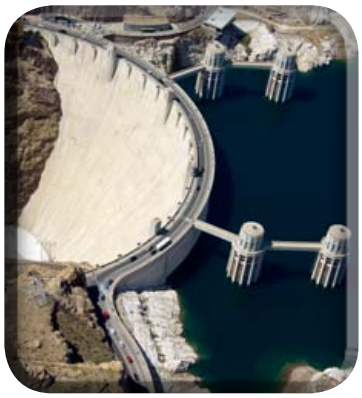
UNITED STATES DEPARTMENT OF THE INTERIOR

# Agency Financial Report FY 2012



**U.S. Department of the Interior**

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# U.S. DEPARTMENT OF THE INTERIOR

## FISCAL YEAR 2012

# AGENCY FINANCIAL REPORT

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# GLOSSARY OF ACRONYMS

| | |
|---|---|
| **AFR** | Agency Financial Report |
| **AGA** | Association of Government Accountants |
| **AGO** | America's Great Outdoors |
| **AML** | Abandoned Mine Land |
| **APP&R** | Annual Performance Plan and Report |
| **ARRA** | American Reinvestment and Recovery Act of 2009 |
| **ASG** | American Samoa Government |
| **AYP** | Adequate Yearly Progress |
| **BIA** | Bureau of Indian Affairs |
| **BIE** | Bureau of Indian Education |
| **BLM** | Bureau of Land Management |
| **BOEM** | Bureau of Ocean Energy Management |
| **BOEMRE** | Bureau of Ocean Energy Management, Regulation and Enforcement |
| **BOM** | Bureau of Mines |
| **BOR** | Bureau of Reclamation |
| **BPA** | Bonneville Power Administration |
| **BSEE** | Bureau of Safety and Environmental Enforcement |
| **CEAR** | Certificate of Excellence in Accountability Reporting |
| **CFO** | Chief Financial Officer |
| **CFP** | Climate Friendly Parks Initiative |
| **COTS** | Commercial Off-the-Shelf Software |
| **CIAP** | Coastal Impact Assistance Program |
| **CIP** | Construction in Progress |
| **CSC** | Climate Science Center |
| **CSRS** | Civil Service Retirement System |
| **DCIA** | Debt Collection Improvement Act |
| **DNP** | Do Not Pay |
| **DO** | Departmental Offices |
| **DOE** | Department of Energy |
| **DOI** | Department of the Interior |
| **DOL** | Department of Labor |
| **EFT** | Electronic Funds Transfer |
| **EIRF** | Environmental Improvement and Restoration Fund |
| **FASAB** | Federal Accounting Standards Advisory Board |
| **FBMS** | Financial and Business Management System |
| **FCRA** | Federal Credit Reform Act |
| **FECA** | Federal Employees Compensation Act |
| **FEGLI** | Federal Employees Group Life Insurance |
| **FERS** | Federal Employees Retirement System |
| **FFMIA** | Federal Financial Management Improvement Act |
| **FHWA** | Federal Highway Administration |
| **FISMA** | Federal Information Security Management Act of 2002 |
| **FLPMA** | Federal Land Policy and Management Act |
| **FMFIA** | Federal Managers' Financial Integrity Act |
| **FRR** | Facility Reliability Rating |
| **FWS** | U.S. Fish and Wildlife Service |
| **FY** | Fiscal Year |
| **GAAP** | Generally Accepted Accounting Principles |
| **GAO** | Government Accountability Office |
| **GDP** | Gross Domestic Product |
| **GMRA** | Government Management Reform Act |
| **GOADS** | Gulf-Wide Offshore Activities Data Systems |
| **GPA** | Guam Power Authority |
| **GPRA** | Government Performance and Results Act |
| **GSA** | General Services Administration |

| | |
|---|---|
| **HPF** | Historic Preservation Fund |
| **HVAC** | Heating, Ventilation and Air Conditioning |
| **IA** | Indian Affairs |
| **IIM** | Individual Indian Monies |
| **IPERA** | Improper Payments Elimination and Recovery Act |
| **IT** | Information Technology |
| **LCC** | Landscape Conservation Cooperative |
| **LCRBDF** | Lower Colorado River Basin Development Fund |
| **LWCF** | Land and Water Conservation Fund |
| **M&I** | Municipal and Industrial |
| **NBC** | National Business Center |
| **NNALEA** | National Native American Law Enforcement Association |
| **NPS** | National Park Service |
| **NWR** | National Wildlife Refuge |
| **OCIO** | Office of the Chief Information Officer |
| **OCS** | Outer Continental Shelf |
| **OIA** | Office of Insular Affairs |
| **OIG** | Office of Inspector General |
| **ONRR** | Office of Natural Resources Revenue |
| **OMB** | Office of Management and Budget |
| **OPA** | Office of the Public Auditor |
| **OPM** | Office of Personnel Management |
| **OS** | Office of the Secretary |
| **OSM** | Office of Surface Mining Reclamation and Enforcement |
| **OST** | Office of the Special Trustee for American Indians |
| **OTFI** | Office of Trust Fund Investments |
| **OWFC** | Office of Wildland Fire Coordination |
| **PDST** | Principal Deputy Special Trustee |
| **PFM** | Office of Financial Management |
| **PI/LSI** | Possessory Interest or Leasehold Surrender Interest |
| **PMO** | Project Management Office |
| **PPA** | Prompt Payment Act of 2002 |
| **PP&E** | Property, Plant, and Equipment |
| **ROW** | Rights of Way |
| **SAA** | Single Audit Act of 1996 |
| **SBR** | Statement of Budgetary Resources |
| **SFFAS** | Statement of Federal Financial Accounting Standard |
| **SFRBTF** | Sport Fish Restoration and Boating Trust Fund |
| **SNPLMF** | Southern Nevada Public Land Management Fund |
| **SOS** | Schedule of Spending |
| **UDO** | Undelivered Order |
| **USBR** | United States Bureau of Reclamation |
| **USFS** | U.S. Forest Service |
| **USGS** | U.S. Geological Survey |
| **USPP** | United States Park Police |
| **VTC** | Video TeleConference |
| **WAPA** | Western Area Power Administration |
| **WMD** | Wetland Management District |

I am pleased to submit the U.S. Department of the Interior's (DOI) Agency Financial Report (AFR) for Fiscal Year 2012. This report presents management, performance, and financial information that demonstrates our commitment to stewardship of America's resources, and transparent and accountable management of DOI's diverse portfolio of programs.

I am particularly proud to report DOI's 16th consecutive unqualified audit opinion with no financial material weaknesses; a reflection of our effective management, which is critically important to achieving our strategic goals and priority goals including:

- Providing natural and cultural resource protection and experiences, including America's Great Outdoors;
- Sustainably managing energy, water, and natural resources including promoting renewable energy, oil and gas program management reforms, and water conservation;
- Advancing government-to-government relationships with Indian Nations and honoring commitments to Alaska Natives and Insular Areas including expansion of programs to improve the safety of native communities;
- Providing a scientific foundation for decision making; and
- Building a 21st Century Department of the Interior.

The DOI's programs and activities support nearly 2.4 million American jobs and annually contribute about $385 billion to the nation's economic activity, according to a 2011 Departmental study.

***America's Great Outdoors*** – The FY 2012 has been a year of accomplishment relative to these goals. The America's Great Outdoors (AGO) initiative has provided the context for the conservation of our natural, cultural, and historic resources. Release of Secretarial Order 3323 on September 12, signified a major milestone. Projects are underway in all 50 States and the District of Columbia that preserve significant landscapes, create urban parks and wildlife areas to connect people to nature, and establish restoration, recreation and protection efforts for significant river and water bodies. In 2012, DOI created 2 parks, 4 refuges, and designated 2 national monuments.

The DOI has created an AGO initiative that strengthens partnerships with state, local, tribal, and non-governmental entities to preserve and protect natural and cultural heritage. The DOI has made significant efforts to improve the alignment and effectiveness of spending on conservation, accelerated collaboration with other agencies, and expanded partnerships with other Federal agencies and non-governmental entities through a transparent process to leverage Federal funds. In addition, efforts to expand visitor services, youth stewardship and travel and tourism all support increased employment. In 2012, DOI bureaus maintained youth employment at levels exceeding 21,000, 35 percent over the 2009 levels.

Through a new collaborative process for the prioritization of land acquisition in partnership with the U.S. Forest Service, DOI has improved the alignment of land acquisition funding presenting an integrated priority list for FY 2013. The effort guides funding decisions for landscape-scale conservation efforts by protecting important resources and working with willing sellers, leverage Federal and other resources to optimize

accomplishment of conservation goals, and support community level conservation partnership efforts. In 2012, DOI protected resources through the acquisition of fee title and easements on over 259,000 acres.

***Energy*** – In 2012, DOI continued to play a key role in the development of America's energy supplies, while implementing safety reforms and strengthening environmental protection and the integrity of Federal oil and gas management. By the end of FY 2012, DOI increased over the past three fiscal years access for the development of renewable energy resources for over 7800 megawatts of potential energy production and transmission, enough to power over 2.5 million homes. With the approval in October, 2012, of the Chokecherry/Sierra Madre Wind development site in Wyoming, DOI met the President's State of the Union goal of approving access to a potential 10,000 megawatts of renewable energy capacity by the end of 2012. DOI undertook additional actions in 2012 to address the Government Accountability Office's categorization of oil and gas programs as a high risk area, creating a priority performance goal and establishing performance targets for inspection of high risk lease operations onshore and developing a strategic plan for offshore operations and inspections that guides the timing of completing reforms and corrective actions. In 2012, DOI took steps to encourage exploration, development, and production by tying lease extensions to industry diligence in pursuing exploration and development, conducting a review of fair return from development of oil and gas resources, and implementing improvements that will increase assurance that government is collecting its share of revenue from oil and gas produced on Federal lands. In preparation for implementation of the Federal Accounting Standards Advisory Board's Pronouncement 38, Accounting for Federal Oil and Gas Resources, DOI has developed draft revenue projections from oil and gas royalties for the next 30 years which are being vetted internally.

***Indian Community Safety*** – In 2012, DOI was able to report success in reducing crime in four Indian communities beset by high crime rates as a result of an intensified program of community policing conducted in partnership with tribal leaders and law enforcement personnel. Crime rates were reduced by 55 percent in total for the communities of: Rocky Boy (Montana), Mescalero (New Mexico), Wind River (Wyoming), and Standing Rock (North and South Dakota). In 2012, DOI initiated similar efforts in two additional communities whose law enforcement programs are operated by tribes under the Self-Determination Act. Progress is being made in one of these communities consistent with experience in the original four communities. One community is experiencing challenges due largely to outside the control of DOI factors, such as transitions in tribal leadership.

***Water Conservation*** – The DOI's efforts to conserve water are expansive and on track to increase the capacity of available water supply for agricultural, municipal, industrial, and environmental uses in the Western United States programs to 730,000 acre-feet by September 30, 2013, through water conservation. This goal tracks the Bureau of Reclamation's efforts working with non-Federal, state and local governments, water districts, other entities, and individuals to identify practices and select projects that will gain water conservation capacity in Western States.

***Science*** – The DOI possesses world class science resources in the U.S. Geological Survey (USGS). The USGS has doubled its ability to assess, understand, and forecast the impacts of climate change on ecosystems, natural resources, and communities based on a key indicator. The USGS is also excelling at delivering science-based products to communities and tribes to better understand the threats, necessary preparedness, and means for avoidance of natural hazards to include earthquakes and volcanoes.

***21st Century Department of the Interior*** – The DOI continues to pursue high standards with investments to strengthen ethics programs, increase transparency in the conduct of business, ensure strong scientific support for decision-making, and improve openness and collaboration with the public. The DOI actions in 2012 demonstrate a commitment to good government and the President's Campaign to Cut Waste. This includes implementing the Administration's Accountable Government Initiative, saving close to $127 million in targeted administrative costs saving in 2012, relative to 2010, in areas such as supplies, travel,

and advisory services. Through efforts to improve acquisition improvement in 2012, DOI reduced high risk contracting, expanded the use of reverse auctions to 70 percent of certain commodities and thereby increased competition and increased contract awards to small businesses. The DOI's efforts to improve asset management, reduce real property costs, and manage leased space costs have resulted in savings of $160 million.

Finally, we continue to transform the delivery of information technology services to a more consolidated and customer oriented model that improves accountability and transparency and achieves savings. In the first phase of information technology transformation, DOI will implement unified messaging by December 31, 2012. The DOI is implementing an integrated approach to manage its information technology investments using unified roadmaps for business segments. The Financial and Business Management System (FBMS) addresses the goals for improved business processes, while allowing access to enterprise information, improved security and transparency in reporting. Deployment of the National Park Service and Bureau of Indian Affairs to FBMS is expected to be complete by November 2012 and the last bureau deployment is scheduled for November 2013. The FBMS will transition to cloud hosting by December 31, 2014.

## Management Challenges

While we reflect on our progress in 2012, we also need to review our challenges. Management has worked closely and collaboratively with the Office of Inspector General (OIG) to gain perspective and identified the most significant management and performance challenges. These are presented in the *Inspector General's Statement Summarizing the Major Management and Performance Challenges Facing the U.S. Department of the Interior*, included in Section 3 of this AFR. The OIG's review addresses the challenges we face in energy management, climate change, water programs, responsibility to Indians and Insular Areas, Cobell and Indian land consolidation, and operational efficiencies. The DOI provided input to the OIG through audit responses, corrective action plans, and completion of recommended program and policy changes about its plans to address these challenges. The DOI's leadership provides ongoing direction on these and other management issues in regular management reviews, quarterly reviews of performance including priority goals, monthly Principles Operations Group meetings and Deputies Operations Group meetings.

## Annual Financial Report

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

The AFR presents the audited financial statements, results of the annual assessment of program leadership, and stewardship of the resources and public funds entrusted to DOI. It also provides a comprehensive snapshot of the most important financial information related to the programs we manage. This report includes a brief preview of performance information; the Annual Performance Report to be issued at a later date will provide a more comprehensive account of performance. The DOI has selected to present this information in the AFR and issue an Annual Performance Report in February, 2013 in accordance with the Government Performance and Results Act (GPRA) Modernization Act of 2010, rather than a Performance and Accountability Report.

I am proud of this report and of the progress we are making at DOI. In particular, we recognize the efforts of our 70,000 employees that carry out the work of this Department. On a daily basis, these individuals demonstrate their dedication to fulfilling the trust of the American People, improving our stewardship of

the Nation's resources, upholding our responsibilities to Native Americans, assisting Insular Areas, and strengthening our delivery of programs and services.

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

**Ken Salazar**
Secretary of the Interior
November 15, 2012

## ABOUT THIS REPORT

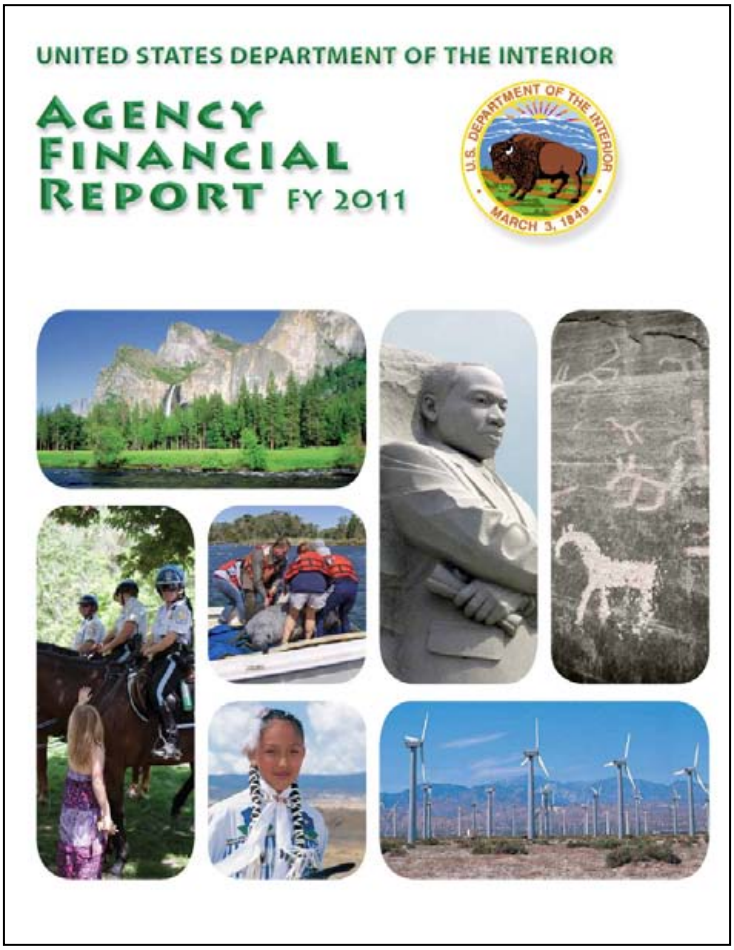
The U.S. Department of the Interior's (DOI) Agency Financial Report (AFR) for Fiscal Year (FY) 2012 provides performance and financial information that enables Congress, the President, and the public to assess the performance of Interior relative to its mission and stewardship of the resources entrusted to it. This AFR satisfies the reporting requirements of the following:

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

The DOI chooses to produce the AFR rather than the alternative Performance and Accountability Report. The annual performance report with detailed performance information that meets the requirements of the GPRA Modernization Act of 2010, will be provided within the FY 2013-2014 Annual Performance Plan and FY 2012 Report (APP&R) to be transmitted with the Congressional Budget Justification in February 2013. A Summary of Performance and Financial Information (SPFI) is also produced. It is a citizens' report that summarizes this information in a brief, user friendly format. The AFR may be viewed online at ***www.doi.gov/pfm/afr/index.cfm***, on Facebook at ***www.facebook.com/USInterior/posts/307849589328447***, or by scanning the below QR code with your mobile device:

## CERTIFICATE OF EXCELLENCE IN ACCOUNTABILITY REPORTING

We are pleased to present our FY 2011 Certificate of Excellence in Accountability Reporting (CEAR)© award. This is the twelfth year DOI has received this award. The Association of Government Accountants (AGA) CEAR Program has been helping Federal agencies produce high-quality Performance and Accountability Reports since 1997. The program was established in conjunction with the Chief Financial Officers Council and the U.S. Office of Management and Budget to improve financial and program accountability by streamlining reporting and improving the effectiveness of such reports. In FY 2011, DOI was also one of twelve agencies to be awarded a "Best in Class" award, for the Best Description of Financial Management Systems Strategy and Status. We are honored to receive these prestigious awards and believe they demonstrate commitment to excellence in financial reporting and providing a comprehensive understanding of Interior's fiscal and programmatic accomplishments.



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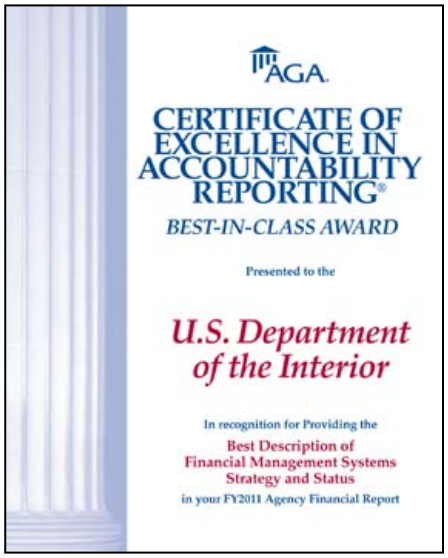
In recognition of your outstanding efforts in preparing the Agency Financial Report and Summary of Performance and Financial Information for the fiscal year ended September 30, 2011.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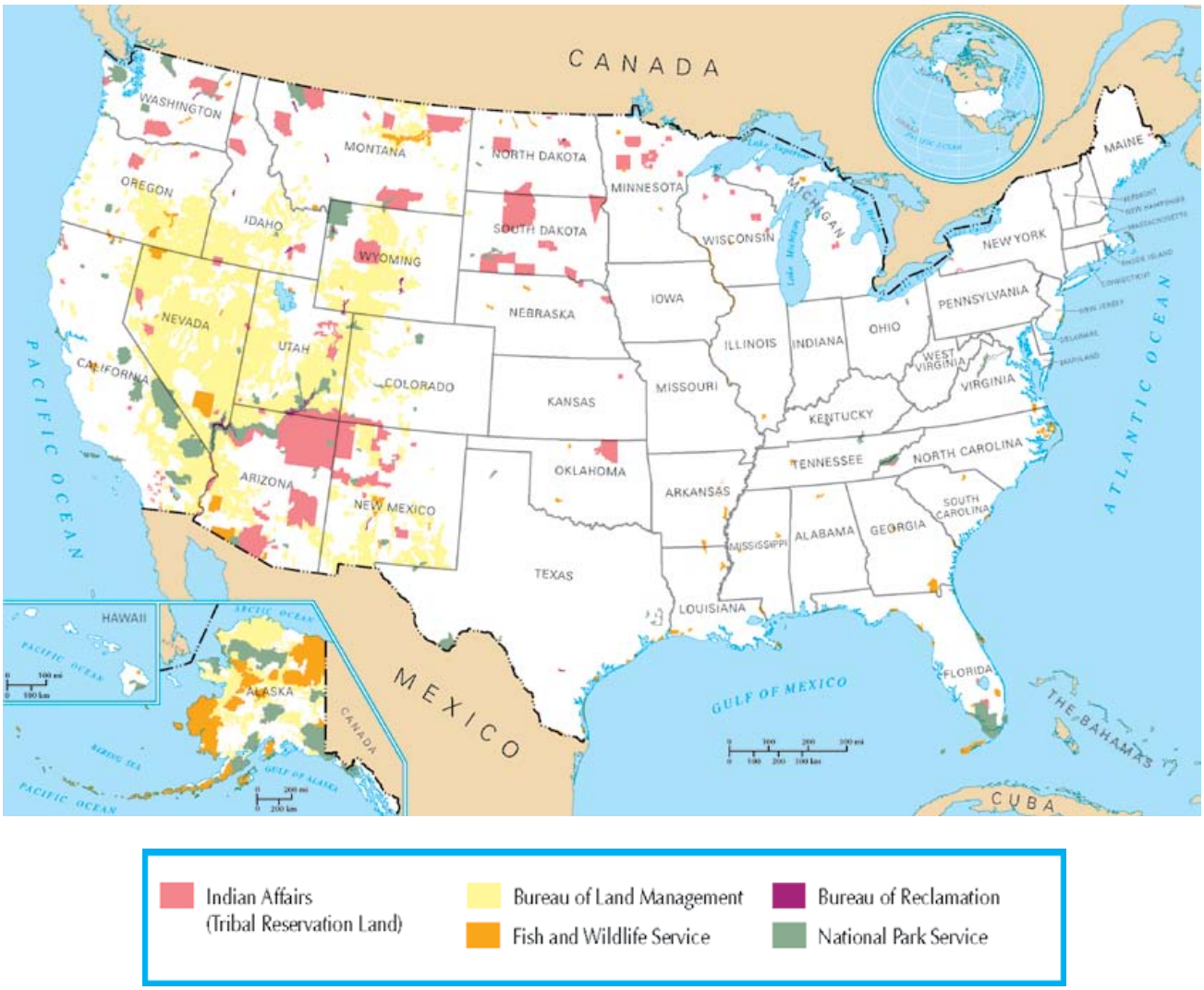
**Surface Lands Managed by The Department of the Interior**




## Mission

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

## History

Established in 1849, The DOI is the Nation's principal Federal conservation agency. The DOI manages many of the Nation's special natural, cultural, and historic places, conserves lands and waters, protects cultural legacies, and keeps the Nation's history alive. The DOI manages parks, refuges, the National Landscape Conservation System, and other public lands and recreation areas for public enjoyment; provides access to many of the Nation's natural resources; increases scientific knowledge; and fulfills America's trust and other responsibilities to native peoples. Through the Bureau of Reclamation, the DOI provides hydropower to the Western States and delivers water to over 31 million citizens through management of 476 dams and 348 reservoirs.

A Department for Domestic Concern was considered by the First United States Congress in 1789, but those duties were initially placed in the Department of State. The proposal continued to percolate for a half-century. The Mexican-American War (1846–1848) gave the proposal new energy as the responsibilities of the Federal Government grew. President Polk's Secretary of the Treasury, Robert J. Walker, became a vocal champion for creating a new department.

In 1848, Walker stated in his annual report that several Federal offices were placed in departments with which they had little in common: the General Land Office in the Department of the Treasury; the Indian Affairs Office residing in the Department of War; and the Patent Office in the State Department. He proposed that all should be brought together in a new Department of the Interior. A bill authorizing The DOI's creation passed the House of Representatives on February 15, 1849, and was adopted by the Senate in just over two weeks. The Department was established on March 3, 1849, the eve of President Zachary Taylor's inauguration, when the Senate voted 31 to 25 to create the Department.

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

## Defining the DOI's Goals

The DOI Strategic Plan for FY 2011–2016 provides the framework for activities that are performed by ten bureaus along with departmental offices that take place at over 2,400 locations throughout the Nation. The Strategic Plan guides our activities and gauges performance based on a set of mission goals.

The Strategic Plan facilitates the integration of programs, the allocation and alignment of resources to achieve key goals, and collaboration and coordination with stakeholders. A set of five mission goals, strategies, and measures will guide the DOI's activities for the next five years. The performance measures gauge progress and enable the President, Congress, and the public to assess the Department's performance. The Plan was developed over the course of 18 months including extensive consultation to incorporate lessons learned and reflect a more integrated, simpler, and focused presentation. The Department incorporated expanded consultation with Indian tribes. In keeping with the President's Executive Order 13175, a series of nine consultation sessions were held across the Nation and the comment period was extended several times to accommodate input.

Five mission areas provide the framework for the DOI's overarching stewardship responsibilities and define long-term areas of focus including six priority goals. The Plan identifies performance measures for each strategy that relate the contributions of programs to the goals for the mission areas. Six priority goals define areas of notable reform set forth by the Secretary with a particular emphasis on achieving results in the near-term, including renewable energy, sustainable water management and conservation, climate change adaptation, youth stewardship of natural resources, efforts to improve the safety of Indian communities and improved management of oil and gas resources.

The Statement of Net Cost includes five major program segments, and Reimbursable and Other. The segments consist of the DOI's five mission areas: (1) Provide Natural and Cultural Resource Protection; (2) Manage Energy, Water, and Natural Resources; (3) Advance Government-to-Government Relationships; (4) Provide a Scientific Foundation for Decision Making; and (5) Building a 21st Century Department of the Interior.

# THE DEPARTMENT OF THE INTERIOR'S MISSION AREAS

## PROVIDE NATURAL AND CULTURAL RESOURCE PROTECTION AND EXPERIENCES

***Since its inception in 1849, the DOI's resource protection and recreation management responsibilities have grown dramatically: lands have been added to the stewardship inventory, the complexity of managing lands has increased, and the number of people visiting recreational areas has grown. The DOI is committed to stewardship of the Nation's natural and cultural resources – America's Great Outdoors.***

- Protect America's Landscapes
- Protect America's Cultural and Heritage Resources
- Provide Recreation and Visitor Experience
- Manage the Impacts of Wildland Fire

## SUSTAINABLY MANAGE ENERGY, WATER, AND NATURAL RESOURCES

***The DOI manages and provides access to energy and other resources including oil, gas, coal, water, timber, grazing, and non-energy minerals on public lands and the Outer Continental Shelf. The DOI is committed to renewable energy development and the protection of people, wildlife, and the environment.***

- Secure America's Energy Resources
- Manage Water for the 21st Century
- Sustainably Manage Timber, Forage, and Non-energy Minerals

## ADVANCE GOVERNMENT-TO-GOVERNMENT RELATIONSHIPS WITH INDIAN NATIONS AND HONOR COMMITMENTS TO INSULAR AREAS

***The DOI has a solemn responsibility to uphold the Federal Government's unique government-to-government relationship with Federally recognized American Indian tribes and Alaska Natives. This mission is accomplished through coordinated efforts between the DOI's bureaus and offices, other Federal agencies, and relationships with tribes. The DOI also carries out the Secretary's responsibilities for U.S. affiliated insular areas.***

- Meet our Trust, Treaty, and Other Responsibilities to American Indians and Alaska Natives
- Empower Insular Communities

## PROVIDE A SCIENTIFIC FOUNDATION FOR DECISION MAKING

***Science is a key component of the DOI mission. The U.S. Geological Survey serves as the DOI's primary science organization, and each bureau also conducts mission-specific research to support its programs. Science is an essential, cross-cutting element that assists bureaus in land and resource management and regulation and reaches beyond the boundaries of the DOI lands and the United States. Research reports, publications, monitoring information, and other products are available worldwide to provide credible, applicable, unbiased information to inform decision making related to ecosystems, climate change, land use change, energy and mineral assessments, environmental health, natural hazards, and water resources.***

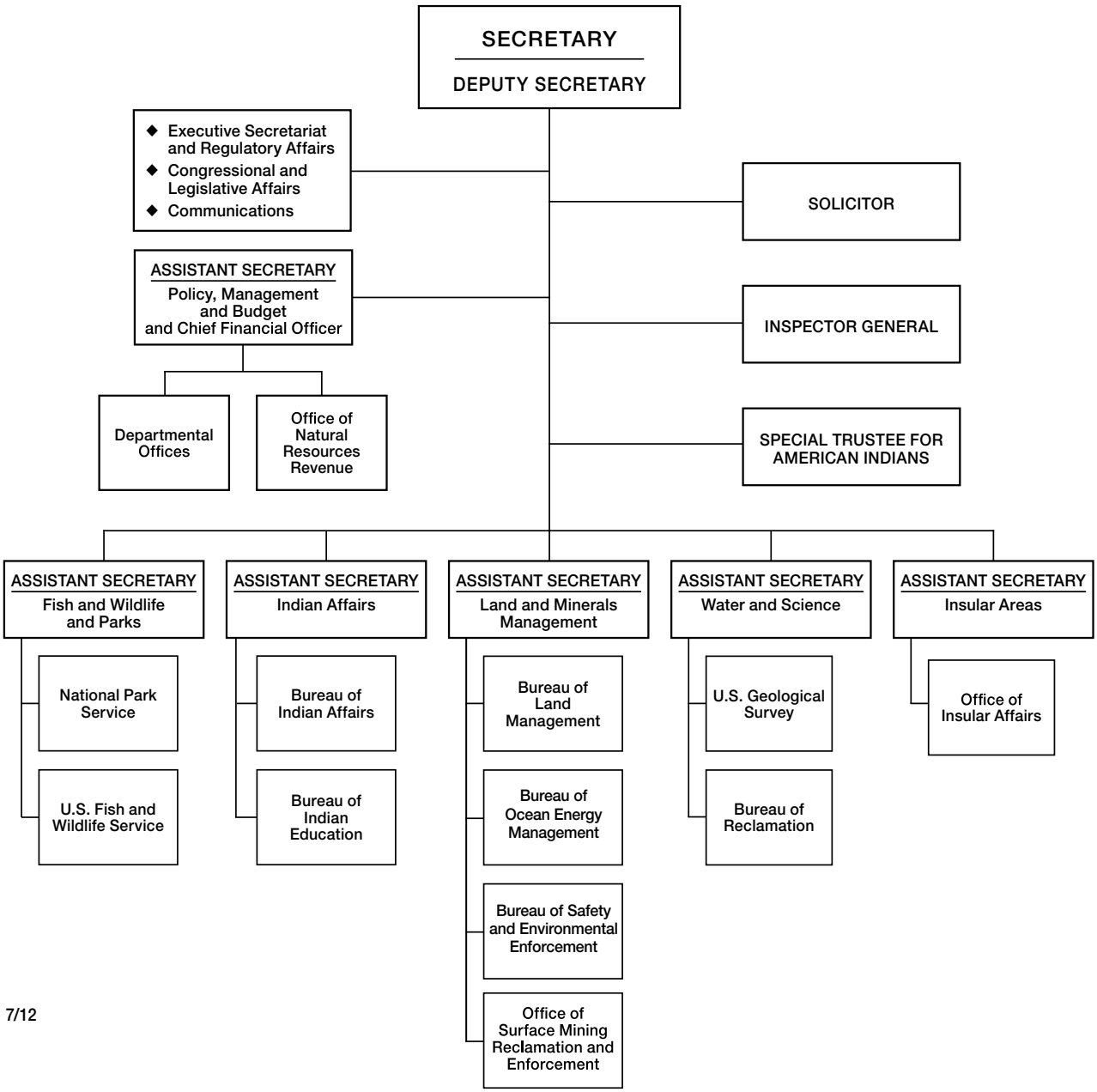
- Ensure the Quality & Relevance of Science Products to Partners & Customers
- Provide Science for Sustainable Resource Use, Protection, and Adaptive Management
- Provide Scientific Data to Protect and Inform Communities
- Develop a Comprehensive Science Framework for Understanding the Earth

## BUILDING A 21ST CENTURY DEPARTMENT OF THE INTERIOR

***The DOI's vision for a 21st Century Interior includes a highly skilled workforce that reflects the diversity of the Nation, optimization of youth engagement throughout the DOI's programs, sustainable operations, and effective and efficient management. Attainment of the DOI's strategic goals will be facilitated by the cross-cutting efforts that are highlighted here. Success in these areas will be assessed on outcomes in youth stewardship and engagement, building a 21st Century workforce, sustainability, information technology, and acquisition and real property management.***

- Sustainability of Interior's Operations
- Dependability and Efficiency of Information Technology
- Building a 21st Century Workforce
- Youth Stewardship and Engagement
- Improving Acquisition and Real Property Management

# U.S. Department of the Interior



## Bureau and Office Summary

Each DOI bureau or office has discrete responsibilities that are derived from their legislative authorities.

### Bureau of Land Management (BLM)

- Manages and conserves resources for multiple use and sustained yield on approximately 245 million acres of public land, including the following:
  - Renewable and conventional energy and mineral development;
  - Forestry management, timber and biomass production;
  - Wild Horse and Burro management;
  - Domestic livestock grazing; and
  - Recreation and resource protection at sites of natural, scenic, scientific, and historical value including the National Landscape Conservation System.

### Bureau of Ocean Energy Management (BOEM)

- Manages access to renewable and conventional energy and mineral resources of the Outer Continental Shelf (OCS).
- Administers over 6,700 active fluid mineral leases on approximately 36 million OCS acres.
- Shares responsibility for oversight of 10 percent of the natural gas and 30 percent of the oil produced domestically.
- Conducts and oversees applied science and environmental assessment for all phases of OCS program activities to inform decisions for environmentally responsible energy activities

### Bureau of Safety and Environmental Enforcement (BSEE)

- Promotes and enforces safety in offshore energy exploration and production operations and assures that potential negative environmental and other impacts on marine ecosystems and coastal communities are appropriately considered .

### Office of Surface Mining Reclamation and Enforcement (OSM)

- Protects the environment during coal mining through Federal programs, grants to states and tribes, and oversight activities.
- Ensures the land is reclaimed afterwards.
- Mitigates the effects of past mining by pursuing reclamation of abandoned coal mine lands.

### U.S. Geological Survey (USGS)

- Conducts reliable scientific research in ecosystems, climate and land use change, mineral assessments, environmental health, and water resources to inform effective decision making and planning.
- Produces information to increase understanding of natural hazards such as earthquakes, volcanoes, and landslides.
- Conducts research on oil, gas, and alternative energy potential, production, consumption, and environmental effects.
- Leads the effort on climate change science research for the DOI.
- Provides ready access to natural science information that supports smart decisions about how to respond to natural risks and manage natural resources.

### Bureau of Reclamation (BOR)

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

### U.S. Fish and Wildlife Service (FWS)

- Manages the 150 million-acre National Wildlife Refuge System primarily for the benefit of fish and wildlife.
- Manages 72 fish hatcheries and other related facilities for endangered species recovery and to restore native fisheries populations.
- Protects and conserves:
  - Migratory birds;
  - Threatened and endangered species
  - Certain marine mammals.
- Hosts about 47 million visitors annually at 560 refuges located in all 50 states and 38 wetland management districts.

### National Park Service (NPS)

- Manages and maintains a network of 397 natural, cultural, and recreational sites for the benefit and enjoyment of the American people.
- Manages and protects over 26,000 historic structures, nearly 44 million acres of designated wilderness, and a wide range of museum collections and cultural and natural landscapes.
- Hosted over 279 million National Park system visits.
- Provides technical assistance and support to state and local natural and cultural resource sites and programs, and fulfills responsibilities under the National Historic Preservation Act.

### Indian Affairs (IA)

- Fulfills Indian trust responsibilities.
- Promotes self-determination on behalf of 566 Federally recognized Indian tribes.
- Funds compacts and contracts to support education, law enforcement, and social services programs that are delivered by tribes.
- Operates 183 elementary and secondary schools and dormitories, providing educational services to 42,000 students in 23 states.
- Supports 30 tribal-controlled community colleges, universities, and post-secondary schools.

  *Note: IA includes the Bureau of Indian Affairs and the Bureau of Indian Education.*

### Departmental Offices (DO)

- Policy, Management, and Budget provides leadership and support for the following:
  - Budget, Finance, Performance and Acquisition;
  - Law Enforcement, Security and Emergency Management;
  - Natural Resources Revenue Management;
  - Human Capital and Diversity;
  - Technology, Information and Business Services;
  - Youth, Partnerships and Service;
  - Policy Analysis;
  - International Affairs;
  - Natural Resource Damage Assessment; and
  - Wildland Fire Management.
- Office of Inspector General
- Office of the Solicitor
- Office of the Special Trustee for American Indians
- Assistant Secretary for Insular Affairs and the Office of Insular Affairs
- Central Utah Project Completion Act

The DOI's performance is tracked based on the integrated FY 2011-2016 Strategic Plan, which defines the goals, strategies, and performance measures under the following mission areas:

- Provide natural and cultural resource protection and experiences;
- Sustainably manage energy, water, and natural resources;
- Advance government-to-government relationships with Indian Nations and honor commitments to Insular Areas;
- Provide a scientific foundation for decision making; and
- Building a 21st Century Department of the Interior.

For the purposes of the Agency Financial Report (AFR), performance results are reported for key indicators, which can be used to gauge trends in performance. A summary of FY 2012 performance follows for each mission area using performance trend information that was reported in the FY 2012/2013 Annual Performance Plan and 2011 Report (APP&R) published in February 2012. Notable changes in FY 2012 that would affect these trends are identified. All results are considered estimates while data verification efforts and analyses of results continue. A more in-depth assessment of performance will be presented in the Department's FY 2013/2014 Annual Performance Plan and Report, which will be posted in February, 2013, to the Department's Budget and Performance Portal at ***www.doi.gov/bpp/index.cfm.***

## MISSION AREA ONE: PROVIDE NATURAL AND CULTURAL RESOURCE PROTECTION AND EXPERIENCES

*The DOI has identified four goals that contain strategies and measures to track performance.*

### *Goal #1: Protect America's landscapes*

This goal has two main purposes — to protect lands and waters and to safeguard the wildlife and plants that are its inhabitants. DOI's progress in ensuring the quality of natural resources, which includes uplands, wetlands, streams, and shorelines, is characterized by the key performance indicator of how much of these natural assets are determined to be in "desired condition," as defined in locally established management plans. Natural resource success is dependent upon a number of factors, some of which are not under the direct control of the DOI including the original condition of the asset, the amount of resources that can be applied, the cooperation of nature in supporting the performed treatments, and the time for treatments to take root and adequately mature. As can be seen in the following table, progress has been increasing over the past few years for acres in desired condition, but is not expected to keep up the pace with additional acreage being assessed in FY 2012.

Percent of DOI acres that have achieved desired conditions where condition is known and as specified in management plans.

| Bureau | 2008 Actual | 2009 Actual | 2010 Actual | 2011 Actual | 2012 Target | 2012 Estimated Result |
|---|---|---|---|---|---|---|
| **BLM, FWS, NPS** | 68% | 69% | 74% | 84% | 77% | 75% |
| Acres in desired condition | 260,199,936 | 263,419,255 | 315,877,213 | 318,874,261 | 332,561,482 | 323,193,959 |
| Total Acres Assessed | 385,005,230 | 383,166,319 | 426,431,820 | 380,879,726 | 432,178,434 | 432,178,434 |

Fish, wildlife, and plant species are also under the DOI's protection. Progress is characterized using key indicators of the sustainability of the species. Affecting the success requires longer timeframes to achieve results and often shows little change from year to year. These are challenging efforts affected by natural and human induced pressures, including the loss of habitat, and treatments take several years to take effect, assuming the solution can be implemented (i.e., lost habitat cannot necessarily be regained; years of degradation cannot be readily reversed), and the factors making the situation worse do not escalate faster than treatment can be offered. The pursuit of these goals will be assisted by the application of adaptive management strategies initiated as part of the DOI's Priority Performance Goal on Climate Change Adaptation (see Table 4, page 24). These strategies will be further enhanced by science and collaborative knowledge facilitated by the activities of Climate Science Centers (CSC's) and Landscape Conservation Cooperatives (LCC's), which have now all been established.

Percent of migratory bird species that are at healthy and sustainable levels.

| Bureau | 2008 Actual | 2009 Actual | 2010 Actual | 2011 Actual | 2012 Target | 2012 Estimated Result |
|---|---|---|---|---|---|---|
| **FWS** | 62% | 62% | 72% | 72% | 72% | 72% |
| **Healthy and sustainable bird species** | 568 | 568 | 725 | 726 | 726 | 726 |
| **Total species** | 912 | 912 | 1,007 | 1,007 | 1,007 | 1,007 |

In the table above, the sustainability of migratory bird species is estimated to be level in 2010 through 2012 based on a continuous level of resources and work. This is an increased level of performance over 2008-2009. This measure is employed as a key indicator based on the ability of the environment to support species, which is assisted by the efforts of the FWS and conservation programs in other agencies and public recognition of the importance of conservation of birds. Birds are an indicator of environmental health. The measure is updated every five years consistent with trends in bird populations.

### *Goal #2: Protect America's cultural and heritage resources*

The condition of our historic structures is the key indicator used for determining the success in maintaining our heritage assets. Our goal is to maintain historic structures and the collections of assets they house in good condition. These museum collections are invaluable as they provide insight into our past so we better understand and appreciate where we have come from as a Nation and as a society.

Percent of historic structures in DOI inventory in good condition.

| Bureau | 2008 Actual | 2009 Actual | 2010 Actual | 2011 Actual | 2012 Target | 2012 Estimated Result |
|---|---|---|---|---|---|---|
| **BIA, BLM, FWS, NPS** | 52% | 53% | 52% | 54% | 55% | 56% |
| Structures in good condition | 15,871 | 16,390 | 16,571 | 16,006 | 16,007 | 16,316 |
| Total structures | 30,586 | 30,948 | 31,690 | 29,529 | 29,282 | 29,016 |

This key indicator of historic structures in good condition, displayed in the table above, has slightly increased as damaged/aged structures require more attention than can be provided given the demands of annual upkeep on the maintenance capacity of DOI's bureaus. To ensure appropriate attention to significant historic structures, a more refined approach is being used in 2011 and 2012 to identify historic structures on which to focus attention. Disposal activities and efforts to focus on priority assets have resulted in a decrease in the number of structures.

### *Goal #3: Provide recreation and visitor experience*

The DOI's visitor programs strive to meet high standards for recreation, education, and awareness of the natural world, historic events, and cultural resources. Visitors to parks, refuges and the BLM lands can experience unique sites, events, and recreation that cannot be met through other venues. The key performance indicator used for this goal is visitor satisfaction, which is measured through surveys. Despite the challenges of resource constraints such as increased visitation and use, performance has remained steady. There are challenges to maintaining investments to keep up with the rising costs of operations, maintenance, and the restoration of aging facilities, with little change anticipated in the future, as is seen in the following table.

| Percent of visitors satisfied with the quality of their experience. | | | | | | |
|---|---|---|---|---|---|---|
| **Bureau** | **2008 Actual** | **2009 Actual** | **2010 Actual** | **2011 Actual** | **2012 Target** | **2012 Estimated Result** |
| **BLM, FWS, NPS** | 91% | 92% | 92% | 91% | 92% | 94% |

### *Goal #4: Manage the impacts of wildland fire*

The DOI and the U.S. Forest Service (USFS) share significant responsibilities and challenges in managing public lands, protecting communities from wildland fire, and treating lands to prevent the build-up of hazardous fuels. These aspects of land management are impacted by weather, drought, pest infestations and disease in vegetation, climate change, and impacts from urbanization. The key performance indicators are the DOI's efforts to reduce the chance for wildland fire, to control fires quickly after ignition, and to restore the condition of the land after a fire. In general, this can be a highly unpredictable area from one year to the next based on changing conditions. While there have been relatively less severe fire seasons over the past few years allowing for greater emphasis on rehabilitation of burned areas and preventative treatment of acres in the Wildland Urban Interface, the fire season in FY 2012 was very severe with results for reduced fire and fire control that could be very different than originally planned. Once assessed, these results will be provided in the updated performance report in February, 2013. The chart below reflects the reduced levels of acres treated for hazardous fuels, which was anticipated to decline in FY 2012 based on reduced funding.

| Percent of acres treated, which are moved toward the desired condition class | | | | | | |
|---|---|---|---|---|---|---|
| **Office** | **2008 Actual** | **2009 Actual** | **2010 Actual** | **2011 Actual** | **2012 Target** | **2012 Estimated Result** |
| **OWFC** | 83% | 85% | 75% | 71% | 80% | 67% |
| Acres moved toward desired condition class | 1,042,693 | 1,282,069 | 961,363 | 702,727 | 520,000 | 635,400 |
| Acres treated | 1,260,035 | 1,500,854 | 1,279,820 | 992,257 | 650,000 | 954,671 |

## MISSION AREA TWO: SUSTAINABLY MANAGE ENERGY, WATER, AND NATURAL RESOURCES

*This mission area reflects the DOI's collective efforts to effectively manage the access to, and ensure responsible use of, natural resources on onshore and offshore Federally-managed areas. There are three goals that address energy-producing resources, water resources, and land-related resources including grazing, non-energy minerals, and timber.*

### *Goal #1: Secure America's energy resources*

The DOI provides access to potential users who extract the resources responsibly from federally-managed areas for the benefit of the American public and the economy. The development of coal and oil and gas is essential to achieving this goal. The DOI has a key responsibility to ensure that these efforts are conducted in a responsible, safe, and environmentally sensitive manner. Following the Deepwater Horizon oil spill, reforms have been implemented to improve the Department's oversight of offshore oil and gas operations, BLM has instituted a criteria-driven approach to ensure inspection of highest priority oil and gas operations, and ONRR has addressed many recommendations made by GAO and the OIG to improve returns to the American public

The Nation's clean energy future relies on renewable energy resources from wind, solar, and geothermal. This endeavor is being tracked and reported through the Renewable Energy Development Priority Performance Goal (see Table 1, page 23).

Number of megawatts of approved generating capacity authorized on public land and the outer continental shelf (offshore) for renewable energy development while ensuring full environmental review.

| Bureau | 2008 Actual | 2009 Actual | 2010 Actual | 2011 Actual | 2012 Target | 2012 Estimated Result |
|---|---|---|---|---|---|---|
| **BLM & BOEM** | 1,398 | 1,526 | 1,610 | 7,551 | 11,998 | 9,389 |

As displayed in the table above, the DOI significantly increased access to Federal lands for renewable energy over prior years (nearly five-fold). Even though overall performance is higher, annual performance has been below the targets. The targets are quite ambitious, due to the complex issues and challenges that were discovered to be associated with the formulation of renewable energy projects. These challenges included resetting project sites around sensitive avian and wildlife species, addressing tribal concerns, and delays due to the sponsor's ability to finance a project and establish a power purchase agreement with an electric utility company. The lessons learned are helping to continue progress toward the development of capabilities that could power over 2 million homes from these emerging sources of energy.

### *Goal #2: Manage water for the 21st century*

The DOI has a significant role in managing water resources in the western United States. These efforts involve providing capability for the collection, storage, and distribution of water resources. The distribution of water is highly dependent upon the condition of facilities that manage and distribute the water, which is why the key performance indicator is based on the percentage of these facilities considered to have a "good" Facility Reliability Rating (FRR).

Percent of water infrastructure in good condition as measured by the Facility Reliability Rating.

| Bureau | 2008 Actual | 2009 Actual | 2010 Actual | 2011 Actual | 2012 Target | 2012 Estimated Result |
|---|---|---|---|---|---|---|
| **BOR** | 99% | 98% | 98% | 72% | 62% | 72% |

As displayed in the table, from FY 2008-2010 this measure included facilities in fair to good condition. During the Strategic Plan update of FY 2011-2016, the measure was strengthened and for 2011-2012 includes only facilities in good condition, resulting in a drop in percent of facilities reported. This refined approach will help add emphasis to improving a broader range of facilities that could benefit from the attention. Performance for this key indicator is challenging as infrastructure ages and the cost of workforce and materials continue to increase.

Water conservation is an important component of the DOI's water management responsibility as it will contribute to increasing the "effective" water supply. Water conservation is tracked through a Priority Performance Goal (see Table 2, page 23).

### *Goal #3: Sustainably manage timber, forage, and non-energy minerals*

The key performance measures for granting non-energy mineral leases, and access for grazing and timber are generally showing level or decreasing trends in permits approved due to the significant number of legal challenges and increased assessments to be conducted. As approval of these permits becomes more complicated, there is an increase in processing workload and costs that impacts the overall level of performance. Performance of the timber program is displayed in the following table as the key indicator that is representative of this type of effort. Performance has decreased as the number of legal challenges has increased, as seen particularly in FY 2009, and FY 2011. Fewer legal challenges in FY 2012 are reflected in higher estimated results for FY 2012.

