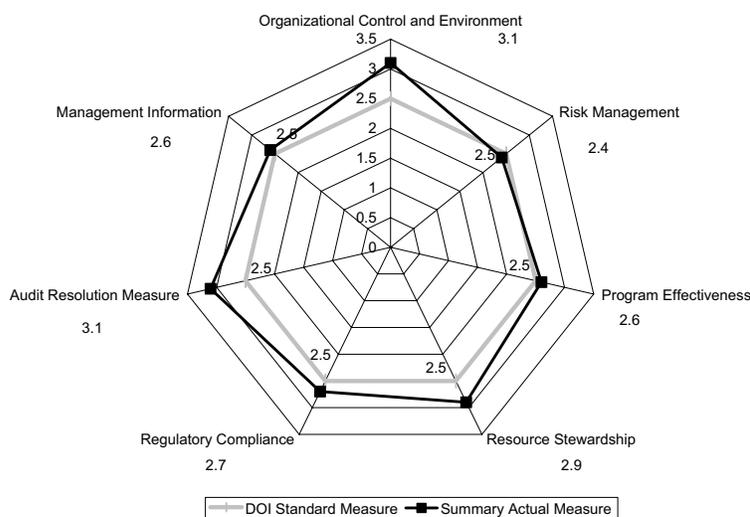
**Figure 14**

Automated Assessments				
Bureau	1997 *	1998 *	1999 *	2000
MMS	1	2	2	5
BLM	-	1	-	2
NPS	-	1	1	3
BIA	-	4	-	4
OSM	-	2	1	3
FWS	-	1	1	4
OS	-	-	-	3
BOR	-	1	1	3
USGS	-	1	1	4
Total	1	13	7	31

\* Pilot Test

**Figure 15**

**Automated Assessment - Summary 2000**



assessments conducted in 2000. This 41 percent usage rate was more than twice the rate used in any year during the pilot test program. *Figure 14* summarizes the automated assessments by bureaus and offices.

The consolidated summary report for the 2000 automated assessments is presented in *Figure 15* (Spider Diagram). The Spider Diagram presents the results of these assessments on a comparative basis using seven management integrity measures. The seven measures are arrayed around the axis of the web and are scored on a numerical scale of 0 to 3.5, where 0 is the most unacceptable score for the measure. The dark symmetrical line with the value of 2.5 for each measurement represents the Department’s minimum acceptable score for each integrity measure. The lighter line represents the actual summary assessment score for each measure. Scores above the 2.5 value represent areas of sound management controls and potential best practices, while scores less than the 2.5 value represent areas needing improvement and potential material deficiencies. Only the summary Risk Management integrity measure (2.4) fell below the Department’s minimum acceptable score of 2.5. This is attributable to newly identified weaknesses in computer security along with employee and public safety related programs in two bureaus. On an overall basis, this summary report indicates that the results of the automated assessments provide sound support for the conclusions in the Secretary’s annual assurance statement.

**Results of the 2000 Management Control Program**

Since the inception of the FMFIA in 1982, Interior has identified and reported 169 material weaknesses and 64 accounting system nonconformances. By the end of 2000, Interior had corrected 150 of these material weaknesses (89 percent) and all 64 accounting system nonconformances. These totals reflect the addition of three new material weaknesses identified during 2000 and the correction of one material weakness.

While Interior has corrected all previously reported accounting system nonconformances and provided assurance that its financial systems generally conform to governmentwide standards, Interior is still aggressively pursuing initiatives to ensure that:

- All financial systems are linked electronically;
- The migration to a single, integrated accounting system is achieved; and
- Data integrity and consistency are provided for all financial system components.

Figure 16

Number of Material Weaknesses			
Period Reported	Reported	Corrected	Pending
Prior Years	158	148	10
1997	3	1	2
1998	1	1	0
1999	4	0	4
2000	3	0	3
Total	169	150	19

Figure 17

Number of Material Nonconformances			
Period Reported	Reported	Corrected	Pending
Prior Years	64	64	0
1996	0	0	0
1997	0	0	0
1998	0	0	0
1999	0	0	0
Total	64	64	0

Progress in correcting material weaknesses and accounting system nonconformances exemplifies Interior’s strong commitment to improving integrity and accountability in all programs, organizations, and functions. This commitment is further demonstrated by the establishment of new accountability goals for the timely correction of material weaknesses and timely implementation and closure of audit recommendations. These new goals are included in the Department’s 2001 Annual Performance Plan.

The Department’s progress in correcting material weaknesses and accounting system nonconformance is presented in *Figures 16 and 17*.

Interior will carry forward 19 pending material weaknesses to 2001. A description of these 19 pending material weaknesses, including those designated as “mission critical weaknesses,” planned corrective actions, and targeted completion dates, is presented in *Figure 20*. As shown in *Figure 18*, Interior expects to complete corrective actions on five of these material weaknesses (26 percent) during 2001, and an additional seven material weaknesses (37 percent) during 2002.

**Material Weakness Corrected or Merged**

During 2000, Interior completed corrective actions for one pending material weakness: BLM’s Administration and Oversight of the Wild Horse and Burro Program. In addition, BIA’s Inadequate General Controls Over Automated Information Systems was merged into an new departmentwide weakness dealing with Inadequate Computer Security.

**Administration and Oversight of the Wild Horse and Burro Program:** This material weakness, which was first reported in 1997 as a mission critical weakness, was originally scheduled for completion in 1999, but additional corrective actions identified in 1999 pushed the completion date to 2000. The BLM conducted four internal program reviews and revised its strategic plan, including the establishment of strategic goals and performance measures for the program. BLM selected and chartered the Wild Horse and Burro Advisory Board to provide state-of-the-art science and public input into recommendations on how to achieve appropriate herd management levels on public lands. The single-shot, one-year immuno-contraceptive vaccine was applied to mares in various Herd Management Areas over a two-year period. The short-term adoption promotional plan was developed and is being implemented based on the Adoption Marketing Strategy Report. In summary, BLM has initiated an improvement in the flow of animals from removal to adoption, and will continue with ongoing efforts to enhance and improve program management and oversight.

Figure 18

Target Correction of Material Weaknesses

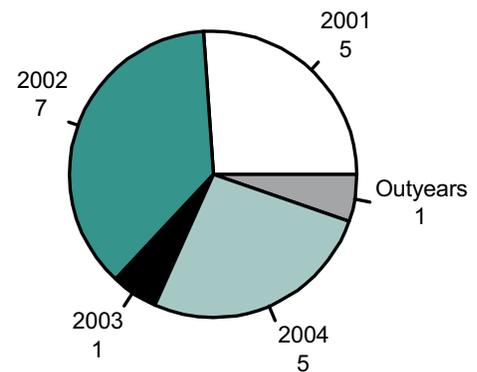


Figure 19

### Mission Critical 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 material weakness that is seriously detrimental to the public health or safety, a program or administrative activity, service delivery, national security, economic growth, privacy, or citizen's rights.
- A material weakness that could result in significantly impaired service, program failure, significantly reduced program effectiveness or efficiency, public injury or loss of life, unreliable decision-making 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 material weakness designation 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.

### New Material Weaknesses

Interior's Management Control Audit Follow-up (MCAF) Council reviewed and analyzed the results of the 2000 management control assessment process and concluded that three new material weaknesses should be reported. These new material weaknesses are:

**1. Inadequate Structural Fire Program (NPS):** NPS determined that their current Structural Fire Program does not provide adequate protection of people, contents, structures, and resources from the effects of fire as required by Director's Order No. 58. The NPS will develop and implement a comprehensive improvement plan to address the operational, technical, and organizational deficiencies cited in a related May 2000 GAO audit report and a July 2000 congressional hearing on fire safety failures in the NPS.