Percent of allowable sale quantity timber offered for sale consistent with applicable resource management plans.

| Bureau | 2008 Actual | 2009 Actual | 2010 Actual | 2011 Actual | 2012 Target | 2012 Estimated Result |
|---|---|---|---|---|---|---|
| **BLM** | 86% | 31% | 86% | 70% | 69% | 85% |
| Offered for sale (mmbf*) | 174 | 155 | 174 | 143 | 140 | 172 |
| Total allowable timber (mmbf*) | 203 | 502 | 203 | 203 | 203 | 203 |

* million board feet of timber

## MISSION AREA THREE: ADVANCE GOVERNMENT-TO-GOVERNMENT RELATIONSHIPS WITH INDIAN NATIONS AND HONOR COMMITMENTS TO INSULAR AREAS

*The two goals in this mission area are to restore the integrity of nation-to-nation relationships with tribes and fulfill the United States' trust responsibilities, and to empower Insular communities for an improved quality of life, increased economic opportunity, and effective governance.*

### *Goal #1: Meet our trust, treaty, and other responsibilities to American Indians and Alaskan Natives*

In tracking the performance of this goal, the key indicators are in the areas of Indian education and the level of violent crimes in Indian communities, considered to be significant factors affecting the quality of life in tribal communities. Increased performance in education is challenged but progress is being made. The BIE has had to face increasingly higher standards set by the Government-wide Adequate Yearly Progress (AYP) program each year, and variation in the application of state standards which have resulted in a reduced level of achievement.

| Percent of Bureau of Indian Education schools achieving Adequate Yearly Progress (AYP) or comparable measure. | | | | | | |
|---|---|---|---|---|---|---|
| **Bureau** | **2008 Actual** | **2009 Actual** | **2010 Actual** | **2011 Actual** | **2012 Target** | **2012 Estimated Result** |
| **BIE** | 32% | 24% | 32% | 29% | 30% | 31% |
| Schools achieving AYP | 54 | 42 | 56 | 50 | 52 | 53 |
| Total BIE schools | 170 | 173 | 173 | 173 | 173 | 173 |

A new strategy with promising results is being piloted to address violent crime in select Indian communities. In 2012, the BIA partnered with six select tribes to increase community policing. In 2010-2011, the BIA partnered with four communities and demonstrated results with innovative community policing strategies. With the strategic deployment of increased officers, training and equipment, the BIA has been able to demonstrate reduced crime as shown in *Table 3, page 24.* Across the initial four targeted communities, violent crime was reduced in 2010 by 11 percent and in 2011 by 35 percent. This is one of the DOI's Priority Performance Goals. While this strategy has been successfully demonstrated in the targeted communities, crime has increased in other Indian communities due to worsening economic factors and increased reporting of crime incidents as shown in the following table. Lessons learned from the initial four communities have been documented and distributed to other communities' law enforcement units.

| Violent (Part 1) crime incidents per 100,000 Indian Country inhabitants receiving law enforcement services. | | | | | | |
|---|---|---|---|---|---|---|
| **Bureau** | **2008 Actual** | **2009 Actual** | **2010 Actual** | **2011 Actual** | **2012 Target** | **2012 Estimated Result** |
| **BIA** | 463 | 479 | 413 | 454 | 454 | 450 |
| Number of crime incidents* | 5,698 | 6,002 | 5,178 | 5,694 | 5,689 | 5,639 |
| Total inhabitants (100,000) | 12.3 | 12.53 | 12.53 | 12.53 | 12.53 | 12.53 |

*per 100,000 inhabitants

### *Goal #2: Empower insular communities*

The DOI measures performance of Federal programs in island communities based on the degree to which Federal assistance helps improve the quality of life, the extent to which their financial statements on the use of Federal assistance are completed, and the ratio of private sector employment. Availability of clean water is a key indicator of quality of life and for this program performance is captured for violation notices for water systems as displayed in the following table.

| Percent of community water systems that receive health-based violation notices. | | | | | | |
|---|---|---|---|---|---|---|
| **Bureau** | **2008 Actual** | **2009 Actual** | **2010 Actual** | **2011 Actual** | **2012 Target** | **2012 Estimated Result** |
| **OIA** | 15% | 11% | 18% | 14% | 10% | 13% |

## MISSION AREA FOUR: PROVIDE A SCIENTIFIC FOUNDATION FOR DECISION MAKING

*Science is an essential, cross-cutting element that assists Interior bureaus and others in land and resource management and regulation. Research reports, publications, monitoring information, and other products are available worldwide to provide credible, applicable, unbiased information to inform decision making related to ecosystems, climate change, land use, energy and mineral availability, environmental health, natural hazards, and water resources.*

### *Goal #1: Ensure the quality and relevance of science products to partners and customers*

This goal is directed to providing effective scientific support, research, and knowledge that is used to inform management decisions and for managing natural resources. The key performance indicator reflected in the following table is characterized by a survey of customers who use this information. The level of satisfaction of these science products has decreased slightly, while there has been additional emphasis on developing newer capabilities in understanding adaptation to climate change and in the development of renewable resources, but is still above the expectation for at least 90 percent satisfaction.

Percent of partners or customers satisfied with scientific, technical, and data products.

| Bureau | 2008 Actual | 2009 Actual | 2010 Actual | 2011 Actual | 2012 Target | 2012 Estimated Result |
|---|---|---|---|---|---|---|
| **USGS** | 93% | 93% | 93% | 92% | 90% | 91% |

### *Goal #2: Provide science for sustainable resource use, protection, and adaptive management*

Assessing, understanding, and forecasting the impacts of climate change on our ecosystems, natural resources, and communities is the purpose of this goal that is tracked through a key indicator that measures the ability to forecast ecosystem change. As displayed in the following table, progress is advancing slowly, but steadily, as this is a relatively new area of focus.

Percent of targeted ecosystems with information products forecasting ecosystem change.

| Bureau | 2008 Actual | 2009 Actual | 2010 Actual | 2011 Actual | 2012 Target | 2012 Estimated Result |
|---|---|---|---|---|---|---|
| **USGS** | 11% | 11% | 22% | 22% | 33% | 33% |
| Ecosystems with information products | 1 | 1 | 2 | 2 | 3 | 3 |
| Ecosystems under study | 9 | 9 | 9 | 9 | 9 | 9 |

### *Goal #3: Provide scientific data to protect and inform communities*

Performance in this goal is represented primarily by the percentage of assessments for moderate to high hazard areas developed by the USGS to better understand the threats, necessary preparedness, and means for avoidance of natural hazards to include earthquakes and volcanoes. The trend in the following table shows an increase in assessments.

| Percent completion of earthquake and volcano hazard assessments for moderate to high hazard areas. | | | | | | |
|---|---|---|---|---|---|---|
| **Bureau** | **2008 Actual** | **2009 Actual** | **2010 Actual** | **2011 Actual** | **2012 Target** | **2012 Estimated Result** |
| **USGS** | 27% | 28% | 31% | 34% | 37% | 37% |

### *Goal #4: Develop a comprehensive science framework for understanding the Earth*

The DOI, through the USGS, leads the effort to provide knowledge of the Earth through an integrated data framework to guide science-based stewardship of natural resources. The DOI will generate geologic maps and models and use geospatial information to make decisions that will help to sustain resources and protect communities. The following table tracks the progress thus far, which is generally increasing.

| Percent of the U.S. that is covered by at least one geologic map and is available to the public through the National Geologic Map Database. | | | | | | |
|---|---|---|---|---|---|---|
| **Bureau** | **2008 Actual** | **2009 Actual** | **2010 Actual** | **2011 Actual** | **2012 Target** | **2012 Estimated Result** |
| **USGS** | 48% | 49% | 49% | 50% | 51% | 51% |
| Area (square miles) available in the National Geologic Database | 1,687,637 | 1,729,771 | 1,746,550 | 1,767,763 | 1,797,019 | 1,789,944 |
| Area (square miles) of the US to be mapped | 3,537,438 | 3,537,438 | 3,537,438 | 3,537,438 | 3,537,438 | 3,537,438 |

## MISSION AREA FIVE: BUILDING A 21ST CENTURY DEPARTMENT OF THE INTERIOR

*The goals in this mission area reflect the DOI's vision for a 21st century organization. There are five goals, which include developing a highly skilled all-inclusive workforce, increasing the engagement of individuals between the ages of 15-25 in the resource and cultural management mission of the DOI, sustainable operations (energy efficiency and reduced green house gas), and effective management optimizing the use of information technology and acquisition.*

### *Goal #1: Building a 21st Century workforce*

The DOI's Human Capital Program is developing and implementing critical workforce management reforms. The DOI benefits from a workforce that is passionate about the mission, dedicated to public service, and highly skilled and knowledgeable. The challenges lie in resource constraints, a diverse and geographically dispersed mission, a workforce approaching retirement, and the demands of technology and knowledge management. The DOI's vision for a highly skilled and engaged workforce that reflects the diversity of the Nation includes a new inclusivity strategy that values the unique qualities of individuals. Differences in background, thought,

| Average number of calendar days per hire where a Job Opportunity Announcement (JOA) was posted. | | | | | | |
|---|---|---|---|---|---|---|
| **Office** | **2008 Actual** | **2009 Actual** | **2010 Actual** | **2011 Actual** | **2012 Target** | **2012 Estimated Result** |
| **Human Resources** | New Measure | 190 | 125 | 101 | 91 | 55 |

education, and experience contribute to varied perspectives in the workplace and create a dynamism for higher performance and success in achieving mission goals. The performance of this goal, shown above, is typified by improvements in personnel processing to reduce the time it takes to bring employees on board. Reductions in time to hire are progressing toward the ultimate goal of 80 days to hire, but it does take time to realize such changes across such a large organization.

### *Goal #2: Youth stewardship and engagement*

The Office of Youth in the Great Outdoors worked collaboratively with bureaus to implement innovative program management reforms to expand and enhance quality conservation jobs and service opportunities for youth ages 15-25 to protect and restore America's natural and cultural resources. With a potential retirement rate of 40 percent in the next 4 to 6 years, the DOI has a tremendous opportunity to provide entry level positions for young Americans, returning veterans, and other under-served communities experiencing high unemployment rates. Youth stewardship is one of the DOI's Priority Performance Goals (see Table 5, page 25). Through increased collaboration and shared experiences among bureaus under the Priority Goal, performance has remained close to target despite limitations in funding.

| Percent increase in youth employment over 2009 baseline. | | | | | | |
|---|---|---|---|---|---|---|
| **Office** | **2008 Actual** | **2009 Actual** | **2010 Actual** | **2011 Actual** | **2012 Target** | **2012 Estimated Result** |
| **Youth** | N/A | New Measure | 35% | 31% | 35% | 35% |

### *Goal #3: Sustainability of the DOI's operations*

The efforts in this goal center around reducing the DOI's environmental footprint through reducing energy intensity and increasing the use of alternative fuels within the DOI. Sustainability is integral to the DOI's mission because the DOI is entrusted with stewardship of America's lands and waters. Bureaus are making considerable investments in green building, recycling, and water efficiency. The reduction in energy, tracked in terms of energy intensity or energy consumption per square foot, is used as the key indicator as energy intensity is considered to be one of the major determinants of sustainability. As can be seen in the following table, the DOI is progressing toward the ultimate goal for 2015 even if not at the rate of 3 percent per year. This effort is dependent upon the effective application of technology, facility retrofit, and revised processes which are all being addressed to achieve success with no outstanding problems being encountered.

| Reduce energy intensity by 3% annually relative to the FY 2003 baseline, to achieve a 30% reduction in FY 2015. | | | | | | |
|---|---|---|---|---|---|---|
| **Office** | **2008 Actual** | **2009 Actual** | **2010 Actual** | **2011 Actual** | **2012 Target** | **2012 Estimated Result** |
| **Acquisition** | 18% | 21% | 21.5% | 22% | 24.6% | 24.6% |

### *Goal #4: Dependability and Efficiency of Information Technology*

Information Technology supports every facet of the DOI's diverse missions. Employees, volunteers, and the public require modern, reliable, and agile IT services that can be delivered in a cost-effective and transparent manner. The DOI will continue to implement a series of technology innovations and efficiencies as part of an enterprise-wide program of IT Transformation with a focus on consolidating and centralizing the IT infrastructure across the DOI, as reflected in the IT Transformation Plan released on July 1, 2011. The reduction in the number of data centers is considered to typify the type of efficiencies that are being targeted under IT transformation. While there is recognizable progress, this is challenging in that it is as much, if not more, of an organizational change as it is a technological change.

| Percentage of DOI committed data centers consolidated | | | | | | |
|---|---|---|---|---|---|---|
| **Office** | **2008 Actual** | **2009 Actual** | **2010 Actual** | **2011 Actual** | **2012 Target** | **2012 Estimated Result** |
| **Data Centers** | N/A | N/A | 0%<br>0/95 | 18%<br>17/95 | 28%<br>27/95 | 44%<br>42/95 |

### *Goal #5: Improving acquisition and real property management*

The mission goals of the DOI are significantly advanced through effective management of contracts in a manner that reduces risk and achieves desired results that cost less. Efforts include leveraging purchasing power, promoting efficient business practices, developing and retaining a skilled acquisition workforce, and utilizing small business opportunities, the latter of which is important enough to be considered the key indicator of acquisition performance. In effectively providing outreach and assistance opportunities for procurement and contracting officials and program officials, the DOI consistently reaches its annual target for issuing at least 51 percent of its contracts to small business.

| Percent of contracts issued to Small Businesses. | | | | | | |
|---|---|---|---|---|---|---|
| **Office** | **2008 Actual** | **2009 Actual** | **2010 Actual** | **2011 Actual** | **2012 Target** | **2012 Estimated Result** |
| **Small Business Contracting** | 54.4 | 56.8 | 50.5 | 54.6 | 51.5 | 55.6 |

The DOI's real property portfolio contains approximately 42,000 buildings and 75,000 structures, valued at more than $236 billion, as well as nearly every type of asset found in a local community. The goal is to maximize the use of real property, in terms of economy and efficiency, and to effectively manage the DOI's footprint and reduce square footage and operations and maintenance spending. These results will be discussed in the Annual Performance Plan and Report when issued in February, 2013.

## PRIORITY PERFORMANCE GOALS

Priority Goals represent Presidential priorities focused on key areas where short-term progress is tracked. In 2010, the DOI identified opportunities to significantly improve near-term performance within 24 months and since then the goals have been modified and one additional goal added. The DOI chose Priority Goals that improve outcomes or speed progress on projects and processes critical to the DOI's mission and attainment of national goals. The Secretary and Deputy Secretary have used the visibility of these goals, quarterly progress reviews, and information learned through the collaborative process to ensure supporting programs are adequately resourced, informed stakeholders, gained senior level attention on key milestones, accurately quantified performance as compared to plans, and developed alternate strategies where needed to better ensure achievement of results. The lessons learned during 2010-2011 informed the modification of goals for 2012-2013 and the addition of a goal for oil and gas inspections intended to address a GAO high risk finding.

| Priority Goal Table 1 | Renewable Energy Development |
|---|---|
| **Goal for FY 2012-2013** | Increase the approved capacity for production of energy from domestic renewable resources to support a growing economy and protect our national interests while reducing our dependence on foreign oil and climate-changing greenhouse gas emissions. By September 30, 2013, the DOI will increase approved capacity authorized for renewable (solar, wind, and geothermal) energy resources affecting the DOI managed lands, while ensuring full environmental review, by at least 11,000 megawatts. |
| **Overview** | The BLM has identified 20.6 million acres of public land with wind energy potential in 11 Western states, 29.5 million acres with solar energy potential in six Southwestern states, and 140 million acres of public land in Western states and Alaska with geothermal resource potential. |
| **Progress Through 4th Quarter FY 2012** | Since its start in FY 2010 through the end of FY 2012, 7,863 mw of capacity utilizing renewable energy resources has been enabled toward the goal of 11,000 mw by the end of FY 2013. New projects are continuing through the National Environmental Policy Act environmental assessment process and presently appear to be on track for achieving the goal on time, expanding our ability to utilize renewable energy. The ability to approve proposed capability for power generation and/or transmission depends significantly upon the viability of the proposer and environmental suitability which is challenging in this emerging field and often causes delays to approval and possible withdrawal of proposals. Assistance from the NPS and the FWS has been an important addition to the success of this endeavor. |

| Priority Goal Table 2 | Water Conservation |
|---|---|
| **Goal for FY 2012-2013** | Enable capability to increase the available water supply in the Western states through conservation related programs to ensure adequate and safe water supplies. By September 30, 2013, the DOI will further enable the capability to increase the available water supply for agricultural, municipal, industrial, and environmental uses in the Western United States through the BOR water conservation programs to 730,000 acre-feet, cumulatively since 2009. |
| **Overview** | The BOR is working closely with non-Federal, state, and local governments, water districts, other entities, and individuals to identify practices and select projects that will gain water conservation capacity in Western states. |
| **Progress Through 4th Quarter FY 2012** | The BOR has completed final assessments of the proposals received this year through its water conservation related programs (e.g. WaterSMART, Title XVI, CALFED, and Water Conservation Field Services). With a higher quality of proposals this year over prior years, the BOR has approved 616,000 acre feet of water conservation capability toward its 730,000 acre-feet goal through the end of FY 2013. The BOR continues to make progress in seeking proposals to provide cost-shared funding for water conservation and efficiency projects that allow users to decrease diversions and make saved water available for other uses; revising funding criteria to identify projects that most effectively stretch water supplies and contribute to water supply sustainability and produce energy savings; and investigating phased project approvals to assess where additional water savings could result. |

| Priority Goal Table 3 | Safe Indian Communities |
|---|---|
| **Goal for FY 2012-2013** | Reduce violent crime in Indian communities. By September 30, 2013, in addition to continued efforts at 4 targeted tribal reservations that have achieved reductions of at least 5 percent in violent criminal offenses, achieve significant reduction in violent crime offenses of at least 5 percent within 24 months on 2 additional targeted tribal reservations by implementing a comprehensive strategy involving community policing, tactical deployment, and critical interagency and intergovernmental partnerships. |
| **Overview** | The rate of violent crime for American Indians is well above the national average and substance abuse is a major contributor, including methamphetamines - considered by tribes as a leading public safety threat. |
| **Progress Through 4th Quarter FY 2012** | The strategy employed with this Priority Goal has been very effective, achieving an overall 55 percent reduction in violent crime incidents across four tribal communities relative to the baseline. These experiences have been documented in a "Crime-Reduction Best Practices Handbook" (*http://www.bia.gov/cs/groups/xojs/documents/text/idc-018678.pdf* ). An additional two communities were added to the goal in FY 2012. These two newly added communities have much higher violent crime rates and are different from three of the previous communities as their law enforcement is managed and implemented fully by the tribal government. While some reduction in violent crime has been achieved in one of the newly added communities, the other has experienced an increase in violent crime, hampered by the limited housing resources available for public safety officers and staff, limited communications and IT capabilities, and issues involving securing a police chief. These challenges are sizeable considering that the tribal government is directly responsible for law enforcement in the community while the BIA performs more of an advisory and facilitator role vs. the more direct role for the BIA in the other tribal communities. |

| Priority Goal Table 4 | Climate Change Adaptation |
|---|---|
| **Goal for FY 2012-2013** | By September 30, 2013, for 50 percent of the Nation, the DOI will identify resources that are particularly vulnerable to climate change, and implement coordinated adaptation response actions. |
| **Overview** | The DOI is addressing the impacts that climate change is having on America's natural resources and identifying strategies to ensure that the Nation's resources remain resilient in the face of changes. Bureaus are utilizing the Climate Science Centers (CSC) and Landscape Conservation Cooperatives (LCC) to assist in management decision making and optimize the use of scientific information and adaptive management to effectively manage lands and resources. Interior is working with its partners to use LCC's as an organizing framework to improve collaboration at the landscape level and leverage activities conducted by Federal, state, and local entities and partner efforts. |
| **Progress Through 4th Quarter FY 2012** | In pursuit of better informed and coordinated climate adaptation response strategies, all eight CSCs and 22 LCCs are now "formed" with most already advising participating Federal, State, tribal, and local resource managers. Over 400 vulnerability assessments are underway and at least one adaptation response strategy has been initiated across regions that cover an equivalent of nearly 70 percent of the nation. While the DOI has achieved the goal, the DOI is considering the extent to which the goal could be used to promote incorporating climate change assessment into agency program management plans, which would institutionalize climate change adaptation as an ongoing, long-term approach to the management of land, water, and species for the Nation. |

| Priority Goal Table 5 | Youth Stewardship of Natural and Cultural Resources |
|---|---|
| **Goal for FY 2012-2013** | Build the next generation of conservation and community leaders by supporting youth employment at the DOI. By September 30, 2013, the DOI will maintain the increased level of employment of individuals between the ages of 15 to 25 that was achieved in FY 2010 (35 percent increase in total youth employment over FY 2009) to support the DOI's mission of natural and cultural resource management. |
| **Overview** | Through increased exposure to outdoor experiences, young people will gain increased awareness and appreciation of natural and cultural resources; develop an environmental ethic; learn about and possibly become motivated to seek careers in the environmental field; and help develop a generation of environmentally-conscious adults. |
| **Progress Through 4th Quarter FY 2012** | Decreases in the funding investment for the DOI's youth programs has made it challenging to replicate the FY 2010 levels achieved for employing individuals between the ages of 15 and 25 in the conservation mission of the DOI. However, along with leveraging relationships with partner organizations, improved sharing of practices, improved coordination and communication, very similar levels of engagement were achieved in FY 2012 as compared to FY 2010 at close to 22,000 individuals between the ages of 15-25 actively engaged in helping perform the conservation mission of the DOI. |

| Priority Goal Table 6 | Oil and Gas Resources Management |
|---|---|
| **Goal for FY 2012-2013** | Improve production accountability, safety, and environmental protection of oil and gas operations through increased inspection of high-risk oil and gas production cases. By September 30, 2013 the BLM will increase the completion of inspections of Federal and Indian high risk oil and gas cases by 9 percent over FY 2011 levels, which is equivalent to covering as much as 95 percent of the potential high risk cases. |
| **Overview** | The inspection of high risk producing oil and gas cases is paramount to help ensure that hydrocarbon production on Federally-managed lands are properly accounted for and results in accurate royalty payments to the public and Indian owners of such minerals. |
| **Progress Through 4th Quarter FY 2012** | As a part of efforts to address weaknesses identified in Interior's oil and gas programs as highlighted by identification on the GAO's High Risk list, a more risk-based strategy has been developed for determining the oil and gas cases that should be inspected in a year. This risk-based strategy is providing managers in the field the means by which to better determine where inspections are most needed through scoring using pre-defined criteria including production, record verification, previous violations, time since last inspection, consistency with Oil and Gas Operating Report, etc. While 2,300 oil and gas cases were initially estimated to be classified as high-risk for this year, by the end of FY 2012 a higher number of high-risk cases had been identified with a slightly higher than anticipated percent of those high-risk cases being inspected (88 percent). With the experience gained this year in implementing this revised approach, the DOI expects to inspect 95 percent of these high-risk oil and gas cases in FY 2013. Funding proposed for the budget will be used to hire and train additional inspectors, the further benefits of which will be realized after they complete the approximate year-long training and apprentice program. |

# ANALYSIS OF SYSTEMS, CONTROLS, AND LEGAL COMPLIANCE

This section of the report provides the required information on the DOI's management assurances and compliance with the following legal and regulatory requirements:

- Management Assurances;
- Federal Managers' Financial Integrity Act of 1982 (FMFIA);
- Federal Financial Management Improvement Act of 1996 (FFMIA); and
- Inspector General Act of 1978, as amended (Audit Followup).

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

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

## Management Assurances

The FMFIA requires agencies to assess the effectiveness of and provide an annual statement of assurance regarding internal accounting and administrative controls, including controls in program, operational, and administrative areas as well as accounting and financial reporting. During FY 2012, the Office of Financial Management (PFM) conducted comprehensive site visits and otherwise provided oversight with regard to risk assessments, internal control reviews, and progress in implementing audit recommendations. The DOI's FY 2012 Annual Assurance Statement appears on the next page. The basis for the assurance statement conclusions follows.

## Federal Managers' Financial Integrity Act of 1982 (FMFIA)

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

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

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

- OMB Circular No. A-123, *Management's Responsibility for Internal Control*, including Appendix A, *Internal Control over Financial Reporting*; Appendix B, *Improving the Management of Government Charge Card Programs*, Appendix C, *Requirements for Effective Measurement and Remediation of Improper Payments;*
- OMB Circular No. A-127, *Financial Management Systems*; and
- OMB Circular No. A-130, *Management of Federal Information Resources*.

### *Internal Control Assessments*

The DOI conducts annual assessments of the effectiveness of management, administrative, and accounting systems' controls in accordance with FMFIA and OMB guidelines. The conclusions in the Secretary's FY 2012 Annual FMFIA Assurance Statement are based on the results of numerous internal control reviews that bureaus and offices conduct, including assessment of internal control over financial reporting. The DOI also considered the results of Office of Inspector General (OIG) audits, Government Accountability Office (GAO) program audits, and the financial statement audit conducted by the independent public accounting firm, KPMG LLP. In addition, many of the DOI's internal control reviews and related accountability and integrity program activities focused on areas identified as major management challenges.

### *FMFIA Material Weaknesses and Accounting System Nonconformances*

The OMB Circular No. A-123 requires that each agency identify and report on material weaknesses affecting the agency. The DOI has adopted the

## FY 2012 ASSURANCE STATEMENT

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

The DOI conducted its assessment of the effectiveness of internal control over the effectiveness and efficiency of operations and compliance with applicable laws and regulations in accordance with the requirements of the Office of Management and Budget (OMB) Circular No. A-123, *Management's Responsibility for Internal Control.* Based on the results of this evaluation, DOI identified the one material weakness in its internal control over the effectiveness and efficiency of operations and compliance with applicable laws and regulations identified in Figure 1-1 as of September 30, 2012. Other than that exception, the internal controls were operating effectively and no other material weaknesses were found in the design or operation of the internal controls.

In addition, DOI conducted its assessment of the effectiveness of internal control over financial reporting, which includes safeguarding of assets and compliance with applicable laws and regulations, in accordance with the requirements of Appendix A of OMB Circular A-123. Based on the results of this evaluation, DOI can provide reasonable assurance that its internal control over financial reporting as of June 30, 2012, was operating effectively and no material weaknesses were found in the design or operation of the internal control over financial reporting. Further, subsequent testing through September 30, 2012, did not identify any reportable changes in key financial reporting internal controls.

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

Ken Salazar
Secretary of the Interior
November 15, 2012

OMB guidelines for material weakness designations and recognizes the importance of correcting material weaknesses in a timely manner. The PFM staff and senior program officials continuously monitor corrective action progress for all material weaknesses.

At the beginning of FY 2012 the DOI had one Department-level FMFIA material weakness pending correction carried forward from the previous year. Inadequate Wireless Telecommunications had been identified as a material weakness in FY 2000 and downgraded in FY 2004, since it was then considered to be a bureau-specific matter, not a Department-wide issue. However, during FY 2009, as a result of a September 2008 OIG Report and an extensive internal control review conducted department-wide, the DOI reinstated the Radio Communications Program as a Department-level material weakness. *(See Figure 1-1)*

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

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

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

FIGURE 1-1

**FMFIA Material Weaknesses**
as of September 30, 2012

| Description | Corrective Actions | FY 2012 Progress | Target Completion Date | Status |
|---|---|---|---|---|
| **Office:**<br>The Chief Information Officer (OCIO)<br>**The DOI Radio Communications Program:**<br>The DOI has an unsafe and unreliable radio communications environment that jeopardizes the health and safety of the DOI employees and the public. | The DOI will:<br>1) Assign responsibility over the radio communications program to the OCIO;<br>2) Develop a comprehensive management plan for the radio communications program;<br>3) Identify specific user groups and ensure that user needs are assessed and addressed, guidance is provided and enforced, and training is provided;<br>4) Enforce existing safety procedures to notify employees and the general public of hazardous site conditions; and<br>5) Implement best practices, where appropriate. | 1) Established a radio executive steering committee to provide leadership to the DOI's efforts to address the corrective actions. The committee includes representative from all user groups within the DOI.<br>2) Held meetings with facilities managers and Deputy Bureau Directors and Issued a directional memorandum to raise awareness for bureaus with radio programs about the corrective actions and the requirements for inventory and remediation of facilities issues.<br>3) Reminded bureaus of established radio site standards, procedures and safety inspections.<br>4) Initiated two Radio-Over-Internet-Protocol technology pilot projects to demonstrate the use of the technology and promote expansion.<br>5) Established a radio infrastructure sharing agreement within the State of Maine and renewed the agreements with the States of Wyoming and Montana.<br>6) Established unique coding for radio goods and services in the enterprise business management system to support the financial and asset management of the radio program. Business management best practice.<br>7) The BLM effectively completed significant milestones in the required inventory and condition assessment program, addressed high priority health and safety issues, and planned for remediation. Issued an indefinite delivery/indefinite quantity contract that could be used by other bureaus for inventory and assessment. Shared best practices with other bureaus and provided leadership by inviting other bureaus to collaborate in the planning for radio facilities improvement.<br>8) Sought increased resources through the budget process. | FY 2014 | Ongoing |

### *Internal Control Over Financial Reporting*

The OMB Circular No. A-123, Appendix A, strengthens internal control requirements over financial reporting in Federal agencies. The Circular provides updated internal control standards and requirements for conducting management's assessment of the effectiveness of internal control over financial reporting.

In FY 2012, the DOI completed its seventh annual assessment of the effectiveness of internal control over financial reporting. The results of the assessment revealed that in all financial reporting areas, adequate controls exist, and financial reporting can be relied upon by senior management when used in the decision making processes. Although deficiencies were found in some financial reporting business processes, corrective actions and compensating controls adequately address the deficiencies. The DOI's internal controls over financial reporting reasonably ensure the safeguarding of assets from waste, loss, and unauthorized use or misappropriation, as well as compliance with laws and regulations pertaining to financial reporting. *(See FY 2012 Assurance Statement, paragraph 2).*

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

## Federal Financial Management Improvement Act of 1996 (FFMIA)

The FFMIA builds upon and complements the CFO Act, Government Performance and Results Act of 1993 (GPRA), and the Government Management Reform Act of 1994 (GMRA). The FFMIA requires that Federal agencies substantially comply with: 1) applicable Federal accounting standards; 2) the U.S. Standard General Ledger (USSGL); and, 3) Federal financial management system requirements that support full disclosure of Federal financial data, including the cost of Federal programs and activities.

Federal agencies are required to address compliance with the requirements of FFMIA in the management representations made to the financial statement auditor. The auditor is required to report on the agency's compliance with FFMIA requirements in the Independent Auditors' Report. If an agency is not in compliance with the requirements of the FFMIA, the agency head is required to establish a remediation plan to achieve substantial compliance. The DOI's financial management systems substantially comply with the applicable Federal accounting standards requirements of FFMIA.

## Inspector General Act Amendments (Audit Followup)

The DOI has instituted a comprehensive audit followup program to ensure that audit recommendations are implemented in a timely and cost-effective manner and that disallowed costs and other funds due from contractors and grantees are collected or offset. In FY 2012, the DOI monitored a substantial number of new OIG, GAO, and Single Audit Act audit reports. Audit followup actions include analyzing referred audit reports; advising grantors of single audit findings; tracking, reviewing, and validating program and financial audit recommendations; developing mutually acceptable and timely resolution of disputed audit findings and recommendations; overseeing the implementing, documenting, and closing of audit recommendations; and monitoring the recovery of disallowed costs. The OIG Semiannual Report to the Congress provides additional information about OIG activities and results.

To further underscore the importance of timely implementation of OIG and GAO audit recommendations, the DOI has a performance goal of implementing at least 85 percent (weighted) of all GAO and OIG recommendations where implementation was scheduled to occur during the current year or in previous years. The DOI set its performance goal at 85 percent to allow for impacts, challenges, and delays unforeseeable when initial corrective action plans were developed; some corrective actions can span multiple years. In FY 2012, the DOI did not achieve this performance goal, as its implementation rate reached only 82 percent. Bureaus and offices that fell short of the goal will place additional emphasis on attaining this performance goal in FY 2013 and the DOI will closely monitor progress and share information on best practices.

## Results of Financial Statement Audit

As required by the GMRA, the DOI prepares financial statements. These financial statements

have been audited by KPMG LLP, an independent public accounting firm. The preparation and audit of the financial statements form an integral part of the DOI's centralized process to ensure the integrity of financial information.

Figures 1-2 and 1-3 summarize the status of the material weakness and noncompliance issues identified in the audit report for FY 2012. The FY 2011 audit report identified one material weakness in the contingent liability reporting process and one noncompliance with the FFMIA resulting from the material weakness. In the FY 2012 audit report, this material weakness and resulting noncompliance are considered mitigated and are no longer in the audit report. The FY 2012 audit report identified three significant deficiencies, and one instance of noncompliance with laws and regulations regarding the Single Audit Act. Corrective actions to mitigate the noncompliance with the Single Audit Act are ongoing, and additional attention will be given to this issue during FY 2013.

## Major Management Challenges Confronting Interior

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

FIGURE 1-2

**FYs 2012 and 2011 Audited Financial Statements**
**Departmental Material Weakness Corrective Action Plan (as of September 30, 2012)**

| Material Weakness Description | Corrective Actions | Fiscal Year | | Original Target Date | Status |
|---|---|---|---|---|---|
| | | 2012 | 2011 | | |
| Contingent Liabilities | 1) Provide training on the importance of updating the case summaries, when to designate a case as probable versus reasonably possible, and to consistently prepare all sections of the case summary.<br>2) Continue to require individuals to review case summaries to ensure that all sections of the case summary are consistent.<br>3) Dedicate sufficient resources to update the case summaries.<br>4) Have finance team members periodically meet with representatives of the Office of the Solicitor to discuss cases. | | X | 9/30/12 | Complete |

FIGURE 1-3

**FYs 2012 and 2011 Audited Financial Statements**
**Departmental Noncompliance Corrective Action Plan (as of September 30, 2012)**

| Noncompliance Description | Corrective Actions | Fiscal Year | | Original Target Date | Status |
|---|---|---|---|---|---|
| | | 2012 | 2011 | | |
| Single Audit Act Amendments of 1996 | Obtain Single Audit, Financial Status, Grant Performance, and Annual Reports and issue management decisions on audit findings in accordance with the requirements of the Single Audit Act Amendments. | X | X | 9/30/06 | Ongoing |
| FFMIA | See corrective actions for contingent liabilities material weakness above in Figure 1-2. | | X | 9/30/12 | Complete |

## Compliance with Other Key Legal and Regulatory Requirements

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

### *Prompt Pay, Debt Collection, and Electronic Funds Transfer*

The DOI is continuing to improve performance under the requirements of the PPA and the DCIA. The PPA requires that eligible payments be made within 30 days of receipt of invoice; otherwise, the Federal Government is required to pay interest. The DCIA requires any nontax debt owed to the United States that has been delinquent for a period of over 180 days be turned over to the Department of the Treasury for collection. The Electronic Funds Transfer (EFT) provision of the DCIA mandates all recipients of Federal payment receive their payments electronically, except for tax refunds. The DOI exceeded its FY 2012 performance goals for PPA (Figure 1-4), DCIA (Figure 1-5), and payments made by EFT (Figure 1-6).

### *IT Transformation*

In order to play a lead role in helping meet the President's charge of making government work better for the American people, the DOI has initiated the Information Technology (IT) Transformation. In July 2011, the DOI released an IT Transformation Strategic Plan, a high-level roadmap that outlines how the DOI will change the way IT services are delivered. The plan outlines a model that is cost-effective, customer-friendly and will better support the DOI's missions. This major efficiency initiative will leverage modern technology to produce an expected $500 million dollars in cost avoidance from 2016 through 2020. In a recent news article, Office of Management and Budget Acting Director Jeff Zients stated "Interior has gone from one end of the spectrum to the other and now is a model for other agencies"

To further this initiative, in May 2012, the DOI awarded a contract for DOI-wide cloud email and collaboration services using Google Apps for Government. This contract consolidates the DOI email services into a single modern system and simplifies the DOI's future data storage requirements. The implementation of a single enterprise-wide email system will replace seven different existing email systems at the

FIGURE 1-4

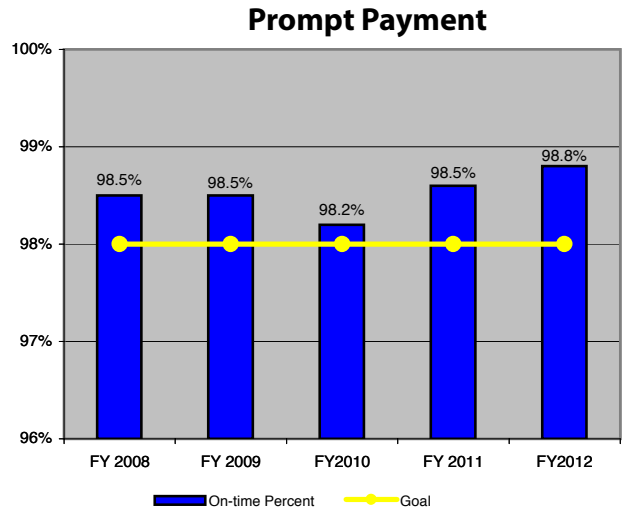



FIGURE 1-5

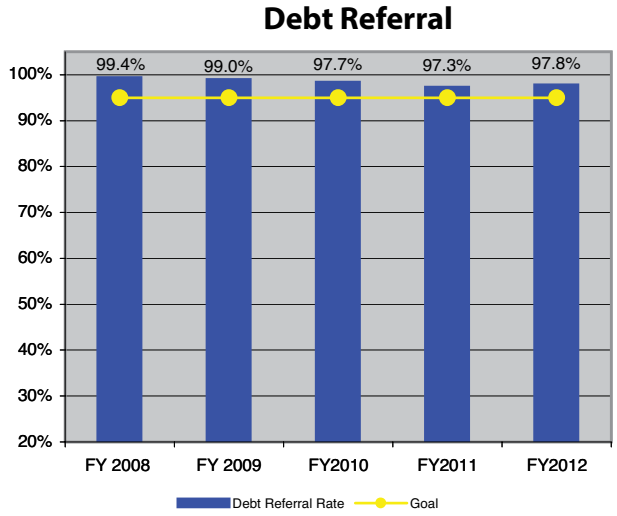
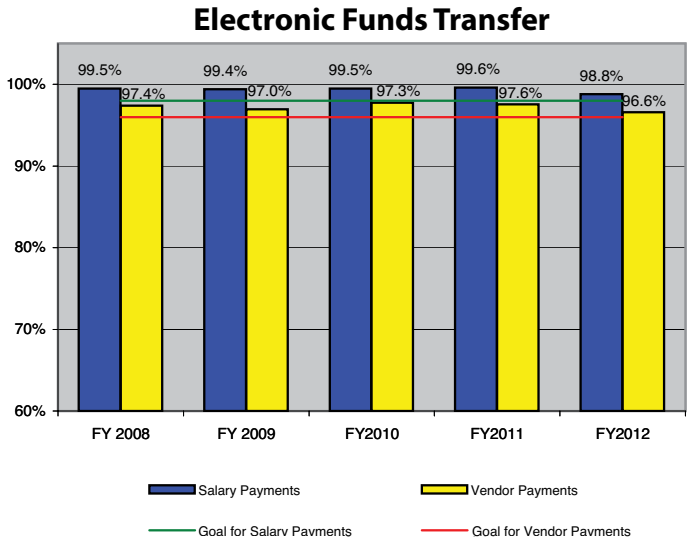



FIGURE 1-6



DOI, cutting waste and eliminating redundancy. Projected savings for this initiative are $4.5 million dollars.

## Financial Management Systems

The DOI shares the view of the government-wide CFO Council that robust financial management systems improve consistency, generate data to assist management and strengthen decision-making capabilities, and enable the DOI program and financial managers to more effectively achieve mission goals. The DOI recognizes the importance of financial management systems as a part of the capital asset portfolio and uses sound information technology investment management, program management, and project governance principles to plan, deploy and operate systems. The DOI's goal is to achieve and maintain the objectives stated in OMB Circular No. A-127 – to establish a single, integrated financial management system through the deployment of FBMS. In pursuing this goal, the DOI is following the information technology investment management practices and principles identified in the Clinger-Cohen Act of 1996.

### *Financial Management Systems Improvement Strategy*

the DOI's goal is to continue improvements in financial transaction processing, analysis, and reporting and to enhance financial management systems support through an effective partnership of program, information system, and financial, acquisition and other business managers. The DOI relies on financial and business management systems that are planned for, managed together, and operated collectively to support program and financial managers. The integrated nature of business processes including property, charge card, travel, and others, working in conjunction with the financial system, strengthen internal controls and transparency.

Some systems are managed at the bureau level, some at the Departmental level, and some are government-wide systems on which the DOI relies. Collectively, they represent the DOI's financial management systems architecture. The DOI has viewed the movement toward a single, integrated financial system as encompassing four interrelated elements that drive business process, improvements, and financial integrity. They are: (1) improvement of internal controls; (2) elimination of redundant data entry; (3) enabling end-to-end transaction processing; and (4) standardization of data for improved information quality. The DOI's current, major financial management system improvement effort centers on the FBMS. In early FY 2012, the DOI implemented the sixth of eight FBMS deployments that will facilitate the DOI's business transformation.

### *Financial Systems Modernization*

The FBMS is an operational, integrated suite of software applications that enables Interior to manage a variety of business functions to include core financials, acquisition, personal property, fleet management, real property, travel, financial assistance, and enterprise management information and reporting.

With each implementation, the DOI enhances the functionality and value of FBMS and moves closer to meeting the following goals:

- Modernizing business operations;
- Standardized and integrated processes;
- Improved security and internal controls;
- Improved cost information;
- Improved tracking and auditing capabilities;
- Reduced double entry of data in multiple systems and manual paper processing;
- Improved Department-wide and bureau-specific reporting capabilities;
- Increased data consistency, integrity, and transparency; and
- Retirement of aged, stove-piped, unsupported, costly legacy systems.

### *FY 2012 Accomplishments*

The FBMS is currently in use by the Office of Surface Mining Reclamation and Enforcement (OSM), the Bureau of Ocean Energy Management (BOEM), the Bureau of Safety and Environmental Enforcement (BSEE), the Bureau of Land Management (BLM), the U.S. Geological Survey (USGS), the Fish and Wildlife Service (FWS), and Departmental Offices (DO). The FBMS Project Management Office (PMO) provides operations and maintenance support to FBMS and the National Business Center (NBC) is the system's shared-service hosting provider. Some of the accomplishments in FY 2012 include:

- Implemented the FBMS at the FWS and the DO;
- Implemented an Automated Access Controls suite to automate user account management and ensure separation of duties;
- Enhanced the FBMS capabilities and closed functionality gaps through monthly Point Releases;
- Continued deployment of a major hardware and software technical refresh of the hosting environment, replacing obsolete servers, and networking storage equipment;
- Conducted and met the requirements of a preliminary design review, critical design review, test readiness review, and integration testing for deployment to the National Park Service (NPS) and Indian Affairs (IA); and
- Conducted and met the requirements of the deployment baseline review for Deployment 8 which will migrate the final DOI Bureau, the BOR, in November 2013.
- Continued Value Capture initiatives associated with operationalizing FBMS and achieving its benefits in the following areas: consolidation of dispersed functions and establishing additional intra-departmental cross-servicing opportunities; department-wide strategic sourcing opportunities; Improper Payment monitoring and recapture; building a "CFO toolkit" dashboard; and commissioning department-wide standardized reports in a wide number of financial and business functions.

### *Future Planned Activities*

Deployment to the NPS and the IA will take place in November 2012, including the same functionality as has been deployed to date. The November 2012 deployment will also include additional functionality for improved reporting capabilities; energy management; inventory management; asbestos reporting; land accountability; real property contracts; aircraft management; radio communication accountability; mass vendor upload; and debt referral upload functionality. Additionally, all components of the FBMS solution will receive a technical upgrade and enhanced capabilities supporting efficient inter-bureau cross-servicing. Future plans also include the final deployment of the FBMS to the BOR; deployment of a financial consolidation and reporting solution; and improvements related to purchase requisitions and property disposition.

Building on the successful completion and acceptance of the DOI's Financial Systems Roadmap, the department has initiated business and systems roadmaps in several areas complementary to the FBMS, such as budget and performance, facilities workorder management and revenue systems. The goal of each of these roadmaps is to create a plan to support the kinds of benefits being realized from the FBMS implementation, such as common business and data standards; modern, unified platforms; transparent reporting using modern analytical tools; increased automated controls and information security; and support for government-wide initiatives.

The DOI received, for the 16th consecutive year, an unqualified audit opinion on its financial statements. The statements were audited by the independent accounting firm KPMG LLP. Information provided on the financial statements, the opinion presented as a result of the independent audit, and other disclosures and information provided in this report provide assurance to the public that the information is accurate, reliable, and useful for decision making. The financial statements and financial data presented in this report have been prepared from the DOI's accounting records in conformity with Generally Accepted Accounting Principles (GAAP). For Federal entities, these are the standards prescribed by the Federal Accounting Standards Advisory Board (FASAB).

Financial statement preparation supports DOI's goal to improve financial management and to provide accurate and reliable information that is useful for assessing financial performance and allocating resources. The DOI management is responsible for the integrity and objectivity of the financial information presented in the financial statements. Integrity of the information is supported by the analysis of financial statement line item fluctuations. Variances in excess of 10 percent and material to DOI are discussed below. The discussion also includes significant qualitative financial management information of interest.

The discussion and graphics below depict the reorganization of the Bureau of Ocean Energy Management, Regulation and Enforcement (BOEMRE) into two distinct entities. Effective FY 2012, the Bureau of Ocean Energy Management (BOEM) and the Bureau of Safety and Environmental Enforcement (BSEE) were established. A description of each bureau can be found starting on page 11. Additional information regarding the change in organization is available on page 81.

## Special Account Funds

The NPS has concessionaire accounts that are excluded from DOI financial statements. These funds are accounted for in a Treasury receipt account symbol assigned to the NPS; however they are maintained in separate interest-bearing bank accounts for the concessioners. They are not assets of the NPS, and may not be used in NPS operations.

The balances in the special account funds are allocated to concessionaires based upon agreements which contain provisions that provide for the establishment of escrow type accounts to be used to develop, improve, and maintain visitor facilities. The concessioner periodically deposits a percentage of gross revenue in the account as provided in the concessioner agreement. The concessioners reported that these special accounts balances totaled approximately $22.3 million and $24.6 million (unaudited), as of September 30, 2012 and 2011, respectively.

## Overview of Financial Position: The Balance Sheet

The Balance Sheet provides a snapshot of DOI's financial position at a fixed point in time. The fiscal year-end Balance Sheet displays amounts of future economic benefits owned or available for use (Assets), amounts owed (Liabilities) and the residual amounts (Net Position) at the end of the fiscal year.

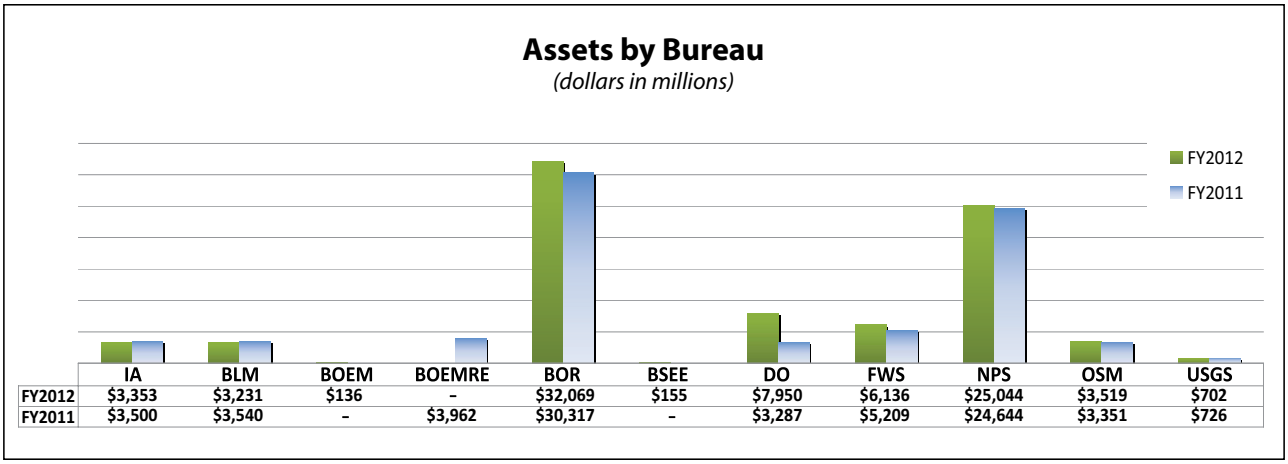
## Analysis of Assets

| DOI Assets *(line items summarized)* *(dollars in thousands)* | FY 2012 | FY 2011 | Increase/ (Decrease) | % Change |
|---|---|---|---|---|
| Fund Balance with Treasury | $ 44,596,626 | $ 43,662,297 | $ 934,329 | 2.1% |
| Investments | 6,849,519 | 6,748,319 | 101,200 | 1.5% |
| PP&E, Inventory, and Related Property | 21,041,652 | 20,583,571 | 458,081 | 2.2% |
| Accounts, Loans and Int Receivable & Other | 8,710,394 | 7,008,117 | 1,702,277 | 24.3% |
| **Assets** | **$ 81,198,191** | **$ 78,002,304** | **$ 3,195,887** | **4.1%** |

The FY 2012 increase in assets is primarily the result of accounts receivable due to the Office of Natural Resources and Revenue (ONRR) from the public for new coal lease bonuses in FY 2012. ONRR activity is reported as a component of the DO balances. The DOI is authorized to use Fund Balance with Treasury to pay liabilities resulting from operational activity and consists of funds received from direct appropriations, transfers, offsetting receipts, recoveries, and funds held in budget clearing accounts. Property, Plant, and Equipment (PP&E) is primarily composed of land, structures, and facilities which are used for general operations, power, wildlife enhancement, and recreation.

The DOI owns more than 162,000 real property assets including land parcels and more than 42,000 buildings and 75,000 structures, comprised of a diverse portfolio that includes offices, visitor centers, housing, schools, lodges, roads, bridges, dams, communication facilities, campgrounds, detention centers and monuments. These assets are managed at more than 2400 locations throughout the United States.

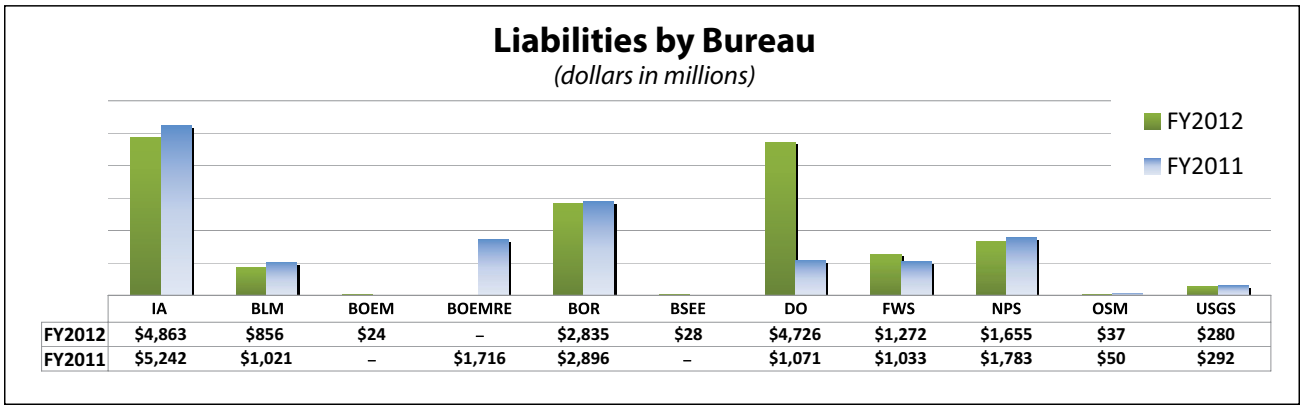
The DOI's reported values for PP&E exclude stewardship assets in accordance with accounting standards. Stewardship assets benefit the nation as a whole and are considered priceless. It is not possible to assign an identifiable value to these assets. An in-depth discussion of stewardship assets is presented in the Notes to the Financial Statements Section and the Required Supplementary Information section of the Agency Financial Report. Asset fluctuation by Bureau is highlighted in the graph below.




## Analysis of Liabilities

| DOI Liabilities (line items summarized) (dollars in thousands) | FY 2012 | FY 2011 | Increase/ (Decrease) | % Change |
|---|---|---|---|---|
| Accounts & Grant Payable | $ 1,979,365 | $ 1,774,506 | $ 204,859 | 11.5% |
| Employee & Veterans Benefits | 1,498,248 | 1,483,240 | 15,008 | 1.0% |
| Environmental, Disposal, Contingent | 4,564,454 | 4,887,533 | (323,079) | -6.6% |
| Custodial Liability | 2,384,276 | 1,200,865 | 1,183,411 | 98.5% |
| Advances & Deferred Revenue | 1,179,418 | 1,105,420 | 73,998 | 6.7% |
| Treasury General Fund | 1,850,922 | 1,828,365 | 22,557 | 1.2% |
| Other, Debt, Loan Guarantees | 2,020,072 | 2,290,234 | (270,162) | -11.8% |
| **Liabilities** | **$ 15,476,755** | **$ 14,570,163** | **$ 906,592** | **6.2%** |

The FY 2012 increase in liabilities is primarily attributable to amounts payable to states and the Federal Government resulting from collections from the Office of Natural Resources Revenue for new coal lease bonuses. Lease holders competitively bid, initially pay a bonus, and subsequently rent, for the right to develop the resources on Federal lands. Once collected, the DOI is responsible for the distribution of these revenues to states and the Federal Government. Based on legislation, 49 percent of the money is distributed directly to the state within which the specific lease is located; 40 percent is sent to the Reclamation Fund of the U.S. Treasury, which finances the Bureau of Reclamation's water projects in 17 western states; and the remaining 11 percent goes to the Treasury's General Fund. Liability fluctuation by Bureau is highlighted in the graph below.

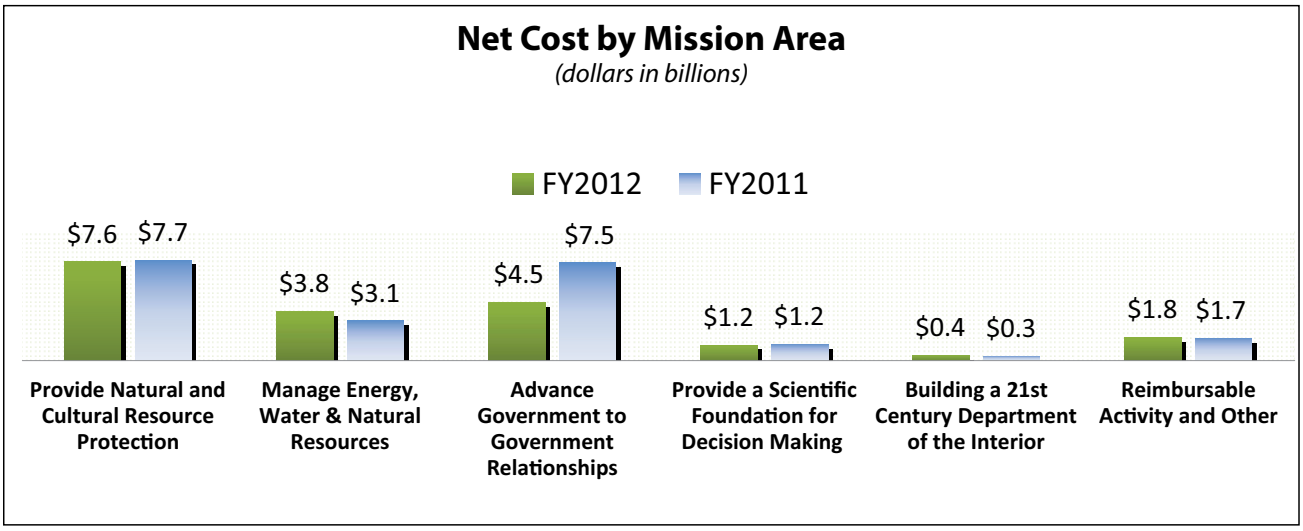



## Analysis of Net Costs

| DOI Net Cost (summarized by Bureau) (dollars in thousands) | FY 2012 | FY 2011 | Increase/ (Decrease) | % Change |
|---|---|---|---|---|
| Indian Affairs | $ 4,213,051 | $ 7,332,182 | $ (3,119,131) | -42.5% |
| Bureau of Land Management | 1,788,583 | 1,673,387 | 115,196 | 6.9% |
| Bureau of Ocean Energy Management | (8,467) | - | (8,467) | 100.0% |
| Bureau of Ocean Energy Management,Regulation & Enforcement | - | 226,108 | (226,108) | -100.0% |
| Bureau of Reclamation | 880,197 | 716,760 | 163,437 | 22.8% |
| Bureau of Safety and Environmental Enforcement | 80,991 | - | 80,991 | 100.0% |
| Departmental Offices | 4,472,330 | 3,489,736 | 982,594 | 28.2% |
| National Park Service | 3,112,534 | 3,408,783 | (296,249) | -8.7% |
| Office of Surface Mining Reclamation and Enforcement | 722,370 | 681,049 | 41,321 | 6.1% |
| U.S. Fish & Wildlife Service | 2,896,893 | 2,919,376 | (22,483) | -0.8% |
| U.S. Geological Survey | 1,158,747 | 1,181,965 | (23,218) | -2.0% |
| Eliminations | (84,382) | (79,450) | (4,932) | 6.2% |
| **Net Costs - by Bureau** | **$ 19,232,847** | **$ 21,549,896** | **$ (2,317,049)** | **-10.8%** |

The Consolidated Statement of Net Cost includes the DOI's five Strategic Plan mission areas: Provide Natural and Cultural Resource Protection and Experiences; Sustainably Manage Energy, Water, and Natural Resources; Advance Government-to-Government Relationships with Indian Nations and Honor Commitments to Insular Areas; Provide a Scientific Foundation for decision Making; and Building A 21st Century Department of the DOI. The Statement of Net Cost also includes Reimbursable Activity and Other, which predominately represents the intra-governmental acquisition of goods and services through the DOI Working Capital Fund and Franchise Fund. Additional Strategic Plan Information is available on pages 6 and 7.

The DOI net costs primarily represent services provided to the public. FY 2012 costs were less due to the IA liability recorded in FY 2011 upon passage of the Claims Litigation Act of 2010, and an unfavorable ruling against DOI in another tribal case. Comparative Net Cost by mission area is summarized in the graph below.




## Analysis of Net Cost – Cost, Revenue, & Major Benefit by Bureau

The DOI plays a substantial role in the U.S. economy, supporting nearly 2.4 million jobs and approximately $385 billion in economic activity each year. DOI's economic contributions are underpinned by substantial investments in facilities, lands, information, and institutional capacity made in past years. These include: physical infrastructure to support recreation activities and efficiency improvements in water storage and delivery systems; ecosystem restoration and land acquisitions to protect unique ecosystems, and knowledge that allows the provision of geologic, minerals, and other information to support decision making. In addition to physical infrastructure, key investments made in the last year include enhancements to the capacity to evaluate and process applications for renewable energy technology on public lands and to the capacity to provide for safe and efficient offshore energy development.

Highlights of the DOI's economic contributions to key economic sectors include:

- Recreation and Tourism: Americans and foreign visitors made nearly 435 million visits to DOI managed lands. These visits supported about 403,000 jobs and contributed $48.7 billion in economic activity.
- Energy and Minerals: Oil, gas, coal, hydropower, wind power, geothermal power, solar power, and other mineral activities on Federal lands supported over 1.5 million jobs and around $275 billion in economic activity.
- Water, Timber and Forage: Use of water, timber, and forage produced from Federal lands supported nearly 290,000 jobs and nearly $41 billion in economic activity.
- Grants and Payments: DOI administers numerous grants and payments, supporting programs across the country and improving Federal lands with projects ranging from reclaiming abandoned mines to building coastal infrastructure. Grants and payments totaling $4.2 billion supported about 83,000 jobs and $10 billion worth of economic contributions.

- The DOI's support for tribal governments represents an important mechanism to advance nation-to-nation relationships, facilitate economic development, improve Indian education, and improve the safety of Indian communities. This funding contributed about $1.2 billion to economic output and supported about 9,500 jobs.

## Cost and Major Benefit by Bureau

### Bureau of Land Management

- ***Managed over 245 million acres of public land, over 11% of the U.S. land mass, supporting multiple use and sustainment***
- ***Managed 3,650 recreation sites, 380 special recreation sites 16 national conservation areas, and 17 national monuments hosting 57.8 million visitors annually***
- ***Managed 794 geothermal leases, generating more than 40% of U.S. geothermal capacity, enough to power 1.3 million homes***

| BLM | (dollars in thousands) |
|---|---|
| Gross Cost | $ 2,375,351 |
| Earned Revenue | 586,768 |
| **Net Cost** | **$ 1,788,583** |

### Bureau of Ocean Energy Management

- ***Offered over 60 million acres for oil and gas exploration and development, resulting in over $2 billion in bonus bids***
- ***Finalized the OCS Oil and Gas Leasing Program for 2012-2017, which makes all areas with the highest-known resource potential available for oil and gas leasing in order to further reduce America's dependence on foreign oil***
- ***Completed an Environmental Assessment for commercial offshore wind leases in the Mid-Atlantic, setting the stage for leasing offshore New Jersey, Delaware, Maryland and Virginia***

| BOEM | (dollars in thousands) |
|---|---|
| Gross Cost | $ 157,572 |
| Earned Revenue | 166,039 |
| **Net Cost** | **$ (8,467)** |

### Bureau of Safety and Environmental Enforcement

- ***Oversaw operations on more than 3,000 offshore oil and natural gas facilities and nearly 27,000 miles of pipeline on the U.S. Outer Continental Shelf.***
- ***Conducted 23,000 compliance inspection of offshore oil and natural gas operations***
- ***Approved more than 900 total drilling permits for offshore oil and natural gas operations***

| BSEE | (dollars in thousands) |
|---|---|
| Gross Cost | $ 169,394 |
| Earned Revenue | 88,403 |
| **Net Cost** | **$ 80,991** |

## Office of Surface Mining Reclamation and Enforcement

- *Reclaimed 17,821 abandoned mined acres (or equivalents) to eliminate hazards to the public and abate environmental degradation*
- *Conducted inspections and site visits on 7,731 coal mining sites and found 6,749 free of offsite impacts or 87 percent*
- *Provided funding to states and tribes for implementation of regulatory and abandoned mine land programs; and to the United Mine Workers of America retirees for health benefit plans.*

| OSM | (dollars in thousands) |
|---|---|
| Gross Cost | $ 722,625 |
| Earned Revenue | 255 |
| **Net Cost** | **$ 722,370** |

## U.S. Geological Survey

- *Provided scientific information in ecosystems, climate change, land use change and energy and mineral assessments*
- *Produced information to increase understanding of natural hazards such as earthquakes, volcanoes, and landslides*
- *Conducted research on oil, gas and alternative energy potential, production, consumption and environmental effects*

| USGS | (dollars in thousands) |
|---|---|
| Gross Cost | $ 1,674,006 |
| Earned Revenue | 515,259 |
| **Net Cost** | **$ 1,158,747** |

## Bureau of Reclamation

- *Managed 476 dams and 348 reservoirs with the capacity to store 245 million acre-feet of water*
- *Delivered water to 1 in every 5 western farmers, farming over 10 million acres of irrigated land, and supplied water to over 31 million citizens*
- *On average, generated 40 billion kilowatt hours of energy annually, enough to power 3.56 million households per year*

| BOR | (dollars in thousands) |
|---|---|
| Gross Cost | $ 2,611,785 |
| Earned Revenue | 1,731,588 |
| **Net Cost** | **$ 880,197** |

## U.S. Fish and Wildlife Service

- *Managed 560 fish and wildlife refuges and thousands of small wetlands, comprising over 150 million acres of land and water*
- *Hosted over 47 million visitors to the Service's various refuges and wetlands*
- *Managed and maintained ecosystems critical to the sustainability of over 1,000 migratory bird species, 200 fish species, and 1,200 endangered animal and fish species*

| FWS | (dollars in thousands) |
|---|---|
| Gross Cost | $ 3,217,496 |
| Earned Revenue | 320,603 |
| **Net Cost** | **$ 2,896,893** |

## National Park Service

- *Managed 397 Park Units including the Grand Canyon and the Washington Monument, comprising nearly 85 million acres of land in 49 states, U.S. insular areas, and Territories*
- *Hosted over 279 million visits throughout the National Park system*
- *Maintained over 71,000 fragile and irreplaceable archeological sites, preserving links to our country's cultural and historical past*

| NPS | (dollars in thousands) |
|---|---|
| Gross Cost | $ 3,637,504 |
| Earned Revenue | 524,970 |
| **Net Cost** | **$ 3,112,534** |

## Indian Affairs

- *Managed 55 million surface acres and 57 million acres of subsurface minerals estates held in trust by the U.S. for individuals and tribes*
- *Provided education services to approximately 42,000 Indian students through 183 schools and dormitories*
- *Works in partnership with the more than 566 federally recognized Indian tribes to build stronger economies and safer Indian communities*

| IA | (dollars in thousands) |
|---|---|
| Gross Cost | $ 4,631,638 |
| Earned Revenue | 418,587 |
| **Net Cost** | **$ 4,213,051** |

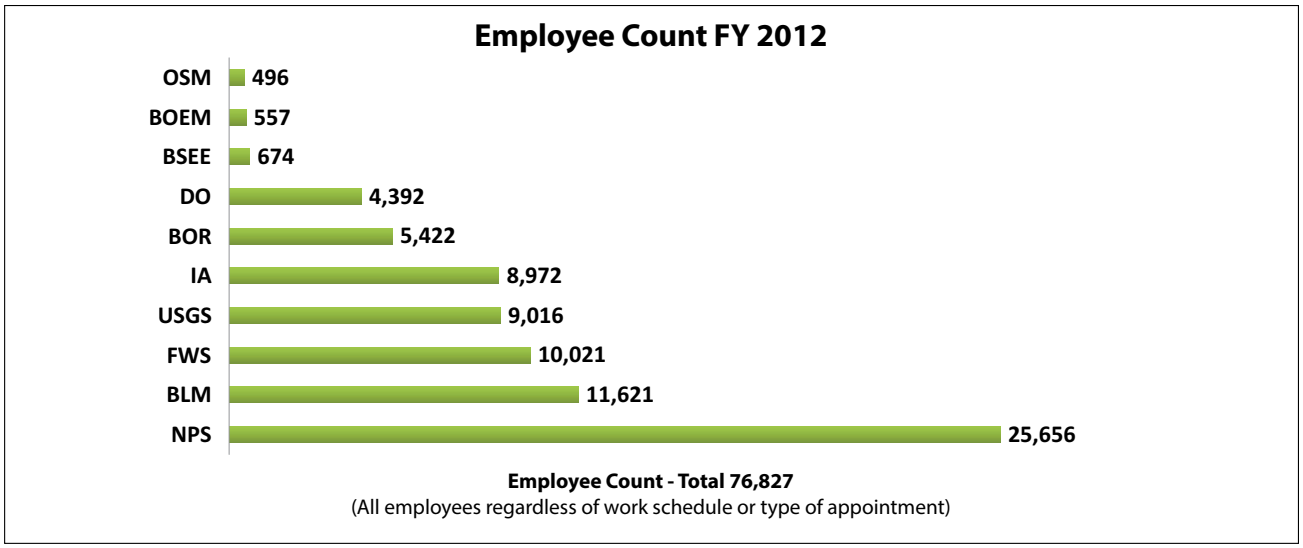
## Departmental Offices

- *Provided executive level leadership, policy, guidance, and coordination needed to manage the diverse, complex, and nationally significant programs that are the DOI's responsibility*
- *Coordinated federal policy, and administered U.S. Federal assistance within the United States Insular areas*
- *Collected and distributed approximately $11 billion in royalties*

| DO | (dollars in thousands) |
|---|---|
| Gross Cost | $ 6,961,166 |
| Earned Revenue | 2,488,836 |
| **Net Cost** | **$ 4,472,330** |

## Analysis of Net Cost – DOI Workforce

The DOI costs include $6,671,748 thousand in payroll and benefit costs for employees executing the DOI's mission and programs. The DOI employs 76,827 people in approximately 2,400 locations with offices across the United States, Puerto Rico, U.S. territories, and Freely Associated States. The total DOI employee count primarily includes full time permanent staff. Part-time and seasonal staff is also fundamental to the services that the DOI provides. At the DOI, employees take pride in knowing that the work they do every day is of real significance – from managing the Nation's natural resources and cultural heritage to honoring responsibilities to strengthen tribal nations and advocate for America's island communities. The DOI relies on their expertise and commitment to better serve the public and to help achieve organizational goals and objectives. Through a continuing effort to better serve America, the DOI continues to broaden the diversity of the DOI's workforce. The DOI is committed to identifying, hiring, and retaining the best qualified individuals, wherever they are and whatever their background, to reflect the diversity of the communities in which the DOI operates.




| Total Payroll & Benefits (dollars in thousands) | |
|---|---|
| IA | $ 703,208 |
| BLM | 1,011,525 |
| BOEM | 70,485 |
| BOR | 531,073 |
| BSEE | 69,476 |
| DO | 539,489 |
| FWS | 995,435 |
| NPS | 1,796,488 |
| OSM | 55,568 |
| USGS | 899,001 |
| **TOTAL** | $ 6,671,748 |

| Work Schedule Information | Full Time Permanent | Other* | Total |
|---|---|---|---|
| IA | 5,108 | 3,864 | 8,972 |
| BLM | 9,392 | 2,229 | 11,621 |
| BOEM | 533 | 24 | 557 |
| BOR | 5,055 | 367 | 5,422 |
| BSEE | 651 | 23 | 674 |
| DO | 4,099 | 293 | 4,392 |
| FWS | 8,398 | 1,623 | 10,021 |
| NPS | 16,437 | 9,219 | 25,656 |
| OSM | 456 | 40 | 496 |
| USGS | 6,967 | 2,049 | 9,016 |
| **Total Employees by Bureau** | **57,096** | **19,731** | **76,827** |

*Other includes Part-Time and Seasonal Employees

## Analysis of Net Cost - Stewardship Investments

The DOI net cost includes expenses incurred that are expected to benefit the Nation over time. These expenses are qualitatively material and worthy of highlighting as they represent expenses charged to current operations that are expected to benefit the Nation over time. Summary information regarding these expenses is provided in the table below. An in-depth discussion is provided in the Required Supplementary Information section of this report.

| Stewardship Investments | | | | |
|---|---|---|---|---|
| *(dollars in millions)* | FY 2012 | FY 2011 | Change | % Change |
| Non-Federal Physical Property | $ 745 | $ 817 | $ (72) | -8.8% |
| Research and Development | $ 1,165 | $ 939 | $ 226 | 24.1% |
| Human Capital | $ 763 | $ 727 | $ 36 | 5.0% |

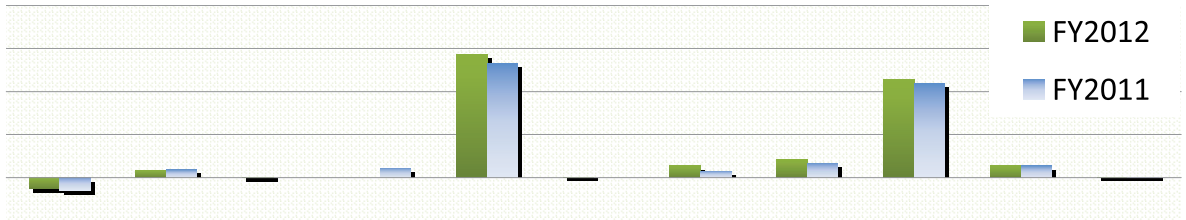
## Analysis of Net Position

| Net Postion *(dollars in thousands)* | FY 2012 | FY 2011 | Increase/ (Decrease) | % Change |
|---|---|---|---|---|
| Unexpended Appropriations | $ 5,333,672 | $ 6,041,022 | $ (707,350) | -11.7% |
| Cumulative Results of Operations | 60,387,763 | 57,391,119 | 2,996,644 | 5.2% |
| **Net Position** | **$ 65,721,435** | **$ 63,432,141** | **$ (2,317,049)** | **3.6%** |

The Net Position of DOI includes Unexpended Appropriations and Cumulative Results of Operations. These two components are displayed on the Statement of Changes in Net Position to provide information regarding the nature of changes to the Net Position of DOI as a whole.

The FY 2012 Net Position increase is primarily attributable to new coal lease and offshore oil and gas lease sale bonuses. Additional information regarding bonuses is available in the Analysis of Net Cost section above. Cumulative Results of Operations by Bureau is summarized below.

**Cumulative Results of Operations**
*(dollars in millions)*




| | IA | BLM | BOEM | BOEMRE | BOR | BSEE | DO | FWS | NPS | OSM | USGS |
|---|---|---|---|---|---|---|---|---|---|---|---|
| FY2012 | $(2,512) | $1,677 | $95 | - | $28,581 | $104 | $2,702 | $4,121 | $22,721 | $2,765 | $134 |
| FY2011 | $(2,876) | $1,846 | - | $2,190 | $26,617 | - | $1,419 | $3,386 | $21,979 | $2,696 | $134 |

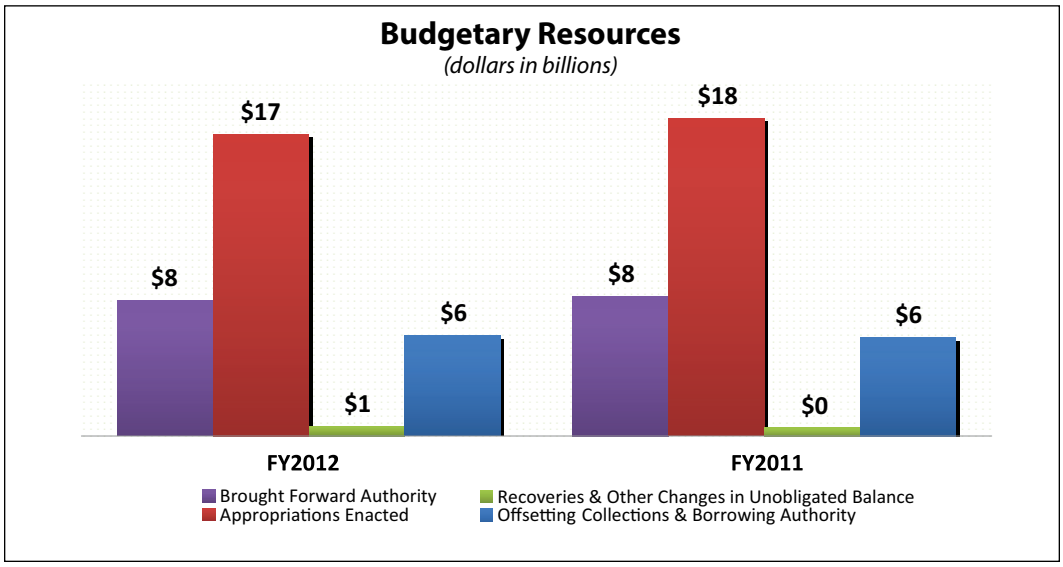
## Analysis of Budgetary Resources

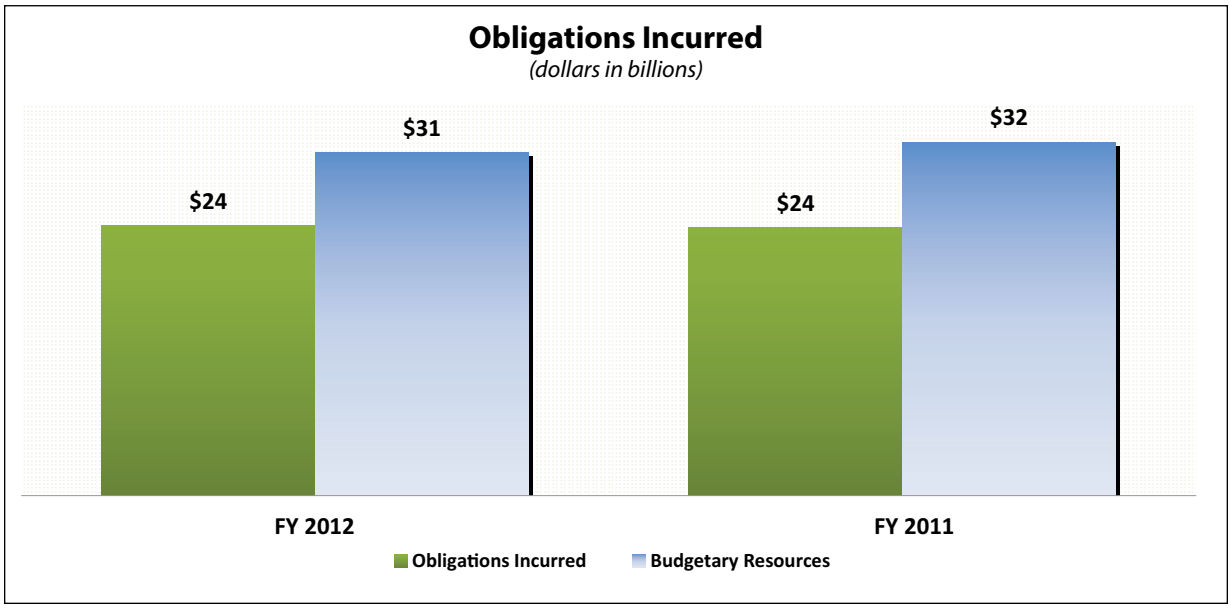
| Key Budgetary Measures *(dollars in thousands)* | FY 2012 | FY 2011 | Increase/ (Decrease) | % Change |
|---|---|---|---|---|
| Brought Forward Authority | $ 7,612,195 | $ 7,843,856 | $ (231,661) | -3.0% |
| Appropriations Enacted | 16,903,962 | 17,786,714 | (882,752) | -5.0% |
| Recoveries & Other Changes in Unobligated Balance | 536,177 | 448,390 | 87,787 | 19.6% |
| Offsetting Collections and Borrowing Authority | 5,617,978 | 5,509,667 | 108,311 | 2.0% |
| **Total Budgetary Resources** | **$ 30,670,312** | **$ 31,588,627** | **$ (918,315)** | **-2.9%** |
| Obligations Incurred | 24,119,755 | 23,976,432 | 143,323 | 0.6% |
| Unobligated Balance Available | 6,409,667 | 7,455,159 | (1,045,492) | -14.0% |
| Unobligated Balance Not Available | 140,890 | 157,036 | (16,146) | -10.3% |
| **Status of Budgetary Resources** | **$ 30,670,312** | **$ 31,588,627** | **$ (918,315)** | **-2.9%** |

The DOI receives most of its funding from general government funds administered by the U.S. Treasury and appropriated for the DOI's use by Congress. A portion of the DOI's resources come from Special and Trust Funds, such as Conservation Funds (the Land and Water Conservation Fund, Historic Preservation Fund, and the Environmental Improvement and Restoration Fund), the Reclamation Fund, and the Aquatic Resources Trust Fund. These funds are administered in accordance with applicable laws and regulations.

The FY 2012 decrease in Budgetary Resources is primarily the result of the BOR appropriations received in the prior year for which there is no equivalent in the current fiscal year. In FY 2011, the BOR received over $445,000 thousand in appropriations to fund Native American water rights claim payments under the Claims Resolution Act of 2010. These appropriations are used to fund agreements made with Tribes to design and construct or rehabilitate water systems to provide water to the Tribes and to resolve certain damage claims and water rights claims with the Tribes. These amounts have not yet been obligated as the BOR is working with the Tribes to finalize project plans and to accrue balances to fulfill settlements. In addition, the BOR collected $324,000 thousand in offsetting receipts into the San Joaquin River Restoration Fund in FY 2011. The receipts received in FY 2011 increased as the San Joaquin River Restoration Settlement Act allowed water contractors to make an early repayment of capital into the Restoration Fund. Only $88,000 thousand of the receipts deposited into the San Joaquin River Restoration Fund are available for use by the BOR for implementation of the settlement and most of these funds have been obligated for implementation of the settlement. On October 1, 2019 the remaining receipts will be available for use by the BOR for the continued restoration of the San Joaquin River.

The DOI budgetary sources and obligations incurred relative to resources are depicted in the graphs that follow.

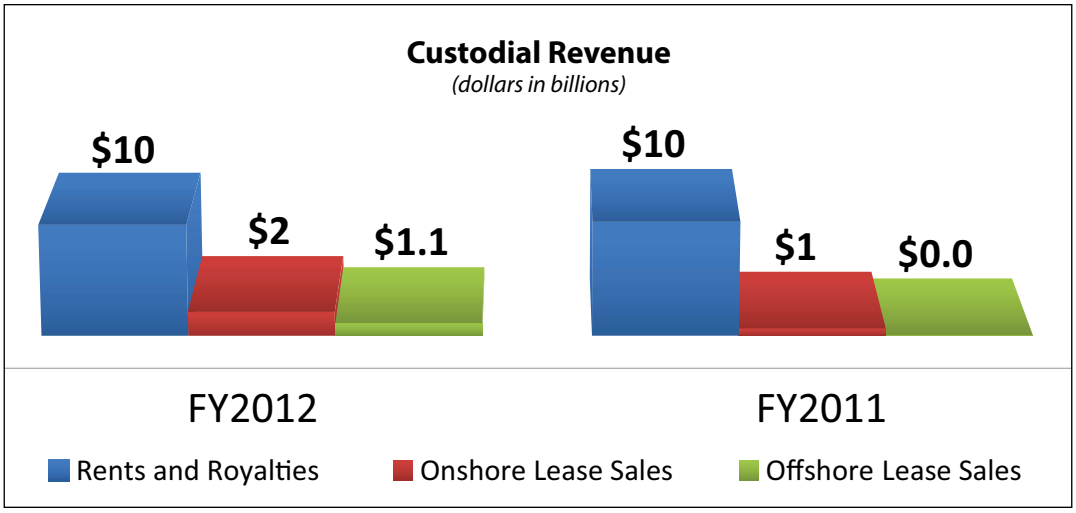





## Analysis of Custodial Activity

| Custodial Activity (dollars in thousands) | FY 2012 | FY 2011 | Increase/ (Decrease) | % Change |
|---|---|---|---|---|
| Rents and Royalties | $ 9,901,697 | $ 10,216,122 | $ (314,425) | -3.1% |
| Onshore Lease Sales | 2,107,090 | 648,822 | 1,458,268 | 224.8% |
| Offshore Lease Sales | 1,095,070 | 36,796 | 1,058,274 | 2876.1% |
| **Total Custodial Revenue** | **$ 13,103,857** | **$ 10,901,740** | **$ (2,202,117)** | **20.2%** |

DOI custodial activity includes mineral leasing revenue collected by DOI resulting from Outer Continental Shelf and onshore oil, gas, and mineral sales and royalties. This activity is considered to be revenue of the Federal Government as a whole and is therefore excluded from DOI's Statement of Net Cost. The FY 2012 increase in mineral leasing revenue is the result of new coal leases and offshore oil and gas lease sale bonuses.



## Limitations of Financial Statements

Management prepares the accompanying financial statements to report the financial position and results of operations for the Department pursuant to the requirements of Chapter 31 of the U.S.C. Section 3515(b). While these statements have been prepared from the records of the Department in accordance with GAAP and formats prescribed in OMB Circular No. A-136, "Financial Reporting Requirements," these statements are in addition to the financial reports used to monitor and control the budgetary resources that are prepared from the same records. These statements should be read with the understanding that they are for a component of the U.S. Government, a sovereign entity.

# WHAT'S AHEAD – A FORWARD LOOK

In 1849, when the Congress created the Home Department or Department of the Interior (DOI), it charged the DOI with managing a wide variety of programs. In the last half of the 19th century, these programs ran the gamut of over-seeing Indian Affairs, exploring the western wilderness, directing the District of Columbia jail, constructing the National Capital's water system, managing hospitals and universities, improving historic western emigrant routes, marking boundaries, issuing patents, conducting the census, and conducting research on the geological resources of the land.

With the wave of western development and following the conservation movement at the beginning of the 20th century, there was an increasing sense of the fragile nature of natural and cultural resources and the need to protect them for future generations. Accordingly, the DOI's mission began to focus on the preservation, management, understanding, and use of natural and cultural resources.

Today, the mission of the DOI is simple but profound- to protect America's natural resources and cultural heritage and honor the Nation's trust responsibilities to American Indians and Alaska Natives.

The DOI's people and programs impact all Americans. The Department is the steward of 20 percent of the Nation's lands. The DOI manages the resources in the national parks, national wildlife refuges, and public lands and assists states, tribes, and others in the management of natural and cultural resources. On public lands and the Outer Continental Shelf (OCS), the DOI provides access for renewable and conventional energy development. The DOI assists States in the management of surface coal mining and the protection and restoration of surface mined lands. The DOI oversees the responsible development of 24 percent of America's domestic oil and gas supplies, ensuring safety and environmental protection and the effective collection of revenue for the American public. The DOI is also the largest supplier and manager of water in the 17 Western states, assists others with water conservation and extending water supplies, and is America's second largest producer of hydropower

The DOI works to ensure that America's spectacular landscapes, unique natural life, and cultural resources and icons endure for future generations, tells and preserves the American story, and maintains the special places that enable the shared American experience. At the same time, the DOI manages minerals development on public lands and waters including oil, gas, coal, gold, and uranium. The DOI manages and delivers water, arbitrates long-standing conflicts in water allocation, and actively promotes water conservation. As one of the Nation's primary natural and cultural resource stewards, the DOI makes decisions regarding potential development on the public lands and offshore coastal areas that can greatly impact the Nation's energy future and economic strength. Factored in this balance is the DOI's unique responsibility to American Indians and Alaska Natives. The DOI supports cutting edge research in the earth sciences – geology, hydrology, and biology – to inform resource management decisions at DOI and organizations across the world and in earthquake, volcano, and other hazards to protect communities across the Nation. The DOI's activities are guided by a Strategic Plan and a set of Priority Performance Goals. The following initiatives exemplify how the DOI will maintain and build the capacity to carry out these responsibilities on behalf of the American people in the future.

***Powering America's Economy*** - The DOI estimates that conventional and renewable energy produced on the DOI lands and waters results in approximately $230 billion in economic benefits each year. The DOI is moving aggressively to put the President's energy strategy, Blueprint for a Secure Energy Future, into action and expand secure energy supplies for the Nation – a strategy that includes the responsible development of renewable energy sources on the public lands. The President's Blueprint recognizes the economic potential of renewable energy development. The economic benefits could be particularly significant in America's remote and rural places near public lands. The BLM has identified 20.6 million acres of public land with wind energy potential in 11 Western states, 30 million acres with solar energy potential in 6 Southwestern states, and 111 million acres of public land in Western states and Alaska as open for geothermal leasing. The DOI has a Priority Performance Goal to increase approved capacity for solar, wind, and geothermal energy resources on Interior managed lands, while ensuring full environmental review, by at least 11,000 megawatts by the end of FY 2013. This would provide sufficient energy to power over 2 million homes each year.

***Growing the Economy Outdoors*** – The DOI is at the forefront of a comprehensive effort to spur job creation by making the United States the world's top travel and tourism destination. The DOI manages iconic destinations in the national parks, wildlife refuges, cultural and historic sites, monuments, and other public lands that attract travelers from around the country and the globe. In

2010, 437 million visits were made by American and international travelers to these lands, contributing $47.9 billion in economic activity and 388,000 jobs. Interior is working to maximize the benefit of the outdoors for the millions of Americans at home. Hunting, fishing, and outdoor recreation contribute an estimated $730 billion to the U.S. economy each year. More than 12 million Americans hunt; more than 30 million Americans fish; and three out of four Americans engage in some kind of healthy outdoor activity. One in twenty U.S. jobs is in the recreation economy. The DOI continues to expand opportunities for recreation – through partnerships with States and ot hers and the promotion of America's parks, refuges, and public lands. By encouraging innovative partnerships in communities across the Nation, the DOI is expanding access to rivers and trails, creating wildlife corridors, and promoting conservation while working to protect historic uses of the land including ranching, farming, and forestry.

***Protecting and Renewing America's Rivers*** - As part of the America's Great Outdoors initiative, the DOI and its bureaus will undertake Interior-led river restoration and recreation projects in all 50 states; develop a National Blueways System to recognize communities that rediscover, restore, and reconnect with rivers; and work with partners to develop a National Rivers Atlas and other online river restoration and recreation tools. The FY 2013 budget supports this initiative by strategically focusing funding on several large scale river projects. A clear example of the spirit of this initiative is Interior's restoration of the Elwha River in Washington, the largest dam removal project in American history. Led by the NPS, in coordination with the BOR, the FWS, the BIA, the U.S. Army Corps of Engineers and the Lower Elwha Klallam Tribe, the Elwha River restoration will reopen more than 70 miles of pristine spawning and rearing habitat in the Elwha River and its tributaries. Salmon populations are predicted to swell from 3,000 to nearly 400,000 as all five species of Pacific salmon return to one of the Pacific Northwest's most productive salmon streams. The return of salmon to the largest watershed in Olympic National Park will return marine-derived nutrients to the watershed, restoring a vital food source for the range of life that inhabits it. For the Lower Elwha Klallam Tribe, this project will bring cultural, spiritual, and economic healing as salmon return after a century's absence and flooded sacred sites are restored.

***Encouraging Economic Development in Indian Country*** – The DOI has a unique responsibility to American Indians and Alaska Natives, which is upheld by Interior's support for a robust government-to-government relationship as demonstrated by a new comprehensive and transparent consultation policy that ensures there is a strong, meaningful role for tribal governments. The DOI conducts extensive consultation with Indian tribes in order to gain insight into the alignment of the budget with tribal priorities. The tribes, through the FY 2013 budget discussions with the Tribal Interior Budget Council, identified funding for contract support as their top priority. This funding is a key factor in the decisions made by tribes to assume responsibilities for operating a broad array of Federal programs. Increased funding for tribal contract support will reduce the need for tribes to use program funds or their own funds to fulfill administrative requirements. Adequate funding for contract support ensures tribes have sufficient resources to oversee program implementation and allows tribes to deliver services more effectively.

The Claims Resolution Act of 2010 settled the Cobell lawsuit and four settlements that will provide permanent water supplies and economic security for the Taos Pueblo of New Mexico and Pueblos of New Mexico named in the Aamodt case, the Crow Tribe of Montana, and the White Mountain Apache Tribe of Arizona. The agreements will enable construction and improvement of reservation water systems, irrigation projects, a regional multi-pueblo water system, and codify water-sharing arrangements between Indian and neighboring communities. The primary responsibility for constructing water systems associated with the settlements was given to the BOR and the BIA is responsible for the majority of the trust funds.

***Honoring Trust Responsibilities*** – A key responsibility for the BIA is ensuring and improving the safety of Indian communities. Some Indian reservations experience violent crime rates that are twice the national average. The high crime rates are a key issue for tribal leaders as they degrade the quality of life for residents, attract organized crime, and are a real disincentive for businesses to consider these communities for economic development. The year 2011 was the second year of a two–year pilot at four reservations to conduct expanded community policing, equip and train the law enforcement cadre, partner with the communities to organize youth groups and after school programs, and closely monitor results. The results exceeded expectations

with a 35 percent overall decrease in violent crime in the four communities. By September 30, 2013, in addition to continued efforts at the four targeted tribal reservations, the DOI's goal is to achieve significant reduction in violent crime offenses of at least 5 percent on 2 additional reservations by implementing a comprehensive strategy involving community policing, tactical deployment, and critical interagency and intergovernmental partnerships.

***Spurring Growth and Innovation Through Science*** – Investments in research and development promote economic growth and innovation, ensure American competitiveness in a global market, and are critical to achieving the mission of the DOI. Investments in the DOI's research and development will improve U.S. strategic mineral supplies, water use and availability, and natural hazard preparedness. Recent technology and operational improvements have led to increased use of hydraulic fracturing in developing natural gas resources. To ensure the prudent and sustainable development of this important source of domestic energy, economic development, and job creation, the FY 2013 budget invests in research and development that proactively addresses concerns about the potential impacts of hydraulic fracturing on air, water, ecosystems, and seismicity or earthquakes. Sustainable stewardship of natural resources requires strong investments in research and development in the natural sciences. Research and development funding is increased in the FY 2013 budget, as a result of these investments, Interior will address critical challenges in energy production and the management of ecosystems, invasive species, public lands, and water.

***Delivering Sustainable Growth through Water*** – The DOI has a significant role in managing water resources in the western United States. These efforts involve providing capability for the collection, storage, and distribution of water resources. The BOR maintains 476 dams and 337 reservoirs with the capacity to store 245 million acre-feet of water. The bureau manages water for agricultural, municipal, and industrial use, and provides flood control and recreation for millions of people. These facilities deliver water to one in every five western farmers to irrigate approximately ten million acres of land, and provide water to over 31 million people for municipal and industrial uses and other non-agricultural uses. The water managed by Interior irrigates an estimated 60 percent of the Nation's vegetables each year. By September 30, 2013, the DOI will further enable the capability to increase the available water supply for agricultural, municipal, industrial, and environmental uses in the western United States through water conservation programs to 730,000 acre-feet.

***Service First*** – The DOI operates out of over 2,400 locations and manages over 165,000 physical assets, second only to the Department of Defense. While effective program delivery relies on close coordination at the local level and a field level presence, alignment of operational models, standardization of administrative and support functions, centralization of common services, and other actions can be taken to improve efficiency, cut costs, and avoid future cost increases. The objective of the Service First transformation initiative is to identify opportunities to integrate and leverage resources used by the DOI bureaus and offices and to shrink the DOI's footprint, maximize efficiency, and identify savings while maintaining the level of mission delivery.

Service First began as a partnership authority among four agencies including the BLM, the FWS, the NPS, and the USFS. The authority allows these agencies to conduct projects, planning, permitting, leasing, contracting and other activities, either jointly or on behalf of one another. Service First has effectively demonstrated that leveraging and taking a more strategic approach to operations can save costs and result in more seamless service to the public. The DOI will build on the successful Service First partnership approach by examining the Wildland Fire Management Program to identify the most effective and efficient organization. The program is operated by four bureaus including the BLM, the FWS, the NPS, and the BIA. The review will result in a set of options for a comprehensive suite of Wildland Fire Management services that support core mission needs.

The Fiscal Year 2012 audit resulted in DOI's 16th consecutive unqualified opinion on the consolidated financial statements. We are proud of this sustained achievement as well as the removal of a material weakness that was included in last year's audit, as it underscores our commitment to sound financial management and our high standards of accountability, transparency, and ethics. As stewards of our Nation's lands and resources, DOI's managers understand the need to be accountable, the challenges of operating effective and efficient programs, and the fact that sound financial management is a cornerstone of program performance.

The DOI's mission is vast in economic and physical terms and in terms of the impacts on the American Public.

- The DOI's programs and activities support nearly 2.4 million American jobs and annually contribute about $385 billion to the nation's economic activity, according to a 2011 Departmental study. The DOI manages more than 500 million acres or about 20 percent of the land area of the United States, 700 million acres of subsurface minerals, and 53 million acres of submerged land in four Pacific national monuments.

- With jurisdiction for 1.7 billion acres of the Outer Continental Shelf, DOI's lands and waters produce approximately 30 percent of the Nation's energy. Conventional and renewable energy produced on DOI-managed public lands and offshore areas resulted in $246 billion in economic activity; water supply, forage and timber activities, primarily on public lands in the West, contributed $48 billion in economic activity; and parks, refuges, and monuments contributed more than $44 billion in economic activity from recreation and tourism.

- The DOI has responsibility for the largest land trust in the world, managing 55 million acres of surface acres and 57 million acres of subsurface mineral estates as part of the Indian trust. The DOI is also the largest supplier and manager of water in the 17 Western States.

Effective execution of programs in support of fulfilling these responsibilities requires sound financial management and a strong set of internal controls. While we were successful in obtaining an unqualified audit opinion and removing our material weakness, the auditors identified three repeat significant deficiencies associated with controls over information technology, undelivered orders, and grant monitoring. We understand the critical nature of these deficiencies, and take very seriously the need to correct them. As such, we have already begun to develop corrective action plans to remedy these findings in FY 2013. In FY 2012, we closed 82 percent of the corrective actions in our goal base related to Government Accountability Office and Office of the Inspector General findings.

The DOI is also working diligently to correct audit weaknesses and instances of noncompliance identified as a result of the FY 2011 and FY 2012 audits. We have implemented a significant number of the recommendations noted during the FY 2011 and FY 2012 audits and have fully closed 53 of the 54 internal control and non-compliance findings identified. Similarly, we continue to address the management challenges highlighted by the Inspector General and have achieved significant improvements in each of the six areas identified and continue efforts to make even further improvements.

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

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

Realizing the importance of addressing our weaknesses and challenges, we would also highlight the many positive results over the past year. First, in FY 2012, DOI continued the migration to FBMS with the deployment of the Fish and Wildlife Service and Departmental Offices in November 2011. We are also on schedule to successfully meet the rest of our planned deployments with the Bureau of Indian Affairs and the National Park Service "going live" in November 2012 and finally the Bureau of Reclamation going live in November 2013. We are continually working on improvements to gain value from the system and better support user needs.

The DOI is also exploring continuing opportunities to leverage its information technology infrastructure for more efficient operations and savings. The DOI's information technology (IT) Transformation Strategic Plan, found at *www.doi.gov/ocio/it-transformation.cfm* outlines how DOI will gain efficiencies by leveraging technology to save up to $500 million in taxpayer dollars by 2020. The plan's high-level road map will guide the transformation of DOI's IT operations by using advances in technology to provide better service for less money. Key initiatives within the plan are a reduction in the number of data centers DOI currently maintains, a migration to a single email system that will cut costs and improve effectiveness, as well as a move to cloud based technology for FBMS as well as forms, documents, records, and content management.

The DOI has been successful in realizing benefits from our Service First initiative. Building on past successes experienced by the Bureau of Land Management in partnership with the U.S. Forest Service, DOI has broadened its Service First initiative which now includes all of the bureaus, and supports efforts to expand the use of communications and technology tools, co-locate programs, and share services across programs. By sharing space, equipment, personnel and programs, DOI will improve delivery of services to the public while reducing costs.

The DOI realizes its role as a leader in conserving and protecting the Nation's natural and cultural resources now and for future generations. Implementing sustainability in Departmental operations is consistent with, and complementary to, DOI's overarching mission. The Strategic Sustainability Performance Plan, found at *www.doi.gov/greening/sustainability_plan/index.cfm*, supports this vision by integrating sustainability within Departmental operations and reducing our green house gas emissions which further demonstrates DOI's commitment to conservation, protection, and the responsible use of natural and cultural resources.

Other noteworthy accomplishments achieved in FY 2012 include:

- Receiving the Association of Government Accountants' Certificate of Excellence in Accountability Reporting, as well as a "best in class" class recognition award for our Summary of Performance and Financial Information. This marks the 12th consecutive year that DOI has been recognized for quality reporting by CEAR.

- Documenting and testing the internal controls over financial reporting and issuing the statement of assurance including the results of the assessment.