**2. Inadequate Wireless Telecommunications (Department):** Effective radio communications are critical to employee and public safety, as well as efficient management of the parks and public lands. The current wireless telecommunications program in at least two bureaus does not effectively support bureau and public safety operations and does not comply with Department management directives. The Department will develop and implement a comprehensive plan to meet employee and public safety objectives, and will restore the program to efficiency by reviewing bureau's narrowband capital investment levels and implementation plans, revising plans to maximize radio system sharing, minimizing supporting infrastructure requirements, and ensuring maximum use of alternative wireless services.

**3. Inadequate Land Inventory and Financial Reconciliation (BOR):** The BOR does not have a complete and accurate inventory system to support its \$1.7 billion investment in land and land rights. BOR will implement

a comprehensive plan to review and reconcile its land records; implement a new real property system; and develop and implement policy and procedural guidance to ensure the future quality, accuracy, and completeness of data captured in the lands and finance systems.

### Mission Critical Material Weaknesses

OMB Circular A-123 reporting guidance requests that each agency identify and report on the most critical material weaknesses affecting the agency. In response to this reporting requirement, Interior's Management Control and Audit Follow-up Council has identified nine of its 19 pending material weaknesses as "mission critical weaknesses." The Department has adopted the guidelines for mission critical material weakness designations recommended by the GAO. These guidelines are noted in *Figure 19*.

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

**1. *Inadequate Management of Trust Funds:*** Management of Individual Indian Monies (IIM), Tribal Trust Funds, and other Special Trust Funds is insufficient to properly maintain and administer the approximately \$3 billion fund. The trust funds lack effective internal controls, dependable accounting systems, and reliable accounting information. The Office of Trust Funds Management has been reorganized to improve management by establishing a Quality Assurance Division and consolidating accounting functions under the Accounting Division. There is an ongoing effort to standardize and verify Individual Indian Monies system data by cross-checking trust resource records.

There are currently a number of major initiatives underway to systematically address the decades-old Indian Trust Funds problems.

- *Legislative Proposal to Address Fractionated Ownership:* One of the root causes plaguing trust fund management is the fractionation of Indian lands. The Administration submitted its legislative proposal addressing fractionation to the Congress in June 1997. The proposal intends to consolidate existing fractional interests through an acquisition program that conveys the interests to tribes, with “liens” on future income generated by the property to recoup the purchase price. It also aims to prevent future fractionation through enactment of inheritance limitations.

Congress has funded the cost of an Indian land consolidation pilot designed to purchase small, highly fractionated individual interests in trust lands in Wisconsin and return those interests to the tribes.

The Department continues to work with allottee groups and congressional staff on this issue.

- *Comprehensive Plan for Strengthening the Trust Funds Infrastructure:* The Department has developed a High-Level Implementation Plan (HLIP) that provides a “general roadmap” to the 11 related projects that collectively constitute the Department’s Trust Management Improvement Project.

In 2000, the Department made substantive progress along several fronts in carrying out important initiatives identified in the HLIP.

- Following a successful pilot in the Western, Pacific, and Alaska Regions, the Office of the Special Trustee for American Indians (OST) is implementing a new commercial off-the-shelf Trust Funds Accounting System to administer all 300,000 tribal and Individual Indian Monies accounts and investments. All twelve Regional Offices and the tribal accounts have been converted to the new system.

- The Bureau of Indian Affairs (BIA) contracted for a new Trust Asset and Accounting Management System (TAAMS) to replace BIA's aging and antiquated automated systems for land title operations and land and lease management functions. A pilot test of the system was initiated in the Rocky Mountain Region in 1999. TAAMS is in the process of being deployed at the remaining Land Title and Records Offices.

- BIA awarded a data cleanup contract for the Rocky Mountain and Alaska regions. The pre-implementation data cleanup effort in the Rocky Mountain Region was completed, and the post-implementation phase is underway to ensure that existing data is accurate and complete. Site assessments were also completed in all Regional Offices.

**2. Inadequate Records Management:** The Bureau of Indian Affairs records system is inadequate to properly administer the records management function. As part of a comprehensive corrective action plan, the Office of the Special Trustee for American Indians initiated a process for ensuring the proper handling of all agency records, with an emphasis on trust records.

BIA and OST have established a combined records management program office, the Office of Trust Fund Litigation and Support, with line responsibility over records management policy, guidance, training, and evaluation nationwide. The office is responsible for developing and implementing a uniform records management program with authoritative policies, guidance, and training requirements for BIA and OST.

In addition, OST, BIA, the Minerals Management Service (MMS), the Bureau of Land Management (BLM), and the Office of Hearings and Appeals (OHA) will actively interact and work together to develop an agreed upon approach to managing Indian trust records.

**3. Inadequate Range Monitoring:** The Bureau of Land Management has recognized that not all high-priority allotments have been monitored and many grazing decisions have been delayed; as a result, the condition of some rangelands has continued to deteriorate. To address this weakness, BLM has issued Standards and Guidelines for Rangeland Health and Grazing Management, conducted the Guidelines Implementation Workshop, and developed the final Standards and Guidelines Implementation Policy. BLM completed the Healthy Rangelands National Validation Review and will carefully assess the results to determine what additional actions (if any) are needed to correct this material weakness.

**4. Irrigation of Ineligible Land:** The Bureau of Reclamation has not given sufficient priority to identifying and resolving instances of federal water being delivered to ineligible lands on at least 24 projects in eight states. Consequently, the federal government has provided unintended benefits to water users who did not pay the full cost of supplying the water used to irrigate ineligible lands.

The Bureau of Reclamation has completed an internal assessment of unauthorized use of federal project water to define the data requirements needed to ascertain the extent to which ineligible lands receive federal project water. Seven of the 24 projects have resolved the unauthorized water use issue. Several projects have made significant progress and have plans in place to correct the unauthorized water use issue through a combination of land classification, water conservation, environmental assessments, prioritization of projects within regions, and compliance enforcement on contract violation issues. A methodology for repayment of financing costs for supplying water to ineligible beneficiaries is under development, including an expansion of programs and policies promoting efficient district water use and pricing.

**5. Lack of Accountability and Control Over Artwork and Artifacts:** Accountability for, control over, and protection of artwork and artifacts administered by the bureaus and offices throughout Interior are inadequate to ensure the preservation of these objects. Until improved policies, procedures, and controls are implemented, the risk of significant loss of or damage to irreplaceable artwork and artifacts will remain high.

Interior has developed and implemented a revised museum property strategy and related policies and procedures. In addition, plans to implement an appropriate infrastructure in each bureau have been developed and approved. However, progress in implementing bureau plans has not proceeded at the pace originally anticipated due to resource restrictions. As a result, Interior's strategy has been revised, and each bureau is expected to implement its plan within broad targets defined by Interior.

The current strategy for correcting this weakness is to give priority both to completing basic inventories of all museum property and to addressing the most sensitive portions of the collections first. Basic inventories establish accountability and improve security. The most sensitive collections are those subject to possible repatriation to tribes under the Native American Graves Protection and Repatriation Act (NAGPRA). Additional funds have been requested to accelerate progress on completing inventories of all museum property and to achieve full compliance with NAGPRA. By focusing on these two priorities, Interior expects to exceed the specified improvement goal on a departmentwide basis.