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

- Making 91 percent of all contractor payments on an accelerated basis in September in compliance with OMB Memorandum M-12-16, *Providing Prompt Payment to Small Business Subcontractors*, and in support of small businesses across the country.

This Agency Financial Report provides timely information that the American Public can use to better understand DOI's programs. We hope that you find it useful and that you will follow our progress in advancing DOI's strategic and high priority performance goals and efforts to improve transparency and accountability. You may view my public announcement of the release of this report and a copy of the report at *www.doi.gov/pfm/afr/index.cfm*

**Rhea Suh**
Assistant Secretary – Policy, Management and Budget and Chief Financial Officer
November 15, 2012

# OFFICE OF INSPECTOR GENERAL TRANSMITTAL

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

NOV 15 2012

Memorandum

To: Secretary Salazar

From: Mary L. Kendall
Deputy Inspector General

Bruce Delaplaine for Mary Kendall

Subject: Independent Auditors' Report on the U.S. Department of the Interior Financial Statements for Fiscal Years 2012 and 2011
Report No. X-IN-MOA-0002-2012

**Introduction**

This memorandum transmits the KPMG LLP (KPMG) auditors' report of the U.S. Department of the Interior (DOI) financial statements for fiscal years (FYs) 2012 and 2011. The Chief Financial Officers Act of 1990 (Public Law 101-576), as amended, requires the DOI Inspector General or an independent auditor, as determined by the Inspector General, to audit the DOI financial statements.

Under a contract issued by DOI and monitored by the Office of Inspector General (OIG), KPMG, an independent public accounting firm, performed an audit of the DOI FY 2012 and FY 2011 financial statements. The contract required the audit to be performed in accordance with the generally accepted Government Auditing Standards, issued by the Comptroller General of the United States and Office of Management and Budget Bulletin No. 07-04, "Audit Requirements for Federal Financial Statements."

**Results of Independent Audit**

In its audit report, KPMG issued an unqualified opinion on the DOI financial statements. KPMG identified three significant deficiencies in internal controls over financial reporting. In addition, KPMG identified one instance in which DOI did not comply with laws and regulations, specifically the Single Audit Act Amendments of 1996.

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

**Evaluation of KPMG Audit Performance**

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

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

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

**Report Distribution**

The legislation creating OIG requires semiannual reporting to Congress on all audit reports issued, actions taken to implement audit recommendations, and unimplemented recommendations. Therefore, we will include a summary of the information contained in the attached audit report in our next semiannual report. The distribution of the report is not restricted, and copies are available for public inspection.

We appreciate the cooperation and assistance of DOI personnel during the audit. If you have any questions regarding the report, please contact me at 202-208-5745.

Attachment

KPMG LLP
Suite 12000
1801 K Street, NW
Washington, DC 20006

## Independent Auditors' Report

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

We have audited the accompanying balance sheets of the U.S. Department of the Interior (Interior) as of September 30, 2012 and 2011, and the related statements of net cost, changes in net position, budgetary resources, and custodial activity for the years then ended (hereinafter referred to as "financial statements"). The objective of our audits was to express an opinion on the fair presentation of these financial statements. In connection with our fiscal year 2012 audit, we also considered Interior's internal control over financial reporting and tested Interior's compliance with certain provisions of applicable laws, regulations, contracts, and grant agreements that could have a direct and material effect on these financial statements.

**Summary**

As stated in our opinion on the financial statements, we concluded that Interior's financial statements as of and for the years ended September 30, 2012 and 2011, are presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles.

As discussed in our Opinion on the Financial Statements, Interior changed its presentation for reporting the Statement of Budgetary Resources in fiscal year 2012.

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

A. Information Technology Controls Over Financial Management Systems
B. Controls Over Future Operating Lease Payments
C. Grant Monitoring Controls

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

The results of our tests of compliance with certain provisions of laws, regulations, contracts, and grant agreements disclosed the following instance 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. 07-04, *Audit Requirements for Federal Financial Statements*, as amended.

KPMG LLP is a Delaware limited liability partnership, the U.S. member firm of KPMG International Cooperative ("KPMG International"), a Swiss entity.

D. *Single Audit Act Amendments of 1996*

The following sections discuss our opinion on Interior's financial statements; our consideration of Interior's internal control over financial reporting; our tests of Interior's compliance with certain provisions of applicable laws, regulations, contracts, and grant agreements; and management's and our responsibilities.

**Opinion on the Financial Statements**

We have audited the accompanying balance sheets of the U.S. Department of the Interior as of September 30, 2012 and 2011, and the related statements of net cost, changes in net position, budgetary resources, and custodial activity for the years then ended.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the U.S. Department of the Interior as of September 30, 2012 and 2011, and its net costs, changes in net position, budgetary resources, and custodial activity for the years then ended, in conformity with U.S. generally accepted accounting principles.

As discussed in Note 18 to the financial statements, Interior changed its presentation for reporting the Statement of Budgetary Resources in fiscal year 2012, based on new reporting requirements under OMB Circular No. A-136, *Financial Reporting Requirements*. As a result, Interior's Statement of Budgetary Resources for fiscal year 2011 has been adjusted to conform to the current year presentation.

U.S. generally accepted accounting principles require that the information in the Management's Discussion and Analysis, Required Supplementary Information, and Required Supplementary Stewardship Information sections be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Federal Accounting Standards Advisory Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

The information in the Message From the Secretary, About This Report, Message From the Chief Financial Officer, and Other Accompanying Information sections is presented for the purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audits of the basic

financial statements, and accordingly, we do not express an opinion or provide any assurance on the information.

**Internal Control Over Financial Reporting**

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

Our consideration of internal control over financial reporting was for the limited purpose described in the Responsibilities section of this report and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. In our fiscal year 2012 audit, we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting described below that we consider to be significant deficiencies in internal control over financial reporting. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

**A. Information Technology Controls Over Financial Management Systems**

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

1. *Access Controls*

Access controls protect financial and sensitive information from unauthorized modification, disclosure, and loss; however, Interior did not fully establish controls to prevent and detect unauthorized access. Interior did not consistently document review and approval of user access and recertify user access for three applications, did not consistently remove terminated users' access for four applications timely, and did not establish controls over contractor access to applications. In addition, one component did not complete an effective review of restrictions of physical access rights to data.

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2. *Configuration Management*
Configuration management controls ensure that only authorized programs and modifications are implemented. Interior did not consistently test and approve changes prior to implementation for one application. In addition, Interior has not fully segregated responsibilities for developing, testing and migrating changes at one component, did not fully segregate user roles and responsibilities for one application, and did not configure one application to segregate responsibilities for the entering, reviewing, and approving of journal entries.

3. *Security Program*
A security program is the foundation of an entity's security control structure. Interior did not fully conduct an assessment of security controls documented in one of its system security plans.

**Recommendations**
We recommend that Interior continue to improve the information technology controls over its financial management systems to provide adequate security and protection of the systems as follows:

1. Document review and approval of user access, recertify user access, remove access for terminated users, establish controls over contractor access to applications, and periodically review and approve physical access rights.
2. Test and approve software changes prior to implementation and fully segregate responsibilities for software changes, user roles, and journal entries.
3. Conduct an assessment of security controls as part of the security program.

**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. Controls Over Future Operating Lease Payments**

Interior is required to disclose future operating lease payments in accordance with the accounting standards. In fiscal year 2012, Interior issued guidance for identifying and reporting future operating lease payments as required by the accounting standards; however, Interior's components did not consistently follow the guidance. Specifically, four Interior components did not report all future operating lease payments and another Interior component did not properly calculate its future operating lease payments. As a result, the total future operating lease payments were understated by approximately $301 million. In response to our observations, Interior analyzed and adjusted the future operating lease payments disclosure.

**Recommendations**
We recommend that Interior improve its controls over future operating lease payments as follows:

1. Review the future operating lease payment guidance with the individuals responsible for preparing the future operating lease payment schedules and determine if such guidance should be clarified or include additional monitoring procedures.
2. Require a second individual to verify the mathematical accuracy of the future operating lease payment schedules.
3. Require the Office of Financial Management to review each component's future operating lease payment schedule for consistency and compliance with Interior's guidance.

**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. Grant Monitoring Controls**

Interior is required to monitor its grantees in accordance with the *Single Audit Act Amendments of 1996,* the related OMB Circular No. A-133, *Audits of States, Local Governments, and Non-Profit Organizations* (OMB Circular No. A-133), and other laws. Interior did not clearly communicate grant monitoring responsibilities. As a result, Interior did not obtain single audit reports within nine months of the grantee's fiscal year-end for 19 of 58 grantees tested and did not issue management decisions on audit findings within six months after receipt of single audit reports for 1 of the 58 grantees tested. Interior also did not obtain or follow up on past due financial, narrative, and progress reports for 16 of the 50 grants tested.

**Recommendations**
We recommend that Interior improve its grant monitoring process as follows:

1. Continue to communicate the updated grant monitoring policies and procedures to those responsible for implementing such policies and procedures.
2. Develop a grant monitoring process that identifies grantees requiring single audit reports, grantees missing single audit reports, and single audit reports needing management decisions on audit findings.
3. Periodically query the Federal Audit Clearinghouse to identify missing single audit reports and single audit reports needing management decisions on audit findings for all grants recorded in Interior's accounting systems.
4. Require component leadership to 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.
5. Follow up on single audit, financial, narrative, and progress reports not received and consider the need to limit future grant awards until these reports are received.

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**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.

Exhibit I presents the status of prior year significant deficiencies and material weakness.

**Compliance and Other Matters**

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

**D. *Single Audit Act Amendments of 1996***

As discussed in the Internal Control Over Financial Reporting section of this report, Interior did not perform adequate monitoring of grantees in accordance with the *Single Audit Act Amendments of 1996*, the related OMB Circular No. A-133, and other laws. Interior did not consistently obtain and review financial, narrative, progress, and single audit reports, issue management decisions on audit findings, and monitor grantees timely.

**Recommendation**
We recommend that in fiscal year 2013, Interior obtain and review financial, narrative, progress, and single audit reports, issue management decisions on audit findings, and monitor grantees to ensure compliance with the *Single Audit Act Amendments of 1996*, the related OMB Circular No. A-133, and other laws.

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

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

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

We noted certain additional matters that we will report to management of Interior in a separate letter.

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**Responsibilities**

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

**Auditors' Responsibilities.** Our responsibility is to express an opinion on the fiscal year 2012 and 2011 financial statements of Interior based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Bulletin No. 07-04. Those standards and OMB Bulletin No. 07-04 require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Interior's internal control over financial reporting. Accordingly, we express no such opinion.

An audit also includes:

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

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

In planning and performing our fiscal year 2012 audit, we considered Interior's internal control over financial reporting by obtaining an understanding of Interior's internal control, determining whether internal controls had been placed in operation, assessing control risk, and performing tests of controls as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Interior's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Interior's internal control over financial reporting. We did not test all controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*.

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As part of obtaining reasonable assurance about whether Interior's fiscal year 2012 financial statements are free of material misstatement, we performed tests of Interior's compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of the financial statement amounts, and certain provisions of other laws and regulations specified in OMB Bulletin No. 07-04, including the provisions referred to in Section 803(a) of FFMIA. We limited our tests of compliance to the provisions described in the preceding sentence, and we did not test compliance with all laws, regulations, contracts, and grant agreements applicable to Interior. However, providing an opinion on compliance with laws, regulations, contracts, and grant agreements was not an objective of our audit and, accordingly, we do not express such an opinion.

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Interior's written response to the findings identified in our audit, and presented as a separate attachment to this report, was not subjected to the auditing procedures applied in the audit of Interior's financial statements and, accordingly, we express no opinion on it.

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

KPMG LLP

November 15, 2012

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**Exhibit I**

**U.S DEPARTMENT OF THE INTERIOR**

Status of Prior Year Findings

September 30, 2012

| FY2011 Ref | Fiscal Year 2011 Finding | Status of Fiscal Year 2011 Findings |
|---|---|---|
| **A** | Controls over Contingencies | Corrective actions implemented. |
| **B** | Information Technology Controls over Financial Management Systems | This condition has not been corrected and is repeated in fiscal year 2012. See finding A. |
| **C** | Controls over Undelivered Orders | Corrective actions implemented. |
| **D** | Grant Monitoring Controls | This condition has not been corrected and is repeated in fiscal year 2012. See finding C. |
| **E** | *Single Audit Act Amendments of 1996* | This condition has not been corrected and is repeated in fiscal year 2012. See finding D. |
| **F** | *Federal Financial Management Improvement Act of 1996* | Corrective actions implemented. |

United States Department of the Interior

OFFICE OF THE SECRETARY
Washington, DC 20240

NOV 14 2012

Memorandum

To: Mary L. Kendall
Acting Inspector General

KPMG LLP
2001 M Street, NW
Washington, DC 20036

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

Subject: Management's Response to Independent Auditors' Report for Fiscal Year 2012
(Assignment No. X-IN-MOA-0002-2012)

The Department of the Interior (Department) has reviewed the draft Auditors' Report prepared by KPMG LLP. We are pleased that the result of the audit is an unqualified opinion on the Department's Consolidated Financial Statements and that no material weaknesses were found. The Department appreciates the recognition noted of the progress we have achieved during Fiscal Year (FY) 2012 in further improving our financial management. We also appreciate the recommendations and notes from the auditors. We look forward to working with you to continue improving financial management in the Department. Our response to the findings and recommendations follow.

**INTERNAL CONTROL OVER FINANCIAL REPORTING**

**A. Information Technology Controls over Financial Management Systems**

**Management concurs.** During FY 2012, Interior continued to improve its information technology controls including policies and guidance. Significant gains have been made and will continue with deployment of the Financial and Business Management System (FBMS) and the termination of legacy systems. Through FBMS deployments and other means, in FY 2013, we will continue to enhance application and general controls over financial management systems with a specific focus on the areas of access controls, configuration management, and service continuity. We strive to improve and strengthen the related programmatic aspects of Information Technology (IT) security programs (including awareness training) and will continue to review all aspects of the IT program for refinement. We are in the process of implementing reforms including the consolidation of information technology infrastructure, management, and oversight that will improve the efficiency and effectiveness of IT services and our ability to ensure the implementation of policies and controls.

**B. Controls Over Future Operating Lease Payments**

**Management concurs.** Management will convene a working group to review the current lease policy to determine if additional policy or clarification is needed in order to assure consistency in the implementation of the policy. In addition, management will consider what approval and monitoring options should be employed to further ensure that our future lease payment disclosures are accurate.

**C. Grant Monitoring Controls**

**Management concurs.** Management will continue to improve grantee communication and outreach procedures to yield a timelier and more effective single audit recipient and follow-up process. The Department is currently developing a process that compares a listing of grantees from FBMS to listings of Department grantees and their audit reports in the Single Audit Clearing House. In addition, we are exploring methods for reporting/monitoring the status of grantee audit reports and the status of management's decisions on audit findings in the grantee audit reports. Interior will continue to work with the components to ensure that all necessary reports are obtained and that management decisions on audit findings are issued in a timely and compliant manner. In FY 2013, Interior will also evaluate its grant monitoring policies and processes to ensure that grant monitoring roles and responsibilities are properly defined and communicated.

**COMPLIANCE AND OTHER MATTERS**

**D. *Single Audit Act Amendments of 1996***

**Management concurs.** As noted in the Grant Monitoring Controls section above, the Department will work to obtain single audit reports and management decisions in a timely manner. Enhancements will continue to be made to the business process for complying with the *Single Audit Act Amendments of 1996*.

In closing, I would like to thank your offices for their contribution to a strong and ever improving internal control environment with the Department of the Interior. We are committed to the continuous improvement of our financial management activities.

The DOI's financial statements have been prepared to report the financial position, results of operations, net position, budgetary resources, and custodial activity of the DOI pursuant to the requirements of the Chief Financial Officers Act of 1990, the Government Management Reform Act of 1994, and OMB Circular No. A-136, "Financial Reporting Requirements." The statements have been prepared in accordance with Generally Accepted Accounting Principles (GAAP) as outlined by the Federal Accounting Standards Advisory Board (FASAB).

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

A brief description of the nature of each required financial statement is listed below.

### ▶ Balance Sheet

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

### ▶ Statement of Net Cost

The DOI's Statement of Net Cost presents the net cost of operations for the 5 mission areas established in the DOI's Strategic Plan. It also presents reimbursable costs related to services provided to other Federal agencies and incurred costs that are not part of DOI's core mission.

All operating costs reported reflect full costs which includes both direct and indirect costs. Costs are reduced by earned revenues to arrive at net costs.

### ▶ Statement of Changes in Net Position

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

### ▶ Statement of Budgetary Resources

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

### ▶ Statement of Custodial Activity

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

## Balance Sheet
as of September 30, 2012 and September 30, 2011

| *(dollars in thousands)* | FY 2012 | FY 2011 |
|---|---|---|
| **ASSETS** | | |
| **Intragovernmental Assets:** | | |
| Fund Balance with Treasury (Note 2) | $ 44,596,626 | $ 43,662,297 |
| Investments, Net (Note 3) | 6,849,501 | 6,748,299 |
| Accounts and Interest Receivable (Note 4) | 1,949,324 | 1,940,799 |
| Loans and Interest Receivable, Net (Note 5) | 3,164,122 | 3,209,638 |
| Other | 701 | 2,076 |
| **Total Intragovernmental Assets** | $ 56,560,274 | $ 55,563,109 |
| Cash | 447 | 449 |
| Investments, Net (Note 3) | 18 | 20 |
| Accounts and Interest Receivable, Net (Note 4) | 3,185,912 | 1,521,541 |
| Loans and Interest Receivable, Net (Note 6) | 63,116 | 79,605 |
| Inventory and Related Property, Net (Note 7) | 140,304 | 168,894 |
| General Property, Plant and Equipment, Net (Note 8) | 21,041,652 | 20,414,677 |
| Other | 206,468 | 254,009 |
| **TOTAL ASSETS (Note 10)** | $ 81,198,191 | $ 78,002,304 |
| Stewardship Assets (Note 9) | | |
| **LIABILITIES** | | |
| **Intragovernmental Liabilities:** | | |
| Accounts Payable | $ 666,872 | $ 631,777 |
| Debt (Note 11) | 94,368 | 277,325 |
| Other | | |
| Liability for Capital Transfers to the General Fund of the Treasury (Note 21) | 1,850,922 | 1,828,365 |
| Advances and Deferred Revenue | 343,269 | 427,440 |
| Custodial Liability | 1,144,050 | 643,338 |
| Other Liabilities | 889,325 | 914,629 |
| **Total Intragovernmental Liabilities** | $ 4,988,806 | $ 4,722,874 |
| Accounts Payable | 815,838 | 816,055 |
| Loan Guarantee Liability (Note 6) | 29,425 | 41,564 |
| Federal Employee and Veteran Benefits (Note 12) | 1,498,248 | 1,483,240 |
| Environmental and Disposal Liabilities (Note 13) | 176,510 | 179,712 |
| Other | | |
| Contingent Liabilities (Note 13) | 4,387,944 | 4,707,821 |
| Advances and Deferred Revenue | 836,149 | 677,980 |
| Payments Due to States | 1,240,226 | 557,527 |
| Grants Payable | 496,655 | 326,674 |
| Other Liabilities | 1,006,954 | 1,056,716 |
| **TOTAL LIABILITIES (Note 14)** | $ 15,476,755 | $ 14,570,163 |
| Commitments and Contingencies (Notes 13 and 15) | | |
| **Net Position** | | |
| Unexpended Appropriations -Earmarked Funds (Note 20) | 593,053 | 750,131 |
| Unexpended Appropriations -Other Funds | 4,740,620 | 5,290,891 |
| Cumulative Results of Operations -Earmarked Funds (Note 20) | 59,408,925 | 57,217,971 |
| Cumulative Results of Operations -Other Funds | 978,838 | 173,148 |
| **Total Net Position** | $ 65,721,436 | $ 63,432,141 |
| **TOTAL LIABILITIES AND NET POSITION** | $ 81,198,191 | $ 78,002,304 |

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

## Statement of Net Cost

for the years ended September 30, 2012 and September 30, 2011

| *(dollars in thousands)* | FY 2012 | FY 2011 |
|---|---|---|
| **Provide Natural and Cultural Resource Protection** | | |
| Gross Costs | $ 8,525,594 | $ 8,537,412 |
| Less: Earned Revenue | 914,622 | 810,047 |
| Net Cost | 7,610,972 | 7,727,365 |
| **Manage Energy, Water & Natural Resources** | | |
| Gross Costs | 5,613,721 | 4,996,796 |
| Less: Earned Revenue | 1,846,803 | 1,938,482 |
| Net Cost | 3,766,918 | 3,058,314 |
| **Advance Government to Government Relationships** | | |
| Gross Costs | 4,806,140 | 7,915,007 |
| Less: Earned Revenue | 341,386 | 391,431 |
| Net Cost | 4,464,754 | 7,523,576 |
| **Provide a Scientific Foundation for Decision Making** | | |
| Gross Costs | 1,582,292 | 1,586,986 |
| Less: Earned Revenue | 387,155 | 374,231 |
| Net Cost | 1,195,137 | 1,212,755 |
| **Building a 21st Century Department of the Interior** | | |
| Gross Costs | 421,437 | 339,416 |
| Less: Earned Revenue | 2,892 | 3,499 |
| Net Cost | 418,545 | 335,917 |
| **Reimbursable Activity and Other** | | |
| Gross Costs | 3,649,155 | 3,500,722 |
| Less: Earned Revenue | 1,872,634 | 1,808,753 |
| Net Cost | 1,776,521 | 1,691,969 |
| **TOTAL** | | |
| Gross Costs | 24,598,339 | 26,876,339 |
| Less: Earned Revenue | 5,365,492 | 5,326,443 |
| Net Cost of Operations (Notes 17 and 19) | $ 19,232,847 | $ 21,549,896 |

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

## Statement of Changes in Net Position

for the years ended September 30, 2012 and September 30, 2011

| (dollars in thousands) | FY 2012 | | | FY 2011 | | |
|---|---|---|---|---|---|---|
| | Earmarked (Note 20) | All Other | Consolidated | Earmarked (Note 20) | All Other | Consolidated |
| **UNEXPENDED APPROPRIATIONS** | | | | | | |
| **Beginning Balance** | $ 750,131 | $ 5,290,891 | $ 6,041,022 | $ 385,103 | $ 6,207,962 | $ 6,593,065 |
| **Budgetary Financing Sources** | | | | | | |
| Appropriations Received, General Funds | 262,902 | 11,773,865 | 12,036,767 | 642,416 | 12,162,019 | 12,804,435 |
| Appropriations Transferred In/(Out) | 2,000 | 16,571 | 18,571 | 1,497 | 2,066 | 3,563 |
| Appropriations - Used | (421,971) | (12,222,044) | (12,644,015) | (278,682) | (12,807,840) | (13,086,522) |
| Other Adjustments | (9) | (118,663) | (118,672) | (203) | (273,316) | (273,519) |
| **Net Change** | (157,078) | (550,271) | (707,349) | 365,028 | (917,071) | (552,043) |
| **Ending Balance - Unexpended Appropriations** | $ 593,053 | $ 4,740,620 | $5,333,673 | $ 750,131 | $ 5,290,891 | $ 6,041,022 |
| **CUMULATIVE RESULTS OF OPERATIONS** | | | | | | |
| **Beginning Balance** | $ 57,217,971 | $ 173,148 | $ 57,391,119 | $ 55,335,935 | $ 3,933,524 | $ 59,269,459 |
| **Budgetary Financing Sources** | | | | | | |
| Appropriations - Used | 421,971 | 12,222,044 | 12,644,015 | 278,682 | 12,807,840 | 13,086,522 |
| Royalties Retained | 6,045,186 | 1,738 | 6,046,924 | 4,775,496 | 2,570 | 4,778,066 |
| Non-Exchange Revenue | 1,038,463 | 19,237 | 1,057,700 | 943,257 | 7,438 | 950,695 |
| Transfers In/(Out) without Reimbursement | 353,702 | 17,807 | 371,509 | 379,665 | 66,557 | 446,222 |
| Donations and Forfeitures of Cash and Cash Equivalents | 46,963 | - | 46,963 | 23,560 | - | 23,560 |
| Other Adjustments | (1,960) | 1,960 | - | - | - | - |
| **Other Financing Sources** | | | | | | |
| Donations and Forfeitures of Property | 121,956 | 9,957 | 131,913 | 108 | 12,625 | 12,733 |
| Transfers In/(Out) without Reimbursement | (389,954) | 398,126 | 8,172 | (41,102) | 49,042 | 7,940 |
| Imputed Financing from Costs Absorbed by Others (Note 16) | 130,949 | 1,971,244 | 2,102,193 | 114,314 | 463,572 | 577,886 |
| Other Non-Budgetary Financing Sources/(Uses) | (12,650) | (167,248) | (179,898) | (19,952) | (192,116) | (212,068) |
| **Total Financing Sources** | 7,754,626 | 14,474,865 | 22,229,491 | 6,454,028 | 13,217,528 | 19,671,556 |
| **Net Cost of Operations** | (5,563,672) | (13,669,175) | (19,232,847) | (4,571,992) | (16,977,904) | (21,549,896) |
| **Net Change** | 2,190,954 | 805,690 | 2,996,644 | 1,882,036 | (3,760,376) | (1,878,340) |
| **Ending Balance - Cumulative Results of Operations** | $ 59,408,925 | $ 978,838 | $ 60,387,763 | $ 57,217,971 | $ 173,148 | $ 57,391,119 |
| **TOTAL NET POSITION** | $ 60,001,978 | $ 5,719,458 | $ 65,721,436 | $ 57,968,102 | $ 5,464,039 | $ 63,432,141 |

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

# Statement of Budgetary Resources

for the years ended September 30, 2012 and September 30, 2011

| (dollars in thousands) | Total Budgetary Accounts FY 2012 | Total Budgetary Accounts FY 2011 | Non-Budgetary Credit Program Financing Accounts FY 2012 | Non-Budgetary Credit Program Financing Accounts FY 2011 |
|---|---|---|---|---|
| **Budgetary Resources:** | | | | |
| Unobligated balance brought forward, beginning of fiscal year | $ 7,520,693 | $ 7,775,378 | $ 91,502 | $ 68,478 |
| Recoveries of prior year unpaid obligations | 545,389 | 508,895 | - | - |
| Other changes in unobligated balance | (7,961) | (59,310) | (1,251) | (1,195) |
| Unobligated balance from prior year budget authority, net | 8,058,121 | 8,224,963 | 90,251 | 67,283 |
| Appropriations (discretionary and mandatory) | 16,906,091 | 17,807,406 | (2,130) | (20,692) |
| Borrowing authority (discretionary and mandatory) | - | - | 424 | 18,802 |
| Spending authority from offsetting collections (discretionary & mandatory) | 5,593,397 | 5,434,107 | 24,158 | 56,758 |
| **Total Budgetary Resources** | **$ 30,557,609** | **$ 31,466,476** | **$ 112,703** | **$ 122,151** |
| **Status of Budgetary Resources:** | | | | |
| Obligations incurred | $ 24,064,290 | $ 23,945,783 | $ 55,465 | $ 30,649 |
| Unobligated balance, end of year | | | | |
| Apportioned | 6,352,370 | 7,189,378 | 57,238 | 91,502 |
| Exempt from apportionment | 59 | 174,279 | - | - |
| Unapportioned | 140,890 | 157,036 | - | - |
| Total unobligated balance, end of year | 6,493,319 | 7,520,693 | 57,238 | 91,502 |
| **Total Status of Budgetary Resources** | **$ 30,557,609** | **$ 31,466,476** | **$ 112,703** | **$ 122,151** |
| **Change in Obligated Balance:** | | | | |
| Unpaid obligations, brought forward, beginning of fiscal year | $ 10,975,256 | $ 12,009,557 | $ - | $ - |
| Uncollected customer payments from Federal sources, brought forward, beginning of fiscal year | (2,654,681) | (2,732,350) | - | - |
| Obligated balance, start of year (net) | 8,320,575 | 9,277,207 | - | - |
| Obligations incurred | 24,064,290 | 23,945,783 | 55,465 | 30,649 |
| Outlays (gross) | (23,918,356) | (24,471,192) | (55,465) | (30,649) |
| Change in uncollected customer payments from federal sources | (82,669) | 77,662 | (4,491) | - |
| Recoveries of prior year unpaid obligations | (545,389) | (508,895) | - | - |
| **Obligated balance, end of year** | **$ 7,838,451** | **$ 8,320,575** | **$ (4,491)** | **$ -** |
| Obligated balance, end of year | | | | |
| Unpaid obligations, end of year (gross) | 10,575,801 | 10,975,256 | - | - |
| Uncollected customer payments from Federal sources, end of year | (2,737,350) | (2,654,681) | (4,491) | - |
| **Obligated balance, end of year (net)** | **$ 7,838,451** | **$ 8,320,575** | **$ (4,491)** | **$ -** |
| **Budget Authority and Outlays, Net:** | | | | |
| Budget authority, gross (discretionary and mandatory) | $ 22,499,493 | $ 23,241,513 | $ 22,452 | $ 54,867 |
| Actual offsetting collections (discretionary and mandatory) | (5,546,688) | (5,523,756) | (19,667) | (56,757) |
| Change in uncollected customer payments from Federal sources | (82,669) | 77,662 | (4,491) | - |
| **Budget authority, net (discretionary and mandatory)** | **$ 16,870,136** | **$ 17,795,425** | **$ (1,706)** | **$ (1,890)** |
| Outlays, gross (discretionary and mandatory) | 23,918,356 | 24,471,192 | 55,465 | 30,649 |
| Actual offsetting collections (discretionary and mandatory) | (5,546,688) | (5,523,756) | (19,667) | (56,757) |
| Outlays, net (discretionary and mandatory) | 18,371,668 | 18,947,436 | 35,798 | (26,108) |
| Distributed offsetting receipts | (5,553,460) | (5,379,787) | - | - |
| Agency outlays, net (discretionary and mandatory) | $ 12,818,208 | $ 13,567,649 | $ 35,798 | $ (26,108) |

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

## Statement of Custodial Activity

for the years ended September 30, 2012 and September 30, 2011

| *(dollars in thousands)* | FY 2012 | FY 2011 |
|---|---|---|
| **Revenues on Behalf of the Federal Government** | | |
| **Mineral Lease Revenue** | | |
| Rents and Royalties | $ 9,901,697 | $ 10,216,122 |
| Onshore Lease Sales | 2,107,090 | 648,822 |
| Offshore Lease Sales | 1,095,070 | 36,796 |
| **Total Revenue** | $ 13,103,857 | $ 10,901,740 |
| **Disposition of Revenue** | | |
| **Distribution to Department of the Interior** | | |
| Departmental Offices | 2,088,585 | 1,957,519 |
| National Park Service Conservation Funds | 1,047,141 | 1,041,976 |
| Bureau of Reclamation | 1,654,847 | 1,532,623 |
| Bureau of Ocean Energy Management, Regulation and Enforcement | - | 175,746 |
| Bureau of Ocean Energy Management | 160,952 | - |
| Bureau of Safety and Environmental Enforcement | 52,474 | - |
| Bureau of Land Management | 31,313 | 21,774 |
| Fish and Wildlife Service | 2,302 | 2,063 |
| **Distribution to Other Federal Agencies** | | |
| Department of the Treasury | 6,049,167 | 5,780,218 |
| Department of Agriculture | 134,303 | 119,867 |
| Department of Energy | 50,000 | 50,000 |
| **Distribution to Indian Tribes and Agencies** | 11 | - |
| **Distribution to States and Others** | 36,658 | 40,996 |
| **Change in Untransferred Revenue** | 1,796,104 | 178,958 |
| **Total Disposition of Revenue** | **$ 13,103,857** | **$ 10,901,740** |
| **Net Custodial Activity** | $ - | $ - |

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

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*For the years ended September 30, 2012 and 2011*

## NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### A. Reporting Entity

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

### B. Organization and Structure of The DOI

The DOI is composed of the following nine operating bureaus and the Departmental Offices:

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

The U.S. Bureau of Mines (BOM) was abolished in 1996. Although it no longer exists, certain transactions and data related to BOM programs and activities are reflected in the DOI's FY 2012 and FY 2011 financial statements and notes.

### C. Basis of Accounting and Presentation

These financial statements have been prepared to report the financial position, net cost, changes in net position, budgetary resources, and custodial activities of the DOI 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 DOI in accordance with generally accepted accounting principles (GAAP) and Office of Management and Budget (OMB) Circular No. A-136, *Financial Reporting Requirements.* the GAAP for Federal entities are the standards prescribed by the Federal Accounting Standards Advisory Board (FASAB), which is the designated standard-setting body for the Federal Government. These financial statements present proprietary and budgetary information. The DOI, pursuant to OMB directives, prepares additional financial reports that are used to monitor and control the DOI's use of budgetary resources.

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

The accounting structure of Federal agencies is designed to reflect both accrual and budgetary accounting transactions. Under the accrual method of accounting, revenues are recognized when earned and expenses are recognized when incurred without regard to receipt or payment of cash. The budgetary accounting principles, on the other hand, are designed to recognize the obligation of funds according to legal requirements, which in

many cases is prior to the occurrence of an accrual-based transaction. The recognition of budgetary accounting transactions is essential for compliance with legal constraints and controls over the use of Federal funds.

## D. Fund Balance with Treasury and Cash

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

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

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

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

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

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

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

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

## E. Investments, Net

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

Public securities include marketable securities issued by government-sponsored entities and consist of mortgage backed securities.

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

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

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

## F. Accounts and Interest Receivable, Net

***Accounts and Interest Receivable*** consists of amounts owed to the DOI by other Federal agencies and the public. Federal accounts receivable arise generally from the provision of goods and services to other Federal agencies and, with the exception of occasional billing disputes, are considered to be fully collectible. The Federal accounts receivable also includes custodial amounts remitted to Treasury at the end of the year in accordance with legislation and due back from Treasury in the following year for disbursement to states and refunds to oil companies. Receivables from the public generally arise either from the provision

of goods and services or from the levy of fines and penalties resulting from the DOI's regulatory responsibilities. An allowance for doubtful accounts is established for reporting purposes based on past experience in the collection of accounts receivable and analysis of outstanding balances.

## G. Loans and Interest Receivable, Net

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

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

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

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

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

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

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

## H. Inventory and Related Property, Net

The DOI's inventory and related property is primarily composed of published maps; gas and storage rights; operating supplies for the Working Capital Fund; airplane parts and fuel; and recoverable, below-ground, crude helium. These inventories were categorized based on the DOI's major activities and the services DOI provides to the Federal Government and the public.

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

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

Under the Helium Privatization Act of 1996, the DOI 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. This act designates a portion of the crude stockpile helium to be held in reserve in the interest of national security and authorizes the DOI to offer the excess helium inventory for sale. The excess helium inventory is offered for sale on a straight line basis to provide for disposal by January 1, 2015. The DOI offers the excess helium inventory for sale in sufficient quantities to meet the requirements of the Act; however, the helium has not been selling at a rate sufficient to liquidate the stockpile inventory by the legislated target date. Beginning January 1, 2015, the remaining excess crude stockpile helium shall continue to be held by the BLM as inventory pending further legislative direction.

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

The DOI'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 DOI's standard forms functions.

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

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

All general purpose PP&E are capitalized at acquisition cost and depreciated using the straight-line amortization method over the estimated useful lives of the property. Buildings, structures, and facilities are depreciated over a useful life from 10 to 80 years, with the exception of dams and certain related property, which are depreciated over useful lives of up to 100 years. Equipment, vehicles, and aircraft are depreciated over useful lives generally ranging from 2 to 50 years. Capital leases and leasehold improvements are amortized over the shorter of the estimated useful life or 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, the DOI has established a capitalization threshold of $100,000 with the exception of dams and certain related property, which are fully capitalized.

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

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

***Construction in Progress.*** Construction in Progress (CIP) is used for the accumulation of the cost of construction or major renovation of fixed assets during the construction period. The assets are transferred out of CIP when the project is substantially completed.

The CIP also includes projects in abeyance. In past years, the DOI began construction on 14 projects located in Arizona, California, Colorado, New Mexico, North Dakota, and South Dakota, for which activities were placed in abeyance. These projects were authorized to provide various benefits, among them irrigation, fish and wildlife conservation and

enhancement, recreation, municipal water supplies, and flood control. Until Congressional disposition of these assets is determined, maintenance costs have been, and will continue to be, budgeted and expended to minimize the erosive effects of time and weather and to keep the asset ready for completion.

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

## J. Stewardship Assets

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

The majority of public lands, presently under the management of the DOI 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. The DOI is also responsible for maintaining a variety of cultural and natural heritage assets, which include national monuments, historic structures, and library and museum collections.

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

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

## K. Advances and Prepayment

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

## L. Liabilities

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

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

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

When the DOI is not legally liable, but chooses to accept financial responsibility, it is considered government-acknowledged. When the DOI 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. In addition, when the DOI accepts financial responsibility to clean up certain matters, it discloses the cleanup costs as a reasonably possible estimated range of loss.

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

***Contingent Liabilities.*** Contingent liabilities are liabilities where the existence or amount of the liability cannot be determined with certainty pending the outcome of future events. The DOI's contingent liabilities primarily relate to legal actions and environmental cleanup efforts. the DOI recognizes contingent liabilities when the liability is probable and reasonably estimable. The DOI 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 the DOI.

## M. Revenues and Financing Sources

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

***Exchange and Non-Exchange Revenue***. The DOI classifies revenues as either exchange revenue or non-exchange revenue.

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

In certain cases, the prices charged for goods and services by the DOI 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 (actual cost, plus administrative fees) incurred by these activities.

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 DOI's operations and are reported on the Statement of Changes in Net Position.

The DOI 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, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*, the DOI reports these State amounts as "Royalties Retained," and other budgetary financing sources on the Statement of Changes in Net Position, rather than on the Statement of Net Cost. This is mainly because the DOI incurred minimal costs in earning this revenue.

***Custodial Revenue.*** The DOI's Office of Natural Resources Revenue (ONRR), a component of Departmental Offices, collects royalties, rents, bonuses, and other receipts for Federal oil, gas, and mineral leases. The ONRR distributes the proceeds in accordance with legislated allocation formulas to U.S. Treasury accounts, other Federal agencies, states, and coastal political subdivisions. The DOI is authorized to retain a portion of the custodial rental income collected to fund operating costs. The DOI records custodial revenue based on accounts reported by producers. Custodial revenue is reported when the government has a legal claim to the revenue.

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

***Imputed Financing Sources.*** In certain instances, operating costs of the DOI 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 the DOI are paid from the Judgment Fund maintained by Treasury. When costs that are identifiable to DOI and directly attributable to the DOI operations are paid for by other agencies, the DOI recognizes these amounts as operating expenses. In addition, the DOI recognizes an imputed financing source on the Consolidated Statement of Changes in Net Position to indicate the funding of the DOI operations by other Federal agencies.

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

## N. Personnel Compensation and Benefits

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

***Federal Employees Workers' Compensation Program (FECA).*** The 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 the DOI 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 the DOI. The DOI 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 the DOI. As a result, the DOI recognizes a liability for the actual claims paid by DOL and to be reimbursed by the DOI.

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. The 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 DOI recognizes an unfunded liability to DOL for these estimated future payments. The projected annual benefit payments are discounted to present value using OMB's economic assumptions for 10-year Treasury notes and bonds. To provide for the effects of inflation on the liability, wage inflation factors (i.e., cost of living adjustments) and medical inflation factors (i.e., consumer price index for medical adjustments) are applied to the calculation of projected future benefit payments. These factors are also used to adjust historical benefit payments to current-year constant dollars. A discounting formula is used to recognize the timing of benefit payments as 13 payments per year rather than an annual lump sum.

***Federal Employees' Group Life Insurance Program (FEGLI).*** Most of the DOI's 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 the DOI paying one-third. Additional coverage is optional, to be paid fully by the employee. The basic life coverage may be continued into retirement if certain requirements are met. The OPM administers this program and is responsible for the reporting of liabilities. For each fiscal year, the OPM calculates the U.S. Government's service cost for the post-retirement portion of the basic life coverage. The DOI has recognized the entire service cost of the post-retirement portion of basic life coverage as an imputed cost and imputed financing source, as the DOI's contributions to the basic life coverage are fully allocated by the OPM to the pre-retirement portion of coverage.

***Retirement Programs.*** The DOI's employees participate in one of three retirement programs: (1) the Civil Service Retirement System (CSRS); (2) the Federal Employees Retirement System (FERS), which became effective on January 1, 1987; or (3) the United States Park Police (USPP) Pension Plan. The majority of the DOI 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 neither subject to Social Security taxes, nor are they entitled to accrue Social Security benefits for wages subject to CSRS.

For employees participating in FERS, the DOI contributes an amount equal to 1 percent of the employee's basic pay to the tax deferred Thrift Savings Plan and matches employee contributions up to an additional 4 percent of pay. Employees participating in CSRS receive no matching contribution from the DOI.

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

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

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

The actuarial liabilities are measured during the fiscal year using discount rate assumptions and on the valuation date in accordance with Statement of Federal Financial Accounting Standards (SFFAS) No. 33, P*ensions, Other Retirement Benefits, and Other Post-employment Benefits: Reporting the Gains and Losses from Changes in Assumptions and Selecting Discount Rates and Valuation Dates*, with roll-forward or projection adjustments for the effects of changes during the year in major factors such as pay increases, cost of living adjustments, and material changes in the number of participants.

## O. Federal Government Transactions

The DOI'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 DOI do not contain the costs of centralized financial decisions and activities performed for the benefit of the entire government. However, expenses have been recognized when they are incurred by other agencies on behalf of the DOI, including settlement of claims and litigation paid by Treasury's Judgment Fund and the partial funding of employee benefits by the OPM.

Transactions and balances among the DOI's entities have been eliminated from the Balance Sheet, the Statement of Net Cost, and the Statement of Changes in Net Position. As provided for by OMB Circular No. A-136, the Statement of Budgetary Resources is presented on a combined basis; therefore, intradepartmental transactions and balances have not been eliminated from this statement. Intradepartmental transactions have been eliminated within the Statement of Custodial Activity. In order to present all custodial activity, the distributions to the DOI's entities have not been eliminated on the Statement of Custodial Activity.

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

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

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

The DOI does not report the assets used by concessioners in its financial statements because the concessioners control the benefits of the assets and have the responsibilities of the risks and maintenance of the assets. In addition, the DOI does not report a PI/LSI liability at the time a concessioner receives PI/LSI because an event of financial consequence has not occurred. However,

the DOI does record a liability at the time that the DOI decides to discontinue a concession operation or take possession of the assets.

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

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

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

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

### R. Earmarked Funds

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

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

### S. Allocation Transfers

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

### T. Income Taxes

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

### U. Estimates

The DOI has made certain estimates and assumptions related to the reporting of assets, liabilities, revenues, expenses, and the associated note disclosures. Actual results could differ from these estimates.

### V. Fiduciary Activities

Fiduciary activities are the collection or receipt, and the management, protection, accounting, investment and disposition by the Federal

Government of cash or other assets in which non-Federal individuals or entities have an ownership interest the Federal government must uphold. Fiduciary cash and other assets are not assets of the Federal government and are not recognized on the DOI's balance sheet. (See Note 22, *Fiduciary Activities*)

### W. Change in Organization

In FY 2012, the restructuring and renaming of the former Bureau of Ocean Energy Management, Regulation and Enforcement (BOEMRE), to the Bureau of Ocean Energy Management (BOEM) and the Bureau of Safety and Environmental Enforcement (BSEE) was completed. The structure established in Secretarial Order No. 3299 results in three separate and distinct new agencies, and reflects the DOI's conclusions regarding how best to achieve the goals of mission independence, appropriate checks and balances, and rigorous oversight, while maintaining effective, efficient communication and coordination. These two Bureaus perform the duties of the former Offshore Energy and Minerals Management organization, with the former managing the development of conventional and renewable resources and minerals on the Outer Continental Shelf, and the latter providing safety and environmental oversight. These two new Bureaus report to the Assistant Secretary of Land and Minerals Management. As a result, Note 17 presents certain costs in the BOEMRE responsibility segment in FY 2011 for which the FY 2012 costs are now presented in the BOEM or BSEE segment. FY 2011 costs are not reclassified for presentation purposes as this change in organization is not retroactive.

### X. Subsequent Events

In late October, the DOI launched various response efforts as a result of Hurricane Sandy. Response efforts include: power restoration; provision of food, fuel, shelter, and security; re-establishing connectivity; as well as flood level and damage (e.g., erosion) assessments. As of November 15th, the date of the AFR publication, cost estimates were still being formulated. Anticipated costs include expenditures to conduct the response efforts noted above as well as repairs to various DOI assets impacted by Hurricane Sandy.

### Y. Reclassifications

Certain prior year amounts have been reclassified to conform with current year presentation.

## NOTE 2. FUND BALANCE WITH TREASURY

Fund Balance with Treasury by fund type as of September 30, 2012 and 2011, consists of the following:

| *(dollars in thousands)* | FY 2012 | FY 2011 |
|---|---|---|
| General Funds | $ 6,809,536 | $ 7,861,753 |
| Special Funds | 36,048,132 | 33,452,828 |
| Revolving Funds | 1,192,189 | 1,859,489 |
| Trust Funds | 230,524 | 205,470 |
| Other Fund Types | 316,245 | 282,757 |
| Total Fund Balance with Treasury by Fund Type | $ 44,596,626 | $ 43,662,297 |

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 the DOI to draw down funds from Treasury for expenses and liabilities.

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

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

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

Status of Fund Balance with Treasury as of September 30, 2012 and 2011, consists of the following:

| *(dollars in thousands)* | FY 2012 | FY 2011 |
|---|---|---|
| Unobligated | | |
| Available | $ 4,588,543 | $ 5,341,054 |
| Unavailable | 139,671 | 156,976 |
| Obligated Not Yet Disbursed | 6,853,414 | 7,295,890 |
| Subtotal | 11,581,628 | 12,793,920 |
| Fund Balance with Treasury Not Covered by Budgetary Resources | | |
| Unavailable Receipt Accounts | 32,762,104 | 30,688,912 |
| Clearing and Deposit Accounts | 252,894 | 179,465 |
| Subtotal | 33,014,998 | 30,868,377 |
| Total Status of Fund Balance with Treasury | $ 44,596,626 | $ 43,662,297 |

## NOTE 3. INVESTMENTS, NET

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

Public securities include marketable securities issued by government-sponsored entities and consist of mortgaged back securities.

Investments as of September 30, 2012, consist of the following:

| *(dollars in thousands)* | Cost | Net Amortized (Premium)/ Discount | Investments, Net | Market Value Disclosure |
|---|---|---|---|---|
| U.S. Treasury Securities | | | | |
| Marketable | $ 53,597 | $ - | $ 53,597 | $ 53,597 |
| Nonmarketable, market-based | 6,779,751 | (4,161) | 6,775,590 | 6,966,338 |
| Total U.S. Treasury Securities | 6,833,348 | (4,161) | 6,829,187 | 7,019,935 |
| Accrued Interest | 20,314 | - | 20,314 | - |
| Total Non-Public Investments | 6,853,662 | (4,161) | 6,849,501 | 7,019,935 |
| Public Securities | | | | |
| Marketable | 18 | - | 18 | 18 |
| Total Investments | $ 6,853,680 | $ (4,161) | $ 6,849,519 | $ 7,019,953 |

Investments as of September 30, 2011, consist of the following:

| *(dollars in thousands)* | Cost | Net Amortized (Premium)/ Discount | Investments, Net | Market Value Disclosure |
|---|---|---|---|---|
| U.S. Treasury Securities | | | | |
| Marketable | $ 53,164 | $ - | $ 53,164 | $ 53,164 |
| Nonmarketable, market-based | 6,686,244 | (12,030) | 6,674,214 | 6,926,620 |
| Total U.S. Treasury Securities | 6,739,408 | (12,030) | 6,727,378 | 6,979,784 |
| Accrued Interest | 20,921 | - | 20,921 | - |
| Total Non-Public Investments | 6,760,329 | (12,030) | 6,748,299 | 6,979,784 |
| Public Securities | | | | |
| Marketable | 20 | - | 20 | 20 |
| Total Investments | $ 6,760,349 | $ (12,030) | $ 6,748,319 | $ 6,979,804 |

## NOTE 4. ACCOUNTS AND INTEREST RECEIVABLE, NET

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

***Recovery of Reimbursable Capital Costs.*** 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 allocation to the construction of reimbursable irrigation and M&I water facilities.

Unmatured repayment contracts are recognized on the Balance Sheet when the annual repayment amount is earned, at which time current accounts receivable and current period exchange revenue is recorded. As of September 30, 2012 and September 30, 2011, amounts not yet earned under unmatured repayment contracts were $2.51 billion and $2.53 billion, respectively.

***Due from Federal Agencies.*** 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. The Federal accounts receivable also includes custodial amounts remitted to Treasury at the end of the year in accordance with legislation and due back from Treasury in the following year for disbursement to states and refunds to oil companies. Substantially, all receivables from other Federal agencies are considered to be collectible, as there is no credit risk. However, an allowance for doubtful accounts is used occasionally to recognize billing disputes.