**6. Inadequate Structural Fire Program (NPS):** This is a new material weakness identified in 2000. Management has determined that the current Structural Fire Program does not provide adequate protection of people, contents, structures, and resources from the effects of fire as required by Director's Order 58. Corrective action is underway. The NPS will develop and implement a comprehensive improvement plan to address the operational, technical, and organizational deficiencies cited in the May 2000 GAO audit report and a July 2000 congressional hearing on fire safety failures in the NPS.

**7. Inadequate Computer Security (Department):** The increasing growth in electronic commerce, the heightened reliance on information systems to accomplish basic missions, and the growing vulnerabilities of information systems to unauthorized access has resulted in the need for a comprehensive Department program to improve computer security.

The OIG has audited two bureaus and reported a series of comprehensive recommendations to address and improve system security and general controls over automated information systems. The Department will conduct a comprehensive assessment of computer security consistent with the scope of these OIG audits to determine the security control issues in other bureaus and offices. Based on its findings, the Department will develop a comprehensive information security plan, including capital budgeting requirements and will implement it on a phased basis.

**8. Inadequate Wireless Telecommunications (Department):** This is a new material weakness identified in 2000. Effective radio communications are critical to employee and public safety, as well as efficient management of the parks and public lands. The current wireless telecommunications program in at least two bureaus does not effectively support bureau and public safety operations and does not comply with Department management directives. The Department will develop and implement a comprehensive plan to meet employee and public safety objectives, and restore program efficiency by reviewing bureau narrowband capital investment levels and implementation plans, revising plans to maximize radio system sharing, minimizing supporting infrastructure requirements, and ensuring maximum use of alternative wireless services.

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

To address substantive issues in a systematic manner, the Department conducted a departmentwide review of maintenance and repair issues to reduce financial, health, and safety liability to Interior; increase the effectiveness and awareness of facilities maintenance; manage deferred maintenance; and ultimately improve the stewardship of Interior's constructed assets.

Based on this review, the Department has established the following three facilities maintenance objectives: (1) to properly manage and account for maintenance and construction funds from appropriations and fee receipts; (2) to identify the highest priority facilities maintenance and construction needs of the Department by using standard definitions and data; and (3) to formulate and implement a Five-Year Maintenance and Capital Improvement Plan (Five-Year Plan) for infrastructure, beginning with the 2000 Budget.

Concurrent with the development of the Five-Year Plan, improvements to the Department's budget structure and accounting systems are being made to enable the Department to measure the effectiveness of its facilities management programs more accurately.

Figure 20

Summary of Pending Material Weaknesses and Target Correction Dates

Bureau	Material Weakness	Corrective Actions	Target Correction Date
<b>Mission Critical Material Weaknesses</b>			
OST	<u>Inadequate Management of Trust Funds</u> : The management of Indian Trust Funds needs to be improved. The trust funds lack effective internal controls, dependable accounting systems, and reliable accounting information.	The Trust Fund Accounting System and the Trust Asset and Accounting Management System will be extended to all locations. Departmental trust policies and procedures will be developed, internal controls enhanced, and training provided.	FY 2004
OST and BIA	<u>Inadequate Records Management</u> : The records management system has made it difficult to properly administer the records management function.	A joint plan will be developed under the High Level Implementation Plan for the Trust Management Improvement Project. Initiatives will include cleaning up disposition backlog; developing policies, records manuals and training aids; providing technical assistance; implementing electronic records and imaging technology; developing record control schedules; conducting program evaluations; and publishing an Indian Trust Desk Guide with history, processes, and record-keeping requirements.	FY 2002
BLM	<u>Inadequate Range Monitoring</u> : Inadequate range monitoring and unreliable monitoring data has delayed grazing decisions involving federal lands.	Rangeland health standards assessments and allotment evaluations will be conducted to determine the need for management adjustments in livestock grazing use.	FY 2002
BOR	<u>Irrigation of Ineligible Land</u> : Adequate attention was not given to identifying and resolving instances of Federal water being delivered to ineligible lands on 24 projects in eight states. As a result, the federal government has provided unintended benefits to water users who did not pay the full cost of supplying the water used to irrigate ineligible lands.	Develop an alternative plan to resolve the issue of ineligible lands that receive Federal irrigation water.	FY 2001
DEPT	<u>Lack of Accountability and Control Over Artwork and Artifacts</u> : The accountability and control over artwork and artifacts needs to be improved.	Implement bureau plans for eliminating the backlog in inventorying museum property.	FY 2001
NPS (New)	<u>Inadequate Structural Fire Program</u> : The current program does not provide adequate protection of employees and visitors, contents, structures, and resources from the effects of fire as required by Director's Order No. 58.	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 Park Service.	FY 2004
DEPT.	<u>Inadequate Computer Security</u> : The increasing growth in electronic commerce, the heightened reliance on information systems to accomplish basic missions, and the growing vulnerabilities of information systems to unauthorized access has resulted in the need for a comprehensive Department program to improve computer security.	The OIG has audited two bureaus and reported a series of comprehensive recommendations to address and improve system security and general control over automated information systems. The Department will conduct comprehensive computer security assessments consistent with the scope of these OIG audits to determine the security and control issues in other bureaus and offices. Based on its findings, the Department will develop and implement a comprehensive information security plan, including capital budgeting requirements, and implement it on a phased basis.	FY 2004
DEPT. (New)	<u>Inadequate Wireless Telecommunications</u> : 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 and does not comply with Department management directives.	The Department will develop and implement a plan to meet employee and public safety objectives, and restore program efficiency by reviewing bureau narrowband capital investment and implementation plans; revising plans to maximize radio system sharing, minimizing supporting infrastructure requirements, and ensuring maximum use of alternative wireless services.	FY 2004
DEPT	<u>Inadequate Departmentwide Maintenance Management Capability</u> : Interior lacks consistent, reliable, and complete information to plan for, budget, and account for resources dedicated to maintenance activities.	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 and update a five-year Deferred Maintenance Plan and Capital Improvement Plan; repair, replace, and relocate facilities to "good condition"; and reduce deferred maintenance to established goals (5% or less of replacement cost).	FY 2004

Figure 20 (Continued)