Accounts and Interest Receivable from Federal agencies consist of the following as of September 30, 2012 and 2011:

| *(dollars in thousands)* | FY 2012 | FY 2011 |
|---|---|---|
| Accounts and Interest Receivable from Federal Agencies | | |
| Billed | $ 1,334,870 | $ 1,301,115 |
| Unbilled | 614,454 | 639,684 |
| **Total Accounts and Interest Receivable from Federal agencies** | $ 1,949,324 | $ 1,940,799 |

Accounts and Interest Receivable from the Public consist of the following as of September 30, 2012 and 2011:

| *(dollars in thousands)* | FY 2012 | FY 2011 |
|---|---|---|
| Accounts and Interest Receivable from the Public | | |
| Billed | $ 671,783 | $ 249,323 |
| Unbilled | 2,631,432 | 1,401,214 |
| Total Accounts and Interest Receivable from the Public | 3,303,215 | 1,650,537 |
| Allowance for Doubtful Accounts | (117,303) | (128,996) |
| **Total Accounts and Interest Receivable from the Public, Net** | $ 3,185,912 | $ 1,521,541 |

## NOTE 5. INTRAGOVERNMENTAL LOANS AND INTEREST RECEIVABLE, NET

Intragovernmental Loans and Interest Receivable, as of September 30, 2012 and 2011, are summarized as follows:

| *(dollars in thousands)* | FY 2012 | FY 2011 |
|---|---|---|
| Principal | $ 7,238,029 | $ 7,235,955 |
| Interest | 3,019,761 | 2,812,155 |
| Cumulative Repayments | (6,763,663) | (6,508,467) |
| Allowance for Non-Reimbursable Costs | (330,005) | (330,005) |
| **Intragovernmental Loans and Interest Receivable, Net** | $ 3,164,122 | $ 3,209,638 |

The interest rate for FY 2012 and FY 2011 was 4.0% and 4.2%, respectively. Repayment terms are generally over a period not to exceed 50 years from the time revenue producing assets are placed in service.

Power-marketing agencies enter into agreements with power users to recover capital investment costs allocated to power, on BOR's behalf. Costs associated with multipurpose plants are allocated to the various purposes through a cost allocation process. Generally, only those costs associated with power, irrigation, and M&I water are reimbursable. The typical repayment contract is up to 40 years, but may extend to 50 years or more if authorized by Congress.

***Allowance.*** Since FY 2005, BOR and Western Area Power Administration (WAPA) have come to an impasse regarding the appropriate accounting and repayment treatment to the Reclamation Fund totaling approximately $330 million. The amount of this impasse consists of two different issues 1) WAPA is disputing the reimbursable nature of project use power (PUP) costs totaling $308.3 million on the Pick Sloan/Central Valley project 2) Construction of an on-site electrical distribution system that was built by WAPA with BOR funds at the Tracy-Lawrence Livermore research facility totaling $21.7 million. As discussed in Note 4, *Accounts and Interest Receivable, Net*, all receivables from other Federal agencies are generally considered to be collectible. However, in these two instances, an allowance for doubtful accounts is being used by BOR to recognize the Intragovernmental differences until these issues can be resolved with the Department of Treasury.

## NOTE 6. LOANS AND INTEREST RECEIVABLE, NET

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

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

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

In FY 2012 and FY 2011 there were no other changes in economic conditions, other risk factors, legislation, credit policies, and assumptions that have had a significant and measurable effect on subsidy rates, subsidy expense, and subsidy re-estimates. For FY 2012 and FY 2011, there were no new direct loans disbursed, therefore there were no appropriations for subsidy expense for new direct loans disbursed and its components.

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

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

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

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

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

The subsidy expense reported for FY 2012 and FY 2011 includes a technical reestimate.

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

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

***National Park Service.*** The NPS has a noninterest bearing loan with the Wolf Trap Foundation for the Performing Arts with an original loan principal totaling $8.56 million. The loan principal is to be repaid to the NPS within 25 years from June 1, 1991. The loan principal is repaid in equal annual installments of approximately $360,000. Repayment of the loan principal may include a credit of up to $60,000 annually for public service tickets given to entities exempt from taxation pursuant to section 501(c)(3) of the Internal Revenue Code of 1986. In FY 2012 and FY 2011, NPS granted the full $60,000 credit to Wolf Trap. The monies received in repayment of this loan may be retained by NPS until expended, in consultation with the Wolf Trap Foundation, for the maintenance of structures, facilities, and equipment of the park.

In FY 2012, the NPS made a second non-interest bearing loan for approximately $25,000. The loan was made in order to acquire private property for use within the Indiana Dunes National Lakeshore. The terms of the loan require repayment over 15 years at a rate of $136.53 per month. The remaining balance of this loan receivable is $22,000 as of September 30, 2012.

Outstanding loan balances, as of September 30, 2012 and 2011, are summarized as follows:

| A. Direct Loan and Loan Guarantee Program Names: | | (dollars in thousands) |
|---|---|---|
| | FY 2012 | FY 2011 |
| Indian Affairs - Direct Liquidating Loans (Pre-Credit Reform) | $ 4,653 | $ 4,365 |
| Indian Affairs - Direct Loans (Credit Reform) | 4,942 | 3,237 |
| Indian Affairs - Guaranteed Liquidating Loans (Pre-Credit Reform) | 452 | 69 |
| Indian Affairs - Guaranteed Loans (Credit Reform) | 850 | 1,224 |
| Bureau of Reclamation - Direct Loans (Pre-Credit Reform) | 15,165 | 32,472 |
| Bureau of Reclamation - Direct Loans (Credit Reform) | 35,952 | 36,799 |
| National Park Service - Wolf Trap Foundation (Pre-Credit Reform) | 1,102 | 1,439 |
| Total Loans and Interest Receivable, Net | $ 63,116 | $ 79,605 |

| B. Direct Loans Obligated Prior to FY 1992 (Allowance for Loss Method): | | | | | | (dollars in thousands) |
|---|---|---|---|---|---|---|
| | Direct Loan Programs (Pre-Credit Reform) | Loans Receivable Gross | Interest Receivable | Allowance For Loan Losses | Foreclosed Property | Direct Loans, Net |
| | Indian Affairs | $ 3,789 | $ 1,739 | $ (875) | $ - | $ 4,653 |
| | Bureau of Reclamation | 22,420 | - | (7,255) | - | 15,165 |
| | National Park Service - Wolf Trap Foundation | $1,102 | - | - | - | 1,102 |
| FY 2012 | Total | $ 27,311 | $ 1,739 | $ (8,130) | $ - | $ 20,920 |
| | Indian Affairs | $ 4,193 | $ 1,871 | $ (1,699) | $ - | $ 4,365 |
| | Bureau of Reclamation | 39,659 | 68 | (7,255) | - | 32,472 |
| | National Park Service - Wolf Trap Foundation | 1,439 | - | - | - | 1,439 |
| FY 2011 | Total | $ 45,291 | $ 1,939 | $ (8,954) | $ - | $ 38,276 |

| C. Direct Loans Obligated After FY 1991: | | | | | | (dollars in thousands) |
|---|---|---|---|---|---|---|
| | Direct Loan Programs (Credit Reform) | Loans Receivable Gross | Interest Receivable | Foreclosed Property | Allowance for Subsidy Cost | Value of Assets Related to Direct Loans |
| | Indian Affairs | $ 2,756 | $ 135 | $ - | $ 2,051 | $ 4,942 |
| | Bureau of Reclamation | 42,962 | - | - | (7,010) | 35,952 |
| | Departmental Offices - American Samoa Government | 11,048 | 139 | - | (11,187) | - |
| FY 2012 | Total | $ 56,766 | $ 274 | $ - | $ (16,146) | $ 40,894 |
| | Indian Affairs | $ 3,596 | $ 233 | $ - | $ (592) | $ 3,237 |
| | Bureau of Reclamation | 44,680 | - | - | (7,881) | 36,799 |
| | Departmental Offices - American Samoa Government | 12,314 | 339 | - | (12,653) | - |
| FY 2011 | Total | $ 60,590 | $ 572 | $ - | $ (21,126) | $ 40,036 |

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

| Modifications and Re-estimates<br>Direct Loan Programs (Credit Reform) | Total Modifications | Interest Rate Re-estimates | Technical Re-estimates | Total Re-estimates |
|---|---|---|---|---|
| Indian Affairs | $ - | $ (693) | $ 603 | $ (90) |
| Bureau of Reclamation | - | - | (140) | (140) |
| Departmental Offices - American Samoa Government | - | - | - | - |
| **FY 2012** Total | $ - | $ (693) | $ 463 | $ (230) |
| Indian Affairs | $ - | $ (527) | $ 685 | $ 158 |
| Bureau of Reclamation | - | - | (19,519) | (19,519) |
| Departmental Offices - American Samoa Government | - | - | (341) | (341) |
| **FY 2011** Total | $ - | $ (527) | $ (19,175) | $ (19,702) |

| Total Direct Loan Subsidy Expense<br>Direct Loan Programs (Credit Reform) | FY 2012 | FY 2011 |
|---|---|---|
| Indian Affairs | $ (90) | $ 158 |
| Bureau of Reclamation | (140) | (19,519) |
| Departmental Offices - American Samoa Government | - | (341) |
| Total | $ (230) | $ (19,702) |

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

| | FY 2012 | FY 2011 |
|---|---|---|
| Beginning balance of the subsidy cost allowance | $ 21,124 | $ 30,039 |
| Adjustments: | | |
| (a) Loans written off | (349) | 136 |
| (b) Subsidy allowance amortization | (2,315) | 8,600 |
| (c) Other | (2,085) | 2,051 |
| Ending balance of the subsidy cost allowance before reestimates | 16,375 | 40,826 |
| Add or subtract subsidy reestimates by component: | | |
| (a) Interest rate reestimate | (693) | (527) |
| (b) Technical/default reestimate | 463 | (19,175) |
| Total of the above reestimate components | (230) | (19,702) |
| Ending balance of the subsidy cost allowance | $ 16,145 | $ 21,124 |

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

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

| Guaranteed Liquidating Loans (Pre-Credit Reform) | Defaulted Guaranteed Loans Receivable, Gross | Interest Receivable | Foreclosed Property | Allowance for Loan Losses | Value of Assets Related to Defaulted Guaranteed Loans, Receivable, Net |
|---|---|---|---|---|---|
| **FY 2012** | $ 1,196 | $ 96 | $ - | $ (840) | $ 452 |
| **FY 2011** | $ 1,577 | $ 719 | $ - | $ (2,227) | $ 69 |

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

| Guaranteed Liquidating Loans (Credit Reform) | Defaulted Guaranteed Loans Receivable, Gross | Interest Receivable | Foreclosed Property | Allowance for Subsidy Cost (Present Value) | Value of Assets Related to Defaulted Guaranteed Loans, Receivable, Net |
|---|---|---|---|---|---|
| **FY 2012** | $ 7,560 | $ 1,880 | $ - | $ (8,590) | $ 850 |
| **FY 2011** | $ 11,129 | $ 2,225 | $ - | $ (12,130) | $ 1,224 |

**H. Guaranteed Loans Outstanding as of September 30, 2012:** *(dollars in thousands)*

| Loan Guarantee Programs | | Outstanding Principal of Guaranteed Loans, Face Value | Amount of Outstanding Principal Guaranteed |
|---|---|---|---|
| | Pre-1992 | $ 22 | $ 20 |
| | FY 1992-2010 | 418,188 | 375,646 |
| | FY 2011 | 69,895 | 62,867 |
| | FY 2012 | 34,053 | 30,648 |
| | Total | $ 522,158 | $ 469,181 |
| New Guaranteed Loans Disbursed (Current reporting year): | | | |
| | Amount Paid in FY 2012 for Prior Years | $ 42,611 | $ 38,350 |
| | Amount Paid in FY 2012 for 2012 Guarantees | 40,438 | 36,394 |
| **FY 2012** | Total | 83,049 | 74,744 |
| | Amount Paid in FY 2011 for Prior Years | $ 48,154 | $ 43,339 |
| | Amount Paid in FY 2011 for 2011 Guarantees | 36,303 | 32,673 |
| **FY 2011** | Total | $ 84,457 | $ 76,012 |

**I. Liability for Loan Guarantees:** *(dollars in thousands)*

| Guaranteed Liquidation Loans (Pre-Credit Reform) | Liabilities for Losses on Pre-1992 Guarantees, Estimated Future Default Claims | Liabilities for Loan Guarantees, for Post-1991 Guarantees, Present Value | Total Liabilities for Loan Guarantees |
|---|---|---|---|
| Liability for Loan Guarantees (Estimated Future Default Claims for pre-1992 guarantees): | | | |
| **FY 2012** | $ - | $ 29,425 | $ 29,425 |
| **FY 2011** | $ - | $ 41,564 | $ 41,564 |

**J. Subsidy Expense for Loan Guarantees by Program and Component:** *(dollars in thousands)*

| Guaranteed Loans (Credit Reform) | Interest Supplements | Defaults | Fees and Other Collections | Other | Total |
|---|---|---|---|---|---|
| Subsidy Expense for New Loan Guarantees: | | | | | |
| **FY 2012** | $ 3,653 | $ 4,690 | $ (1,489) | $ - | $ 6,854 |
| **FY 2011** | $ 4,405 | $ 3,588 | $ (1,520) | $ - | $ 6,473 |

| Guaranteed Loans (Credit Reform) | Total Modifications | Interest Rate Reestimates | Technical Reestimates | Total |
|---|---|---|---|---|
| Modifications and Reestimates: | | | | |
| **FY 2012** Total | $ - | $ (8,282) | $ (15,254) | $ (23,536) |
| **FY 2011** Total | $ - | $ (7,868) | $ (20,857) | $ (28,725) |

| Total Loan Guarantee Program Subsidy Expense | FY 2012 | FY 2011 |
|---|---|---|
| Indian Affairs | $ (16,682) | $ (22,252) |

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

| Guaranteed Loans (Credit Reform) | Interest Supplements | Defaults | Fees and Other Collections | Other | Total |
|---|---|---|---|---|---|
| Budget Subsidy Rates for Loan Guarantees for the Current Year's Cohorts: | | | | | |
| **FY 2012** | 4.0% | 6.0% | -2.0% | 0.0% | 8.0% |
| **FY 2011** | 5.1% | 4.7% | -1.8% | 0.0% | 8.0% |

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

| | FY 2012 | FY 2011 |
|---|---|---|
| Beginning balance of the loan guarantee liability | $ 41,564 | $ 62,763 |
| Add: Subsidy expense for guaranteed loans disbursed during the reporting years by component: | | |
| (a) Interest supplement costs | 3,653 | 4,405 |
| (b) Default costs (net of recoveries) | 4,690 | 3,588 |
| (c) Fees and other collections | (1,489) | (1,520) |
| Total of the above subsidy expense components | $ 6,854 | $ 6,473 |
| Adjustments: | | |
| (a) Fees received | 1,486 | 1,697 |
| (b) Interest supplements paid | (1,454) | (1,349) |
| (c) Claim payments to lenders | (62) | (3,356) |
| (d) Interest accumulation on the liability balance | 2,418 | 5,971 |
| (e) Other (recovery, revenue, and prior period adjustments) | 2,154 | (1,910) |
| Ending balance of the loan guarantee liability before reestimates | $ 52,961 | $ 70,289 |
| Add or subtract subsidy reestimates by component: | | |
| (a) Interest rate reestimate | (8,282) | (7,868) |
| (b) Technical/default reestimate | (15,254) | (20,857) |
| Total of the above reestimate components | $ (23,536) | $ (28,725) |
| Ending balance of the loan guarantee liability | $ 29,425 | $ 41,564 |

| M. Administrative Expense: | | | | (dollars in thousands) |
|---|---|---|---|---|
| Direct Loans (Credit Reform) | | | Guaranteed Loans Programs | |
| FY 2012 | $ 14 | | FY 2012 | $ 485 |
| FY 2011 | $ 14 | | FY 2011 | $ 1,740 |

## NOTE 7. INVENTORY AND RELATED PROPERTY, NET

The DOI's inventory and related property is primarily composed of published maps; gas and storage rights; operating supplies for the Working Capital Fund; airplane parts and fuel; and recoverable, below-ground, crude helium. These inventories were categorized based on the DOI's major activities and the services the DOI provides to the Federal Government and the public. There are currently no restrictions on these inventories. The USGS maintains maps and map products that are located at several Earth Science Information Centers across the United States. The BLM maintains a helium stockpile inventory that is stored in a partially depleted natural gas reservoir. In accordance with the Helium Privatization Act of 1996, a component of this stockpile is held in reserve in the interest of national security and the remaining balance is held for sale to private industry. Effective January 1, 2015, ground crude helium held for sale shall be restricted. See Note 1.H for additional information. Aircraft fuel and parts are held in inventory as operating materials to be consumed and are valued at historical cost, based on the moving average cost method. The value of this inventory is adjusted based on the results of periodic physical inventories. Interior's Working Capital Fund maintains an inventory of operating materials that will be consumed during future operations.

Inventory and Related Property as of September 30, 2012 and 2011, consist of the following:

| (dollars in thousands) | FY 2012 | FY 2011 |
|---|---|---|
| Inventory | | |
| Published Maps Held for Current Sale | $ 4,120 | $ 5,301 |
| Gas and Storage Rights held for Current Sale | 842 | 856 |
| Operating Materials | | |
| Working Capital Fund: Inventory Held for Use | 506 | 1,518 |
| Airplane Parts and Fuel Held for Use | 557 | 812 |
| Stockpile Materials | | |
| Recoverable Below-Ground Crude Helium Held in Reserve | 7,235 | 7,235 |
| Recoverable Below-Ground Crude Helium Held for Sale* | 130,813 | 158,212 |
| Total Inventory and Related Property | 144,073 | 173,934 |
| Allowance for Obsolescence | (3,769) | (5,040) |
| Inventory and Related Property, Net | $ 140,304 | $ 168,894 |

* The difference in carrying value and the estimated selling price of recoverable below ground crude helium held for sale is $690,971 ($821,783 - $130,813) and $825,861 ($984,073-$158,212) at September 30, 2012 and 2011, respectively.

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

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

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

The PP&E categories with corresponding acquisition cost and accumulated depreciation as of September 30, 2012, are shown in the following table:

| *(dollars in thousands)* | Acquisition Cost | Accumulated Depreciation | Net Book Value |
|---|---|---|---|
| Land and Land Improvements | $ 2,251,010 | $ 124,887 | $ 2,126,123 |
| Buildings | 4,602,936 | 1,728,539 | 2,874,397 |
| Structures and Facilities | 22,367,931 | 10,651,558 | 11,716,373 |
| Leasehold Improvements | 59,415 | 26,483 | 32,932 |
| Construction in Progress | | | |
| Construction in Progress - General | 2,534,382 | - | 2,534,382 |
| Construction in Progress in Abeyance | 598,929 | - | 598,929 |
| Equipment, Vehicles, and Aircraft | 2,216,445 | 1,380,368 | 836,077 |
| Internal Use Software | | | |
| In Use | 364,323 | 233,658 | 130,665 |
| In Development | 191,774 | - | 191,774 |
| Total Property, Plant, and Equipment | $ 35,187,145 | $ 14,145,493 | $ 21,041,652 |

The PP&E categories with corresponding acquisition cost and accumulated depreciation as of September 30, 2011, are shown in the following table:

| *(dollars in thousands)* | Acquisition Cost | Accumulated Depreciation | Net Book Value |
|---|---|---|---|
| Land and Land Improvements | $ 2,211,888 | $ 106,218 | $ 2,105,670 |
| Buildings | 4,334,191 | 1,641,463 | 2,692,728 |
| Structures and Facilities | 21,498,433 | 10,346,403 | 11,152,030 |
| Leasehold Improvements | 43,234 | 24,392 | 18,842 |
| Construction in Progress | | | |
| Construction in Progress - General | 2,710,771 | - | 2,710,771 |
| Construction in Progress in Abeyance | 591,658 | - | 591,658 |
| Equipment, Vehicles, and Aircraft | 2,154,529 | 1,325,243 | 829,286 |
| Assets Under Capital Lease | 28,000 | 11,899 | 16,101 |
| Internal Use Software | | | |
| In Use | 309,929 | 217,757 | 92,172 |
| In Development | 205,419 | - | 205,419 |
| Total Property, Plant, and Equipment | $ 34,088,052 | $ 13,673,375 | $ 20,414,677 |

## NOTE 9. STEWARDSHIP ASSETS

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

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

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

The preservation and management of heritage assets located on Federal lands or preserved in Federal and non-Federal facilities is guided chiefly by the Antiquities Act of 1906; the Archaeological Resources Protection Act of 1979, as amended; Curation of Federally-Owned and Administered Archeological Collections; the Native American Graves Protection and Repatriation Act of 1990; the National Historic Preservation Act of 1966; and Executive Order 13287 "Preserve America."

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

### Stewardship Lands

The DOI-administered stewardship lands encompass a wide range of activities, including recreation; conservation; resource extraction such as mining and oil and gas leasing; and other functions vital to the health of the economy and of the American people. These include national parks, national wildlife refuges, public lands, and many other lands of national and historical significance.

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

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

### Donated Stewardship Land

The DOI received donated stewardship land with a fair value of $670 thousand and $2,000 thousand as of September 30, 2012 and 2011, respectively.

### Bureau Stewardship Lands

#### Indian Affairs

The IA is in a unique position in that the land managed is tribal/reservation land that has been administratively designated to IA for a specific purpose that will benefit the tribe. The land or land rights could be withdrawn/returned to the tribe based on the terms of the initial agreement or subsequent agreements. Although the structures constructed on these lands may be considered operational in nature, the lands on which these structures reside are managed in a stewardship manner to provide services to the tribe/reservation.

***Regional Offices.*** Land owned by IA generally consists of parcels located within the boundaries of Indian reservations which have been temporarily withdrawn for administrative uses and are held for the welfare of the Nation to be preserved and protected. The IA has stewardship responsibility for the multiple use management of lands held for the benefit of American Indians and Alaska Natives. The IA manages its stewardship land by 12 administrative regional offices whose boundaries

| Primary Land Management Categories | | As of 10/1/2010 | Increase | Decrease | As of 9/30/2011 | Increase | Decrease | As of 9/30/2012 |
|---|---|---|---|---|---|---|---|---|
| IA | Regional Offices | 12 | - | - | 12 | - | - | 12 |
| BLM | Geographic Management Areas | 134 | - | 1 | 133 | 2 | 6 | 129 |
| BOR | Federal Water and Related Projects | 140 | - | 2 | 138 | - | 1 | 137 |
| FWS | National Wildlife Refuges | 552 | 3 | - | 555 | 5 | - | 560 |
| FWS | Coordination Areas | 49 | 1 | - | 50 | - | - | 50 |
| FWS | Wetland Management Districts | 37 | 1 | - | 38 | - | - | 38 |
| FWS | National Fish Hatcheries | 67 | - | - | 67 | 1 | - | 68 |
| FWS | Fish Technology Centers | 6 | - | - | 6 | - | - | 6 |
| FWS | Associated Fish Facilities | 16 | - | - | 16 | - | 1 | 15 |
| NPS | Park Units | 378 | 5 | - | 383 | 2 | - | 385 |
| OS | Commission Land | 1 | - | - | 1 | - | - | 1 |
| Total Number of Units | | 1,392 | 10 | 3 | 1,399 | 10 | 8 | 1,401 |

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

largely follow one or more state lines. Two exceptions are the Navajo region, which includes parts of Arizona, Utah, and New Mexico; and, the Eastern Oklahoma region, which includes the eastern section of Oklahoma.

## Bureau of Land Management

***Geographic Management Areas.*** The BLM reports its stewardship land by geographic management areas. Specific land use plans are developed and implemented for each of these geographic management areas to manage the land's resources for both present and future periods.

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

## Bureau of Reclamation

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

## U.S. Fish and Wildlife Service

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

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

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

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

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

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

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

### National Park Service

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

### Office of the Secretary

***Commission Land.*** This land is used for fish and wildlife habitat and recreation to replace or offset the loss in Utah of fish and wildlife resources and related recreational opportunities caused by the acquisition, construction, and operation of BOR project assets such as dams, power plants, roads, pipelines, aqueducts, operation and maintenance of buildings, and visitor centers.

## Heritage Assets

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

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

## Non-Collectible Heritage Assets

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

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

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

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

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

***Lake Todatonten Special Management Area.*** Congress authorized the creation of the Lake Todatonten Special Management Area located in the interior of Alaska. Lake Todatonten, the

central feature of this special management area, is particularly important to waterfowl which use the area for migration, staging, molting, and nesting. The lake and its surrounding hills are also home to moose, bear, and other furbearers, and are managed by BLM.

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

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

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

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

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

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

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

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

***National Military Parks.***
See National Battlefields section.

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

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

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

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

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

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

***National Recreation Trails***.
See National Historic Trail section.

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

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

***National Scenic Trails.***
See National Historic Trail section.

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

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

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

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

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

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

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

***Archaeological Protection Areas.*** The BLM manages two Congressionally-designated Archeological Protection Areas in New Mexico. Galisteo Basin is the location for many well-preserved prehistoric and historic archeological resources of Native American and Spanish colonial cultures. Chaco Culture is an area of archeological significance for the Chacoan Anasazi Indian culture.

***Special Areas.*** The BLM manages four Secretarially-designated Special Areas in Alaska. The Utukok River Uplands contains critical habitat for caribou. Teshekpuk Lake and its watershed are an important habitat for a large number of ducks, geese, and swans. Colville River provides critical nesting habitat for the arctic peregrine falcon.

| Non-Collectible Heritage Asset Categories | As of 10/1/2010 | Increase | Decrease | As of 9/30/2011 | Increase | Decrease | As of 9/30/2012 |
|---|---|---|---|---|---|---|---|
| Cooperative Management and Protection Areas | 1 | - | - | 1 | - | - | 1 |
| Headwaters Forest Reserve | 1 | - | - | 1 | - | - | 1 |
| Lake Todatonten Special Management Area | 1 | - | - | 1 | - | - | 1 |
| National Battlefield Parks | 3 | 1 | - | 4 | - | - | 4 |
| National Battlefield Sites | 1 | - | - | 1 | - | - | 1 |
| National Battlefields | 11 | - | - | 11 | | | 11 |
| National Conservation Areas | 17 | - | - | 17 | - | - | 17 |
| National Historic Landmarks (NHL) | 204 | 3 | - | 207 | 2 | 2 | 207 |
| National Historic Sites | 77 | 1 | - | 78 | - | - | 78 |
| National Historic Trails | 11 | - | - | 11 | 2 | - | 13 |
| National Historical Parks | 45 | - | - | 45 | 1 | - | 46 |
| National Lakeshores | 4 | - | - | 4 | - | - | 4 |
| National Memorials | 28 | 1 | - | 29 | - | - | 29 |
| National Military Parks | 9 | - | - | 9 | - | - | 9 |
| National Monuments | 96 | - | - | 96 | 2 | - | 98 |
| National Natural Landmarks (NNL) | 107 | 1 | - | 108 | - | - | 108 |
| National Parks | 58 | - | - | 58 | - | - | 58 |
| National Parkways | 4 | - | - | 4 | - | - | 4 |
| National Preserves | 18 | - | - | 18 | - | - | 18 |
| National Recreation Areas | 20 | - | - | 20 | - | - | 20 |
| National Recreation Trails | 97 | 2 | - | 99 | 7 | - | 106 |
| National Reserves | 2 | - | - | 2 | - | - | 2 |
| National Rivers | 5 | - | - | 5 | - | - | 5 |
| National Scenic Trails | 8 | - | - | 8 | - | - | 8 |
| National Seashores | 10 | - | - | 10 | - | - | 10 |
| National Wild and Scenic Rivers | 92 | - | - | 92 | - | - | 92 |
| National Wildlife Refuges | 552 | 3 | - | 555 | 5 | - | 560 |
| Outstanding Natural Area | 3 | - | - | 3 | - | - | 3 |
| International Historic Sites | 1 | - | - | 1 | - | - | 1 |
| Wilderness Areas | 355 | - | - | 355 | - | - | 355 |
| Research Natural Area | 1 | - | - | 1 | - | - | 1 |
| Archaeological Protection Areas | - | 2 | - | 2 | - | - | 2 |
| Special Areas | - | 4 | - | 4 | - | - | 4 |
| Other | 11 | - | - | 11 | - | - | 11 |
| Total | 1853 | 18 | - | 1871 | 19 | 2 | 1,888 |

Kasegaluk Lagoon was designated as a Special Area where special precautions are necessary to control activities which would disrupt resource values.

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

***Donated Heritage Assets.*** The DOI received donated heritage assets with a fair value of $0 and $120,000 thousand as of September 30, 2012 and 2011, respectively.

## Collectible Heritage Assets

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

### Library Collections

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

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

***Departmental Offices.*** The DO manages the Interior Library. This library was created by Secretarial order and the collections represent a national resource in the disciplines vital to the missions of the Department. The collection covers Native American culture and history, American history, national parks, geology, nature, wildlife management, public lands management, and law. In addition, the library's collection of online databases and access to other electronic information sources enable Departmental personnel and other researchers to access needed information from their computers. Departmental policy dictates that copies of all publications produced by or for its bureaus and offices will be deposited in the library collection.

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

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

### Museum Collections

The DOI's museum property is intimately associated with the lands and cultural and natural resources for which the DOI bureaus share stewardship responsibilities. Disciplines represented include art, ethnography, archeology, documents, history, biology, paleontology, and geology.

Museum collections are organized by location for the purposes of physical accountability. Each bureau has the authority to add or remove an individual museum collection unit based on its own discretion. No further approval is required for accessioning and deaccessioning of a museum collection outside of the bureau.

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

In FY 2012, the Port Chicago Naval Magazine National Memorial museum collection was received by the NPS via transfer from the Department of the Navy.

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

| Library Collections | As of 10/1/2010 | Increase | Decrease | As of 9/30/2011 | Increase | Decrease | As of 9/30/2012 |
|---|---|---|---|---|---|---|---|
| Total | 7 | - | - | 7 | - | - | 7 |

| Museum Collections | As of 10/1/2010 | Increase | Decrease | As of 9/30/2011 | Increase | Decrease | As of 9/30/2012 |
|---|---|---|---|---|---|---|---|
| Held at Interior Bureau Facilities | 587 | 9 | 11 | 585 | 3 | 15 | 573 |
| Held at Non-Interior Bureau Facilities | 482 | 17 | 21 | 478 | 2 | 40 | 440 |
| Total | 1,069 | 26 | 32 | 1,063 | 5 | 55 | 1,013 |

## NOTE 10. ASSETS ANALYSIS

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

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

The DOI's assets as of September 30, 2012, are summarized into the following categories:

| *(dollars in thousands)* | Entity | Non-Entity | FY 2012 |
|---|---|---|---|
| **Intragovernmental Assets** | | | |
| Fund Balance with Treasury | $ 44,209,778 | $ 386,848 | $ 44,596,626 |
| Investments, Net | 6,615,919 | 233,582 | 6,849,501 |
| Accounts and Interest Receivable | 1,078,988 | 870,336 | 1,949,324 |
| Loans and Interest Receivable, Net | 3,164,122 | - | 3,164,122 |
| Advances and Prepayments | 701 | - | 701 |
| **Total Intragovernmental Assets** | 55,069,508 | 1,490,766 | 56,560,274 |
| Cash | 447 | - | 447 |
| Investments, Net | 18 | - | 18 |
| Accounts and Interest Receivable, Net | 182,952 | 3,002,960 | 3,185,912 |
| Loans and Interest Receivable, Net | 63,116 | - | 63,116 |
| Inventory and Related Property, Net | 140,304 | - | 140,304 |
| General Property, Plant and Equipment, Net | 21,041,652 | - | 21,041,652 |
| Advances and Prepayments | 51,403 | - | 51,403 |
| Other Miscellaneous Assets | 58,339 | 96,726 | 155,065 |
| **TOTAL ASSETS** | $ 76,607,739 | $ 4,590,452 | $ 81,198,191 |

The DOI's assets as of September 30, 2011, are summarized into the following categories:

| (dollars in thousands) | Entity | Non-Entity | FY 2011 |
|---|---|---|---|
| **Intragovernmental Assets** | | | |
| Fund Balance with Treasury | $ 43,342,410 | $ 319,887 | $ 43,662,297 |
| Investments, Net | 6,743,450 | 4,849 | 6,748,299 |
| Accounts and Interest Receivable | 1,057,550 | 883,249 | 1,940,799 |
| Loans and Interest Receivable, Net | 3,209,638 | - | 3,209,638 |
| Advances and Prepayments | 2,076 | - | 2,076 |
| **Total Intragovernmental Assets** | 54,355,124 | 1,207,985 | 55,563,109 |
| Cash | 449 | - | 449 |
| Investments, Net | 20 | - | 20 |
| Accounts and Interest Receivable, Net | 215,785 | 1,305,756 | 1,521,541 |
| Loans and Interest Receivable, Net | 79,605 | - | 79,605 |
| Inventory and Related Property, Net | 168,894 | - | 168,894 |
| General Property, Plant and Equipment, Net | 20,414,677 | - | 20,414,677 |
| Advances and Prepayments | 99,969 | - | 99,969 |
| Net Power Rights | 67,451 | - | 67,451 |
| Other Miscellaneous Assets | - | 86,589 | 86,589 |
| **TOTAL ASSETS** | $ 75,401,974 | $ 2,600,330 | $ 78,002,304 |

## NOTE 11. DEBT

Intragovernmental debt to Treasury activity as of September 30, 2012 and 2011 is summarized as follows:

| (dollars in thousands) | FY 2011 Beginning Balance | Borrowing / (Repayments), Net | FY 2011 Ending Balance | Borrowing / (Repayments), Net | FY 2012 Ending Balance |
|---|---|---|---|---|---|
| Helium Fund | $ 434,204 | $ (210,000) | $ 224,204 | $ (180,000) | $ 44,204 |
| Credit Reform Borrowings | 56,206 | (3,085) | 53,121 | (2,957) | 50,164 |
| Total Debt Due to Treasury | $ 490,410 | $ (213,085) | $ 277,325 | $ (182,957) | $ 94,368 |

Debt related to the Helium Fund as of September 30, 2012 and 2011, is summarized as follows:

| (dollars in thousands) | FY 2012 | FY 2011 |
|---|---|---|
| Principal | | |
| Balance, Beginning of Year | $ 224,204 | $ 251,650 |
| Repayments - principal | (180,000) | (27,446) |
| Balance, End of Year | 44,204 | 224,204 |
| Interest | | |
| Balance, Beginning of Year | - | 182,554 |
| Repayments - interest | - | (182,554) |
| Balance, End of Year | - | - |
| Total Debt Due to Treasury | $ 44,204 | $ 224,204 |

## A. Helium Fund - Bureau of Land Management

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

The principal reported in the table above reflects the net worth capital and retained earnings of the Helium Fund and the acquisition and construction of helium plants and facilities and other related purposes, including the purchase of helium. These amounts were due 25 years from the date the funds were borrowed.

Interest was accrued prior to 1996; however, with the passage of the Helium Privatization Act of 1996, no further interest is being accrued on this debt. In FY 2011, the accrued interest was fully paid and the DOI started repaying the principal on the debt.

The DOI will continue to repay the principal using revenue from the sale of stockpile crude helium which began in March 2003 and final payment is expected to be made in FY 2013.

## B. Intragovernmental Debt to Treasury under Credit Reform

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

### *Departmental Offices*

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

### *Indian Affairs*

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

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

### *Bureau of Reclamation*

As discussed in Note 6, Loans and Interest Receivable, BOR establishes loans that are subject to the provisions of FCRA. Under the FCRA, loans consist of two components—the portion borrowed from the Treasury and the appropriated portion to cover the estimated subsidy. The maturity dates for these loans range from 2028 to 2043. Financing accounts must earn and pay interest at the same rate used to discount the credit subsidy cash flows for each cohort. A disbursement-weighted average discount rate is used for FY 1992-2000 cohort years and ranges from 5.81 percent to 7.59 percent. A single effective rate is used for FY 2001-2002 cohort years and ranges from 5.42 percent to 5.59 percent.

## NOTE 12. FEDERAL EMPLOYEE AND VETERAN BENEFITS

Federal Employee and Veteran Benefits as of September 30, 2012, and 2011, consisted of the following:

| *(dollars in thousands)* | FY 2012 | FY 2011 |
|---|---|---|
| **Federal Employee and Veteran Benefits** | | |
| U.S. Park Police Pension Actuarial Liability | $ 662,020 | $ 701,984 |
| U.S. Park Police Pension Current Liability | 39,580 | 39,516 |
| Federal Employees Compensation Actuarial Liability | 796,648 | 741,740 |
| **Total Federal Employee and Veteran Benefits** | $ 1,498,248 | $ 1,483,240 |

***U.S. Park Police Pension Plan.*** In estimating the USPP Pension Plan liability and associated expense, the NPS's actuary applies economic assumptions to historical cost information to estimate the government's future cost to provide benefits to current and future retirees. The estimate is adjusted by the time value of money and the probability of having to pay benefits due to assumed decrements for mortality, and terminations.

The following table presents the significant economic assumptions used to estimate the USPP Pension Plan liability, and the changes in the USPP Pension Plan liability balances. The USPP Pension Plan discount rate of 4.3 percent in FY 2012 and 4.6 percent in FY 2011, matched the discount rate used by OPM for the CSRS plan, but differed from the 4.7 percent in FY 2012 and 4.9 percent in FY 2011 discount rates used for the FERS plan. Additionally, the USPP Pension Plan inflationary rates of 2.6 percent in FY 2012 and 3.1 percent in FY 2011 differed from the 2.5 percent in FY 2012 and 2.4 percent in FY 2011 inflationary rates used by OPM. The NPS calculated its discount and inflationary rates based on the demographics of the USPP Pension Plan participants and an updated longevity assumption.

| Economic Assumptions Used Expressed in Percentages | FY 2012 | FY 2011 |
|---|---|---|
| Interest Rate | 4.30 | 4.60 |
| Inflationary Rate | 2.60 | 3.10 |
| Projected Salary Increase | 2.60 | 3.10 |

| USPP Pension Plan Liability *(dollars in thousands)* | FY 2012 | FY 2011 |
|---|---|---|
| Beginning Balance | $ 741,500 | $ 745,900 |
| Pension Expenses | | |
| Normal Costs | 100 | 100 |
| Interest on liability | 33,200 | 35,500 |
| Actuarial (gains) or losses from experience | (18,520) | (22,484) |
| Actuarial (gains) or losses from assumption changes | (15,100) | 22,000 |
| Total Pension Expenses | (320) | 35,116 |
| Less Benefit Payments | (39,580) | (39,516) |
| **Ending Balance** | $ 701,600 | $ 741,500 |

## NOTE 13. CONTINGENT LIABILITIES AND ENVIRONMENTAL AND DISPOSAL LIABILITIES

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

The accrued and potential Contingent Liabilities and Environmental and Disposal Liabilities as of September 30, 2012, and 2011, are summarized in the categories below.

| FY 2012 (dollars in thousands) | Accrued Liabilities | Estimated Range of Loss | |
|---|---|---|---|
| | | Lower End of Range | Upper End of Range |
| Contingent Liabilities | | | |
| Probable | $ 4,387,944 | $ 4,387,944 | $ 4,647,453 |
| Reasonably Possible | - | 273,111 | 1,110,082 |
| Environmental and Disposal Liabilities | | | |
| Probable | 176,510 | 176,510 | 1,213,243 |
| Reasonably Possible | $ - | $ 67,220 | $ 153,650 |

| FY 2011 (dollars in thousands) | Accrued Liabilities | Estimated Range of Loss | |
|---|---|---|---|
| | | Lower End of Range | Upper End of Range |
| Contingent Liabilities | | | |
| Probable | $ 4,707,821 | $ 4,707,821 | $ 4,932,427 |
| Reasonably Possible | - | 428,381 | 742,214 |
| Environmental and Disposal Liabilities | | | |
| Probable | 179,712 | 179,712 | 1,196,479 |
| Reasonably Possible | $ - | $ 74,784 | $ 197,012 |

### *General Contingent Liabilities*

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

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

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

The following matters had significant impact on the DOI's contingent liabilities in FY 2012 and FY 2011. The Cobell settlement under the Claims Resolution Act of 2010, which President Obama

signed into law on December 8, 2010, resolved a class action lawsuit regarding the U.S. Government's trust management and accounting of Native American trust accounts and resources. Under the settlement, $1.5 billion will be distributed to class members in compensation for claims alleging historical accounting problems and to resolve potential claims that the United States mismanaged the administration of trust assets. The agreement also establishes a $1.9 billion fund for the voluntary buy-back and consolidation of fractionated land interests to address the continued proliferation of thousands of new trust accounts caused by the division of land interests through succeeding generations. Final judgment was approved on August 4, 2011, and affirmed by the Court of Appeals on May 22, 2012. Two petitions for certiorari were pending before the U.S. Supreme Court as of September 30, 2012. One petition was denied on October 29, 2012 and the other petition was dismissed on November 6, 2012. The period to file for reconsideration of the denial of the petition for certiorari expires November 23, 2012. At that point, the Cobell Settlement will become final.

In addition, as a result of months-long settlement negotiations, on April 11, 2012, the United States announced that it had executed individual settlement agreements with 41 tribes totaling more than $1 billion. Since that time, the government has executed settlement agreements with 15 other tribes. The Federal Government is continuing its efforts to resolve the trust accounting and trust management claims of the remaining tribes in a manner that is fair and reasonable to both the tribes and the United States.

### *Environmental and Disposal Liability*

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

Certain Departmental facilities may have regulated materials (e.g., asbestos) used in the construction or later renovation of the facility. These materials, while in an undisturbed or encapsulated state (e.g., nonfriable asbestos), are not subject to cleanup under applicable law. The current policy is that unless and until the materials become friable or otherwise capable of causing contamination, the costs for monitoring or other management of these materials are not to be accrued as environmental cleanup. Currently, any cost for remediation or abatement would only accrue if the material becomes friable or is otherwise released into the environment. Under normal circumstances, remediation or abatement is limited to situations such as the remodeling or demolition of a building containing such materials. Costs would then be reported in the same manner as any other environmental liability. Effective in FY 2013, however, the DOI and other Federal Government agencies will be required to accrue and/or disclose the costs and the associated liabilities for abatement of both friable and non-friable asbestos.

## NOTE 14. LIABILITIES ANALYSIS

Liabilities covered by budgetary resources are funded liabilities to be paid with existing budgetary resources. Liabilities not covered by budgetary resources represent those unfunded liabilities for which Congressional action is needed before budgetary resources can be provided. Non-Current, Intragovernmental, Other Miscellaneous Liabilities includes $243,095 thousand and $286,116 thousand for FY 2012 and FY 2011 respectively, of liability for capital transfers due to the Western Area Power Authority.

The DOI's liabilities covered and not covered by budgetary resources as of September 30, 2012, are as follows:

| | Covered by Budgetary Resources | | Not Covered by Budgetary Resources | | FY 2012 |
|---|---|---|---|---|---|
| *(dollars in thousands)* | Current | Non-Current | Current | Non-Current | |
| **Intragovernmental Liabilities:** | | | | | |
| Accounts Payable | $ 74,628 | $ - | $ 159,906 | $ 432,338 | $ 666,872 |
| Debt | 44,204 | 50,164 | - | - | 94,368 |
| Other | | | | | |
| Liability for Capital Transfers to the General Fund of the Treasury | - | - | 37,185 | 1,813,737 | 1,850,922 |
| Advances and Deferred Revenue | 340,761 | 242 | 2,193 | 73 | 343,269 |
| Custodial Liability | - | - | 412,950 | 731,100 | 1,144,050 |
| Other Liabilities | | | | | |
| Accrued Employee Benefits | 74,063 | - | 20,068 | 16,276 | 110,407 |
| Judgment Fund | - | - | - | 202,334 | 202,334 |
| Unfunded FECA Liability | - | - | 55,135 | 82,703 | 137,838 |
| Other Miscellaneous Liabilities | 26,342 | - | 164,583 | 247,821 | 438,746 |
| Total Other Liabilities | 100,405 | - | 239,786 | 549,134 | 889,325 |
| Total Other Intragovernmental Liabilities | 441,166 | 242 | 692,114 | 3,094,044 | 4,227,566 |
| **Total Intragovernmental Liabilities** | 559,998 | 50,406 | 852,020 | 3,526,382 | 4,988,806 |
| **Public Liabilities:** | | | | | |
| Accounts Payable | 753,672 | 62,166 | - | - | 815,838 |
| Loan Guarantee Liability | - | 29,425 | - | - | 29,425 |
| Federal Employee and Veteran Benefits | | | | | |
| U.S. Park Police Pension Actuarial Liability | - | - | - | 662,020 | 662,020 |
| U.S. Park Police Pension Current Liability | 39,580 | - | - | - | 39,580 |
| FECA Actuarial Liability | - | - | - | 796,648 | 796,648 |
| Total Federal Employee and Veteran Benefits | 39,580 | - | - | 1,458,668 | 1,498,248 |
| Environmental and Disposal Liabilities | - | - | - | 176,510 | 176,510 |
| Other | | | | | |
| Contingent Liabilities | - | - | 3,661 | 4,384,283 | 4,387,944 |
| Advances and Deferred Revenue | 340,709 | - | 291,304 | 204,136 | 836,149 |
| Payments Due to States | - | - | 537,797 | 702,429 | 1,240,226 |
| Grants Payable | 496,655 | - | - | - | 496,655 |
| Other Liabilities | | | | | |
| Accrued Payroll and Benefits | 325,512 | - | - | - | 325,512 |
| Unfunded Annual Leave | - | - | 54,039 | 361,222 | 415,261 |
| Capital Leases | - | - | - | - | - |
| Custodial Liability | - | - | 5,270 | - | 5,270 |
| Secure Rural Schools Act Payable | - | - | 104,480 | - | 104,480 |
| Storm Damage | 3,105 | 5,766 | - | - | 8,871 |
| Other Miscellaneous Liabilities | 32,594 | 644 | 13,618 | 100,704 | 147,560 |
| Total Other Liabilities | 361,211 | 6,410 | 177,407 | 461,926 | 1,006,954 |
| Total Other Public Liabilities | 1,198,575 | 6,410 | 1,010,169 | 5,752,774 | 7,967,928 |
| Total Public Liabilities | 1,991,827 | 98,001 | 1,010,169 | 7,387,952 | 10,487,949 |
| **Total Liabilities** | $ 2,551,825 | $ 148,407 | $ 1,862,189 | $10,914,334 | $ 15,476,755 |

The DOI's liabilities covered and not covered by budgetary resources as of September 30, 2011, are as follows:

| (dollars in thousands) | Covered by Budgetary Resources | | Not Covered by Budgetary Resources | | FY 2011 |
|---|---|---|---|---|---|
| | Current | Non-Current | Current | Non-Current | |
| **Intragovernmental Liabilities:** | | | | | |
| Accounts Payable | $ 76,981 | $ - | $ - | $ 554,796 | $ 631,777 |
| Debt | 50,000 | 227,325 | - | - | 277,325 |
| Other | | | | | |
| Liability for Capital Transfers to the General Fund of the Treasury | - | - | 37,564 | 1,790,801 | 1,828,365 |
| Advances and Deferred Revenue | 426,977 | - | 435 | 28 | 427,440 |
| Custodial Liability | - | - | 532,163 | 111,175 | 643,338 |
| Other Liabilities | | | | | |
| Accrued Employee Benefits | 65,803 | - | 19,188 | 21,203 | 106,194 |
| Judgment Fund | - | - | - | 202,310 | 202,310 |
| Unfunded FECA Liability | - | - | 54,324 | 81,486 | 135,810 |
| Other Miscellaneous Liabilities | 826 | - | 178,824 | 290,665 | 470,315 |
| Total Other Liabilities | 66,629 | - | 252,336 | 595,664 | 914,629 |
| Total Other Intragovernmental Liabilities | 493,606 | - | 822,498 | 2,497,668 | 3,813,772 |
| **Total Intragovernmental Liabilities** | 620,587 | 227,325 | 822,498 | 3,052,464 | 4,722,874 |
| **Public Liabilities:** | | | | | |
| Accounts Payable | 751,745 | 64,310 | - | - | 816,055 |
| Loan Guarantee Liability | - | 41,564 | - | - | 41,564 |
| Federal Employee and Veteran Benefits | | | | | |
| U.S. Park Police Pension Actuarial Liability | - | - | - | 701,984 | 701,984 |
| U.S. Park Police Pension Current Liability | 39,516 | - | - | - | 39,516 |
| FECA Actuarial Liability | - | - | - | 741,740 | 741,740 |
| Total Federal Employee and Veteran Benefits | 39,516 | - | - | 1,443,724 | 1,483,240 |
| Environmental and Disposal Liabilities | - | - | - | 179,712 | 179,712 |
| Other | | | | | |
| Contingent Liabilities | - | - | - | 4,707,821 | 4,707,821 |
| Advances and Deferred Revenue | 287,717 | - | 173,329 | 216,934 | 677,980 |
| Payments Due to States | - | - | 450,711 | 106,816 | 557,527 |
| Grants Payable | 326,674 | - | - | - | 326,674 |
| Other Liabilities | | | | | |
| Accrued Payroll and Benefits | 327,948 | - | - | - | 327,948 |
| Unfunded Annual Leave | - | - | 53,984 | 360,898 | 414,882 |
| Capital Leases | 2,172 | - | - | 18,566 | 20,738 |
| Custodial Liabilities | - | - | - | - | - |
| Secure Rural Schools Act Payable | - | - | 32,247 | - | 32,247 |
| Storm Damage | 11,860 | 22,026 | - | - | 33,886 |
| Other Miscellaneous Liabilities | 16,344 | 697 | 23,485 | 186,489 | 227,015 |
| Total Other Liabilities | 358,324 | 22,723 | 109,716 | 565,953 | 1,056,716 |
| Total Other Public Liabilities | 972,715 | 22,723 | 733,756 | 5,597,524 | 7,326,718 |
| Total Public Liabilities | 1,763,976 | 128,597 | 733,756 | 7,220,960 | 9,847,289 |
| **Total Liabilities** | $ 2,384,563 | $ 355,922 | $ 1,556,254 | $ 10,273,424 | $ 14,570,163 |

# NOTE 15. LEASES

## Operating Leases

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

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

For real and personal property, future payments are calculated based on the terms of the agreement or an annual inflationary factor is applied. The annual inflation factor is 1.4 percent for FY 2013 and 1.7 percent for FY 2014 and beyond. The inflationary factors are applied against the actual 2012 rental expense. For agreements that have an indefinite period of performance, future payments are calculated only for 5 years.

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

Operating leases as of September 30, 2012, consist of the following:

| Future Operating Leases *(dollars in thousands)* | Real Property | | Personal Property | | Totals |
|---|---|---|---|---|---|
| | Federal | Public | Federal | Public | |
| FY 2013 | $ 311,187 | $ 48,893 | $ 67,692 | $ 6,324 | $ 434,096 |
| FY 2014 | 286,201 | 42,775 | 68,787 | 2,669 | 400,432 |
| FY 2015 | 260,817 | 37,027 | 69,899 | 2,560 | 370,303 |
| FY 2016 | 247,039 | 34,264 | 71,030 | 2,565 | 354,898 |
| FY 2017 | 191,535 | 33,235 | 72,179 | 2,594 | 299,543 |
| Thereafter | 202,902 | 204,381 | - | - | 407,283 |
| Total Future Operating Lease Payments | $ 1,499,681 | $ 400,575 | $ 349,587 | $ 16,712 | $ 2,266,555 |

## NOTE 16. COSTS

By law, the DOI, 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 the DOI and are not reflected in the DOI's financial condition and results. However, in certain cases, other Federal agencies incur costs that are directly identifiable to the DOI 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. 30, *Inter-Entity Cost Implementation Amending SFFAS 4, Managerial Cost Accounting Standards and Concepts*, the DOI recognizes identified costs paid for the DOI by other agencies as expenses of the DOI. The funding for these costs is reflected as imputed financing sources on the Statement of Changes in Net Position. Costs paid by other agencies on behalf of the DOI were $2,102,193 thousand and $577,886 thousand during FY 2012 and FY 2011, respectively. The DOI's imputed costs that were recognized on the Statement of Net Cost but eliminated for consolidation purposes were $84,382 thousand and $79,450 thousand during FY 2012 and FY 2011, respectively.

During FY 2012 and FY 2011, the costs associated with acquiring, constructing, and renovating heritage assets were $217,003 thousand and $313,730 thousand, respectively. The costs associated with acquiring and improving stewardship lands were $110,482 thousand and $193,077 thousand during FY 2012 and FY 2011, respectively.

## NOTE 17. COSTS AND EXCHANGE REVENUE BY RESPONSIBILITY SEGMENT

The following tables present the DOI's earned revenues and associated costs for sales of goods and services to Federal agencies and the public.

***Responsibility Segment Presentation.***
The OMB Circular No. A-136, *Financial Reporting Requirements*, requires that the presentation of the Statement of Net Cost align directly with the goals and outcomes identified in the strategic plan. Accordingly, the DOI is presenting the FY 2012 and FY 2011 earned revenue and gross costs by Mission Goals from the DOI's FY 2011- 2016 Strategic Plan.

The DOI's primary Mission Goals are: Provide Natural and Cultural Resource Protection, Manage Energy, Water & Natural Resources, Advance Government Relationships, Provide a Scientific Foundation for Decision Making, Building a 21st Century Department of the Interior. Reimbursable costs related to services provided to other Federal agencies and costs that are not part of the DOI's core mission are presented as Reimbursable Activity and Other. The DOI's reimbursable activity is predominately the intra-governmental acquisition of goods and services through the Department's Working Capital Funds and Franchise Fund for general support of the Department's mission and goals.

Costs and exchange revenue by responsibility segment for the year ended September 30, 2012, consists of the following:

| *(dollars in thousands)* | Indian Affairs | Bureau of Land Management | Bureau of Reclamation | Departmental Offices and Other | Bureau of Ocean Energy Management |
|---|---|---|---|---|---|
| **Provide Natural and Cultural Resource Protection** | | | | | |
| Intragovernmental Costs | $ 108,089 | $ 408,356 | $ 38,699 | $ 7,791 | $ - |
| Public Costs | 176,742 | 1,058,464 | 46,236 | 44,664 | - |
| Total Costs | $ 284,831 | $ 1,466,820 | $ 84,935 | $ 52,455 | $ - |
| Intragovernmental Earned Revenue | 10,983 | 86,565 | 5,461 | 270 | - |
| Public Earned Revenue | 658 | 94,698 | 49,765 | 32 | - |
| Total Earned Revenue | 11,641 | 181,263 | 55,226 | 302 | - |
| Net Costs | $ 273,190 | $ 1,285,557 | $ 29,709 | $ 52,153 | $ - |
| **Manage Energy, Water & Natural Resources** | | | | | |
| Intragovernmental Costs | $ 93,089 | $ 107,529 | $ 481,076 | $ 17,518 | $ 67,774 |
| Public Costs | 118,660 | 347,434 | 1,514,851 | 2,871,052 | 87,012 |
| Total Costs | $ 211,749 | $ 454,963 | $ 1,995,927 | $ 2,888,570 | $ 154,786 |
| Intragovernmental Earned Revenue | 15,455 | 15,208 | 247,237 | 12 | - |
| Public Earned Revenue | 95,543 | 377,564 | 895,600 | - | 163,081 |
| Total Earned Revenue | 110,998 | 392,772 | 1,142,837 | 12 | 163,081 |
| Net Costs | $ 100,751 | $ 62,191 | $ 853,090 | $ 2,888,558 | $ (8,295) |
| **Advance Government to Government Relationships** | | | | | |
| Intragovernmental Costs | $ 1,723,575 | $ - | $ - | $ 54,316 | $ - |
| Public Costs | 2,411,483 | - | - | 748,820 | - |
| Total Costs | $ 4,135,058 | $ - | $ - | $ 803,136 | $ - |
| Intragovernmental Earned Revenue | 262,447 | - | - | 19,494 | - |
| Public Earned Revenue | 33,501 | - | - | 27,662 | - |
| Total Earned Revenue | 295,948 | - | - | 47,156 | - |
| Net Costs | $ 3,839,110 | $ - | $ - | $ 755,980 | $ - |
| **Provide a Scientific Foundation for Decision Making** | | | | | |
| Intragovernmental Costs | $ - | $ - | $ - | $ - | $ - |
| Public Costs | - | - | - | - | - |
| Total Costs | $ - | $ - | $ - | $ - | $ - |
| Intragovernmental Earned Revenue | - | - | - | - | - |
| Public Earned Revenue | - | - | - | - | - |
| Total Earned Revenue | - | - | - | - | - |
| Net Costs | $ - | $ - | $ - | $ - | $ - |
| **Building a 21st Century Department of the Interior** | | | | | |
| Intragovernmental Costs | $ - | $ 84,894 | $ - | $ - | $ - |
| Public Costs | - | 368,674 | - | - | - |
| Total Costs | $ - | $ 453,568 | $ - | $ - | $ - |
| Intragovernmental Earned Revenue | - | 10,909 | - | - | - |
| Public Earned Revenue | - | 1,824 | - | - | - |
| Total Earned Revenue | - | 12,733 | - | - | - |
| Net Costs | $ - | $ 440,835 | $ - | $ - | $ - |
| **Reimbursable Activity and Other** | | | | | |
| Intragovernmental Costs | $ - | $ - | $ 240,830 | $ 576,023 | $ 364 |
| Public Costs | - | - | 290,093 | 2,640,982 | 2,422 |
| Total Costs | $ - | $ - | $ 530,923 | $ 3,217,005 | $ 2,786 |
| Intragovernmental Earned Revenue | - | - | 341,542 | 2,431,514 | 2,786 |
| Public Earned Revenue | - | - | 191,983 | 9,852 | 172 |
| Total Earned Revenue | - | - | 533,525 | 2,441,366 | 2,958 |
| Net Costs | $ - | $ - | $ (2,602) | $ 775,639 | $ (172) |
| **Total** | | | | | |
| Intragovernmental Costs | $ 1,924,753 | $ 600,779 | $ 760,605 | $ 655,648 | $ 68,138 |
| Public Costs | 2,706,885 | 1,774,572 | 1,851,180 | 6,305,518 | 89,434 |
| Total Costs | $ 4,631,638 | $ 2,375,351 | $ 2,611,785 | $ 6,961,166 | $ 157,572 |
| Intragovernmental Earned Revenue | 288,885 | 112,682 | 594,240 | 2,451,290 | 2,786 |
| Public Earned Revenue | 129,702 | 474,086 | 1,137,348 | 37,546 | 163,253 |
| Total Earned Revenue | 418,587 | 586,768 | 1,731,588 | 2,488,836 | 166,039 |
| Net Cost of Operations | $ 4,213,051 | $ 1,788,583 | $ 880,197 | $ 4,472,330 | $ (8,467) |

| Bureau of Safety and Environmental Enforcement | National Park Service | Office of Surface Mining Reclamation & Enforcement | U.S. Fish and Wildlife Service | U.S. Geological Survey | Elimination of Intra-Department Activity | FY 2012 |
|---|---|---|---|---|---|---|
| $ - | $ 852,168 | $ 7,751 | $ 405,475 | $ - | $ (458,180) | $ 1,370,149 |
| - | 2,785,336 | 260,581 | 2,783,422 | - | - | 7,155,445 |
| $ - | $ 3,637,504 | $ 268,332 | $ 3,188,897 | $ - | $ (458,180) | $ 8,525,594 |
| - | 104,396 | - | 229,245 | - | (167,578) | 269,342 |
| - | 420,574 | 92 | 79,461 | - | - | 645,280 |
| - | 524,970 | 92 | 308,706 | - | (167,578) | 914,622 |
| $ - | $ 3,112,534 | $ 268,240 | $ 2,880,191 | $ - | $ (290,602) | $ 7,610,972 |
| | | | | | | |
| $ 58,868 | $ - | $ 21,218 | $ 4,420 | $ - | $ (382,059) | $ 469,433 |
| 81,418 | - | 102,118 | 21,743 | - | - | 5,144,288 |
| $ 140,286 | $ - | $ 123,336 | $ 26,163 | $ - | $ (382,059) | $ 5,613,721 |
| - | - | - | 8,503 | - | (32,211) | 254,204 |
| 59,081 | - | 32 | 1,698 | - | - | 1,592,599 |
| 59,081 | - | 32 | 10,201 | - | (32,211) | 1,846,803 |
| $ 81,205 | $ - | $ 123,304 | $ 15,962 | $ - | $ (349,848) | $ 3,766,918 |
| | | | | | | |
| $ - | $ - | $ - | $ 329 | $ - | $ (134,490) | $ 1,643,730 |
| - | - | - | 2,107 | - | - | 3,162,410 |
| $ - | $ - | $ - | $ 2,436 | $ - | $ (134,490) | $ 4,806,140 |
| - | - | - | 1,388 | - | (3,414) | 279,915 |
| - | - | - | 308 | - | - | 61,471 |
| - | - | - | 1,696 | - | (3,414) | 341,386 |
| $ - | $ - | $ - | $ 740 | $ - | $ (131,076) | $ 4,464,754 |
| | | | | | | |
| $ - | $ - | $ - | $ - | $ 448,054 | $ (91,714) | $ 356,340 |
| - | - | - | - | 1,225,952 | - | 1,225,952 |
| $ - | $ - | $ - | $ - | $ 1,674,006 | $ (91,714) | $ 1,582,292 |
| - | - | - | - | 316,073 | (128,104) | 187,969 |
| - | - | - | - | 199,186 | - | 199,186 |
| - | - | - | - | 515,259 | (128,104) | 387,155 |
| $ - | $ - | $ - | $ - | $ 1,158,747 | $ 36,390 | $ 1,195,137 |
| | | | | | | |
| $ - | $ - | $ - | $ - | $ - | $ (32,131) | $ 52,763 |
| - | - | - | - | - | - | 368,674 |
| $ - | $ - | $ - | $ - | $ - | $ (32,131) | $ 421,437 |
| - | - | - | - | - | (9,841) | 1,068 |
| - | - | - | - | - | - | 1,824 |
| - | - | - | - | - | (9,841) | 2,892 |
| $ - | $ - | $ - | $ - | $ - | $ (22,290) | $ 418,545 |
| | | | | | | |
| $ 5,009 | $ - | $ 8 | $ - | $ - | $ (461,624) | $ 360,610 |
| 24,099 | - | 330,949 | - | - | - | 3,288,545 |
| $ 29,108 | $ - | $ 330,957 | $ - | $ - | $ (461,624) | $ 3,649,155 |
| 28,247 | - | 78 | - | - | (1,134,668) | 1,669,499 |
| 1,075 | - | 53 | - | - | - | 203,135 |
| 29,322 | - | 131 | - | - | (1,134,668) | 1,872,634 |
| $ (214) | $ - | $ 330,826 | $ - | $ - | $ 673,044 | $ 1,776,521 |
| | | | | | | |
| $ 63,877 | $ 852,168 | $ 28,977 | $ 410,224 | $ 448,054 | $ (1,560,198) | $ 4,253,025 |
| 105,517 | 2,785,336 | 693,648 | 2,807,272 | 1,225,952 | - | 20,345,314 |
| $ 169,394 | $ 3,637,504 | $ 722,625 | $ 3,217,496 | $ 1,674,006 | $ (1,560,198) | $ 24,598,339 |
| 28,247 | 104,396 | 78 | 239,136 | 316,073 | (1,475,816) | 2,661,997 |
| 60,156 | 420,574 | 177 | 81,467 | 199,186 | - | 2,703,495 |
| 88,403 | 524,970 | 255 | 320,603 | 515,259 | (1,475,816) | 5,365,492 |
| $ 80,991 | $ 3,112,534 | $ 722,370 | $ 2,896,893 | $ 1,158,747 | $ (84,382) | $ 19,232,847 |

Costs and exchange revenue by responsibility segment for the year ended September 30, 2011, consists of the following:

| *(dollars in thousands)* | Indian Affairs | Bureau of Land Management | Bureau of Reclamation | Departmental Offices and Other | Bureau of Ocean Energy Management, Regulation and Enforcement |
|---|---|---|---|---|---|
| **Provide Natural and Cultural Resource Protection** | | | | | |
| Intragovernmental Costs | $ 32,130 | $ 391,127 | $ 30,142 | $ 15,406 | $ - |
| Public Costs | 197,008 | 1,015,408 | 53,493 | 21,438 | - |
| Total Costs | $ 229,138 | $ 1,406,535 | $ 83,635 | $ 36,844 | $ - |
| Intragovernmental Earned Revenue | 8,760 | 80,140 | 4,456 | 4,863 | - |
| Public Earned Revenue | 994 | 101,534 | 55,925 | 10,144 | - |
| Total Earned Revenue | 9,754 | 181,674 | 60,381 | 15,007 | - |
| Net Costs | $ 219,384 | $ 1,224,861 | $ 23,254 | $ 21,837 | $ - |
| **Manage Energy, Water & Natural Resources** | | | | | |
| Intragovernmental Costs | $ 35,573 | $ 120,387 | $ 498,375 | $ 15,570 | $ 101,638 |
| Public Costs | 179,486 | 389,203 | 1,443,331 | 2,205,613 | 246,516 |
| Total Costs | $ 215,059 | $ 509,590 | $ 1,941,706 | $ 2,221,183 | $ 348,154 |
| Intragovernmental Earned Revenue | 14,200 | 17,754 | 156,614 | 16 | (16) |
| Public Earned Revenue | 92,097 | 400,813 | 1,089,805 | 66,341 | 121,549 |
| Total Earned Revenue | 106,297 | 418,567 | 1,246,419 | 66,357 | 121,533 |
| Net Costs | $ 108,762 | $ 91,023 | $ 695,287 | $ 2,154,826 | $ 226,621 |
| **Advance Government to Government Relationships** | | | | | |
| Intragovernmental Costs | $ 348,329 | $ - | $ - | $ 82,781 | $ - |
| Public Costs | 7,008,509 | - | - | 644,125 | - |
| Total Costs | $ 7,356,838 | $ - | $ - | $ 726,906 | $ - |
| Intragovernmental Earned Revenue | 311,353 | - | - | 25,301 | $ - |
| Public Earned Revenue | 41,449 | - | - | 16,481 | - |
| Total Earned Revenue | 352,802 | - | - | 41,782 | - |
| Net Costs | $ 7,004,036 | $ - | $ - | $ 685,124 | $ - |
| **Provide a Scientific Foundation for Decision Making** | | | | | |
| Intragovernmental Costs | $ - | $ - | $ - | $ - | $ - |
| Public Costs | - | - | - | - | - |
| Total Costs | $ - | $ - | $ - | $ - | $ - |
| Intragovernmental Earned Revenue | - | - | - | - | - |
| Public Earned Revenue | - | - | - | - | - |
| Total Earned Revenue | - | - | - | - | - |
| Net Costs | $ - | $ - | $ - | $ - | $ - |
| **Building a 21st Century Department of the Interior** | | | | | |
| Intragovernmental Costs | $ - | $ 71,166 | $ - | $ - | $ - |
| Public Costs | - | 295,100 | - | - | - |
| Total Costs | $ - | $ 366,266 | $ - | $ - | $ - |
| Intragovernmental Earned Revenue | - | 5,980 | - | - | - |
| Public Earned Revenue | - | 2,783 | - | - | - |
| Total Earned Revenue | - | 8,763 | - | - | - |
| Net Costs | $ - | $ 357,503 | $ - | $ - | $ - |
| **Reimbursable Activity and Other** | | | | | |
| Intragovernmental Costs | $ - | $ - | $ 251,555 | $ 712,644 | $ 973 |
| Public Costs | - | - | 300,626 | 2,514,365 | 6,757 |
| Total Costs | $ - | $ - | $ 552,181 | $ 3,227,009 | $ 7,730 |
| Intragovernmental Earned Revenue | - | - | 442,155 | 2,579,961 | 6,744 |
| Public Earned Revenue | - | - | 111,807 | 19,099 | 1,499 |
| Total Earned Revenue | - | - | 553,962 | 2,599,060 | 8,243 |
| Net Costs | $ - | $ - | $ (1,781) | $ 627,949 | $ (513) |
| **Total** | | | | | |
| Intragovernmental Costs | $ 416,032 | $ 582,680 | $ 780,072 | $ 826,401 | $ 102,611 |
| Public Costs | 7,385,003 | 1,699,711 | 1,797,450 | 5,385,541 | 253,273 |
| Total Costs | $ 7,801,035 | $ 2,282,391 | $ 2,577,522 | $ 6,211,942 | $ 355,884 |
| Intragovernmental Earned Revenue | 334,313 | 103,874 | 603,225 | 2,610,141 | 6,728 |
| Public Earned Revenue | 134,540 | 505,130 | 1,257,537 | 112,065 | 123,048 |
| Total Earned Revenue | 468,853 | 609,004 | 1,860,762 | 2,722,206 | 129,776 |
| Net Cost of Operations | $ 7,332,182 | $ 1,673,387 | $ 716,760 | $ 3,489,736 | $ 226,108 |

| National Park Service | Office of Surface Mining Reclamation & Enforcement | U.S. Fish and Wildlife Service | U.S. Geological Survey | Elimination of Intra-Department Activity | FY 2011 |
|---|---|---|---|---|---|
| $ 894,153 | $ 12,131 | $ 455,122 | $ - | $ (480,405) | $ 1,349,806 |
| 2,965,834 | 206,008 | 2,728,417 | - | - | 7,187,606 |
| $ 3,859,987 | $ 218,139 | $ 3,183,539 | $ - | $ (480,405) | $ 8,537,412 |
| 92,804 | 11 | 189,842 | - | (191,744) | 189,132 |
| 358,400 | (133) | 94,051 | - | - | 620,915 |
| 451,204 | (122) | 283,893 | - | (191,744) | 810,047 |
| $ 3,408,783 | $ 218,261 | $ 2,899,646 | $ - | $ (288,661) | $ 7,727,365 |
| | | | | | |
| $ - | $ 17,325 | $ 5,416 | $ - | $ (386,217) | $ 408,067 |
| - | 105,308 | 19,272 | - | - | 4,588,729 |
| $ - | $ 122,633 | $ 24,688 | $ - | $ (386,217) | $ 4,996,796 |
| - | 17 | 6,189 | - | (28,474) | 166,300 |
| - | 23 | 1,554 | - | - | 1,772,182 |
| - | 40 | 7,743 | - | (28,474) | 1,938,482 |
| $ - | $ 122,593 | $ 16,945 | $ - | $ (357,743) | $ 3,058,314 |
| | | | | | |
| $ - | $ - | $ 352 | $ - | $ (172,398) | $ 259,064 |
| - | - | 3,309 | - | - | 7,655,943 |
| $ - | $ - | $ 3,661 | $ - | $ (172,398) | $ 7,915,007 |
| - | - | 666 | - | (4,029) | 333,291 |
| - | - | 210 | - | - | 58,140 |
| - | - | 876 | - | (4,029) | 391,431 |
| $ - | $ - | $ 2,785 | $ - | $ (168,369) | $ 7,523,576 |
| | | | | | |
| $ - | $ - | $ - | $ 448,843 | $ (91,764) | $ 357,079 |
| - | - | - | 1,229,907 | - | 1,229,907 |
| $ - | $ - | $ - | $ 1,678,750 | $ (91,764) | $ 1,586,986 |
| - | - | - | 306,171 | (122,554) | 183,617 |
| - | - | - | 190,614 | - | 190,614 |
| - | - | - | 496,785 | (122,554) | 374,231 |
| $ - | $ - | $ - | $ 1,181,965 | $ 30,790 | $ 1,212,755 |
| | | | | | |
| $ - | $ - | $ - | $ - | $ (26,850) | $ 44,316 |
| - | - | - | - | - | 295,100 |
| $ - | $ - | $ - | $ - | $ (26,850) | $ 339,416 |
| - | - | - | - | (5,264) | 716 |
| - | - | - | - | - | 2,783 |
| - | - | - | - | (5,264) | 3,499 |
| $ - | $ - | $ - | $ - | $ (21,586) | $ 335,917 |
| | | | | | |
| $ - | $ 5 | $ - | $ - | $ (628,007) | $ 337,170 |
| - | 341,804 | - | - | - | 3,163,552 |
| $ - | $ 341,809 | $ - | $ - | $ (628,007) | $ 3,500,722 |
| - | 156 | - | - | (1,354,126) | 1,674,890 |
| - | 1,458 | - | - | - | 133,863 |
| - | 1,614 | - | - | (1,354,126) | 1,808,753 |
| $ - | $ 340,195 | $ - | $ - | $ 726,119 | $ 1,691,969 |
| | | | | | |
| $ 894,153 | $ 29,461 | $ 460,890 | $ 448,843 | $ (1,785,641) | $ 2,755,502 |
| 2,965,834 | 653,120 | 2,750,998 | 1,229,907 | - | 24,120,837 |
| $ 3,859,987 | $ 682,581 | $ 3,211,888 | $ 1,678,750 | $ (1,785,641) | $ 26,876,339 |
| 92,804 | 184 | 196,697 | 306,171 | (1,706,191) | 2,547,946 |
| 358,400 | 1,348 | 95,815 | 190,614 | - | 2,778,497 |
| 451,204 | 1,532 | 292,512 | 496,785 | (1,706,191) | 5,326,443 |
| $ 3,408,783 | $ 681,049 | $ 2,919,376 | $ 1,181,965 | $ (79,450) | $ 21,549,896 |

## NOTE 18. STATEMENT OF BUDGETARY RESOURCES

The Statement of Budgetary Resources provides information about how budgetary resources were made available as well as their status at the end of the period. In FY 2012, the DOI revised the format of the statement of budget resources to better align with the SF 133 Report on Budget Execution and Budgetary Resources in accordance with OMB Circular A-136 guidance. The DOI reclassified the FY 2011 statement of budget resources to conform with the FY 2012 presentation. The DOI's undelivered orders as of September 30, 2012 and September 30, 2011, were $8,921,690 thousand and $9,401,088 thousand, respectively.

### *Apportionment of Obligations Incurred*

The following table contains only Category B apportionments since the DOI does not receive Category A apportionments. Category B apportionments typically distribute budgetary resources by activities, projects, objects, or a combination of these categories. The DOI's obligations incurred for the year ended September 30, 2012, and 2011, are as follows:

| FY 2012 *(dollars in thousands)* | Apportioned | Exempt from Apportionment | Total |
|---|---|---|---|
| Obligations Incurred: | | | |
| Direct | $ 18,768,986 | $ 450 | $ 18,769,436 |
| Reimbursable | 5,350,319 | - | 5,350,319 |
| Total Obligations Incurred | $ 24,119,305 | $ 450 | $ 24,119,755 |

| FY 2011 *(dollars in thousands)* | Apportioned | Exempt from Apportionment | Total |
|---|---|---|---|
| Obligations Incurred: | | | |
| Direct | $ 18,514,194 | $ (13,180) | $ 18,501,014 |
| Reimbursable | 5,475,418 | - | 5,475,418 |
| Total Obligations Incurred | $ 23,989,612 | $ (13,180) | $ 23,976,432 |

***Repayment Requirements, Financing Sources for Repayment, and other Terms of Borrowing Authority Used.*** The DOI has permanent indefinite borrowing authority for direct and guarantee loan programs in accordance with the Credit Reform Act of 1990 and related legislation. The BOR, IA, and Departmental Offices are authorized to borrow the unsubsidized portion of direct loan and loan guarantee default disbursements from the Bureau of the Public Debt.

Borrowings are repaid upon collection of the loan or default from the public. The repayment term associated with BOR direct loans are not more than 40 years from the date when the principal benefits of the projects first became available. The IA did not exercise any new borrowing authority as of September 30, 2012, and September 30, 2011. The IA's direct loan program ended in 1995. However, borrowings arising from direct loans made between 1992 and 1995 are still outstanding. These borrowings are being repaid as scheduled. Departmental Offices has one direct loan outstanding to the ASG that is due to be paid in full September 30, 2027.

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

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

***Legal Arrangements Affecting Use of Unobligated Balances.*** Unobligated balances, whose period of availability has expired (i.e., expired authority), are not available to fund new obligations, but are available to pay for adjustments to obligations incurred prior to expiration. The DOI's unobligated unavailable balances as of September 30, 2012, and 2011, are disclosed in the table below.

***Available Borrowing/Contract Authority, End of the Period.*** The DOI did not have any available budgetary borrowing or contract authority for the years ended September 30, 2012 and 2011. The DOI does have permanent indefinite non-budgetary borrowing authority for the execution of direct loan and loan guarantee programs in accordance with the Credit Reform Act of 1990. The amount borrowed will fluctuate dependent upon the actual performance of the borrower as compared to the projected performance and the applicable Treasury interest rate. The realized borrowing for non-budgetary credit programs is $424 thousand and $18,802 thousand for the periods ending September 30, 2012 and 2011, respectively.

***Explanation of Differences between the Combined Statement of Budgetary Resources and the Budget of the United States Government.*** The Statement of Budgetary Resources has been prepared to coincide with the amounts shown in the Budget of the United States Government. The Budget of the United States Government containing the actual amounts for FY 2012 has not been published at the time these financial statements were prepared. The FY 2013 Budget of the United States Government with the actual FY 2011 amounts was released in February 2012. The FY 2014 Budget of the United States Government will include the FY 2012 actual amounts, and is estimated to be released in February 2013. The Budget of the United States Government is available on the OMB website, ***www.whitehouse.gov/omb***.

There are legitimate reasons for differences between balances reported in the Statement of Budgetary Resources and the actual balances reported in the Budget of the United States Government. The FY 2011 differences are explained in the Explanation of Differences between the Combined Statement of Budgetary Resources and the Budget of the United States Government table.

**Legal Arrangements Affecting Use of Unobligated Balances**

| *(dollars in thousands)* | FY 2012 | FY 2011 |
|---|---|---|
| Unapportioned amounts unavailable for future apportionments | $ 3,270 | $ 3,623 |
| Expired Authority | 137,620 | 153,413 |
| Unobligated Balance Unavailable | $ 140,890 | $ 157,036 |

| Reconciliation of the Statement of Budgetary Resources to the Budget of the United States Government | | | | |
|---|---|---|---|---|
| *(dollars in millions)* | Budgetary Resources | Obligations Incurred | Distributed Offsetting Receipts | Net Outlays |
| **FY 2011 Combined Statement of Budgetary Resources** | **$ 31,589** | **$ 23,976** | **$ (5,380)** | **$ 18,921** |
| Expired balances reported in the SBR, but not in the Budget of the US Government | (199) | - | - | - |
| Office of the Special Trustee fiduciary activity included in the Budget of the US Government that is excluded from the SBR | 548 | 374 | (417) | 374 |
| National Park Service Concessionaire activity included in the Budget of the US Government that is excluded from the SBR | 37 | 21 | (17) | 21 |
| The Bureau of Reclamation reclassified $150M in receipts from available to unavailable during FY-11 due to the fact that total receipts exceeded the $88M original made available by P.L. 111-11. In FY-12, a new unavailable receipt account was established. | (150) | - | - | - |
| Subtotal | 236 | 395 | (434) | 395 |
| **Budget of the U.S. Government** | **$ 31,825** | **$ 24,371** | **$ (5,814)** | **$ 19,316** |

## NOTE 19. RECONCILIATION OF NET COST OF OPERATIONS TO BUDGET

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

The schedule below illustrates this reconciliation by listing the inherent differences in timing and recognition between the accrual proprietary accounting method used to calculate net cost and the budgetary accounting method used to calculate budgetary resources and obligations. Note that the large variance in the "Re-evaluation of liabilities" line between FY 2012 and FY 2011 is mainly due to an increase in contingent liabilities because of the $3.4 billion settlement in the *Cobell* v. *Salazar* case and an unfavorable ruling against the DOI in another tribal case in FY 2011.

The reconciliation of net cost of operations to budgetary accounts for the years ended September 30, 2012 and 2011, is as follows:

| *(dollars in thousands)* | FY 2012 | FY 2011 |
|---|---|---|
| **Resources Used to Finance Activities** | | |
| **Current Year Gross Obligations** | $ 24,119,755 | $ 23,976,432 |
| **Budgetary Resources from Offsetting Collections** | | |
| Spending Authority from Offsetting Collections | | |
| Earned | | |
| Collected | (5,576,731) | (5,683,991) |
| Change in Receivable from Federal Sources | 1,488 | (26,299) |
| Change in Unfilled Customer Orders | (77,098) | 207,448 |
| Recoveries of Prior Year Unpaid Obligations | (545,389) | (508,895) |
| Offsetting Receipts | (5,553,460) | (5,379,787) |
| **Other Financing Resources** | | |
| Transfers In (Out) without Reimbursement | 8,172 | 7,940 |
| Donations (Forfeitures) of Property | 131,913 | 12,733 |
| Imputed Financing Sources | 2,102,193 | 577,886 |
| Other | (179,898) | (212,068) |
| **Total Resources Used to Finance Activity** | $ 14,430,945 | $ 12,971,399 |
| **Resources Used to Finance Items Not Part of the Net Cost of Operations** | | |
| **Budgetary Obligations and Resources Not in the Net Cost of Operations** | | |
| Change in Unfilled Customer Orders | $ 61,253 | $ (211,696) |
| Change in Undelivered Orders | 479,398 | 994,689 |
| Current Year Capitalized Purchases | (984,919) | (1,281,413) |
| Capital Lease Obligations | (20,738) | 13,572 |
| Change in Expended Authority in Loan Funds | (52,223) | (25,996) |
| Change in Budgetary Collections in Loan Funds | 33,809 | 54,294 |
| Offsetting Receipts that do not Affect Net Cost of Operations | 5,553,460 | 5,379,787 |
| Imputed Financing Sources | (2,102,193) | (577,886) |
| Revenues, Gains, and Losses that do not affect Net Cost Operations | (1,259,883) | (1,203,835) |
| **Components of the Net Cost of Operations Which Do Not Generate or Use Resources in the Reporting Period** | | |
| **Revenues Without Current Year Budgetary Effect** | | |
| Change in Receivables Not in the Budget | 430 | (4,985) |
| **Costs without Current Year Budgetary Effect** | | |
| Depreciation and Amortization | 632,282 | 515,072 |
| Disposition of Assets | (14,459) | 76,762 |
| Re-evaluation of liabilities | 386,855 | 4,387,314 |
| Imputed costs | 2,082,428 | 582,191 |
| Bad Debt Expense | 10,463 | 2,183 |
| Change in Other Expenses Not Requiring Budgetary Resources | (4,061) | (121,556) |
| **Net Cost of Operations** | $ 19,232,847 | $ 21,549,896 |

## NOTE 20. EARMARKED FUNDS

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

The DOI's significant earmarked funds are:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

***Environmental Improvement and Restoration Fund (EIRF).*** The EIRF was created from a distribution of the Alaska Escrow Fund in which half of the principal is invested in Treasury Securities. Monies from the EIRF are invested and earn interest until further Congressional action is taken. Congress permanently appropriates and

ONRR transfers 20 percent of prior fiscal year interest earned by the EIRF to the Department of Commerce for marine research activities. The remaining 80 percent earns interest and can be appropriated by Congress to other agencies, as provided by the law. Assets are not available to the DOI unless appropriated by Congress. The funds are considered inflows of resources to the government.

***Other Earmarked Funds.*** The DOI is responsible for the management of numerous earmarked funds with a variety of purposes. Funds presented on an individual basis represent the majority of the DOI's net position attributable to earmarked funds. All other earmarked funds have been aggregated in accordance with SFFAS No. 27, *Identifying and Reporting Earmarked Funds*, and are presented in the following tables.

The FWS has several appropriations that have a combination of earmarked funding and regular funding. The DOI determines earmarked status by appropriation and the policy is to report "mixed" appropriation as earmarked dependent upon the preponderance of funds within the appropriation In FY 2011, FWS changed the reporting of The Cooperative Endangered Species Conservation Fund, Treasury Appropriation Symbol 14X5143. Based on a change in the preponderance of funding the fund was changed from Earmarked to other.

### *Indian Affairs*

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

### *Bureau of Land Management*

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

### *Bureau of Reclamation*

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

### *U. S. Geological Survey*

- Operation and Maintenance of Quarters
- Contributed Fund
- Natural Resource Damage Assessment and Restoration Fund

### *Office of Surface Mining Reclamation and Enforcement*

- Regulation and Technology, Civil Penalties
- Bond Forfeitures

### *Bureau of Safety and Environmental Enforcement*

- Oil Spill Research

### *Departmental Offices*

- Natural Resource Damage Assessment and Restoration Fund
- Utah Reclamation Mitigation and Conservation Account
- Indian Arts and Crafts Receipts
- Hazardous Substance Response Trust Fund
- National Indian Gaming Commission
- Everglades Restoration
- Take Pride in America Gifts and Bequests
- Departmental Management Land and Water Conservation
- Central Utah Project Completion Act
- Payments to States from receipts under Mineral Leasing, Public and Acquired Military Lands
- Payments to Alaska from Oil and Gas Leases, National Petroleum Reserve
- Payment to Oklahoma, Royalties
- Payments to States, National Forest Fund
- Payments to States, Flood Control Act of 1954
- Geothermal Lease Revenues, Payments to Counties
- State's Share from Certain Gulf of Mexico Leases

### *Fish & Wildlife Service*

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

### *National Park Service*

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

The DOI's earmarked funds as of and for the year ended September 30, 2012, consist of the following:

| *(dollars in thousands)* | Land and Water Conservation Fund | Historic Preservation Fund | Reclamation Fund | Water and Related Resources | Lower Colorado River Basin Fund | Upper Colorado River Basin Fund |
|---|---|---|---|---|---|---|
| **ASSETS** | | | | | | |
| Fund Balance with Treasury | $ 18,270,289 | $ 3,077,469 | $ 10,837,809 | $ 1,079,349 | $ 3,091 | $ 206,017 |
| Investments, Net | - | - | - | - | 567,446 | - |
| Accounts Receivable, Net | - | - | 1,006,835 | 8,271 | 686 | 556 |
| Loans Receivable, Net | - | - | 3,164,121 | - | - | - |
| General Property, Plant, and Equipment, Net | - | - | - | 8,079,054 | 2,917,038 | 2,463,854 |
| Other Assets | - | 23 | - | 45,410 | 68,461 | 1,921 |
| **TOTAL ASSETS** | $ 18,270,289 | $ 3,077,492 | $ 15,008,765 | $ 9,212,084 | $ 3,556,722 | $ 2,672,348 |
| **LIABILITIES** | | | | | | |
| Accounts Payable | $ - | $ - | $ - | $ 90,184 | $ 4,573 | $ 69,580 |
| Debt | - | - | - | - | - | - |
| Other Liabilities | - | - | 59 | 2,249,270 | 11,873 | 176,957 |
| **TOTAL LIABILITIES** | $ - | $ - | $ 59 | $ 2,339,454 | $ 16,446 | $ 246,537 |
| **NET POSITION** | | | | | | |
| Unexpended Appropriations | $ - | $ - | $ - | $ 299,622 | $ 157,454 | $ 37,658 |
| Cumulative Results of Operations | 18,270,289 | 3,077,492 | 15,008,706 | 6,573,008 | 3,382,822 | 2,388,153 |
| **TOTAL NET POSITION** | 18,270,289 | 3,077,492 | 15,008,706 | 6,872,630 | 3,540,276 | 2,425,811 |
| **TOTAL LIABILITIES AND NET POSITION** | $ 18,270,289 | $ 3,077,492 | $ 15,008,765 | $ 9,212,084 | $ 3,556,722 | $ 2,672,348 |
| **COST/REVENUE** | | | | | | |
| Gross Costs | $ - | $ 75,108 | $ 540 | $ 1,468,470 | $ 249,557 | $ 100,408 |
| Earned Revenue | - | - | (398,855) | (362,983) | (209,328) | (121,492) |
| **NET COST OF OPERATIONS** | $ - | $ 75,108 | $ (398,315) | $ 1,105,487 | $ 40,229 | $ (21,084) |
| **NET POSITION** | | | | | | |
| Net Position, Beginning Balance | $ 17,692,495 | $ 3,002,600 | $ 13,281,240 | $ 6,782,517 | $ 3,575,432 | $ 2,362,351 |
| Appropriations Received/Transferred | - | - | - | 129,117 | 6,070 | 39,101 |
| Royalties Retained | 899,827 | 150,000 | 2,200,051 | - | - | - |
| Non-Exchange Revenue and donation and forfeitures | 105 | - | 8,971 | 120,556 | - | - |
| Other Financing sources | | | | | | |
| Transfers In/(Out) without Reimbursement | (322,138) | - | (864,198) | 835,389 | (997) | (16,742) |
| Imputed Financing from Costs Absorbed by Others | - | - | 33 | 107,482 | - | 20,017 |
| Other | - | - | (15,706) | 3,056 | - | - |
| Net Cost of Operations | - | (75,108) | 389,315 | (1,105,487) | (40,229) | 21,084 |
| Change in Net Position | 577,794 | 74,892 | 1,727,466 | 90,113 | (35,156) | 63,460 |
| **NET POSITION, ENDING BALANCE** | $ 18,270,289 | $ 3,077,492 | $ 15,008,706 | $ 6,872,630 | $ 3,540,276 | $ 2,425,811 |

| Water and Related Resources Recovery Act | Abandoned Mine Land Fund | Southern Nevada Public Land Mgmt Fund | Federal Aid in Wildlife Restoration | Sport Fish Restoration & Boating Trust Fund | Environmental Improvement & Restoration Fund | Other Earmarked Funds | FY 2012 |
|---|---|---|---|---|---|---|---|
| $ 54,599 | $ 10,000 | $ 167,919 | $ 384,029 | $ 35,553 | $ 1 | $ 2,962,529 | $ 37,088,654 |
| - | 2,759,834 | 841,239 | 740,147 | - | 1,291,600 | 415,670 | 6,615,936 |
| 46 | 511 | 3 | 1 | 1,301,819 | - | 1,290,106 | 3,608,834 |
| - | - | - | - | - | - | 22 | 3,164,143 |
| 310,175 | 3,023 | 71,976 | - | - | - | 547,562 | 14,392,682 |
| 81 | - | - | 9 | - | - | 242,352 | 358,257 |
| $ 364,901 | $ 2,773,368 | $ 1,081,137 | $ 1,124,186 | $ 1,337,372 | $ 1,291,601 | $ 5,458,241 | $ 65,228,506 |
| | | | | | | | |
| $ 5,277 | $ 260 | $ 3,489 | $ 141 | $ 592,375 | $ - | $ 21,637 | $ 787,516 |
| - | - | - | - | - | - | 44,204 | 44,204 |
| 6,221 | 14,580 | 30,635 | 62,884 | 82,382 | - | 1,759,947 | 4,394,808 |
| $ 11,498 | $ 14,840 | $ 34,124 | $ 63,025 | $ 674,757 | $ - | $ 1,825,788 | $ 5,226,528 |
| | | | | | | | |
| $ 2,413 | $ - | $ - | $ - | $ - | $ - | $ 95,906 | $ 593,053 |
| 350,990 | 2,758,528 | 1,047,013 | 1,061,161 | 662,615 | 1,291,601 | 3,536,547 | 59,408,925 |
| 353,403 | 2,758,528 | 1,047,013 | 1,061,161 | 662,615 | 1,291,601 | 3,632,453 | 60,001,978 |
| $ 364,901 | $ 2,773,368 | $ 1,081,137 | $ 1,124,186 | $ 1,337,372 | $ 1,291,601 | $ 5,458,241 | $ 65,228,506 |
| | | | | | | | |
| $ 124,083 | $ 258,502 | $ 243,795 | $ 406,100 | $ 468,256 | $ - | $ 4,192,286 | $ 7,587,105 |
| - | (123) | (5,547) | - | - | - | (925,105) | (2,023,433) |
| $ 124,083 | $ 258,379 | $ 238,248 | $ 406,100 | $ 468,256 | $ - | $ 3,267,181 | $ 5,563,672 |
| | | | | | | | |
| $ 476,950 | $ 2,712,209 | $ 1,345,780 | $ 902,936 | $ 696,928 | $ 1,253,143 | $ 3,883,521 | $ 57,968,102 |
| (2,120) | - | - | - | - | - | 92,725 | 264,893 |
| - | - | - | - | - | - | 2,795,308 | 6,045,186 |
| - | 304,730 | - | 562,602 | - | 38,458 | 171,960 | 1,207,382 |
| | | | | | | | |
| 2,120 | (32) | (60,519) | - | 433,943 | - | (43,078) | (36,252) |
| 536 | - | - | 1,723 | - | - | 1,158 | 130,949 |
| - | - | - | - | - | - | (1,960) | (14,610) |
| (124,083) | (258,379) | (238,248) | (406,100) | (468,256) | - | (3,267,181) | (5,563,672) |
| (123,547) | 46,319 | (298,767) | 158,225 | (34,313) | 38,458 | (251,068) | 2,033,876 |
| $ 353,403 | $ 2,758,528 | $ 1,047,013 | $ 1,061,161 | $ 662,615 | $ 1,291,601 | $ 3,632,453 | $ 60,001,978 |

The DOI's earmarked funds as of and for the year ended September 30, 2011, consist of the following:

| *(dollars in thousands)* | Land and Water Conservation Fund | Historic Preservation Fund | Reclamation Fund | Water and Related Resources | Lower Colorado River Basin Fund | Upper Colorado River Basin Fund |
|---|---|---|---|---|---|---|
| **ASSETS** | | | | | | |
| Fund Balance with Treasury | $ 17,692,495 | $ 3,001,753 | $ 9,623,744 | $ 1,370,287 | $ 564,700 | $ 174,294 |
| Investments, Net | - | - | - | - | - | - |
| Accounts Receivable, Net | - | - | 447,896 | 25,875 | 12,955 | 282 |
| Loans Receivable, Net | - | - | 3,209,638 | - | - | - |
| General Property, Plant, and Equipment, Net | - | - | - | 7,700,772 | 2,902,261 | 2,438,091 |
| Other Assets | - | 847 | - | 49,796 | 112,898 | 2,272 |
| **TOTAL ASSETS** | $ 17,692,495 | $ 3,002,600 | $ 13,281,278 | $ 9,146,730 | $ 3,592,814 | $ 2,614,939 |
| **LIABILITIES** | | | | | | |
| Accounts Payable | $ - | $ - | $ - | $ 82,253 | $ 16,082 | $ 70,645 |
| Debt | - | - | - | - | - | - |
| Other Liabilities | - | - | 38 | 2,281,960 | 1,300 | 181,943 |
| **TOTAL LIABILITIES** | $ - | $ - | $ 38 | $ 2,364,213 | $ 17,382 | $ 252,588 |
| **NET POSITION** | | | | | | |
| Unexpended Appropriations | $ - | $ - | $ - | $ 490,168 | $ 165,075 | $ 33,492 |
| Cumulative Results of Operations | 17,692,495 | 3,002,600 | 13,281,240 | 6,292,349 | 3,410,357 | 2,328,859 |
| **TOTAL NET POSITION** | 17,692,495 | 3,002,600 | 13,281,240 | 6,782,517 | 3,575,432 | 2,362,351 |
| **TOTAL LIABILITIES AND NET POSITION** | $ 17,692,495 | $ 3,002,600 | $ 13,281,278 | $ 9,146,730 | $ 3,592,814 | $ 2,614,939 |
| **COST/REVENUE** | | | | | | |
| Gross Costs | $ - | $ 72,380 | $ (388) | $ 1,307,226 | $ 276,048 | $ 101,281 |
| Earned Revenue | - | - | (430,466) | (323,092) | (199,945) | (108,154) |
| **NET COST OF OPERATIONS** | $ - | $ 72,380 | $ (430,854) | $ 984,134 | $ 76,103 | $ (6,873) |
| **NET POSITION** | | | | | | |
| Net Position, Beginning Balance | $ 17,092,075 | $ 2,920,134 | $ 12,098,145 | $ 6,444,511 | $ 3,490,666 | $ 2,348,093 |
| Change in Presentation of Earmarked Classifications | - | - | - | - | - | - |
| Net Position, Beginning Balance as Adjusted | 17,092,075 | 2,920,134 | 12,098,145 | 6,444,511 | 3,490,666 | 2,348,093 |
| Appropriations Received/Transferred | - | - | - | 370,499 | 161,866 | 16,026 |
| Royalties Retained | 898,089 | 154,846 | 1,613,947 | - | - | - |
| Non-Exchange Revenue and donation and forfeitures | 105 | - | 30,735 | 108 | - | - |
| Other Financing sources | | | | | | |
| Transfers In/(Out) without Reimbursement | (297,774) | - | (872,528) | 841,029 | (997) | (5,864) |
| Imputed Financing from Costs Absorbed by Others | - | - | 39 | 110,504 | - | (2,777) |
| Other | - | - | (19,952) | - | - | - |
| Net Cost of Operations | - | (72,380) | 430,854 | (984,134) | (76,103) | 6,873 |
| Change in Net Position | 600,420 | 82,466 | 1,183,095 | 338,006 | 84,766 | 14,258 |
| **NET POSITION, ENDING BALANCE** | $ 17,692,495 | $ 3,002,600 | $ 13,281,240 | $ 6,782,517 | $ 3,575,432 | $ 2,362,351 |

| Water and Related Resources Recovery Act | Abandoned Mine Land Fund | Southern Nevada Public Land Mgmt Fund | Federal Aid in Wildlife Restoration | Sport Fish Restoration and Boating Trust Fund | Environmental Improvement & Restoration Fund | Other Earmarked Funds | FY 2011 |
|---|---|---|---|---|---|---|---|
| $ 246,005 | $ 10,072 | $ 163,081 | $ 13,577 | $ 29,678 | $ 1 | $ 2,617,797 | $ 35,507,484 |
| - | 2,715,325 | 1,128,386 | 925,211 | - | 1,253,142 | 721,406 | 6,743,470 |
| - | 721 | 2 | 2 | 1,263,227 | - | 643,110 | 2,394,070 |
| - | - | - | - | - | - | - | 3,209,638 |
| 256,894 | 3,575 | 107,428 | - | - | - | 849,505 | 14,258,526 |
| 3,899 | - | - | 8 | - | - | 259,671 | 429,391 |
| $ 506,798 | $ 2,729,693 | $ 1,398,897 | $ 938,798 | $ 1,292,905 | $ 1,253,143 | $ 5,091,489 | $ 62,542,579 |
| $ 20,458 | $ 360 | $ 27,408 | $ - | $ 554,797 | $ - | $ 18,804 | $ 790,807 |
| - | - | - | - | - | - | 224,204 | 224,204 |
| 9,390 | 17,124 | 25,709 | 35,862 | 41,180 | - | 964,960 | 3,559,466 |
| $ 29,848 | $ 17,484 | $ 53,117 | $ 35,862 | $ 595,977 | $ - | $ 1,207,968 | $ 4,574,477 |
| $ 18,884 | $ - | $ - | $ - | $ - | $ - | $ 42,512 | $ 750,131 |
| 458,066 | 2,712,209 | 1,345,780 | 902,936 | 696,928 | 1,253,143 | 3,841,009 | 57,217,971 |
| 476,950 | 2,712,209 | 1,345,780 | 902,936 | 696,928 | 1,253,143 | 3,883,521 | 57,968,102 |
| $ 506,798 | $ 2,729,693 | $ 1,398,897 | $ 938,798 | $ 1,292,905 | $ 1,253,143 | $ 5,091,489 | $ 62,542,579 |
| $ 260,388 | $ 192,059 | $ 173,193 | $ 401,102 | $ 461,518 | $ - | $ 3,502,628 | $ 6,747,435 |
| (1,264) | (1,634) | (7,948) | - | - | - | (1,102,940) | (2,175,443) |
| $ 259,124 | $ 190,425 | $ 165,245 | $ 401,102 | $ 461,518 | $ - | $ 2,399,688 | $ 4,571,992 |
| $ 735,672 | $ 2,587,496 | $ 1,526,381 | $ 908,717 | $ 707,725 | $ 1,213,643 | $ 3,986,473 | $ 56,059,731 |
| - | - | - | - | - | - | (338,693) | (338,693) |
| 735,672 | 2,587,496 | 1,526,381 | 908,717 | 707,725 | 1,213,643 | 3,647,780 | 55,721,038 |
| 244 | - | - | - | - | - | 95,075 | 643,710 |
| - | - | - | - | - | - | 2,108,614 | 4,775,496 |
| - | 315,157 | - | 393,632 | - | 39,500 | 187,688 | 966,925 |
| (410) | (19) | (15,520) | (162) | 450,219 | - | 240,589 | 338,563 |
| 568 | - | 164 | 1,851 | 502 | - | 3,463 | 114,314 |
| - | - | - | - | - | - | - | (19,952) |
| (259,124) | (190,425) | (165,245) | (401,102) | (461,518) | - | (2,399,688) | (4,571,992) |
| (258,722) | 124,713 | (180,601) | (5,781) | (10,797) | 39,500 | 235,741 | 2,247,064 |
| $ 476,950 | $ 2,712,209 | $ 1,345,780 | $ 902,936 | $ 696,928 | $ 1,253,143 | $ 3,883,521 | $ 57,968,102 |

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

The DOI's records an intragovernmental liability for BOR, DO, and IA appropriations determined to be recoverable from project beneficiaries when funds are received and meet the requirement for repayment. The DOI decreases the liability when payments are received from these beneficiaries and subsequently, transfers it to Treasury's General Fund. Interest is accumulated on this liability pursuant to authorizing project legislation or administrative policy. Interest rates used during FY 2012 and FY 2011 ranged from 2.63 percent to 9.84 percent, respectively. Repayment is generally over a period not to exceed 50 years from the time revenue producing assets are placed in service. Repayment to Treasury's General Fund is dependent upon actual water and power delivered to customers (through the Western Area Power Administration); as such, there is no structured repayment schedule.