Bureau	Material Weakness	Corrective Actions	Target Correction Date
<b>Other Material Weaknesses</b>			
BIA	<u>Irrigation Operations and Maintenance</u> : The establishment of irrigation assessment rates, 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.	Publish 25 CFR 171 A and B as a Final Rule. Reconcile past O&M receivables and bring all accounts to current status. Develop Operations Handbook regarding project operation and keeping O&M assessments and collection processes current.	FY 2002
BIA	<u>Deficiencies in Real Property Management</u> : There are deficiencies in real property management and accounting. Differences between balances reported in the general ledger and balances in the subsidiary ledger for real property are unreconciled. The Bureau has not completed real property inventories or adjusted the subsidiary ledger. There are no written policies and procedures to ensure accuracy of real property accounts.	Inventories have been taken and accounting adjusting entries made. The BIA will verify data, maintain records, and enhance documentation. Develop new procedures on construction-in-progress data. Finalize computer screens and software implementation, revise procedural handbooks, and develop additional procedures needed.	FY 2002
BIA	<u>Inadequate Acquisition Management Program</u> : The Bureau's Acquisition Management organization, policies, procedures, and guidelines are inadequate.	Guidance has been developed. The BIA will establish performance appraisal standards for contracting personnel, establish a BIA Acquisition Review Board, perform administrative management reviews and follow-up Quality in Contracting Reviews, and publish regulations on the Buy Indian Act.	FY 2002
BIA	<u>Inadequate Facilities Program</u> : The lack of proper maintenance and repair of facilities has created health and safety hazards in BIA schools, employee housing, and other facilities.	Complete backlog validation and condition assessment project. Set guidelines and standards for operation and maintenance of employee housing program. Complete inventory and assessment of conditions of BIA-owned employee quarters. Complete testing and implement facilities management computer system.	FY 2001
BLM	<u>Management and Oversight of the Land Exchange Program</u> : Policy guidance and procedures, and personnel training, do not ensure that appropriate appraisals are being developed and used in land exchange determinations.	BLM's Land Exchange Handbook is being revised to incorporate the new policies and procedures identified in the Appraisal Manual for land exchanges and the land exchange training modules.	FY 2001
BLM	<u>Insufficient Safety Management Program</u> : Supervisory oversight of the Safety Management Program needs to be improved.	Schedule and provide all required safety training for state safety managers and collateral duty safety officers. Allocate appropriate funding in the budget to effectively manage the Safety Management Program.	FY 2001
BIA	<u>Inadequate Debt Collection</u> : Bureau regulations, procedures, and guidelines are inadequate to properly administer current debt collection functions.	Set time frame to run periodic delinquent debt referral to Treasury with automated interface program. Convert irrigation projects to National Irrigation Information Management System with Federal Financial System interface. Routinely reconcile Irrigation and Power subsidiary ledgers with general ledger. Complete construction debt reconciliation.	FY 2002
MMS	<u>Inadequate Internal Controls Over Accounting Operations</u> : Ineffective controls have prevented the timely reconciliation of general ledger accounts and production of timely, accurate, and reliable financial data required for annual audited financial statement preparation (exclusive of the Royalty Management Program).	Reassign and segregate duties and responsibilities within the Financial Management Branch, implement a plan to ensure specific individuals and officials are held accountable for non-compliance with established internal controls, establish a special project team in conjunction with the Department and the OIG to complete year-end account reconciliations, develop and enter correcting adjusting journal entries, and produce reliable and accurate financial statements in accordance with governmentwide standards.	FY 2002
FWS	<u>Inadequate Management Controls and Audit Follow-up in the Federal Aid Program</u> : The absence of effective management controls, a centralized audit follow-up program, and guidance governing the administration of the Federal Aid Program has resulted in the ineffective management oversight and accountability for Federal Aid grant funds on a Servicewide basis.	Federal Aid process improvement teams will be established to review deficiencies in the Federal Aid Information Management System, Financial Reconciliations, Grant Operations, Audit Review and Resolution, and Organization Function and Staffing Review. Management will evaluate the findings and recommendations of the process improvement teams and develop and implement comprehensive guidelines and organizational changes to better govern the administration of the Federal Aid Program	FY 2003
BOR (New)	<u>Inadequate Land Inventory and Financial Reconciliation</u> : The Bureau does not have a complete and accurate inventory system to support \$1.7 billion in land and land rights.	BOR will (1) conduct reconciliation and research to validate the accuracy of its land records; (2) populate its new real property system (Foundation Information for Real Property Management or FIRM) with such data; (3) develop and issue policy and procedures to ensure future quality, accuracy, and completeness of data captured in the lands and finance systems; and (4) conduct initial and periodic reconciliations between the detailed land data maintained in FIRM and the financial accounting system to ensure the quality of information contained in both systems.	FY 2005

## Other Management Challenges Confronting Interior

Recently, the Office of Inspector General and the General Accounting Office have advised Congress about what they consider to be the major management challenges and other issues facing the Department. Most of these issues have met the FMFIA criteria for, and been reported as, material weaknesses in the Department's Annual Accountability Report. The others, while not meeting the FMFIA material weakness criteria, are receiving priority management attention. These major management challenges and other issues are summarized in the tables in Figures 21 and 22.

Figure 21

### Top Management Issues Identified by the Office of Inspector General

Bureau	Top Management Issues	Status/Corrective Actions	Target Date
Departmentwide	Financial Management (previously Financial Management in the Bureau of Indian Affairs)	The preparation of reliable financial statements as required by the CFO Act continue to be a major challenge facing the Department and its bureaus. While the Department has made progress in producing reliable financial statements, several material internal control weaknesses still exist that could impact the Department's ability to produce reliable financial statements in the future.	Ongoing
Departmentwide	Information Technology	The Department is currently participating in a governmentwide review of its physical and cyber-based infrastructure. Reviews have identified significant weaknesses in computer security.	Ongoing
Bureau of Land Management National Park Service Fish and Wildlife Service	Health and Safety (previously Waste Management)	Bureaus are addressing the challenge to ensure that facilities are well maintained and that health and safety deficiencies are corrected in a timely manner. This issue is also addressed in the section below.	Ongoing
Departmentwide	Maintenance of Facilities (incorporates Maintenance and National Park Service)	Department reviews have shown that BLM, NPS, BIA, and FWS have inadequate management controls and insufficient funding to effectively manage maintenance activities. This lack of an adequate standardized automated maintenance management system has severely inhibited the Department's ability to effectively carry out its maintenance management responsibility. The Department has developed an adequate plan to correct the condition.	Ongoing
Bureau of Indian Affairs Territorial and Insular Affairs	Responsibility to Indians and Insular Areas (incorporates Management of Indian Trust Funds and Financial Management in the Insular Areas)	OIG has identified, in our audit reports, over the years, problems in the areas of BIA's trust responsibility, Indian self-determination and self-governance through contracting and compacting, facilities management and roads maintenance, safety management, law enforcement, housing, social services, and education.  Audits have shown that long-standing financial management deficiencies continue to exist in the U.S. insular areas. The insular area governments experience difficulties in the areas of financial management, revenue collection, expenditure controls, and program operations.	Ongoing
Bureau of Land Management Bureau of Reclamation Fish and Wildlife Service National Park Service US Geological Survey	Resource Protection (incorporates Range Monitoring and Land Exchanges)	The Department has myriad responsibilities for protecting and restoring our Nation's natural and cultural resources. For example, OSM is responsible for ensuring that coal mining operations are conducted in an environmentally sound manner and for restoring lands damaged by past coal mining practices; BLM is responsible for ensuring that economic and recreational uses of public lands protect the environment and for protecting the wild horse and burro population; FWS is responsible for maintaining a healthy habitat for fish and wildlife resources, particularly endangered and threatened species; NPS is responsible for protecting the natural and cultural resources in parks; and BOR and USGS are responsible for protecting and improving the quality and quantity of the Nation's water. The Department faces growing challenges in these areas as the demand for economic and recreational uses of our lands and water resources increase.	Ongoing