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

Adjustments occur each year due to changes in estimates concerning the reimbursable portions of BOR projects.

| *(dollars in thousands)* | FY 2012 | FY 2011 |
|---|---|---|
| Beginning Balance | $ 1,828,365 | $ 1,820,533 |
| Costs Incurred | 58,560 | 101,779 |
| Collections | (40,015) | (37,813) |
| Repayments to Treasury | (18,722) | (9,159) |
| Adjustments | 22,734 | (46,975) |
| Ending Balance | $ 1,850,922 | $ 1,828,365 |

## NOTE 22. FIDUCIARY ACTIVITIES

Fiduciary activities are the collection or receipt, and the subsequent management, protection, accounting, investment and disposition by the Federal Government of cash or other assets in which non-Federal individuals or entities have an ownership interest that the Federal Government must uphold. Fiduciary cash and other assets are not assets of the Federal Government and are not recognized on the financial statements.

The Department of the Interior maintains accounts for Tribal and Other Trust Funds (including the Alaska Native Escrow Fund) and Individual Indian Monies (IIM) Trust Fund in accordance with the American Indian Trust Fund Management Reform Act of 1994. The fiduciary balances that have accumulated in these funds have resulted from land use agreements, royalties on natural resource depletion, other proceeds derived directly from trust resources, judgment awards, settlements of claims, and investment income. These funds are maintained for the benefit of individual Native Americans as well as for designated Indian tribes. The following schedules of fiduciary activity and fiduciary net assets summarize the aggregate activity and balances of the above mentioned funds. Transactions between these funds have not been eliminated.

### Separately Issued Financial Statements

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

The separately issued Tribal and Other Trust Fund Financial Statements 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 separately issued IIM Trust Fund Financial Statements 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, 2012, and September 30, 2011. The independent auditors indicated that the financial statements were prepared on the cash or modified cash basis of accounting, which is a comprehensive basis of accounting other than GAAP. In addition, the independent auditors' reports were qualified as a result of the following:

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

- Regarding the Individual Indian Monies Trust Funds, it was not practicable for the independent auditors to extend audit procedures sufficiently to satisfy themselves as to the fairness of the trust fund balances due to the effects of certain parties for whom the DOI holds assets in trust having filed a class action lawsuit for an accounting of the individuals' trust funds.

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

A copy of the financial statements and auditors' report is available at ***www.doi.gov/ost/trust_documents/Annual-Audits.cfm.***

| Schedule of Fiduciary Activity | Fiduciary Funds | |
|---|---|---|
| *(dollars in thousands)* | FY 2012 | FY 2011 |
| Fiduciary Net Assets, Beginning | $ 3,799,890 | $ 3,674,413 |
| Contributions | 2,314,586 | 956,205 |
| Investment Earnings | 119,216 | 124,143 |
| Gain (Loss) on Disposition of Investments, Net | 4,452 | - |
| Administrative and Other Expenses | - | 4,693 |
| Disbursements to and on Behalf of Beneficiaries | (1,726,066) | (959,564) |
| Increases/(Decrease) Net Assets | 712,188 | 125,477 |
| Fiduciary Net Assets, End | $ 4,512,078 | $ 3,799,890 |

| Fiduciary Net Assets | Fiduciary Funds | |
|---|---|---|
| *(dollars in thousands)* | FY 2012 | FY 2011 |
| Cash and Cash Equivalents | $ 933,671 | $ 976,238 |
| Investments | 3,452,678 | 2,756,065 |
| Accrued Interest Receivable | 26,255 | 22,541 |
| Other Income Receivable | 99,474 | 45,117 |
| Less: Accounts Payable | - | (71) |
| Total Fiduciary Net Assets | $ 4,512,078 | $ 3,799,890 |

| Schedule of Changes in Non-Valued Fiduciary Assets | Fiduciary Assets | |
|---|---|---|
| *Regions* | FY 2012 | FY 2011 |
| Beginning Quantity | 12 | 12 |
| Additions | - | - |
| Dispositions | - | - |
| Net Increase/Decrease | - | - |
| Ending Quantity | 12 | 12 |

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

# REQUIRED SUPPLEMENTARY INFORMATION

*Unaudited, see accompanying Auditors' Report*

This section includes the Combining Statement of Budgetary Resources by major budget account (Budgetary Accounts), deferred maintenance information, compliance assessments and pre-assessment work in process, and heritage asset and stewardship land condition information.

| **Combining Statement of Budgetary Resources** for the Year Ended September 30, 2012 *(dollars in thousands)* | Interior Franchise Fund | Working Capital Fund | Water and Related Resources | National Park Service Operations | Management of Land and Resources |
|---|---|---|---|---|---|
| **Budgetary Resources:** | | | | | |
| **Unobligated balance, beginning of fiscal year** | **$ 120,418** | **$ 285,533** | **$ 512,690** | **$ 93,108** | **$ 164,370** |
| Recoveries of prior year unpaid obligations | - | 2,984 | 34,764 | 20,399 | 39,811 |
| Other changes in unobligated balance | - | - | (5,022) | (1,099) | - |
| Unobligated balance from prior year budget authority, net | 120,418 | 288,517 | 542,432 | 112,408 | 204,181 |
| Appropriations (discretionary and mandatory) | - | 61,920 | 853,927 | 2,236,863 | 960,360 |
| Spending authority from offsetting collections (discretionary and mandatory) | 1,017,766 | 1,407,501 | 373,531 | 30,336 | 79,239 |
| **Total Budgetary Resources** | **$ 1,138,184** | **$ 1,757,938** | **$ 1,769,890** | **$ 2,379,607** | **$ 1,243,780** |
| **Status of Budgetary Resources:** | | | | | |
| Obligations incurred | 1,013,172 | 1,439,152 | 1,423,055 | 2,293,308 | 1,111,972 |
| Unobligated balance, end of year: | | | | | |
| Apportioned | 125,012 | 318,786 | 346,835 | 47,356 | 131,582 |
| Exempt from apportionment | - | - | - | - | - |
| Unapportioned | - | - | - | 38,943 | 226 |
| **Total unobligated balance, end of year (net)** | **125,012** | **318,786** | **346,835** | **86,299** | **131,808** |
| **Total Status of Budgetary Resources** | **$ 1,138,184** | **$ 1,757,938** | **$ 1,769,890** | **$ 2,379,607** | **$ 1,243,780** |
| **Change in Obligated Balance:** | | | | | |
| Unpaid obligations, brought forward, beginning of fiscal year | 831,689 | 692,359 | 1,006,311 | 532,706 | 389,020 |
| Uncollected customer payments from Federal sources, brought forward, beginning of fiscal year | (639,556) | (561,992) | (147,525) | (303) | (103,727) |
| Obligated balance, start of year (net) | 192,133 | 130,367 | 858,786 | 532,403 | 285,293 |
| Obligations Incurred | 1,013,172 | 1,439,152 | 1,423,055 | 2,293,308 | 1,111,972 |
| Outlays (gross) | (1,075,214) | (1,409,691) | (1,515,864) | (2,335,264) | (1,051,326) |
| Change in uncollected customer payments from Federal sources | (12,283) | (141,794) | 3,056 | 36 | 33,782 |
| Recoveries of prior year unpaid obligations | - | (2,984) | (34,764) | (20,399) | (39,811) |
| **Obligated balance, end of year** | **$ 117,808** | **$ 15,050** | **$ 734,269** | **$ 470,084** | **$ 339,910** |
| Obligated balance, end of year | | | | | |
| Unpaid obligations, end of year (gross) | 769,647 | 718,836 | 878,738 | 470,351 | 409,855 |
| Uncollected customer payments from Federal sources, end of year | (651,839) | (703,786) | (144,469) | (267) | (69,945) |
| **Obligated balance, end of year (net)** | **$ 117,808** | **$ 15,050** | **$ 734,269** | **$ 470,084** | **$ 339,910** |
| **Budget Authority and Outlays, Net:** | | | | | |
| Budget authority, gross (discretionary and mandatory) | 1,017,767 | 1,469,422 | 1,227,457 | 2,267,198 | 1,039,600 |
| Actual offsetting collections (discretionary and mandatory) | (1,005,483) | (1,265,707) | (376,587) | (30,372) | (113,021) |
| Change in uncollected customer payments from Federal sources | (12,283) | (141,794) | 3,056 | 36 | 33,782 |
| **Budget authority, net (discretionary and mandatory)** | **$ 1** | **$ 61,921** | **$ 853,926** | **$ 2,236,862** | **$ 960,361** |
| Outlays, gross (discretionary and mandatory) | 1,075,214 | 1,409,691 | 1,515,864 | 2,335,264 | 1,051,326 |
| Actual offsetting collections (discretionary and mandatory) | (1,005,483) | (1,265,707) | (376,587) | (30,372) | (113,021) |
| Outlays, net (discretionary and mandatory) | 69,731 | 143,984 | 1,139,277 | 2,304,892 | 938,305 |
| Distributed offsetting receipts | - | - | (1,131) | - | - |
| **Agency outlays, net (discretionary and mandatory)** | **$ 69,731** | **$ 143,984** | **$ 1,138,146** | **$ 2,304,892** | **$ 938,305** |

| Wildland Fire Management | BLM Permanent Operations Funds | Fish and Wildlife Resource Management | Minerals Leasing and Associated Payments | Operation of Indian Programs | Survey, Investigation and Research | American Recovery Act | Other Budgetary Accounts | Total Budgetary Accounts |
|---|---|---|---|---|---|---|---|---|
| **$ 358,534** | **$ 626,726** | **$ 221,673** | **$ -** | **$ 482,678** | **$ 400,363** | **$ 42,917** | **$ 4,211,683** | **$ 7,520,693** |
| 25,393 | 70,631 | 35,420 | - | 23,019 | 21,049 | 21,493 | 250,426 | 545,389 |
| 98,867 | (34,045) | 2,228 | - | 2,931 | (2,417) | 2,120 | (71,524) | (7,961) |
| 482,794 | 663,312 | 259,321 | - | 508,628 | 418,995 | 66,530 | 4,390,585 | 8,058,121 |
| 577,774 | 56,992 | 1,235,176 | 2,045,028 | 2,367,738 | 1,068,031 | (2,121) | 5,444,403 | 16,906,091 |
| 41,619 | - | 279,527 | - | 277,513 | 479,068 | 14,860 | 1,592,437 | 5,593,397 |
| **$ 1,102,187** | **$ 720,304** | **$ 1,774,024** | **$ 2,045,028** | **$ 3,153,879** | **$ 1,966,094** | **$ 79,269** | **$ 11,427,425** | **$ 30,557,609** |
| 1,030,171 | 118,990 | 1,521,324 | 2,045,028 | 2,668,218 | 1,552,598 | 57,194 | 7,790,108 | 24,064,290 |
| 72,016 | 601,314 | 232,461 | - | 456,865 | 405,938 | 11,730 | 3,602,475 | 6,352,370 |
| - | - | - | - | - | - | - | 59 | 59 |
| - | - | 20,239 | - | 28,796 | 7,558 | 10,345 | 34,783 | 140,890 |
| **72,016** | **601,314** | **252,700** | **-** | **485,661** | **413,496** | **22,075** | **3,637,317** | **6,493,319** |
| **$ 1,102,187** | **$ 720,304** | **$ 1,774,024** | **$ 2,045,028** | **$ 3,153,879** | **$ 1,966,094** | **$ 79,269** | **$ 11,427,425** | **$ 30,557,609** |
| 230,339 | 731,730 | 579,126 | - | 369,005 | 374,037 | 550,494 | 4,688,440 | 10,975,256 |
| (9,854) | - | (319,329) | - | (126,161) | (475,089) | (17,306) | (253,839) | (2,654,681) |
| 220,485 | 731,730 | 259,797 | - | 242,844 | (101,052) | 533,188 | 4,434,601 | 8,320,575 |
| 1,030,171 | 118,990 | 1,521,324 | 2,045,028 | 2,668,218 | 1,552,598 | 57,194 | 7,790,108 | 24,064,290 |
| (937,396) | (317,939) | (1,482,342) | (2,045,028) | (2,691,446) | (1,537,471) | (501,633) | (7,017,742) | (23,918,356) |
| (2,688) | - | (33,940) | - | 28,950 | (5,363) | 16,830 | 30,745 | (82,669) |
| (25,393) | (70,631) | (35,420) | - | (23,019) | (21,049) | (21,493) | (250,426) | (545,389) |
| **$ 285,179** | **$ 462,150** | **$ 229,419** | **$ -** | **$ 225,547** | **$ (112,337)** | **$ 84,086** | **$ 4,987,286** | **$ 7,838,451** |
| 297,721 | 462,150 | 582,688 | - | 322,758 | 368,115 | 84,562 | 5,210,380 | 10,575,801 |
| (12,542) | - | (353,269) | - | (97,211) | (480,452) | (476) | (223,094) | (2,737,350) |
| **$ 285,179** | **$ 462,150** | **$ 229,419** | **$ -** | **$ 225,547** | **$ (112,337)** | **$ 84,086** | **$ 4,987,286** | **$ 7,838,451** |
| 619,393 | 56,993 | 1,514,704 | 2,045,028 | 2,645,251 | 1,547,100 | 12,739 | 7,036,841 | 22,499,493 |
| (38,931) | - | (245,586) | - | (306,463) | (473,705) | (31,690) | (1,659,143) | (5,546,688) |
| (2,688) | - | (33,940) | - | 28,950 | (5,363) | 16,830 | 30,745 | (82,669) |
| **$ 577,774** | **$ 56,993** | **$ 1,235,178** | **$ 2,045,028** | **$ 2,367,738** | **$ 1,068,032** | **$ (2,121)** | **$ 5,408,443** | **$ 16,870,136** |
| 937,396 | 317,939 | 1,482,342 | 2,045,028 | 2,691,446 | 1,537,471 | 501,633 | 7,017,742 | 23,918,356 |
| (38,931) | - | (245,586) | - | (306,463) | (473,705) | (31,690) | (1,659,143) | (5,546,688) |
| 898,465 | 317,939 | 1,236,756 | 2,045,028 | 2,384,983 | 1,063,766 | 469,943 | 5,358,599 | 18,371,668 |
| - | (56,994) | - | (2,045,028) | - | - | - | (3,450,307) | (5,553,460) |
| **$ 898,465** | **$ 260,945** | **1,236,756** | **$ -** | **$ 2,384,983** | **$ 1,063,766** | **$ 469,943** | **$ 1,908,292** | **$ 12,818,208** |

## Deferred Maintenance and Repairs

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

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

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

### Planning to Reduce Deferred Maintenance and Repairs

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

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

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

### Condition Assessment Surveys

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

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

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

The DOI estimates real property deferred maintenance and repairs by category to include: Roads, Bridges, and Trails; Irrigation, Dams, and Other Water Structures; Buildings; and, Other Structures. Due to the scope, nature, and variety of the assets entrusted to the DOI, as well as the nature of deferred maintenance itself, exact estimates are very difficult to determine. Therefore, estimates are reported as a range to an accuracy level of minus 15 percent to plus 25 percent of initial estimate.

| FY 2012 Deferred Maintenance and Repairs as of September 30, 2012 | | | | | | |
|---|---|---|---|---|---|---|
| Type of Deferred Maintenance (dollars in thousands) | General PP&E | | Stewardship PP&E | | Total | |
| | Low End of Range | High End of Range | Low End of Range | High End of Range | Low End of Range | High End of Range |
| Roads Bridges and Trails | $ 3,881,597 | $ 5,713,319 | $ 3,272,391 | $ 4,707,229 | $ 7,153,988 | $ 10,420,548 |
| Irrigation, Dams, and Other Water Structures | 1,179,434 | 1,794,376 | 771,522 | 1,127,008 | 1,950,956 | 2,921,384 |
| Buildings (e.g. Administration, Education, Housing, Historic Buildings, etc.) | 1,673,492 | 2,450,897 | 1,038,503 | 1,527,209 | 2,711,995 | 3,978,106 |
| Other Structures (e.g. Recreation sites, Hatcheries, etc.) | 1,276,561 | 1,870,221 | 707,656 | 1,040,670 | 1,984,217 | 2,910,891 |
| Total | $ 8,011,084 | $ 11,828,813 | $ 5,790,072 | $ 8,402,116 | $ 13,801,156 | $ 20,230,929 |

# Condition of Stewardship Lands and Heritage Assets

## Condition of Stewardship Lands

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

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

| Primary Land Management Categories | As of 9/30/2012 | Condition | |
|---|---|---|---|
| | | Acceptable | Needs Intervention |
| **IA** - Regional Offices | 12 | 100% | |
| **BLM** - Geographic Management Areas | 129 | 100% | |
| **BOR** - Federal Water and Related Projects | 137 | 99% | 1% |
| **FWS** - National Wildlife Refuges | 560 | 99% | 1% |
| **FWS** - Coordination Areas | 50 | 100% | |
| **FWS** - Wetland Management Districts | 38 | 100% | |
| **FWS** - National Fish Hatcheries | 68 | 100% | |
| **FWS** - Fish Technology Centers | 6 | 100% | |
| **FWS** - Associated Fish Facilities | 15 | 100% | |
| **NPS** - Park Units | 385 | 100% | |
| **OS** - Commision Land | 1 | 100% | |
| **Total Number of Units** | 1,401 | 99% | 1% |

## Condition of Heritage Assets

### *Non-Collectible Heritage Assets*

The condition of land based non-collectible heritage assets is based on the condition of the land as described above. The condition of structure based non-collectible heritage assets is based on the requirements described in the deferred maintenance section. The categories of condition of structure based non-collectible heritage assets are:

**Unacceptable** – when some of an asset's critical systems have critical or serious deficiencies. The threshold used to determine acceptable and unacceptable will vary based on the mission and types of assets.

**Unknown** – due to the nature of the location, such as underwater, under snow, or under other structures, the condition cannot be determined or that due to financial constraints a bureau has been unable to determine condition.

**Acceptable** – when all of an asset's critical systems have no critical or serious deferred maintenance; critical systems with minor deferred maintenance and non-critical systems with any priority of deferred maintenance may exist.

| Primary Non-Collectible Heritage Asset Categories | As of 9/30/12 | Land Based | | Structurally Based | | |
|---|---|---|---|---|---|---|
| | | Acceptable | Needs Intervention | Acceptable | Unacceptable | Unknown |
| Cooperative Management and Protection Areas | 1 | 100% | | | | |
| Headwaters Forest Reserve | 1 | 100% | | | | |
| Lake Todatonten Special Management Area | 1 | 100% | | | | |
| National Battlefield Parks | 4 | 100% | | | | |
| National Battlefield Sites | 1 | 100% | | | | |
| National Battlefields | 11 | 100% | | | | |
| National Conservation/Conservation Areas | 17 | 100% | | | | |
| National Historic Landmarks (NHL) | 207 | 100% | | 87% | 8% | 5% |
| National Historic Sites | 78 | 100% | | | | |
| National Historic Trails | 13 | 100% | | | | |
| National Historical Parks | 46 | 100% | | | | |
| National Lakeshores | 4 | 100% | | | | |
| National Memorials | 29 | 100% | | | | |
| National Military Parks | 9 | 100% | | | | |
| National Monuments | 98 | 100% | | | | |
| National Natural Landmarks (NNL) | 108 | 100% | | | | |
| National Parks | 58 | 100% | | | | |
| National Parkways | 4 | 100% | | | | |
| National Preserves | 18 | 100% | | | | |
| National Recreation Areas | 20 | 100% | | | | |
| National Recreation Trails | 106 | 100% | | 100% | | |
| National Reserves | 2 | 100% | | | | |
| National Rivers | 5 | 100% | | | | |
| National Scenic Trails | 8 | 100% | | | | |
| National Seashores | 10 | 100% | | | | |
| National Wild and Scenic Rivers | 92 | 100% | | | | |
| National Wildlife Refuges | 560 | 99% | 1% | | | |
| Outstanding Natural Area | 3 | 100% | | | | |
| International Historic Sites | 1 | 100% | | | | |
| Wilderness Areas | 355 | 100% | | | | |
| Research Natural Area | 1 | 100% | | | | |
| Archeological Protection Area | 2 | 100% | | | | |
| Special Areas | 4 | 100% | | | | |
| Other | 11 | 100% | | | | |
| Total | 1,888 | 100% | 0% | 90% | 6% | 4% |

## *Collectible Heritage Assets*

| Interior Library Collections | As of 9/30/2012 | Condition of Library Collections | | |
|---|---|---|---|---|
| | | Good | Fair | Poor |
| Library Collections | 7 | 14% | 72% | 14% |

### Library Collections

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

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

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

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

**Unknown** – Assessment not conducted.

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

### Museum Collections

Facilities housing Department museum collections must meet specific environmental, security, fire protection, housekeeping, physical examination, and storage, exhibit, and administrative office space standards, as described in Directive 4, *Required Standards for Managing and Preserving Museum Property*, of the DOI Museum Property Directives. These standards require facilities that house collections to maintain their stewardship responsibilities by adhering to best practices as defined by industry standards. Facilities that meet at least 70 percent of the Department's standards for managing museum collections are judged to be in "good" condition, those that meet between 50 percent and 70 percent of the standards are in "fair" condition and those that meet less than 50 percent of applicable standards are in "poor" condition. Facilities which have not had an assessment are in "unknown" condition.

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

| Interior Museum Collections | As of 9/30/2012 | Condition of Museum Collections | | | |
|---|---|---|---|---|---|
| | | Good | Fair | Poor | Unknown |
| Held at Interior Bureau Facilities | 573 | 54% | 39% | 5% | 2% |
| Held at Non-Interior Bureau Facilities | 440 | 47% | 44% | 2% | 7% |
| Total | 1,013 | 52% | 41% | 3% | 4% |

## Custodial Activity, Compliance Assessments and Pre-assessment Work in Process:

Management's best estimate of additional custodial revenues that may potentially be collected from compliance assessments and pre-assessment work in process as of September 30, 2012, is $24.6 million. This estimate is comprised of approximately $1.9 million in Audit and Compliance Management (ACM), approximately $19.2 million in state and tribal audit, and approximately $3.5 million in other compliance assessments and pre-assessment work in process.

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

*Unaudited, see accompanying Auditors' Report*

| Investment in Research and Development (dollars in thousands) | | | | | | |
|---|---|---|---|---|---|---|
| Category | FY 2008 | FY 2009 | FY2010 | FY2011 | FY2012 | Total |
| Basic Research | $ 65,000 | $ 69,000 | $ 73,000 | $ 60,000 | $ 84,000 | $ 351,000 |
| Applied Research | 746,000 | 755,000 | 967,000 | 796,000 | 933,000 | 4,197,000 |
| Developmental Research | 74,000 | 77,000 | 83,000 | 83,000 | 148,000 | 465,000 |
| **TOTAL** | **$ 885,000** | **$ 901,000** | **$ 1,123,000** | **$ 939,000** | **$ 1,165,000** | **$ 5,013,000** |

## Investment in Research and Development

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

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

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

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

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

### Collaborative Effort to Install Seismic Monitors

In May 2012, the U.S. Geological Survey and the California Geological Survey (CGS) completed a collaborative effort to outfit the One Rincon Hill tower with seismic monitors that continuously collect vibration and shaking data that could ultimately impact future building construction across the state and help protect public safety in earthquakes. This is a significant achievement for several reasons: not only is this one of the tallest buildings in California with seismic instrumentation, but the agencies will get unprecedented data because of the building's height, its earthquake-resilient features, and the concentration of the recording instrumentation. Also, this is the first time that USGS and a state geological survey have worked together on a project of this type; that cooperation has resulted in the densest array of instruments (72) in any skyscraper in the U.S. Scientists say that there's a 63 percent probability of a damaging earthquake magnitude 6.7 or greater in the next 30 years in the San Francisco Bay Area, a hazard the design of the One Rincon Hill tower takes into account.

### Carbon Sequestration

The USGS delivered the first stage of the national biologic carbon sequestration assessment, a comprehensive assessment report for the Great Plains Region of the Nation. The national biologic carbon sequestration assessment is being conducted to fulfill the requirements of Section 712 of the Energy Independence and Security Act (EISA) of 2007 and is necessary to improve understanding of carbon and greenhouse gas (GHG) fluxes in the United States. A key finding in this study is that the Great Plains Region is currently an overall "carbon sink"; it takes up more carbon than it emits. In addition, the amount of sequestered carbon off sets most of the emissions of nitrous oxide and methane from this region. On a national scale, the amount of carbon that is currently stored per year in ecosystems within the Great Plains is about 21 percent of emissions from personal vehicles and 3.6 percent of total fossil fuel emissions nationwide.

### Gulf Coast Vulnerable to Extreme Erosion in Category 1 Hurricanes

A report released by the USGS just prior to the start of the 2012 hurricane season indicates that 70 percent of the Gulf of Mexico shoreline is vulnerable to extreme erosion during even the weakest hurricanes. USGS scientists used state-of-the-art modeling and detailed coastal mapping from airborne laser systems to determine the probabilities of erosion, overwash and inundation during direct hurricane landfall for sandy beaches along the entire U.S. Gulf Coast shoreline.

The research is expected to help emergency managers at local, state and federal levels as they prepare for hurricane events in this and future seasons. Planners will be able to determine how different categories of hurricanes would impact their beaches and surrounding communities, helping them better protect lives and property. The report also includes an interactive map that allows users to focus on different parts of the Gulf Coast shoreline to view how the probability of erosion, caused by waves and storm surge, will vary depending on hurricane intensity. The full report is available at ***http://pubs.usgs.gov/of/2012/1084/.***

### Clean Energy

Recently an increase in the production of coalbed natural gas has occurred throughout the U.S. Methane gas associated with coal deposits, once viewed as a nuisance, is now being utilized as a valuable resource. But new methods of energy production can also bring new risks to the environment that have not yet been evaluated or quantified. For example, the water extracted along with coal-bed natural gas is called "produced water" and may contain naturally occurring sodium bicarbonate which can be harmful to aquatic organisms when discharged into freshwater rivers.

A new USGS report based on eight years of work (done in collaboration with state and federal partners and a diverse array of stakeholders) assesses the impact on aquatic organisms from coal-bed natural gas production. The report provides timely scientific information to help energy producers, resource managers, and local communities make wise choices in areas of rapidly expanding development. The results of this study will help resource managers achieve a balance between beneficial use of water resources and the protection of aquatic life throughout the nation and abroad.

### Scientific Method to Differentiate between Natural Seepage and Produced Oils in Southern California

Resource managers now have a scientific method to determine the source of oil found in the waters off Southern California and differentiate between naturally seeped oils and those produced by off shore oil and gas production. This method is detailed in a new joint report from the U.S. Geological Survey, the Bureau of Ocean Energy Management, and academic and industry collaboration. The purpose of the study was to develop methods for differentiating between the very closely related natural seep oils and those being produced in the same area by Outer Continental Shelf off shore production platforms. Another objective of the study was to quantify the rate of natural seepages. The hundreds of completed fingerprints derived from the studies populate a shared library now used by the U.S. Coast Guard, California Office of Spill Prevention and Response, the USGS and BOEM. The state is also using this chemical protocol to determine the origin of oil on oiled wildlife. The report, covering a joint USGS and BOEM 10-year series of studies of natural oil seeps mainly from the Santa Barbara Channel west of Los Angeles, Calif., is titled "Biomarker Chemistry and Flux Quantification Methods for Natural Petroleum Seeps and Produced Oils, Off shore Southern California," with references to earlier reports and peer-reviewed articles.

### Platform and Natural Reefs

The BOEM recently completed the final piece in a 15 year long comparison of the various aspects of the ecological performance of fishes living on platforms and natural reefs off California. From this research, it is confirmed for all platforms, that rockfish of depleted populations living around platforms perform at least as well as those inhabiting natural reefs and, in most instances, better. Most natural reefs are fished on a regular basis, while platforms are almost never fished. This causes the platforms to act as de facto marine preserves where the rockfish and other species are protected from harvest pressure. The results demonstrate the importance of some artificial structure in driving marine population dynamics and it is now arguable that fishes living around oil platforms may be quite important to regional fish production.

### Outer Shelf Mapping

The BOEM and the USGS completed mapping of the outer shelf region of the eastern Santa Barbara Channel, Southern California. The majority of the seafloor mapped over the two years consists of low-relief, low-backscatter sedimented seafloor. These new data can be used to help researchers, coastal-zone managers, and other stakeholders better understand the coastal environment including identifying hard-bottom substrates, such as natural outcrops that support reef communities; prediction of sediment and contaminant budgets and transport; and to assess earthquake and tsunami hazards in the region.

## 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 DOI 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.

### Education Programs

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

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

**Investment in Human Capital** *(dollars in thousands)*

| Category | FY 2008 | FY 2009 | FY 2010 | FY 2011 | FY 2012 | Total |
|---|---|---|---|---|---|---|
| Educational Programs | $ 589,000 | $ 615,000 | $ 688,000 | $ 727,000 | $ 763,000 | $ 3,382,000 |

## Investment in Non-Federal Physical Property

The DOI 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.

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

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

| Investment in Non-Federal Physical Property | | | | | | (dollars in thousands) |
|---|---|---|---|---|---|---|
| **Category** | **FY 2008** | **FY 2009** | **FY 2010** | **FY 2011** | **FY 2012** | **Total** |
| Dams and Other Water Structures | $ 446,000 | $ 329,000 | $ 399,000 | $ 416,000 | $ 555,000 | $ 2,145,000 |
| Land | 128,000 | 170,000 | 191,000 | 197,000 | 77,000 | 763,000 |
| Road and Bridges | 2,000 | 2,000 | 2,000 | 1,000 | - | 7,000 |
| Schools and Public Buildings | 66,000 | 106,000 | 125,000 | 174,000 | 82,000 | 553,000 |
| Ranges | 2,000 | 2,000 | 1,000 | 2,000 | 1,000 | 8,000 |
| Not Classified | 23,000 | 14,000 | 47,000 | 27,000 | 30,000 | 141,000 |
| **TOTAL** | **$ 667,000** | **$ 623,000** | **$ 765,000** | **$ 817,000** | **$ 745,000** | **$ 3,617,000** |

*Unaudited, see accompanying Auditors' Report*

## Summary of Inspector General's Major Management Challenges

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

# INSPECTOR GENERAL'S STATEMENT SUMMARIZING THE MAJOR MANAGEMENT AND PERFORMANCE CHALLENGES FACING THE U.S. DEPARTMENT OF THE INTERIOR

Report No.: ER-SP-MOI-0002-2012 October 2012

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

OCT 15 2012

Memorandum

To: Secretary Salazar

From: Mary L. Kendall
Deputy Inspector General

Subject: Inspector General's Statement Summarizing the Major Management and Performance Challenges Facing the U.S. Department of the Interior
Assignment No. ER-SP-MOI-0002-2012

In accordance with the Reports Consolidation Act of 2000, we are submitting what we determined are the most significant management and performance challenges facing the U.S. Department of the Interior (DOI). The challenges listed are for inclusion in DOI's "Agency Financial Report" for fiscal year 2012. These challenges reflect those that the Office of Inspector General (OIG) considers significant to departmental efforts to promote economy, efficiency, and effectiveness in its bureaus' management and operations.

We identified the top management and performance challenges as—

- energy management;
- climate change;
- water programs;
- responsibility to Indians and Insular Areas;
- *Cobell* and Indian land consolidation; and
- operational efficiencies.

We met with DOI officials to gain their perspective and together agreed on the challenge areas. These areas are important to DOI's mission, involve large expenditures, require continuous management improvements, or involve significant fiduciary relationships. We believe DOI would benefit by developing strategies to identify and address challenges in these areas, especially in those that span bureau and program lines.

# Office of Inspector General Update Regarding the Top Management Challenges for the U.S. Department of the Interior

## Energy Management

The U.S. Department of the Interior (DOI) has jurisdiction over 1.76 billion acres of the Outer Continental Shelf (OCS), manages about one-fifth of the land area of the United States, and manages 700 million acres of subsurface minerals throughout the Nation. DOI lands and waters generate almost one-third of the Nation's domestic energy production, resulting in royalties of approximately $11.2 billion in fiscal year (FY) 2011 and $9.5 billion in FY 2010.

In an effort to manage this responsibility more effectively, DOI is undergoing major changes in the area of energy management, including the transition of the Bureau of Ocean Energy Management, Regulation and Enforcement (BOEMRE) into the Bureau of Ocean Energy Management (BOEM), managing development of OCS resources; the Bureau of Safety and Environmental Enforcement (BSEE), overseeing safety and environmental compliance; and the Office of Natural Resources Revenue (ONRR), managing the revenue collection function. In addition, the Bureau of Land Management (BLM) is expanding its wind and solar projects. Based on the number of wind-testing projects and wind and solar applications, wind projects may quadruple and solar projects may increase tenfold in the near future.

### Offshore Drilling

DOI continues to face challenges with the management of domestically produced offshore oil and gas. To achieve higher levels of oil production in the Gulf of Mexico, the Gulf offshore oil and gas industry has extended farther offshore and deeper undersea. As the drilling environment becomes more complex, it exerts greater demands on equipment and pipelines. As a result, DOI oversight of the Gulf energy resources is more challenging, but some improvements have been made over the last year. BSEE has plans to stay focused on the recruitment, training, retention, and succession planning for crucial job series such as inspectors and engineers, as well as purchasing an improved infrared camera system to allow for additional field inspections and improved data collection.

According to a recent U.S. Government Accountability Office (GAO) audit, DOI has strengthened its oversight of the oil and gas industry's ability to respond to a subsea well blowout, and the industry has responded by improving well-containment capabilities and creating dedicated well-containment organizations. DOI is developing and documenting oversight processes, and, in some cases, has established timeframes for their completion. DOI has also conducted two unannounced spill drills that have included a subsea well-containment scenario and stated that it will incorporate this scenario into future spill drills. GAO noted, however, that DOI has not established a timeframe for incorporating a subsea

well-containment scenario into spill drills, and until it does so, there is limited assurance that operators drilling in the Gulf of Mexico or other areas will be prepared to respond effectively to a subsea well blowout.

### Renewable Energy

Secretary Salazar established the production, development, and delivery of renewable energy as one of DOI's highest priorities by signing Secretarial Order 3285, "Renewable Energy Development by the Department of the Interior," on March 11, 2009. The order describes the need for strategic planning and a thoughtful, balanced approach to domestic resource development. It also noted DOI's role in coordinating and ensuring environmentally responsible renewable energy production and development.

Financial accountability and resource protection are integral to the renewable energy program. These include obligations to protect the Government's financial interests by timely and accurately collecting rental revenues and managing the bonding process, and to protect the country's natural resources by monitoring and enforcing grant requirements. Wind and solar projects can cover thousands of acres and therefore have the potential for biological, cultural, historical, paleontological, archaeological, and visual resource degradation.

BLM has taken aggressive action to increase its capacity to process renewable energy grants for rights-of-way (ROWs). One of our recent reviews revealed BLM had 29 of 31 authorized wind projects in operation and 5 of 9 authorized solar projects under construction. BLM's focus on increasing the number of renewable energy projects, however, has exposed some weaknesses in its management of these projects.

In June 2012, we reviewed BLM's renewable energy activities to assess the effectiveness of BLM's development and management of its renewable energy program. We found that BLM has opportunities to improve in developing and implementing renewable energy policies. For example, BLM issued guidance on wind-rental payments and wind-bonding requirements, but it did not establish a process to ensure timely implementation of the guidance, which resulted in a loss of $1.2 million in rental revenues on 22 wind projects from 2009 through 2011 and insufficient bonding by $8.5 million on 14 wind projects. In addition, BLM has not developed and implemented Bureauwide guidance on monitoring and inspecting wind and solar projects or for enforcing compliance with ROW requirements. We also found that BLM could potentially generate millions of dollars in additional revenues if it used a competitive bidding process.

We made nine recommendations to improve the long-term management of BLM's renewable energy program. Our recommendations represent opportunities for BLM to accurately collect rental revenues, manage the bonding process, monitor and ensure compliance with ROW requirements, and generate additional revenues by using a competitive bidding process for wind and solar ROWs.

## Leasing Activities on Federal Lands

*Office of Natural Resources Revenue*

In January 2012, we evaluated ONRR's process for obtaining timely compliance from lessees and operators that violate lease terms, regulations, or Federal law during the leasing and production of energy and mineral resources on Federal and Indian lands. ONRR manages billions of dollars in royalties and other revenues due the Government from offshore and onshore mineral leasing activities. ONRR's Office of Enforcement ensures that companies comply with ONRR regulations and orders and assesses civil penalties when a person or company fails to correct violations cited in a Notice of Noncompliance by the established deadline. A penalty can be assessed of up to $500 per violation per day starting 20 days after a Notice of Noncompliance is received. A knowing or willful violation can carry an immediate penalty of up to $25,000 per violation per day.

We found that the Office of Enforcement obtained compliance with laws and regulations and negotiated reasonable settlements when companies disputed the royalty amounts. ONRR, however, has opportunities to improve its timeliness and efficiency in gaining compliance. For instance, ONRR did not always timely issue Notices of Noncompliance or assess civil penalties as established in its regulations. ONRR also allowed extensions for companies to achieve compliance instead of assessing civil penalties within authorized timeframes. In some cases, it took more than 1 year to obtain a company's compliance. In addition, ONRR did not prepare risk assessment summaries as required by its policies or fully justify and document the assessed civil penalties in its case files.

Improvements are also needed to ensure the Government's financial interests are protected during processing and management of settlements and appeals. We determined the Government lost approximately $586,000 in interest when processing five settlement agreements. We issued seven recommendations to improve the efficiency of ONRR's enforcement process through focused management and coordination among ONRR divisions during the Notice of Noncompliance process, strengthen procedures to ensure that Notices of Noncompliance are issued promptly and civil penalties are assessed and increased when compliance is not timely, and improve guidance to fully document civil penalty assessments and negotiated settlements that would reduce the risk of lost interest during the settlement and appeal process.

In November 2011, ONRR requested a meeting with us to discuss how to comply with the civil penalty sharing provision of 30 U.S.C. §1736. This provision applies to ONRR's agreements to have States and tribes conduct royalty audits of Federal and Indian oil and gas lessees within their jurisdictions. It calls for ONRR to provide States and tribes 50 percent of any civil penalties that result from this audit work and to reduce by a corresponding amount the funding that ONRR gives the States or tribes to conduct the royalty audits.

Despite this requirement, State and tribal audit organizations have asked ONRR not to share the penalty money with their respective State or tribe because of their concerns that doing so would result in the elimination of the funding for their audit work. ONRR now owes State and tribal governments a total of $441,000 in penalties dating back to May 2006.

We support ONRR's efforts to comply with § 1736 and understand its concerns about the impact a reduction in obligated funds could have on State and tribal audit programs. We made three recommendations to DOI to help ONRR address these concerns while correctly and effectively implementing the penalty sharing requirement of § 1736.

*Bureau of Indian Affairs*

The Bureau of Indian Affairs (BIA) reviews and approves oil and gas and other mineral leases on Indian lands, which represent billions of dollars in overall annual economic benefits significant to Indian Country. The Bureau, however, does this without a formal program backed by consistent administrative guidance and protocols. Our September 2012 review found opportunities for BIA to improve its oversight of oil and gas leases on Indian lands.

Insufficient guidance and oversight of oil and gas leases by DOI agencies have frustrated tribal officials and members, BIA employees, and the energy industry in Indian Country. In addition, Federal attempts to support tribal sovereignty through the use of tribal energy resource agreements under the Energy Policy Act of 2005 have been hampered by complex regulations, insufficient funding, and tribal concerns about assuming increased responsibility. Outdated and unofficial BIA guidance documents also increase the likelihood for inconsistent and ineffective decisions at the local level.

These problems contribute to a general preference by the industry to acquire oil and gas leases on non-Indian lands. As a result, oil and gas leasing in Indian Country is not achieving its full economic potential, and frustration with leasing inefficiencies has led Indian landowners to take legal action against BIA.

Although some issues with oil and gas leases on Indian lands do not have an easy solution, many opportunities exist for DOI to improve conditions for leasing. BIA personnel with oil and gas responsibilities comprise a dedicated workforce committed to advancing leases on Indian lands. We did find, however, that these same employees often do not have the necessary resources to provide efficient assistance.

We identified a need for focused, coordinated program management of Indian oil and gas development. As Indian oil and gas leases have doubled to almost 21,000 in the last 5 years, BIA continues to approve leases without formal policies and procedures to ensure consistency and transparency. BIA also inconsistently

applies National Environmental Policy Act requirements and has no long-term planning process.

We made nine recommendations to strengthen BIA's management of Indian oil and gas development and help DOI fulfill the intent of the Energy Policy Act of 2005.

### Government Accountability Office's 2011 High-Risk List

DOI remains on GAO's 2011 High-Risk List for management of oil and gas on leased Federal lands and waters. In response to GAO's recommendations, DOI stated it has taken steps to improve consistent and timely updating of measurement regulations and policies, clarify jurisdictional authority over gas plants and pipelines, and provide appropriate and timely training for key measurement staff. BSEE developed DOI-wide guidance on measurement technologies and made a determination on DOI's authority over pipelines. BSEE also determined training needs for offshore staff to effectively carry out their inspection responsibilities and is making steady progress on recommendations concerning access to production data, implementation of mobile computing solutions, and clarification of guidance on standardized measurement methods and comingling.

GAO also recommended that DOI improve its venting and flaring data—information used to report the loss of natural gas during drilling operations—and address limitations in its regulations and guidance to reduce lost gas and greenhouse gas emissions and increase royalties. The recommendations suggest that DOI better use the Oil and Gas Operating Report and the Gulf-wide Offshore Activities Data Systems (GOADS) as well as venting and flaring technologies to more accurately assess opportunities to track and measure lost gas. DOI expects to fully implement these recommendations by 2015.

According to DOI, actions are currently underway to begin addressing these recommendations:

- BOEM has identified and reported to BSEE that 26 operators have not complied (in part or in total) with GOADS and 286 facilities have not submitted the requisite emissions data. In response, BSEE recently issued Incidents of Noncompliance warnings to each of the 26 operators, requiring submission of the data within an established timeframe (2 to 4 weeks) to avoid additional enforcement actions. BSEE and BOEM will then establish necessary querying and reporting tools to pull the Oil and Gas Operating Report information from the Technical Information Management System and identify the differences between the GOADS and Oil and Gas Operating Report data.
- In response to GAO's recommendation to consider the expanded use of infrared cameras where economical to improve reporting of

> emission sources and to identify opportunities to minimize lost gas, BOEMRE implemented an infrared camera pilot program in March 2011 that is now overseen by BSEE in the Gulf of Mexico OCS Region. To date, BSEE has conducted 20 field inspections using its infrared camera system to collect relevant offshore production data. BSEE will be evaluating this data to identify areas where infrared detection technology or other work practices can be implemented to minimize lost gas and impacts on air quality. BSEE is in the process of purchasing an improved infrared camera system to allow for additional field inspections and improved data collection. With the new camera system in place, the pilot program may be expanded to capture data on a sample set of Pacific OCS Region structures as well as continued work in the Gulf of Mexico OCS Region.

DOI also stated that it has closed eight GAO high-risk recommendations related to the accuracy of company-reported data including 1) actions requiring companies to report additional data, 2) enhancements to ONRR's Web-based reporting system that prohibits company-reported errors, and 3) implementation of data mining processes enabling ONRR to monitor companies' adjustments to previously reported royalties and compare reported royalty and production volumes. Implementation of data mining processes has resulted in additional collections of approximately $16 million through April 2012.

In response to the challenge of recruiting professionals to monitor DOI's energy functions, DOI officials stated that BOEM and BSEE have taken significant steps to ensure that they stay focused on the recruitment, training, retention, and succession planning for crucial job series such as inspectors and engineers. The funds provided to both BOEM and BSEE in FYs 2011 and 2012, and requested for FY 2013, are a crucial investment in new inspectors and engineers. Special salary rates for petroleum engineers, geologists, and geophysicists in the Gulf of Mexico Region authorized by the FY 2012 Consolidated Appropriations Act have been supportive in recruiting and retaining highly qualified individuals to fill these essential positions. BOEM and BSEE have implemented special salary-rate authority as of April 22, 2012. In addition, the bureaus have jointly contracted with an outside firm to analyze methods for recruiting, design materials in various media to promote employment, and support current recruitment activities such as career fairs and departmental visits. The BOEM and BSEE Web sites have updated employment opportunities pages designed to attract potential applicants. BOEM is participating in a pilot program to implement DOI's "Strategic Workforce Management Plan," which engages the Bureau in detailed workforce planning using a standardized model.

As of June 30, 2012, over 100 positions needed to be filled to fully support BSEE's safety and environmental enforcement functions. These positions will allow permitting engineers and inspectors to effectively evaluate and keep pace with the risks of offshore drilling and to promote the development of safety

cultures in offshore operators. Special salary rates will enhance the Government's competitiveness with private industry. As of March 31, 2012, BSEE had added 45 new inspector positions since the Deepwater Horizon incident. There has been a total increase of 13 engineers at BOEM and BSEE in the same timeframe.

## Climate Change

The sheer scope of climate change, combined with the difficulty of identifying region-specific impacts and the need to develop response strategies, has continued to pose significant management challenges to DOI. The lands and resources managed by DOI face increasingly complex and widespread environmental challenges associated with climate change, such as destruction from invasive species, like the pine bark beetle; coastal erosion; and species moving into habitats they never previously inhabited. Some communities face increasing issues with water availability and drought due to climate-related changes in hydrology patterns, which affect farming and other land uses, while other urban and rural areas face issues with flooding.

DOI continues to face the challenge of developing relevant scientific information for land, water, and wildlife managers on a regional basis. DOI also must work across landscapes and watersheds with other Federal agencies, States, local and tribal governments, and private partners to formulate shared understandings and common strategies for land and resource managers to adapt to the challenges and ensure the resilience of our Nation's resources.

DOI's FY 2012 enacted budget for climate change was $146 million, and the FY 2013 requested budget is approximately $165 million. Money will be spent to support the completion of a network of Landscape Conservation Cooperatives and Climate Science Centers, as well as support individual bureau adaptation activities. DOI's priority goal for FYs 2012 and 2013 is to identify resources that are vulnerable to climate change and implement coordinated adaptation strategies to mitigate risks of changing climate for 50 percent of the Nation by September 30, 2013. DOI stated it has prepared a high-level vulnerability analysis that outlines how its mission-related activities might be affected and at risk from climate change and is currently drafting a climate change adaptation plan for FY 2013.

We are currently auditing select Landscape Conservation Cooperatives to look more closely at DOI's climate change initiative. The audit concentrates on the adherence to and appropriate application of internal controls for the grants and cooperative agreements issued through DOI's initiative and focuses on 6 of the 22 Cooperatives (27 percent), ranging from those in the early stages of development to the most mature.

In addition, in August 2011, we completed an evaluation that assessed the National Park Service's (NPS) Climate Friendly Parks Initiative (CFP)—established to provide resources and support for parks to measure and reduce

greenhouse gas emissions, plan ways to adapt to a changing climate, and educate the public about climate change—to determine whether CFP-member parks benefit from participation and whether this initiative helps NPS meet Federal environmental sustainability goals. We found that the initiative has created an environment of climate stewardship among member parks, although deficiencies in accountability and other areas may make it difficult to match CFP accomplishments to the requirements mandated by Executive Order 13514.

We found that accountability for following the initiative ends once a park develops an action plan and becomes a CFP-member park. NPS has no standard mechanism to measure, track, and report a park's progress and outcome or analyze which actions have been most beneficial.

Moreover, we found that the current greenhouse gas inventory tool used to identify activities that produce emissions and the amount of each activity's emissions does not meet Executive Order requirements. We were concerned that data quality was at risk due to the manner in which greenhouse gas inventory data were collected, verified or validated, and updated at CFP-member parks—potentially reducing accurate reporting information required by the newly issued Council on Environmental Quality guidance. We also noted that to achieve sustainability, CFP-member parks should consider the initiative's potential to integrate with other environmental programs and develop a clear long-term integration plan.

We made four recommendations to improve accountability, data quality and assurance, and sustainability of CFP consistent with a changing Federal environment and new mandates.