**Figure 21 (Continued)**

<p>Bureau of Land Management Fish and Wildlife Service Bureau of Reclamation</p>	<p>Revenue Collection (incorporates Revenue Collection and Inspection and Enforcement of Fluid Minerals)</p>	<p>While the Department collects over \$8 billion in revenues each year, audits have shown that the bureaus can make improvements to enhance revenue collections in various programs, including royalties, fee demonstration programs, and cost recovery of reclamation projects. Over the last 3 years, 14 reports have been issued that identified more than \$140 million in lost or potential additional revenues. This amount includes \$71.7 million resulting from the under collection of royalties, \$17.5 million that BOR could have earned if it had identified and sold excess lands, and \$6.6 million that BLM failed to recover for firefighting costs. Also, since 1998, the OIG and the Department of Justice have recovered underpaid royalties of more than \$330 million under settlements with oil companies resulting from OIG investigations.</p>	<p>Ongoing</p>
<p>Departmentwide</p>	<p>Government Performance and Results Act</p>	<p>The Department and the bureaus face a significant challenge in implementing the GPRA requirements for establishing performance goals and measures that effectively demonstrate the accomplishment of their missions. At the request of the Chairman of the Senate Committee on Governmental Affairs, a special review of the Department's implementation of the Act was conducted. The conclusion was that while the Department has made progress in implementing the Act, improvements were needed in some areas.</p>	<p>Ongoing</p>
<p>Bureau of Indian Affairs Fish and Wildlife Service Office of the Secretary</p>	<p>Procurement, Contracts, and Grants</p>	<p>The Department spends substantial resources each year in contracting for goods and services and providing federal assistance to states and Indian organizations. In fiscal year 1999, the volume of procurement activity exceeded \$3 billion, and the Department provided over \$2 billion to states and Indian tribes in grants and other types of federal aid assistance. Procurement has historically been an area subject to fraud and waste governmentwide, and the OIG has received several hotline complaints in this area.</p> <p>In its fiscal year 1999 Accountability Report, the Department reported that BIA's acquisition management organization, policies, procedures, and guidelines are inadequate, and has been reporting this material weakness since 1991. The Department also reported that management oversight and accountability in FWS's Federal Aid Program have been ineffective because of the lack of adequate management controls, a centralized audit follow-up program, and guidance governing the administration of the Program.</p> <p>One particular area of concern is the Department's new integrated credit card program, which accounted for more than \$300 million of the Department's procurement expenditures in fiscal year 2000. While this program is expected to substantially reduce administrative costs, there is a greater opportunity for unauthorized purchases because of the limited internal controls in the program. A departmentwide review of this program is currently being conducted.</p>	<p>Ongoing</p>

Figure 22

**Major Management Challenges Facing Interior Identified by the U.S. General Accounting Office**

Bureau	Management Challenge	Status/Corrective Actions	Target Correction Date
National Park Service	<i>Information Management:</i> NPS needs to give higher priority to developing better scientific information about the condition of its natural and cultural resources to ensure that its planning and funding processes address the most pressing needs.	Strategy and implementation plan being developed.	Ongoing
National Park Service	<i>Information Management:</i> NPS needs to develop more accurate data on its backlog of maintenance problems to set better priorities for projects and to budget accordingly.	This challenge is being addressed as part of the corrective action for the departmentwide material weakness on Inadequate Maintenance Management Capability.	Ongoing
National Park Service	<i>Organizational Alignment Control:</i> The NPS needs to improve park managers' accountability for achieving results.	Strategy and implementation plan being developed.	Ongoing
National Park Service	<i>Human Capital and Acquisition Management:</i> The Service needs to address persistent management problems in its concessions program. NPS concession specialists and contracting staff are not adequately qualified and trained and the NPS uses outdated practices in its backlog of expired contracts.	Strategy and implementation plan being developed.	Ongoing
National Park Service	<i>Performance Management:</i> NPS needs to better manage its structural fire safety program for the over 30,000 structures it has responsibility for, including hotels, motels, cabins, visitor centers, and historic buildings.	This challenge is being addressed as part of the NPS corrective actions for the material weakness in its Structural Fire Program.	Ongoing
Office of Special Trustee (OST)	<i>Information Management:</i> Problems persist with the systems used to manage Indian trust funds.	On March 31, 1999, Interior completed the conversion to a new commercial, contractor-operated, off-the-shelf trust fund accounting and investment system. The Trust Asset and Accountability System initiative is well underway on four fronts: (1) deployment of the title functionality, (2) finalization of the leasing functionality, (3) development of an enhanced appraisal module, and (4) exploration of an enhanced probate module.	Ongoing
Office of Special Trustee	<i>Financial Management:</i> Inadequate accounting and information, poor record-keeping and internal controls prevent the Department from ensuring that trust funds are properly managed.	An Indian Affairs Records Management Program has been established to ensure that a uniform records management program having authoritative policies, guidance, and training requirements is practiced within OST and BIA. Management continues to review and evaluate methods to continue follow-up cleanup efforts, including the use of other regional data for additional testing in the use of an external credit bureau database for locating the whereabouts of unknown information. Also, records management improvements are underway and scheduled for completion by May 2002.	Ongoing
Bureau of Indian Affairs	<i>Financial Management:</i> Budget formulation problems continue to impede the tribal self-determination policy – a national policy providing for tribal participation in and management of federal Indian programs.	Strategy and implementation plan being developed	Ongoing
Departmental	<i>Strategic Planning:</i> A variety of management problems hinder the Department's ability to effectively direct its efforts to maintain healthy natural systems such as focusing the ecosystems restoration efforts and coordinating the multiple entities participating in these efforts.	The ecosystem management initiatives require actions outside the Department's control. The Department is working with all stakeholders; sister federal agencies; local units of government; state units of government; and sovereign Indian Tribes to develop sustainable ecosystem solutions. The Department has adopted an ecosystem management approach to protect and maintain healthy ecological systems. Ecosystem management focuses on ecological, scientific, economic, and social factors that extend beyond the administrative boundaries of the Department and other entities. The Department has developed a strategic plan for how restoration of the South Florida ecosystem will be accomplished.	Ongoing

Figure 22 (Continued)

Bureau	Management Challenge	Status/Corrective Actions	Target Correction Date
Departmental	<u>Organizational Alignment and Control:</u> Problems hinder managing across agency boundaries and coordinating with multiple entities to plan and implement ecosystem projects.	Strategy and implementation plan being developed	Ongoing
Departmental	<u>Human Capital Management:</u> Replacing experienced personnel including federal firefighters will be a challenge for the Department.	Strategy and implementation plan being developed.	Ongoing
Bureau of Land Management (BLM)	<u>Financial Management:</u> Ensuring that the values of lands being exchanged are equal, or approximately equal, as required by the Federal Lands Policy and Management Act has been problematic for BLM.	BLM revised its land exchange review and approval requirements on April 11, 2000. All land exchanges are now reviewed and approved by the BLM National Land Exchange Team or the State Director. The technical review process includes a review of the transactions to ensure the federal and non-federal lands proposed for exchange are appropriately valued, consistent with law, regulation, and policy.	Ongoing
Departmental	<u>Budget Formulation and Execution:</u> Interior has had difficulty budgeting for and reporting increased funding needs for the operation and maintenance of newly acquired lands.	The Department continues to refine its efforts to identify and secure funding for the costs for operations and maintenance of federal facilities and lands. The Department's Safe Visits Initiative has made great progress in identifying and tracking the maintenance needs and the bureaus are all making efforts to better identify operational funding needs. The bureaus have developed automated systems to track their operational funding needs. Currently, the Department is conducting an analysis of the operational costs incurred by the bureaus related to land acquisitions in order to determine ways to identify, request, and fund non-recurring and recurring operational costs directly related to land acquisition. The Land Conservation, Preservation and Infrastructure Improvement Program provides \$1.6 billion for federal and state land acquisition, conservation grants, and historic preservation in FY 2001. Funding totaling \$100 million was also included for maintenance.	Ongoing

## Audited Financial Statement Results

As required by the Government Management Reform Act, Interior prepares consolidated financial statements for the Department. These financial statements are audited by the Office of Inspector General. Additionally, almost every individual bureau prepares financial statements that are also audited by the Office of Inspector General. The preparation and audit of financial statements is an integral part of the Department's centralized process to ensure the integrity of financial information maintained by the Interior.