In response to our recommendations, NPS stated it was working on a data streamlining and consolidation initiative that will improve its ability to track mitigation actions identified by CFP-member parks from conception through implementation. NPS also stated it was preparing a greenhouse gas inventory management plan, which will describe quality assurance, quality control, and verification procedures for the entire NPS greenhouse gas inventory and updating its inventory tool to align with Federal greenhouse gas guidance, as well as to increase its ability to automatically roll data up to the headquarters level. Furthermore, NPS plans to develop a long-term plan for the CFP initiative that will take into consideration its potential to integrate with other environmental programs.

## Water Programs

As the largest supplier and manager of water in the 17 western States, DOI delivers irrigation to 31 million people, 1 out of every 5 western farmers, and 10 million acres of farmland. Some of the challenges associated with this responsibility include an aging water infrastructure, rapid population growth, depletion of groundwater resources, impaired water quality associated with

particular land uses, and land covers.[1] Water needed for human and environmental uses, as well as climate variability and change, all play a role in determining the amount of fresh water available at any given place and time.

Prolonged drought continues to increase water challenges across the Nation, particularly in the West and Southeast. Drought, in addition to increased demands, exacerbates the challenges facing traditional water management approaches.

Adding complexity to these challenges is the governance of fresh water, which involves numerous jurisdictions and a complex array of laws and ownership. DOI must balance limited water resources between multiple uses, habitat restoration, and responsibilities under the Endangered Species Act.

Since the start of FY 2010, the Bureau of Reclamation (USBR) has pursued a priority goal for enabling water conservation. USBR has thus far approved water conservation projects with a collective capacity of 480,000 acre-feet of water when completed. According to DOI, USBR has met all of the quarterly milestones identified for the third quarter of FY 2012, leading to tentative selections of WaterSMART Water and Energy Efficiency Grant projects, Title XVI projects, California Bay-Delta Authority projects, and proposals for the Water Conservation Field Services Program. In addition, on April 16, 2012, funding was awarded for the first phase of the Yakima River Basin Water Enhancement Project, completing a second-quarter milestone.

The amount of water conservation that can be reported is heavily dependent on the projects proposed from year to year. The costs and capacities of projects vary depending on several factors, such as site conditions and the size and types of projects and materials required, which results in different amounts of capacity generated for the same amount of funding.

DOI officials stated that in FY 2012 USBR began funding a small number of multiyear WaterSMART grant projects in 1-year phases to determine whether larger, phased projects would result in additional water conservation. USBR has also started requesting more detailed support for applicants' water conservation estimates so that those estimates can be evaluated as effectively as possible. DOI also stated that USBR increased outreach to stakeholders to improve their understanding of the opportunities, requirements, and goals of water conservation programs.

We are currently reviewing DOI's water programs by evaluating the repayment status of USBR's Central Valley Project to determine if the Federal Government will recover its initial investments in the project by the legally established deadline of 2030.

[1] Land cover is the physical material at the surface of the earth, such as grass, trees, or asphalt.

## Responsibility to Indians and Insular Areas

### Indian Affairs

Responsibility to American Indians is consistently a top management challenge for DOI. DOI works with 566 Federally recognized Indian tribes, has trust responsibilities for 112 million surface and subsurface acres of land belonging to Indian tribes and individuals, and provides education services to approximately 41,000 Indian children in 183 schools and dormitories. Some of the Indian Country programs managed by DOI include Indian Trust for Lands and Funds, Indian Education, Self-Determination, Energy and Economic Development, Indian Gaming, and Justice Services.

Recent OIG reviews identified needed improvements in bridge safety programs, accountability efforts over its contracting program with the National Native American Law Enforcement Association (NNALEA), and internal controls in the Office of Trust Fund Investments.

*Bridge Safety Programs*

In our April 2012 review of the accuracy of data submitted to the Federal Highway Administration (FHWA) for the National Bridge Inventory, we found that BIA complied with requirements to submit its data to the FHWA for inclusion in the Inventory. BIA, however, demonstrated issues with the completeness and accuracy of the submitted data. Record-keeping errors in BIA's current database caused structures not to be scheduled for inspection and thus not meet the FHWA's 2-year inspection requirement. We also identified contracting issues needing resolution for BIA to comply with Federal requirements and to ensure the validity of its bridge inspections. Compliance with the requirements provides the greatest assurance that BIA's bridges are as safe as possible for public use.

*NNALEA Contract*

In 2009, we evaluated staffing needs for BIA's detention facilities. At that time, we learned that BIA awarded a $1 million contract to NNALEA—a 501 (c) nonprofit organization—to recruit needed law enforcement officers. Our review identified deficiencies in both the award process and contract terms. We issued a management advisory recommending that BIA terminate the contract.

Based on that advisory and advice from the Office of the Solicitor, BIA terminated the contract on February 25, 2010. At the time of termination, the contract had been in place for 8 months, and BIA paid NNALEA nearly the entire contract value of $1 million. We conducted this evaluation to determine if the Office of Justice Services received the intended benefit.

Our May 2012 evaluation determined that the Office of Justice Services received no benefit from the award of a recruitment services contract to NNALEA. We found that BIA awarded a defective contract, disenfranchised potential job applicants, and wasted nearly $1 million of Federal funds. This occurred because

BIA violated the Federal Acquisition Regulation and DOI policy and failed to use its Office of Human Capital Management to develop required contract terms, resulting in a poorly written contract—developed in conjunction with NNALEA—that contained significant contract defects and allowed NNALEA to take advantage of the Office of Justice Services to produce unusable contract deliverables.

*Office of Trust Fund Investments*

In October 2011, at DOI's request, we evaluated six internal control weaknesses asserted to exist in the Office of Trust Fund Investments (OTFI), a component of the Office of Special Trustee for American Indians (OST). The principal deputy special trustee (PDST) alleged these weaknesses in a draft memorandum titled "FY 2011 Annual Assurance Statement on Internal Controls." The PDST's assertion that internal controls over OTFI were insufficient was based on two investment errors that occurred during FY 2011. Although both mistakes were caught, the PDST qualified the draft assurance statement due to his concerns about the controls. When we examined the related internal controls, however, we were unable to validate the PDST's assertions.

*BIA Investigations*

Approximately 30 percent of OIG investigations involve Indian Country. In July 2009, we initiated an investigation into allegations of improper disbursements by Federal and tribal employees of the Fort Peck Credit Program. We determined that these employees approved and received excessive loans and direct payments from the Credit Program without authorization or proper documentation. The investigation revealed that all six employees of the Credit Program routinely issued to themselves and to their family members disbursements they were not entitled to receive from Credit Program bank accounts. The employees also confessed to intentionally altering Credit Program records in September 2007 to conceal the fraud scheme from a Federal review team.

In January 2010, a Federal grand jury in Billings, MT, issued the first of a series of criminal indictments alleging a 10-year criminal conspiracy operating between 1999 and 2009 to embezzle more than $1 million from the Credit Program by its six employees. All six employees pleaded guilty to various felony charges, including conspiracy and obstruction of justice, and received prison terms ranging from 24 to 45 months. We expanded our investigation to identify other individuals who assisted in the fraud scheme. To date, four more people have been convicted for their roles in stealing tribal funds from the Credit Program. Overall, 10 people have been convicted for their roles in the fraud scheme. The U.S. District Court for the District of Montana has ordered prison sentences totaling 278 months and restitution in the amount of $832,303.

## Insular Areas

DOI also has responsibilities to seven Insular Areas, including four territories and three sovereign island nations. DOI has administrative responsibility for

coordinating Federal policy in the territories of American Samoa, the Commonwealth of the Northern Mariana Islands, Guam, and the U.S. Virgin Islands. For the three sovereign nations—the Federated States of Micronesia, the Republic of the Marshall Islands, and the Republic of Palau—DOI administers and oversees Federal assistance provided under the Compacts of Free Association. DOI coordinates with the State Department and other Federal agencies to promote economic development and budgetary self-reliance in these island territories.

DOI manages its responsibility to the insular areas primarily through the Office of Insular Affairs (OIA). OIA works to improve the financial management practices of the Insular Area governments and to increase economic development opportunities through financial and technical assistance. The FY 2012 budget for the Insular Areas includes $87.9 million for capital improvements, operation, and technical assistance to the four U.S. territories; $234.6 million for the programs of the three nations under the Compacts of Free Association; and $248 million in tax-related payments to the U.S. Virgin Islands and Guam. OIA annually funds the Insular Area government programs that focus on education, health care, infrastructure improvement, public sector capacity building, private sector development, and the environment.

*Infrastructure Upgrades and Service Capacity*

The transfer of thousands of U.S. military personnel and their dependents from Okinawa, Japan to Guam will require significant resources and infrastructure upgrades to support the increased population and impact to island residents. The U.S. Department of Defense recently announced that the number of troops to be relocated will be reduced from 8,500 to about 4,700. The timeline for the relocation has been pushed back from the planned 2014 target date to an undetermined date. In addition, Guam needs to prepare for the temporary hosting of significant numbers of contractor personnel who will work on the infrastructure upgrades. The uncertainties of the target relocation date and the temporary nature of hosting the contractor workers present additional challenges to the already difficult plans to prepare for the increased military population, but they also present an economic opportunity.

To assist in evaluating the island's preparation for the military buildup, we examined two functions that serve the citizens of Guam—Guam Power Authority (GPA) and Guam public safety. We reviewed GPA's ability to account properly for the maintenance and condition of key infrastructure components and assessed efforts to expand service capacity, increase reliability, assure continuity of service for critical facilities, prepare for contingencies, and incorporate alternative energy sources. Prior to the review, GPA issued bonds to fund a variety of generation, transmission, and distribution improvement projects to address existing concerns and also identified military-related improvement projects to help increase capacity and improve reliability. We found, however, that improvements are still needed to increase reliability, maintain key infrastructure components, and incorporate

renewable energy into the system. In addition, uncertainties about the relocation date and funding sources could place additional strain on GPA and its rate-paying customers.

We also reviewed the ability of Guam's Police Department, Fire Department, and Homeland Security to meet the safety and response needs of Guam's citizens and prepare for the increase in population. We found that the police and fire departments cannot meet current public safety needs and are ill prepared to meet the even greater needs of a larger population. Both departments must address shortcomings in staffing, infrastructure, vehicles, maintenance, and training. While Guam's Homeland Security is currently 100 percent Federally funded and meets Guam's current needs, it is anticipated that Federal funding will decrease, and unless supplemented by local funding, the level of service will diminish.

*Detecting Fraud, Waste, and Mismanagement in the Insular Areas*

Our findings in the Insular Area governments have not changed significantly from previous years. We continue to find that many of the Insular Area governments lack the resources necessary to adequately prevent and detect fraud, waste, and mismanagement involving Federally funded programs. The Offices of the Public Auditor (OPAs) and local OIGs for these governments continue to operate under insufficient budgets; they therefore have difficulty competing for qualified audit staff and are often unable to provide required training.

A number of our investigations revealed that weak Insular Area government procurement systems coupled with the OPAs' insufficient resources contributed to the vulnerabilities of procurement fraud. These vulnerabilities were exacerbated by a number of instances of integrity weakness in local government personnel. We observed that OIA has increased its oversight of the programs it supports, but a significant need remains for closer monitoring of these programs.

We continue to expand both the capacity of the OPAs and local OIGs, as well as their efforts toward strong financial and program accountability in the Insular Areas. Supported by OIA, we offer a training program to OPAs by offering OPA staff opportunities to work in our various regional offices for on-the-job training experience. This training program is designed to provide greater self-sufficiency and to increase capacity for OPAs, enabling them to monitor the expenditures of Federal and local funds to the mutual benefit of all parties.

New this year, we expanded our capacity-building initiatives by providing classroom training to the Republic of the Marshall Islands Office of the Auditor-General on accounting and auditing. Furthermore, we complemented the classroom training with technical assistance on an audit being conducted by the Office of the Auditor-General. We seek to offer this program to other Insular Area governments and hope that our capacity-building and resource-leveraging efforts help provide the skills necessary to oversee the financial and program resources and activities of the Insular Area governments.

*Insular Area Resources*

Recent reviews have also focused on ongoing challenges in the management of Insular Area resources. We evaluated the U.S. Virgin Islands' retirement system; the administrative functions of the U.S. Virgin Islands' Legislature; and Juan F. Luis Hospital and Medical Center, the Virgin Islands' only hospital on the island of St. Croix.

Our September 2011 evaluation of the Government of the Virgin Islands Retirement System identified several factors contributing to an unfunded liability of over $1.4 billion. This liability, which has been growing for years, represents a gap between the amount of retirees' future annuities and the projected value of Retirement System assets.

The contributing factors include employee/employer contribution levels, the ratio of active to retired members, and early-retirement legislative mandates. As a result, the long-term sustainability of the Retirement System, which comprises just over 18,000 members, is critically at risk. At the time of our review, the most recent actuarial Retirement System evaluation, completed in 2006, projected the default of the Retirement System in just 14 to 19 years and a corresponding cessation of benefits payments.

We also found that the Retirement System does not always maintain accurate member information, which could lead to employees retiring earlier or later than authorized. The Retirement System could also find itself paying incorrect annuities.

We offered four recommendations, and although the Governor of the Virgin Islands responded to our concerns with equal awareness of the situation and an apparent plan to rectify it, the severity of the situation is such that we are seeking additional support from OIA to monitor actions taken in response to our recommendations.

In addition, our November 2011 joint audit (with the Office of the Virgin Islands Inspector General) of the administrative functions of the Virgin Islands' Legislature (Legislature), we found that the Legislature is not using sound business practices in its stewardship of public funds and resources, resulting in fraud, waste, and mismanagement. The audit identified several weaknesses that led to improper use of allotted funds for such things as cash advances, employee bonuses, procurement of goods and services, and security of sensitive equipment.

We identified many highly questionable practices and deficiencies during the audit, resulting from an absence of formal policy and procedures as well as weak internal controls. The unregulated administration of public funds has led to a culture with almost no accountability or transparency.

Finally, our September 2012 evaluation of the Juan F. Luis Hospital and Medical Center revealed that the hospital's historical financial management issues have reached a critical juncture. Significant changes need to occur if the hospital is to continue to operate for the benefit of Virgin Island citizens and visitors. The hospital needs to make some immediate decisions regarding how best to balance its debt load with its revenue streams to preserve its future as St. Croix's source of health care.

*OIA Economic and Financial Data*

OIA is working to integrate territorial gross domestic products (GDPs) into the National GDP accounts and assist the territories in upgrading their capacities to collect, analyze, and disseminate economic and financial data. According to DOI, OIA engaged the Bureau of Economic Analysis, the Federal agency that produces GDP data for the United States, to produce GDP statistics for the territories in the same manner it does for the United States. Tracking GDP data also enables policy makers at all levels of government to look at the economic situations of the territories objectively and take appropriate actions. OIA has assisted the territories in developing additional measures of economic performance:

- GDP by industry statistics show how much each industry contributed to the overall inflation rate for the economy.
- Compensation of employees by industry measures track wage and salary trends for key industries, or sectors, within the territorial economies.
- Detailed consumer spending measures show how household spending patterns have changed over time and how the composition of products, or commodities, purchased by households has changed.

GDP statistics are not specifically produced for tracking Federal assistance. They make it possible, though, to measure the overall economic health of the territories and help territorial leaders focus on policies that would improve their economies. In addition, the statistics will help OIA track the impact of its assistance on economic conditions.

OIG will review these programs as necessary to ensure improvement, but the need remains to address the historical issues relating to preventing and detecting fraud, waste, and mismanagement involving Government-funded programs.

## *Cobell* and Indian Land Consolidation

In December 2009, Secretary Salazar announced the settlement of the long-running and highly contentious *Cobell* class-action lawsuit regarding the U.S. Government's trust management and account of over 300,000 individual American Indian trust accounts. Congress approved the $3.4 billion *Cobell* settlement on November 30, 2010 (Claims Resolution Act of 2010). President Obama signed the settlement on December 8, 2010, and the U.S. District Court approved the final settlement following a fairness hearing on June 20, 2011. The

settlement decision was subsequently appealed. On May 22, 2012, the U.S. Court of Appeals affirmed the U.S. District Court's decision to approve the settlement. In August 2012, the U.S. District Court's decision was appealed to the U.S. Supreme Court.

To address land fractionation, which has been an ongoing challenge for DOI, the settlement established a $1.9 billion fund for the voluntary buyback and consolidation of fractionated land interests. Because wills were not widely used by American Indian landowners, smaller and smaller land interests descended to successive generations, thereby fractionating the land. Land fractionation limits tribes' productive use of land and creates jurisdictional issues. It also requires that BIA and OST devote a significant portion of their budgets to administer the fractionated land interests. The land consolidation program will provide individual American Indians with an opportunity to obtain cash payments for the sale of their undivided land interests and provide tribal communities with the economic benefit resulting from better use of the land.

We have issued one evaluation and three advisories since we began monitoring DOI's planning efforts in FY 2010. These reviews disclosed the need for better communication and coordination among the many DOI offices and Indian tribes that will be involved in land-consolidation efforts. Two of the advisories focused on appraisal tools needed to help the land-consolidation program succeed, such as a mass appraisal system and a centralized tracking system at the Office of Appraisal Services within OST. The most recent advisory highlighted the need for DOI and tribes to work together to solve the long-standing problem of Indian land fractionation.

As part of its planning for Indian land consolidation, DOI is using input from Indian Country to develop a comprehensive plan to reduce fractionation. The many DOI offices that will be involved in land consolidation efforts have also done significant work to prepare for the planning and implementation of the eventual Indian land-consolidation project. During this time, we continue to monitor DOI's planning efforts and evaluate the accountability of funding that will be provided to DOI in the settlement.

## Operational Efficiencies

DOI, like other Federal agencies, faces considerable economic challenges in anticipation of flat budgets or budget cuts. Ceilings on total discretionary spending and calls for deficit reduction increase the pressure on DOI to manage fiscal resources effectively. In addition, the Accountable Government Initiative has called for significant change in the way Government does business. We deploy our resources to promote accountability in the management of DOI's fiscal resources, and to examine DOI's contracting and grant practices to avoid waste and improper payments.

In FY 2012, our audit, evaluation, and investigation work supported the—

- identification of more than $1 million in questioned or unsupported costs claimed by DOI contractors. The largest portions of these costs involve work that was performed and billed without prior authorization, charges related to subcontract costs that were not properly negotiated, and work that was not within the scope of the contract to which the costs are applied. To date, DOI has taken action on these findings and avoided payment of $310,000;
- identification of deficiencies in contract administration that, if corrected, could prevent or reduce the amount of questioned costs in future audits;
- identification of revenue enhancement opportunities on the order of $100 million annually through improved management of the rights-of-way that cross public lands; and
- conviction of a former DOI employee for embezzlement of $731,000 and subsequent evaluation of check-writing controls to promote accountability throughout DOI.

### Program Planning

We conducted an evaluation of five DOI programs to examine program planning processes and determine which program planning models lead to success. We asked bureaus to identify successful programs and expand on their planning processes. By identifying successful planning processes, we provided useful information to DOI and its bureaus in developing new programs or revising existing programs. We evaluated programs from the Office of Surface Mining, U.S. Fish and Wildlife Service (FWS), U.S. Geological Survey, BIA, and USBR.

While effective planning does not guarantee a program's success, an effective planning process helps justify program budgets, determines program priorities, defines program goals, and provides a means for evaluating program accomplishments.

### Coastal Impact Assistance Program

On October 1, 2011, FWS assumed responsibility from BOEMRE for the $1 billion Coastal Impact Assistance Program (CIAP). CIAP distributes funds to the OCS oil and gas producing States and coastal political subdivisions for the conservation, protection, and preservation of coastal areas, including wetlands.

BOEMRE implemented and oversaw this program until FY 2012, when FWS assumed responsibility. To ensure minimal impact on recipients, DOI had to provide a seamless transfer of approximately $730 million in undistributed funds and approximately 350 open grants from BOEMRE to FWS. FWS's migration to DOI's Financial and Business Management System and the U.S. Department of the Treasury's Automatic Standard Application for Payments also further complicated the transfer. FWS, however, was successful in the transfer of grant files and grant balances. New challenges FWS faces include—

- monitoring grantees new to receiving grant monies directly from FWS; and
- properly analyzing grantee risk while minimizing delay in issuing grants.

### Administrative Functions and Cost Savings

According to the FY 2013 budget submission, DOI will achieve additional administrative efficiencies that result in cumulative savings of $207 million from 2010 to 2013. These reductions are being implemented throughout DOI and result from changes in how DOI manages travel, employee relocation, acquisition of supplies and printing services, and the use of advisory services. The proposed savings in administrative functions will not have an impact on programmatic performance, and to the greatest extent possible, savings will be redirected into priority programmatic areas.

DOI's 2013 budget reflects a freeze on Federal salaries for 2012 and a 0.5 percent pay increase in 2013. The budget fully funds fixed costs for the civilian pay increase, anticipated changes in Federal contributions to health benefits, rent increases, changes in workers' and unemployment compensation costs, programs financed through the Working Capital Fund, and specific contract requirements for section 638 agreements—which allow Indian tribes and tribal organizations to acquire increased control over the management of Federal programs that impact their members, resources, and governments.

To meet the objectives of the Office of Management and Budget's "Campaign to Cut Waste," DOI stated that it has taken steps to cut its real property portfolio; buy smarter through strategic sourcing; and realize information technology (IT) savings by closely managing commodity IT purchases, performing TechStats—evidence-based accountability review of an IT investment—to identify underperforming IT projects, and consolidating data centers. DOI also stated that it is taking critical steps to eliminate unnecessary spending by cutting administrative spending and reducing travel and conference-related costs. In addition, DOI said that efforts are currently underway to eliminate duplicative programs and ensure that functions are optimally structured.

DOI can realize cost savings by using alternatives to travel for long-distance meetings such as teleconferencing; video teleconferencing (VTC); and shared Web sites or Web conferencing, which enable real-time communication and document sharing. Our December 2011 report found that by increasing the use of VTC, DOI could experience significant savings in travel costs. Using DOI's FY 2009 travel expenditures, we calculated that with only a 10 percent increase in VTC use, DOI could potentially save $4.2 million on travel. An increase of 20 percent could save as much as $8.5 million.

In addition to savings in travel costs, increased use of VTC could advance DOI's goal of reducing greenhouse gas emissions. Reducing travel between 10 and 20

percent will contribute to DOI's goals under its "Strategic Sustainability Performance Plan" by eliminating an estimated 298 to 596 tons of carbon dioxide emissions, equivalent to the emissions from 31,000 to 62,000 gallons of gasoline.

Many opportunities also exist for improvement in operational efficiencies. We recognize DOI's active approach to address the Accountable Government Initiative, yet challenges remain. We will continue to focus staff resources where they will have the most impact on preventing and detecting fraud, waste, and mismanagement, as well as identifying additional opportunities to enhance program revenues where appropriate.

## Conclusion

Working with DOI officials, we identified energy management, climate change, water programs, responsibility to Indians and Insular Areas, *Cobell* and Indian land consolidation, and operational efficiencies as the most significant management and performance challenges facing DOI. We are committed to focus our resources on the issues related to these challenges to ensure greater accountability, promote efficiency and economy in operations, and provide effective oversight of the activities that comprise DOI's mission. This report should assist DOI to identify and develop strategies and implement policies and procedures necessary to sustain improvements in an environment of increasing complexity and limited resources.

## Results of Financial Statement Audit

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

The results of the FY 2012 financial statement audit are summarized in Figure 3-1. As shown in the table, the DOI again achieved an unqualified audit opinion, the 16th consecutive one, for the DOI's consolidated financial statements.

FIGURE 3-1

| Summary of Financial Statement Audit | | | | | |
|---|---|---|---|---|---|
| FY 2012 | | | | | |
| **Audit Opinion** | Unqualified | | | | |
| **Restatement** | No | | | | |
| **Material Weaknesses** | Beginning Balance | New | Resolved | Consolidated | Ending Balance |
| Contingent Liabilities | 1 | 0 | 1 | 0 | 0 |
| Total Material Weaknesses | 1 | 0 | 1 | 0 | 0 |

## Management Assurances

The FMFIA requires agencies to provide an annual statement of assurance regarding internal accounting and administrative controls, including program, operational, and administrative areas as well as accounting and financial management and reporting. During Fiscal Year (FY) 2012, the Office of Financial Management (PFM) conducted comprehensive site visits and otherwise provided oversight with regard to risk assessments, internal control reviews, and progress in implementing audit recommendations. The DOI's FY 2012 Statement of Assurance was qualified as indicated in Figure 3-2.

FIGURE 3-2

| Summary of Management Assurances | | | | | | |
|---|---|---|---|---|---|---|
| Effectiveness of Internal Control over Financial Reporting (FMFIA § 2) | | | | | | |
| **Statement of Assurance** | Unqualified | | | | | |
| **Material Weaknesses** | Beginning Balance | New | Resolved | Consolidated | Reassessed | Ending Balance |
| Contingent Liabilities | 1 | 0 | 1 | 0 | 0 | 0 |
| Total Material Weaknesses | 1 | 0 | 1 | 0 | 0 | 0 |

| Effectiveness of Internal Control over Operations (FMFIA § 2) | | | | | | |
|---|---|---|---|---|---|---|
| **Statement of Assurance** | Qualified | | | | | |
| **Material Weaknesses** | Beginning Balance | New | Resolved | Consolidated | Reassessed | Ending Balance |
| Radio Communications Program | 1 | 0 | 0 | 0 | 0 | 1 |
| Total Material Weaknesses | 1 | 0 | 0 | 0 | 0 | 1 |

| Conformance with Financial Management System Requirements (FMFIA § 4) | | | | | | |
|---|---|---|---|---|---|---|
| **Statement of Assurance** | Systems Conform to Financial Management System Requirements | | | | | |
| **Non-Conformances** | Beginning Balance | New | Resolved | Consolidated | Reassessed | Ending Balance |
| Total of Non-Conformances | 0 | 0 | 0 | 0 | 0 | 0 |

| Compliance with Federal Financial Management Improvement Act (FFMIA) | | |
|---|---|---|
| | **Agency** | **Auditor** |
| Overall Substantial Compliance | Yes | Yes |
| 1. System Requirements | Yes | |
| 2. Accounting Standards | Yes | |
| 3. U.S. Standard General Ledger at the Transaction Level | Yes | |

# SUMMARY OF IMPROPER PAYMENTS

On July 22, 2010, the President signed the Improper Payments Elimination and Recovery Act (IPERA) of 2010 into law. The IPERA amends the Improper Payments Information Act (IPIA) of 2002 and repeals the Recovery Auditing Act (Section 831 of the FY 2002 Defense Authorization Act). The IPERA expands the requirements of all agencies to periodically perform risk assessments of its programs and activities and identify those programs and activities that are susceptible to significant improper payments. Significant improper payments are defined by IPERA as improper payments exceeding both 2.5 percent of program outlays and $10 million of all program or activity payments, or $100 million.

## *Risk Assessments*

The OMB requires agencies to review all programs to determine the risk susceptibility of making significant improper payments and to perform more in-depth assessments for those programs meeting OMB's criteria for "significant erroneous payments." Prior to FY 2012, the DOI offices and bureaus conducted their own risk assessments individually and reported the results to the Department on a three-year cycle utilizing a risk assessment rating tool consisting of reviewing all programs exceeding $100 million in annual outlays to identify those that are susceptible to significant improper payments, performing statistical estimates of the annual amount of improper payments within those programs determined to be at risk of significant improper payments, implementing processes to reduce the level of improper payments, and reporting in the annual financial report estimates of annual improper payments and the progress in reducing them for each of the programs susceptible to significant improper payments.

In order to institute a standardized Department-wide process that reflected the new reporting criteria in IPERA, the DOI updated its annual risk assessments policies and risk rating tool. In FY 2012, the DOI inaugurated the newly developed guidance and tool by inventorying all program outlays. Based on the new dollar thresholds and quantitative and qualitative criteria established in IPERA, the DOI then conducted risk assessments by reviewing all programs that exceeded $10 million in annual outlays to identify those susceptible to significant improper payments.

The DOI historically has had low risk of improper payments. Implementing the new risk assessment guidance and risk rating tool confirmed that the DOI continued to experience low risk of improper payments in FY 2012. Therefore, based on utilizing the new risk assessment process, the DOI determined that none of its programs are risk susceptible for making significant improper payments at or above the thresholds set by OMB. In addition to the risk assessment process, the DOI also considered the results of audits under the Single Audit Act Amendments of 1996, the CFO Act of 1990, GAO reviews, and reviews by the DOI's OIG when making its assessment.

FIGURE 3-3

**FY 2012 Recovery Auditing Report**
*(dollars in thousands)*

| Interior | Amount Subject to Review for FY 2012 Reporting | Actual Amount Reviewed and Reported CY | Amount Identified for Recovery CY | Amount Recovered CY | Amount Identified for Recovery PYs | Amount Recovered PYs | Cumulative Amount Identified for Recovery (CY+PYs) | Cumulative Amount Recovered (CY+PYs) |
|---|---|---|---|---|---|---|---|---|
| TOTAL | $ 4,143,844 | $ 0 | $ 0 | $ 0 | $ 1,944 | $ 1,830 | $ 1,944 | $ 1,830 |

**KEY: CY** Current Fiscal Year 2012 **PYs** Prior Fiscal Years 2005 - 2011

## *Payment Recapture Audits*

As noted above, IPERA repeals the Recovery Auditing Act and greatly expands, beginning in 2011, the types of payments that can be reviewed. The IPERA also lowers the threshold for conducting repayment audits from $500 million in annual outlays to $1 million in annual outlays if conducting such audits would be cost effective.

The DOI has historically utilized a recovery audit firm to conduct the predominance of its recovery audit effort. The firm was paid on a contingency fee structure based on the amount of recovered payments. Due to the unexpected cancellation of the government-wide payment recapture audit contract/program, the DOI has not had a payment recapture audit contract since 2009. For FY 2011, the DOI submitted justification to OMB demonstrating that it would not be cost-effective to conduct a payment recapture audit. *Figure 3-3* reflects the results of the Department's recovery audit efforts prior to FY 2011. In addition, the DOI transmitted reports on the Department's payment recapture audit plan to Congress, the DOI Inspector General and the OMB Controller.

In FY 2012, the DOI awarded a contingency fee-based contract to a recovery audit firm in order to re-establish the Department's payment recapture audit program. Initially, the program will be piloted in the Departmental Offices and four large bureaus, which include the Bureau of Land Management, the Bureau of Indian Affairs, the Bureau of Reclamation, and the U.S. Geological Survey. After determining the cost-effectiveness of the recovery audits, the DOI will consider expanding the service to the other bureaus.

## *Do Not Pay Initiative*

Executive Order 13250 on Reducing Improper Payments and Office of Management and Budget (OMB) memorandum M-12-11 on Reducing Improper Payments through the "Do Not Pay List" require agencies to utilize certain Federal databases to verify eligibility of potential Federal contractors and propriety of payments to existing contractors. These databases are collectively known as the Do Not Pay (DNP) List. OMB and the Department of Treasury have developed a web based single-entry access point to these databases known as the DNP Solution. In response to OMB M-12-11, the DOI submitted a plan that outlines implementation of the DNP Solution into the Department's business processes and minimizing the risk of contracting with entities, as well as preventing payments to inappropriate parties, on the DNP List.

The DOI is currently 70 percent deployed on the Financial Business and Management System with another 20 percent scheduled for the first quarter of FY 2013. The remaining 10 percent of the DOI is scheduled for deployment the first quarter of FY 2014.

Consequently, DOI will implement the DNP Solution using a two phased approach that will be coordinated with the deployment of the remaining Bureaus on FBMS. In other words, as the remaining Bureaus deploy on FBMS, they will also implement DNP by default. Phase I of DNP is scheduled for the 2nd quarter of FY 2013 and will include 90 percent of DOI Bureau and users. Phase II will encompass the remaining 10 percent of DOI Bureaus and users. During initiation of the two phases, DOI will consult the following databases:

- Debt Check
- Death Master File
- The Work Number
- Central Contractor Registration
- List of Excluded Individuals/Entities
- Federal Awardee Performance and Integrity Information System
- Excluded Party List System with an Office of Foreign Asset Controls

### *Other Efforts*

As noted below the DOI conducts other efforts to identify and recover improper payments. As a result of the DOI's focus on maintaining strong controls to prevent improper payments, only insignificant levels of improper payments have been identified.

***Prepayment Audit of Government Bills of Lading*** - The DOI has conducted prepayment audits of freight bills via GBL for a number of years. This effort is required by the Travel and Transportation Reform Act of 1998. Efforts continue with the DOI's bureaus to ensure that all freight bills receive prepayment audits.

***Invoice Payment Reviews*** – The DOI conducts various pre and post payment reviews across the bureaus. The reviews are the responsibility of the bureau and are used to not only identify inaccurate payments but also determine the effectiveness of internal controls over the payment process.

***Travel Voucher Audits*** – The DOI conducts a number of pre and post travel voucher audits. The audits are designed to identify incorrect payment amounts, unauthorized claims, and fraudulent activity.

### *Current Progress*

To meet the President's challenge to reduce government-wide improper payments by $50 billion and recapturing at least $2 billion in improper payments government wide by FY 2012, the DOI implemented several important steps in FY 2012 to ensure that its managers are held accountable for reducing and recovering improper payments.

To ensure a robust process for reducing improper payments the Department:

- Inventoried all programs with outlays of $1 million dollars or more to identify those programs that are susceptible to significant improper payments and update the risk assessment process.
- Procured contractor support to evaluate the Department's current processes for conducting risk assessments. The premise of this initiative is to develop a standardized risk assessment process that will be utilized Department-wide.
- Updated annual risk assessment policies and guidance to incorporate improvements in conducting, reporting, and documenting the program and ensure compliance with OMB Circular No. A-123, Appendix C.
- Developed statistical evaluation tools that will be used throughout the Department to estimate the level of potential improper payments by program.
- In response to OMB M-12-11, collaborated with the Office of Acquisition and Property Management and the Financial and Business Management System project management office on the submission of the DOI's plan for deploying the Do Not Pay solution to OMB.
- Submitted test files from the Department's vendor database to Treasury through the DNP solution. The National Business Center has already completed the submission and results download of a test file from the Oracle based financial system for external customers.

To recover those improper payments that are made the Department:

- Developed an action plan that describes how the Department is prioritizing its payment recapture activities and establish a framework for establishing recapture goals.
- Re-established the Department's payment recapture audit program by awarding a contract to a recovery audit firm.
- Consulted with the Department's relationship manager at Treasury on the types of data sources and data analytic services in order to register the DOI into the Do Not Pay solution.

### *Going Forward*

To continue support the President's goals with IPERA, the Department will:

- Pilot payment recapture audits in the Departmental Offices and four large bureaus; which include the Bureau of Land Management, the Bureau of Indian Affairs, the Bureau of Reclamation, and the U.S. Geological Survey; and further assess the cost-effectiveness of expanding the services to the other bureaus.
- Begin reporting on other types of recovered improper payments such as those identified by payment recipients, separate agency post payment reviews and contract closeout.

Based on a service agreement with Treasury, DOI will utilize the following DNP features:

- Batch Matching by sending a download of our FBMS vendor file, which encompasses 90 percent of DOI disbursement activity. It is important to note that all disbursement streams utilize the FBMS vendor file. Therefore, with the exception of the Bureau of Reclamation (BOR), all DOI programs and business lines will be subject to the DNP pre-payment controls by March 31, 2013. The BOR will implement FBMS and DNP by December 31, 2013.
- Continuous Monitoring by updating DNP weekly with FBMS vendor file additions and deletions. This will ensure that any new potential contractors are identified within seven business days and appropriate action is taken before a contract, grant, or loan is effected and any payment is made.
- Data Analytics Service by submitting quarterly disbursement files to DNP for customized analysis to combat improper payments, including matching payment files against currently available data sources. In addition, the results will be analyzed for abnormal groupings or irregularities to determine if additional A-123 audit related procedures are necessary.
- To implement the DNP Solution, DOI anticipates meeting the following timelines:
  - November 30, 2012 – Complete all required agreements with Treasury.
  - January 31, 2013 – Submit 1st quarter payment file for Data Analytics Services.
  - March 31, 2013 – Upload 1st FBMS vendor file covering 90 percent of DOI business activity. Weekly updates will follow.
  - March 31, 2014 – DNP will be updated with a complete FBMS vendor file covering 100% of DOI business activity. Weekly updates will follow.
- For monitoring DNP, DOI will utilize the following metrics to ensure success of implementation:
  - Percent of Conclusive matches researched.
  - Percent of Probable matches researched
  - Percent of Possible matches researched.
  - Percent of total disbursements subject to Data Analytics Services.
  - Percent of Improper Payments identified through Data Analytic Services recovered.

| Schedule of Spending<br>For Year Ended September 30, 2012<br>*(dollars in thousands)* | DOI | OS | BIA | BLM | BOR |
|---|---|---|---|---|---|
| **What Money is Available to Spend?** | | | | | |
| Total Resources | $ 30,670,312 | $ 7,441,092 | $ 4,141,618 | $ 3,214,672 | $ 3,822,653 |
| Less Amount Available But Not Agreed to be Spent | (6,409,667) | (1,131,493) | (686,075) | (1,010,278) | (1,292,632) |
| Less Amount Not Available to be Spent | (140,889) | (9,206) | (36,399) | (5,093) | - |
| **Total Amounts Agreed to be Spent** | $ 24,119,756 | $ 6,300,393 | $ 3,419,144 | $ 2,199,301 | $ 2,530,021 |
| **How was the Money Spent?** | | | | | |
| Personnel Compensation and Benefits | $ 6,718,092 | $ 540,321 | $ 675,836 | $ 1,014,146 | $ 619,652 |
| Contractual Services and Supplies | 9,200,855 | 2,504,599 | 1,748,198 | 789,418 | 1,374,599 |
| Acquisition of Assets | 1,083,582 | 34,193 | 144,198 | 105,772 | 273,814 |
| Grants and Fixed Charges | 6,874,821 | 3,161,985 | 896,193 | 366,028 | 446,352 |
| Other | 96,471 | 25 | 15,310 | - | - |
| Total Spending | $ 23,973,821 | $ 6,241,123 | $ 3,479,735 | $ 2,275,364 | $ 2,714,417 |
| Amounts Remaining to be Spent | 145,935 | 59,270 | (60,591) | (76,063) | (184,396) |
| **Total Amounts Agreed to be Spent** | $ 24,119,756 | $ 6,300,393 | $ 3,419,144 | $ 2,199,301 | $ 2,530,021 |
| **Who Did the Money Go To?** | | | | | |
| Federal Destinations | $ 3,414,395 | $ 675,159 | $ 352,703 | $ 578,189 | $ 819,801 |
| Non-Federal Destinations | 20,705,361 | 5,625,234 | 3,066,441 | 1,621,112 | 1,710,220 |
| **Total Amounts Agreed to be Spent** | $ 24,119,756 | $ 6,300,393 | $ 3,419,144 | $ 2,199,301 | $ 2,530,021 |
| **How Was the Money Issued?** | | | | | |
| Non-Financial Assistance Direct Payments | $ 7,072,849 | $ 565,922 | $ 701,701 | $ 1,075,685 | $ 622,029 |
| Contracts | 9,636,135 | 2,453,820 | 1,837,330 | 890,201 | 1,617,014 |
| Grants | 5,874,249 | 2,490,022 | 748,010 | 42,726 | 71,724 |
| Loans and Guarantees | 68 | - | 68 | - | - |
| Financial Assistance Direct Payments | 1,384,027 | 761,325 | 108,908 | 189,613 | 202,044 |
| Insurance | 37,660 | 28,631 | 7,207 | 503 | 757 |
| Interest and Dividends | 18,091 | 542 | 413 | 573 | 16,562 |
| Other Payment Types | 96,677 | 131 | 15,507 | - | (109) |
| **Total Amounts Agreed to be Spent** | $ 24,119,756 | $ 6,300,393 | $ 3,419,144 | $ 2,199,301 | $ 2,530,021 |

The Schedule of Spending (SOS) presents, at a high-level view, how and where the DOI is spending money. The data used to populate this schedule is the same underlying data used to populate the Statement of Budgetary Resources (SBR). The SOS presents total budgetary resources, gross outlays, and fiscal year to date total obligations for the DOI.

Although the basic premise of the SOS is complete, certain details are still being developed. Accordingly, the reporting of this information is included in the Other Accompanying Information to permit the DOI to explore the optimal means of presenting spending taxpayers' money. To further achieve this objective, the DOI will request public feedback on the Schedule. To provide feedback, please follow the instructions in the "We'd Like To Hear From You" section located on the last page of this report.

Comparative schedules are not required for FY 2012; however, this will be required starting in FY 2013.

| FWS | BOE | BSEE | NPS | OSM | USGS |
|---|---|---|---|---|---|
| $ 4,412,834 | $ 188,560 | $ 282,348 | $ 4,040,904 | $ 976,502 | $ 2,149,129 |
| (986,737) | (29,424) | (76,538) | (653,467) | (50,310) | (492,714) |
| (21,790) | (733) | - | (56,519) | (2,910) | (8,240) |
| $ 3,404,307 | $ 158,403 | $ 205,810 | $ 3,330,918 | $ 923,282 | $ 1,648,175 |
| | | | | | |
| $ 946,841 | $ 70,724 | $ 69,613 | $ 1,825,655 | $ 55,580 | $ 899,725 |
| 516,772 | 91,531 | 63,120 | 1,313,479 | 276,512 | 522,625 |
| 225,015 | 3,034 | 1,714 | 200,561 | 1,965 | 93,316 |
| 1,221,114 | 12,414 | 1 | 257,832 | 407,351 | 105,551 |
| 53,173 | - | 1,176 | - | - | 26,786 |
| $ 2,962,915 | $ 177,703 | $ 135,624 | $ 3,597,527 | $ 741,408 | $ 1,648,003 |
| 441,392 | (19,300) | 70,186 | (266,609) | 181,874 | 172 |
| $ 3,404,307 | $ 158,403 | $ 205,810 | $ 3,330,918 | $ 923,282 | $ 1,648,175 |
| | | | | | |
| $ 366,309 | $ 70,275 | $ 94,961 | $ 10,144 | $ 24,475 | $ 422,378 |
| 3,037,998 | 88,128 | 110,849 | 3,320,774 | 898,807 | 1,225,797 |
| $ 3,404,307 | $ 158,403 | $ 205,810 | $ 3,330,918 | $ 923,282 | $ 1,648,175 |
| | | | | | |
| $ 997,439 | $ 70,158 | $ 76,787 | $ 1,960,228 | $ 57,708 | $ 945,193 |
| 663,365 | 77,839 | 127,934 | 1,125,074 | 278,473 | 565,084 |
| 1,689,939 | - | - | 133,796 | 586,851 | 111,181 |
| - | - | - | - | - | - |
| - | 10,405 | (88) | 111,820 | - | - |
| 298 | 1 | 1 | - | 250 | 12 |
| - | - | - | - | - | - |
| 53,266 | - | 1,176 | - | - | 26,705 |
| $ 3,404,307 | $ 158,403 | $ 205,810 | $ 3,330,918 | $ 923,282 | $ 1,648,175 |

### *Asbestos-Related Cleanup Liability Reporting*

Technical Bulletin 2006-1, Recognition and Measurement of Asbestos-Related Cleanup Costs, requires federal agencies to recognize a liability and the related expense for asbestos-related cleanup costs for both friable and non-friable asbestos and to disclose the related information in the notes to the financial statements. Technical Bulletin 2009-1 deferred the effective date of Technical Bulletin 2006-1 to fiscal year 2012, and Technical Bulletin 2011-2 further deferred the implementation to fiscal year 2013.

In Technical Bulletin 2006-1, FASAB defines asbestos-related cleanup costs as the costs of removing, containing, and/or disposing of (1) asbestos-containing materials from property, or (2) material and/or property that consist of asbestos-containing material at permanent or temporary closure or shutdown of associated property, plant, and equipment. The DOI currently recognizes a liability and expense for cleanup costs associated with the removal of asbestos that pose an immediate health threat (i.e., friable asbestos). In FY 2013, the DOI will report a liability associated with cleanup costs for the future removal of asbestos from DOI assets that did not pose an immediate health threat (i.e., non-friable asbestos).

According to asset records, the DOI owns more than 162,000 real property assets. A majority of these assets are exempted from asbestos-related cleanup liability reporting due to the non-asbestos containing materials used in the assets. For the remaining non-exempt assets, the DOI chose a cost modeling approach as a cost-effective means to estimate the asbestos cleanup costs. The model is based on the DOI's existing asbestos surveys. The DOI's surveys show a higher cost of asbestos removal for assets built prior to 1980, and a lower cost of asbestos removal for assets built in 1980 and after. The DOI developed two cost factors accordingly. The cost factors will be applied to the inventory of non-exempt real property measured in square feet according to the year the asset was built. The average cost of surveys will be applied to those assets not measured in square feet to estimate their cleanup costs.

Most of the DOI's assets have been in service for a substantial portion of their estimated useful lives. The DOI will recognize a liability and an adjustment to Net Position for the total estimated asbestos cleanup costs upon implementation of Technical Bulletin 2006-1 in FY 2013.

### *Accounting for Federal Oil and Gas Resources*

In FY 2013, Statement of Federal Financial Accounting Standards (SFFAS) 38, Accounting for Federal Oil and Gas Resources, requires the value of the Federal Government's estimated petroleum royalties from the production of Federal oil and gas proved reserves to be reported in a schedule of estimated Federal oil and gas petroleum royalties. Another schedule of estimated Federal oil and gas petroleum royalties to be distributed to others will be required for the value of estimated petroleum royalty revenue designated for others. DOI will present these schedules, with accompanying narratives, in the FY 2013 AFR, as Required Supplementary Information.

# WE'D LIKE TO HEAR FROM YOU

We'd like to hear from you about our FY 2012 Agency Financial Report. Did we present information in a way you could use? What did you like best and least about our report? How can we improve our report in the future?

You can send written comments to:

U.S. Department of the Interior
Office of Financial Management
MS 2557-MIB
1849 C Street, NW
Washington, DC 20240
(202) 208-4701

Or, if you prefer, email your comments to ***PFM@ios.doi.gov.***

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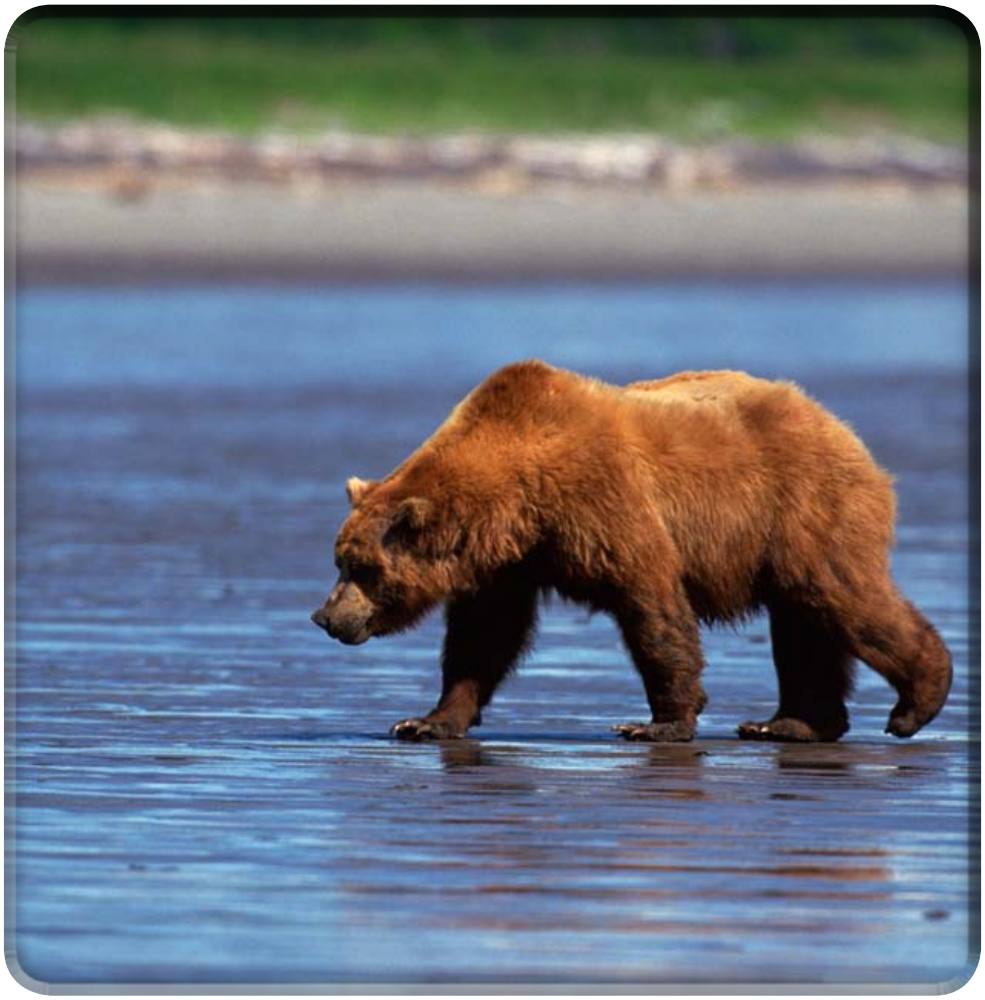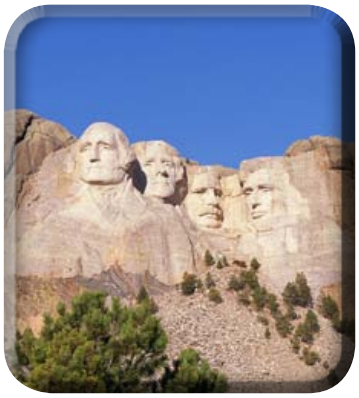
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