The results of the 1999 and 2000 audited financial statement process are summarized in *Figure 23*. 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.

**Figure 23**

<b>Summary of 1999 and 2000 Financial Statement Audits</b>											
	Unqualified Opinion on Financial Statements		Report on Internal Controls		Report on Compliance with Laws and Regulations (Non FFMIA)		Report on Compliance with Laws and Regulations (FFMIA) Full Compliance		Report on Compliance with Laws and Regulations (FFMIA) Component Compliance		
									Systems (4)	Accounting (5)	SGL (6)
	1999	2000	1999	2000*	1999	2000*	1999	2000*	2000*	2000*	2000*
Dept	Yes	Yes	No	No	No	No	Yes	No	No	No	Yes
FWS	Yes	No	No	No	Yes	No	Yes	No	No	No	Yes
USGS	Yes	Yes	No	No	No	No	Yes	Yes	Yes	Yes	Yes
BIA	Yes	Yes	No	No	No	No	No	No	No	No	Yes
BLM	Yes	Yes	No	No	No	Yes	No	Yes	Yes	Yes	Yes
MMS	(1)	No (2)	(1)	No	(1)	No	(1)	No	No	Yes	Yes
NPS	Yes	Yes	No	No	No	Yes	No	No	Yes	Yes	No
BOR	(3)	Yes	No	No	No	Yes	No	No	No	Yes	Yes
OSM	Yes	Yes	No	Yes	Yes	Yes	No	Yes	Yes	Yes	Yes
OS	Yes	Yes	Yes	No	No	Yes	Yes	Yes	Yes	Yes	Yes

\* Based on available information at the time of report publication.

No – Indicates a qualified audit opinion or exceptions noted.

(1) Audited financial statements were not issued.

(2) An unqualified opinion was issued on the Statement of Custodial Activity.

(3) No audit opinion was issued.

(4) Federal financial management systems requirements.

(5) Applicable federal accounting standards.

(6) The Standard General Ledger at the transaction level.

## Resolution of Internal Control Weaknesses Reported in 1999 Audited Financial Statements

The tables in *Figures 24, 25, and 26* summarize actions taken to resolve material weaknesses, reportable conditions, and instances of noncompliance with laws and regulations reported in 1999 audited financial statements.

**Figure 24**

**Resolution of Material Weaknesses**

<u>Bureau</u>	<u>Material Weakness Description</u>	<u>Corrective Action</u>	<u>Target Date</u>	<u>Implemented (Yes/No)</u>
DEPT	Inadequate Reporting of Trading Partner Information	Base intra-departmental elimination information on trial balance trading partner information to ensure the accuracy and consistency of trading partner data	Sept. 30, 2001	No
FWS	Inadequate Accounting Controls and Procedures for Construction-in-Progress (C-I-P)	Develop and implement review and reconciliation procedures to ensure costs charged to C-I-P are accurate.	Sept. 30, 2001	No
FWS	Lack of a System Interface to Provide Timely and Accurate Data on Federal Aid Grant Undelivered Orders	Redesign system interface between FFS and HHS Payment Management System; develop written procedures for FFS and subsidiary system reconciliations and conduct data integrity reviews.	Sept. 30, 2001	No
MMS	Inadequate Controls Over Financial Management and Accounting Operations	Implement internal control procedures to ensure appropriate safeguarding of assets; transactions are processed in accordance with applicable laws, are reconciled, and are summarized to permit preparation of financial statements; and accountability is maintained.	Sept. 30, 2001	No
USGS	Inadequate Controls Over Unliquidated Obligations	Implement policies and procedures to ensure unliquidated obligations are deobligated and supported on a timely basis.	Sept. 30, 2001	No
BOR	Land Inventory and Financial Reconciliation Improvements are Needed	Develop a complete and accurate inventory system that identifies by all land and land rights by project.	Sept. 30, 2005	No
BOR		Develop policies and procedures that require the inventory for lands and land rights to be adequately maintained and reconciled on a periodic basis with the land acquisition records and with amounts reported in the general ledger accounts for land and land rights.	Sept. 30, 2001	No

**Figure 24 (Continued)**

<u>Bureau</u>	<u>Material Weakness Description</u>	<u>Corrective Action</u>	<u>Target Date</u>	<u>Implemented (Yes/No)</u>
BOR		Include a material land inventory system internal control weakness in its Federal Manager's Financial Integrity Act report to the Department of the Interior.	Sept. 30, 2000	Yes
BIA	Inadequate Accounting Controls and Procedures for Construction-in-Progress	Develop and implement review and reconciliation procedures to ensure costs charged to C-I-P are accurate.	Sept. 30, 2001	No
BIA	Inadequate Controls Over Property, Plant and Equipment	Develop and implement policies and procedures which ensure physical inventories are adequate and complete; additions and disposals are recorded timely and accurately; appropriate supporting documentation is maintained; depreciation expense is timely and accurately recorded; and Fixed Asset Subsystem errors are timely identified and corrected.	Sept. 30, 2001	No
BIA	Inadequate Controls Over Automated information Systems	Develop and implement procedures to strengthen the internal control risks and weaknesses specified in audit report number 98-I-483.	Dec. 31, 2001	No
BIA	Inadequate Controls Over Land Information	Implement financial integrity reviews, reconciliation procedures, and correction processes.	Sept. 30, 2001	No
BIA	Inadequate Controls Over Financial Management Integrity Reviews	Implement a multi-level review process to identify and correct errors and invalid transactions in the general ledger, subsidiary ledgers, listing and reports.	Sept. 30, 2001	No
BIA	Inadequate Controls Over Unliquidated Obligations and/or Accrued Liabilities	Implement policies and procedures to ensure unliquidated obligations are de-obligated and supported on a timely basis.	Sept. 30, 2001	No

**Figure 25**

**Resolution of Reportable Conditions Related to Internal Controls**

<u>Bureau</u>	<u>Reportable Condition Description</u>	<u>Recommendation/Corrective Action</u>	<u>Target Date</u>	<u>Implemented (Yes/No)</u>
DEPT	Inadequate Reporting of Government vs. Non-Government Transactions	Improve controls over classifying transactions as federal or public in general ledger accounts.	Sept. 30, 2001	No
DEPT	Inadequate Controls Over Deferred Maintenance Management and Reporting	Develop policies, procedure and programs to implement departmental guidelines issued in December 1999.	Sept. 30, 2001	No
DEPT	Inadequate Controls Over Stewardship and Performance Measure Reporting	Implement appropriate systems, policies, and procedures to ensure stewardship and performance measure data is accurately and timely reported, and appropriate supporting documentation is maintained and available.	Sept. 30., 2001	No
BOR	Improved procedures are needed for eliminating certain revenue transfers	Revise existing procedures and controls to ensure all revenue transfer transactions are properly eliminated.	Sept. 30, 2000	Yes
DEPT	Improved procedures are needed for transfers from Construction-in-Progress to completed plant	Develop and implement procedures to require regional offices to make timely and accurate transfer from C-I-P to completed plant.	Sept. 30, 2001	No
DEPT	Improved procedures are needed for accrual accounting and revenue recognition	Revise procedures and controls to ensure revenues are recognized in the proper accounting periods.	Sept. 30, 2001	No
DEPT	Improved procedures are needed for accrual accounting and estimating year-end liabilities	Follow existing cut-off and closing procedures for accruals/payable and improve review and oversight of accruals.	Sept. 30, 2001	No
DEPT	Improved management controls over procurement and travel are needed	Direct reviewing officials to verify the validity of credit card procurement and travel charges; perform periodic reviews of employee compliance with bureau and Department SmartPay guidance; revise sampling plans and remote site review procedures; and train voucher examiners in detecting Centrally Billed Account items being claimed on individual vouchers.	Dec. 31, 2000	Yes
BIA	Inadequate Controls Over Accounts and Interest Receivable, and Related Revenue and Expense Accounts	Develop and implement policies and procedures to ensure appropriate supporting documentation is available; classifications are accurate; receivable and revenue transactions are entered timely; and an accurate aging is used to compute the allowance estimate.	Sept. 30, 2001	No
FWS	Improve Controls Over Federal Aid Program Grant Fund Draw Downs	Develop and implement procedures to verify grantee costs incurred before draw downs, including limited samples.	Sept. 30, 2001	No
BLM	Improve Controls over Cash Management	Develop and implement policies and procedures to ensure all cash collections and disbursements are recorded in the financial management system when they occur.	Sept. 30, 2000	Yes

Figure 26

## Resolution of Noncompliance with Laws and Regulations

<u>Bureau</u>	<u>Non-Compliance Description</u>	<u>Corrective Action</u>	<u>Target Date</u>	<u>Implemented (Yes/No)</u>
BLM	Integration of Assembled Land Exchange Activities in Financial System - FFMIA Issue	Integrate to the maximum extent practicable, the financial and accounting activities of the assembled land exchange program with BLM's financial management system and Treasury.	Sept. 30, 2000	Yes
BLM	Unauthorized use of Escrow or Third Party Accounts for Receipt and Disbursement of funds	Obtain Treasury approval to use escrow or third party accounts as depositories for receipt and disbursement of the assembled land exchange program, or close such accounts.	Sept. 30, 2000	Yes
BLM	Compliance With Managerial Cost Accounting Standard (SFFAS No. 4)	Implement a new cost accounting management system which will measure the full costs of resources consumed by each responsibility segment.	Sept. 30, 2000	Yes
BIA	Improve Compliance with Laws and Regulations	Develop and implement procedures to ensure compliance with the CFO Act, FFMIA, DCIA, Prompt Pay Act; and managerial cost accounting and management reporting.	Sept.30, 2001	No
DEPT	Compliance With Managerial Cost Accounting Standard (SFFAS No. 4)	Develop and implement guidance to ensure compliance with SFFAS No. 4.	Sept. 30, 2000	Yes
DEPT	Compliance with the GMRA	Submit the Department's FY 2000 consolidated audited financial statements to OMB no later than March 1, 2001.	March 1, 2001	Yes

### Federal Financial Management Improvement Act (FFMIA)

The Federal Financial Management Improvement Act of 1996 (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 governmentwide Standard General Ledger, comply with all applicable federal accounting standards, and establish financial management systems that support full disclosure of federal financial data, including the full costs of federal programs and activities. The auditor is to include a statement regarding compliance with these provisions in the audit report on agency financial statements. If an agency is not in compliance with these requirements, the FFMIA requires that the agency head establish a remediation plan to bring the agency's financial management systems into substantial compliance.

#### 1999 Remediation Plan

For 1999, the Office of Inspector General (OIG) reported in its opinion on the Department's consolidated financial statements that the Bureau of Land Management (BLM) did not comply with the requirements for federal financial management systems and federal accounting standards in processing assembled land exchanges, and that the material internal control weaknesses concerning the ineffective general controls over the Bureau of Indian Affairs (BIA) automated information systems and the Minerals Management Service (MMS) financial management and accounting processes resulted in substantial noncompliance with FFMIA.

The Department did not concur with the Office of Inspector General's assessment that the \$4.5 million related to assembled land exchanges held by custodians in financial institutions not designated as depositories of the Secretary of the Treasury represented a substantial noncompliance with federal financial management systems and federal accounting standards. However, the Department took the following steps to improve control over land exchanges.

- ***BLM Land Exchanges:*** BLM intensified its programmatic and financial oversight of assembled land exchanges. BLM initiated a procurement for an independent audit of the financial records for assembled land exchanges; established procedures to ensure that all aspects of land exchange transactions are properly accounted for in its financial system; updated internal directives; provided new training programs to staff and private appraisers; implemented new technical review and compliance criteria; established an independent agency land exchange review team, the National Land Exchange Team, to review and approve land exchanges; engaged the Solicitor's Office for quality control and compliance reviews of proposed land exchanges; and revised cash management policies and procedures to address and resolve the deficiencies cited with escrow and third-party accounts, and to ensure compliance with U.S. Treasury regulations.

The Department did concur with the findings related to Bureau of Indian Affairs automatic updating systems and the Minerals Management Service financial management and accounting processes. The following steps are underway to correct these deficiencies:

- ***BIA Automatic Financial System:*** BIA identified and reported this issue as a material weakness in the Department's 1999 Accountability Report and developed a comprehensive corrective action plan with a targeted completion date of December 31, 2001. During 2000, BIA made significant progress in remediating this weakness. Pursuant to the recommendations of a National Academy of Public Administration (NAPA) report, BIA relocated its Division of Information Resources Management and Division of Accounting Management to Reston, Virginia. In addition, BIA and the Assistant Secretary of Indian Affairs recruited and filled key accounting and information resources management positions, including the Chief Financial Officer, the Chief Information Officer (CIO) and the Deputy CIO; developed an automated information system technology security plan; and began developing policies, standards, and procedures to address the internal control deficiencies identified by the OIG. The remaining milestones in the corrective action plan, along with any additional issues identified in the 2000 audited financial statement process, are expected to be resolved during 2001.
- ***MMS Financial Management and Accounting Processes:*** MMS identified and reported this issue as a material weakness in the Department's 1999 Accountability Report and provided a comprehensive corrective action plan with a targeted completion date of December 31, 2001. During 2000, MMS made significant progress in remediating this weakness by developing and implementing an improved internal control structure; revising internal policies and procedures to address the accounting operation deficiencies identified by the OIG; completing the required General Ledger account, payroll, and daily synchronization report reconciliations; implementing the Standard General Ledger (SGL) at the transaction level; correcting erroneous prior fiscal year data; implementing monthly and year-end closeout procedures; training staff; and contracting with KPMG to perform a comprehensive internal control and organizational assessment of its Accounting Operations Division. MMS expects to complete the remaining milestones in the corrective action plan, as well as addressing any additional issues identified in the 2000 audited financial statement process during 2001.

## 2000 Remediation Plan

At the time this section of the report was finalized, the 2000 auditor's opinion had not been issued. No material weaknesses, reportable conditions, or issues of noncompliance had been identified, so Interior's remediation plan is pending.

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

Interior firmly 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.

To further demonstrate the importance of Interior's commitment to the timely implementation of OIG and GAO audit recommendations, Interior established an annual GPRA performance goal, beginning in 2000, of implementing 75 percent of all GAO and OIG audit recommendations within one year of the referral of those recommendations to the Department for tracking of implementation.

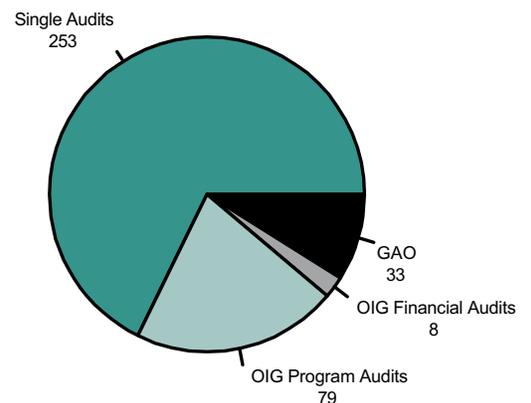
As a direct result of an accelerated monitoring program by the Department's Management Control and Audit Follow-up Council and the Interior Management Council, Interior was able to meet its new GPRA goal in 2000 by achieving an overall implementation rate of 77 percent for audit recommendations referred to the Department in 1999 for tracking of implementation.

In 2000, Interior's Audit Follow-up Program monitored a substantial amount of Single Audit, OIG, and GAO audit activity, including 253 Single Audits, 87 OIG audits, and 33 GAO audits (see Figure 27). Audit follow-up actions included tracking and validating the timely implementation of audit recommendations, monitoring the recovery of disallowed costs, and achieving acceptable and timely resolutions to disputed audit findings and recommendations.

Interior continued to make significant improvement in the timely implementation of audit recommendations, closing pending audit reports, and recovering disallowed costs and other funds owed the government. For example, Interior closed 33 audit reports that had been referred for resolution or tracking at some time during 2000 or in prior years, including the closure of the 10 oldest audits in the inventory. In addition, 55 percent (243 of 439) of all audit recommendations referred for resolution or tracking during 2000 or prior years were implemented. Further, a 50 percent closure rate and a 13 percent recovery rate on disallowed costs was achieved. Each of these achievements represented an improvement over prior years.

Figure 27

2000 Audit Follow-Up Program Workload



## Single Audits

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

### Reaching Timely Management Decisions on Single Audits

Management decisions (agreement on actions to implement audit recommendations between the bureau and grantee) are expected to be agreed to within six months from receipt of the audit report. If an audit results in disallowed costs, bureaus are responsible for collecting the disallowed costs from the grantees.

During 2000, 20 audits had been referred to the Department. Five were referred with management decision dates less than six months from the date of the audit report for tracking. Seven of the remaining 15 audits concerned U.S. Fish and Wildlife Service federal aid grants to state fish and wildlife agencies. Due to the commonality of the disputed issues in these audits, the Department convened a Federal Aid Audit Resolution Task Force with program and technical experts from the U.S. Fish and Wildlife Service, various Departmental offices, the Inspector General, the Solicitor, and the Defense Contract Audit Agency. The Task Force categorized the disputed issues into six decision areas and then issued authoritative resolution guidance consistent with existing policy and regulations. As a result, all seven federal aid grant audits are expected to be closed during 2001.

Figure 28

2000 Summary of Actions Taken on Single Audits with Disallowed Costs			
		Number of Reports	Disallowed Costs
(A) Reports on Hand at Beginning of Period		11	\$189,698
(B) New Reports		5	1,954,081
Total reports in tracking		16	2,143,779
(C) Final action taken during period		8	251,815
Collected	1	7,853	
Written Off			
Offset			
Reinstated			
Referred to Treasury For Collection Action	7	243,962	
(D) Reports in Progress at end of period		8	\$1,891,964
Mgmt dec < 1 yr old	1	\$83,125	
Mgmt dec > 1 yr old	7	1,808,839	
Mgmt decision under formal appeal			

### Collecting and Offsetting Disallowed Costs

As noted in Figure 28, Interior made good progress during 2000 in closing single audits: eight of 16 (50 percent) audits carried over from 1999 or referred during the year were closed. However, only \$251,815 in disallowed costs were recovered, or about 12 percent of total disallowed costs with recovery in progress during the year.

### Internal Audits

Internal audits are audits conducted by the OIG of Interior's programs, organizations, and financial and administrative operations. During 2000, 87 audits were being tracked (61 audits carried over from 1999 and 26 new audits issued during 2000), and 24 of those audits were closed (28 percent). More importantly, for the audits being tracked during the period, there were 269 recommendations, of which 90 were closed (33 percent).

During 2000, nine OIG internal audits were referred to the Department for resolution. Of these audits, four (44 percent) were successfully resolved and two audits were completely implemented and closed before year-end. The remaining four audits were audits of insular area governments and corrective action involved multiagency coordination which is still in process.

One category of OIG internal audits are 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 all FBU audit recommendations and FBU dollar estimates agreed to by management. Interior progressed in implementing recommendations and closing FBU audits during 2000, with two of five (40 percent) audits being closed (*Figure 29*). These two audits included six recommendations with \$49.8 million in FBU dollars. The three pending audits include six recommendations with \$4.8 million of FBU dollars.

### General Accounting Office Audits

GAO audits are a major component of Interior's audit follow-up program workload (*Figure 30*). In 2000, a total of 110 GAO reviews were in process, of which 49 (44 percent) were terminated without issuance of a letter report or other work product. During the fiscal year, a total of 12 final audit reports were issued. Ten of those audits with 23 recommendations were pending at the end of the year.

Interior successfully implemented 11 percent (6 of 53) of the recommendations in pending audits carried over from 1999 or issued in 2000. Some of the pending recommendations at the end of 2000 involve long-term and/or multiphased corrective actions. Several of these recommendations are being reevaluated at this time to determine if they may be cost prohibitive.

Figure 29

Summary of Actions Taken on Audits with Funds To Be Put to Better Use (FBUs)		Number Of Reports
(A) Reports on hand at beginning of report period		5
(B) New reports received during the report period		0
Total reports in tracking		5
(C) Reports closed during the report period		2
(D) Reports in progress at the end of the report period		3
	No. of reports	
Mgmt dec < 1 year old	0	
Mgmt dec > 1 year old	3	
Mgmt dec under formal appeal	0	

Figure 30

Departmental Summary of Actions Taken on Reports Issued by the GAO			Number Of Reports
<b>Active Reviews</b>			
Reviews active at beginning of reporting period			78
New reviews initiated during the reporting period			32
Reviews terminated without product during the reporting period or issued as Fact Sheets or other reports requiring DOI action			49
Total reviews in progress at the end of the reporting period			61
<b>Final Reports</b>			
Final Reports in tracking at the beginning of the reporting period			12
Final Reports issued during the reporting period			12
Final Reports closed during the reporting period			1
Total Final Reports in tracking at the end of the reporting period			23
Final Report recommendations closed the reporting period			6
Final Report recommendations in tracking at the end of the reporting period			47
Code	Status of Final Reports in Tracking	No. of Final Reports	
D1	Mgmt dec < 1 year old	8	
D2	Mgmt dec > 1 year old	15	
D3	Mgmt dec under formal appeal	0	

## **Biennial Review of User 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 general taxpayer subsidy of specialized services or things of value (such as rights or privileges) provided directly to identifiable non-federal beneficiaries.

As part of the 2000 Management Control Program, Interior conducted a biennial review of its fee programs and concluded that user fees are being charged and collected where appropriate, use charge revenues had substantially increased, and that the fees being charged reflect current costs or market values in most instances. The next biennial review is scheduled for 2002.

## **Other Key Legal and Financial Regulatory Requirements**

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

On November 10, 1998, the Administration enacted the Federal Reports Elimination Act of 1998 (P.L. 105-362). This Act eliminated (1) the requirement to report Civil Monetary Penalties to the Department of the Treasury; and (2) the requirement to submit Prompt Payment Act compliance reports to OMB.

Interior continues to monitor its performance under the Prompt Payment Act and the Debt Collection Improvement Act. Performance results are provided in the Departmental Management section of this report.