# CHAPTER 2. FINANCIAL PERFORMANCE MANAGEMENT

The Department is transitioning to a revised strategic plan for financial management, augmented by goals established in Phase 1 of the Financial Management Transformation Plan. Reviewing metrics, as a way of improving performance, has become a major focal point of the Transformation Plan. The Department distributes monthly reports to senior officials and managers and meets periodically with bureau management to discuss areas in which improvement is needed.

Currently, the Department has three strategic goals for the financial management program. These goals are: (1) ensure integrity in management functions; (2) provide efficient financial management operations; and (3) improve financial and performance reporting.

## *Strategic Goal 1 - Integrity:* *Strengthen the integrity of financial operations to ensure accuracy of financial data and management control over activities.*

### *Performance Measure - Audit Opinions*

Interior places a high priority on preparing reliable financial information. Accordingly, the Department publishes annual financial statements for the Department and each of the bureaus. Independent financial audits attest to the validity and reasonableness of the information disclosed in the financial statements and the accompanying notes and supplemental information to assure the Office of Management and Budget (OMB), Congress, and the public of the integrity of the Department's external reporting.

Each year, the financial statement auditors issue: (1) an opinion on the financial statements; (2) a report on internal controls; and (3) a report on compliance with laws and regulations including the Federal Financial Management Improvement Act. Auditors classify financial statement opinions in one of three categories: disclaimer, qualified, or unqualified (clean).

*Performance Goal:* The Department's goal is to achieve and maintain: (1) unqualified audit opinions on the financial statements included in the Department's Annual Performance and Accountability Report (PAR) as well as all financial statements prepared by Interior bureaus; (2) no material weaknesses in the report on internal controls; and (3) no disclosed instances of noncompliance in the report on compliance with laws and regulations.

*Performance Objectives:* By the end of FY 2003 and every year thereafter, obtain unqualified (clean) audit opinions on 100 percent of annual financial statements including all eight bureaus, the Departmental Offices, and the Department's consolidated statements. By the end of FY 2005, have no reportable conditions in the Internal Control and Compliance with Laws and Regulations opinions for all eight bureaus, the Departmental Offices, and the Department.

The Department and six bureaus and offices received unqualified audit opinions in FY 2002, two bureaus received qualified audit opinions, and no opinion was issued on the financial statements of the U.S. Geological Survey. The FY 2003 audited financial statement results were not available at the time this report was prepared. The results are expected to be issued by November 15, 2003, for all bureaus and offices. The Department's Chief Financial Officer elected to commit to this accelerated target date for completing the FY 2003 PAR in order to establish the necessary discipline to produce the PAR under the accelerated time frame, and to identify and provide ample time to address obstacles and problems associated with meeting this new OMB accelerated due date.

Audit Opinions

| | FY 01 Actual | FY 02 Actual | FY 03 Plan | FY 03 Actual | FY 04 Plan | FY 05 Plan |
|---|---|---|---|---|---|---|
| Unqualified opinions on financial statements | 8 of 10 | 7 of 10 | 10 of 10 | N/A | 10 of 10 | 10 of 10 |
| No. of exceptions in report on internal controls (departmentwide) | 1 | 1 | 4 | N/A | 2 | 0 |
| No. of exceptions in report on compliance with laws and regulations (departmentwide) | 1 | 1 | 2 | N/A | 1 | 0 |

### *Performance Measure - Timely Correction of Federal Manager's Financial Integrity Act (FMFIA) Material Weaknesses and Implementation of Office of Inspector General (OIG) and U.S. General Accounting Office (GAO) Audit Recommendations*

A number of FMFIA program material weaknesses have been identified in annual management control self-assessments of bureau and office programs, organizations, and functions. Corrective Action Plans (CAPs) are developed and implemented by the bureaus and offices, and the Department monitors corrective action progress on a quarterly basis to ensure that the CAPs are completed by the original targeted completion date. In addition, audit recommendations reported by the OIG and GAO are also monitored on a quarterly basis to ensure that implementation occurs in a timely manner.

*Performance Goal*: The Department's goal for FY 2003 was to complete at least 80 percent of the CAPs for FMFIA material weaknesses reported in bureau and office management control self-assessments by the original planned targeted completion date. In addition, the Department's FY 2003 goal for implementing OIG and GAO audit recommendations within one year of the date of referral to the Department for tracking of implementation was also 80 percent.

*Performance Objectives*: By the end of FY 2008, the Department intends to complete 100 percent of all material weaknesses CAPs by their original target date (compared to 80 percent actual expected to be achieved by the end of FY 2003). Additionally, the Department plans to implement 95 percent of all OIG and GAO audit recommendations within one year of referral to the Department for tracking of implementation (compared to 80 percent actual expected to be achieved by the end of FY 2003).

Based on actual progress through the end of the third fiscal quarter, and that expected by the end of FY 2003, the Department's goal of completing at least 80 percent of the CAPs for FMFIA material weaknesses by the original planned targeted completion date should be accomplished. A CAP completion rate of 100 percent is expected to be achieved. Only one material weakness CAP, the U.S. Fish and Wildlife Service Federal Aid Program, was targeted for completion in FY 2003. All but two corrective action milestones in the CAP have been completed, and the remaining action items are on target for completion on or before the end of the fiscal year.

Based on actual progress to date, and that expected by the end of FY 2003, the Department's goal for implementing at least 80 percent of OIG and GAO audit recommendations within one year of the date of referral to the Department for tracking should be accomplished. A composite implementation rate of 73 percent was achieved through the end of the fiscal third quarter, and an 82 percent composite implementation rate is projected to be achieved by the end of the fiscal year.

Completion of Material Weakness CAPs and Implementation of Audit Recommendations

| | **FY 01 Actual** | **FY 02 Actual** | **FY 03 Plan** | **FY 03 Estimate (as of 6/30/03)** | **FY 04 Plan** | **FY 05 Plan** |
|---|---|---|---|---|---|---|
| Implementation of audit recommendations | 63% | 88% | 80% | 82% | 85% | 90% |
| Completion of material weakness CAPs | 50% | 80% | 80% | 90% | 90% | 100% |

## *Strategic Goal 2 - Efficiency: Optimize financial management operations to increase customer satisfaction and decrease costs to the Department.*

### *Performance Measure - Prompt Pay*

The Prompt Payment Act requires that payments be made within 30 days of receipt of invoice; otherwise, the federal government is required to pay interest. Performance is measured by the number of payments without interest penalties to the total number of payments subject to the Act. Over the past several years, the number of payments subject to the Act has shown a steady decline. This decrease is primarily attributable to Interior's increased use of the governmentwide purchase charge card.

*Performance Goal:* The Department's goal is to pay 97 percent of its invoices without late payment interest penalties.

*Performance Objective:* By the end of the current fiscal year and every year thereafter, each bureau will maintain a percentage of 97 percent or better for payments not requiring interest penalties.

As of June 30, 2003, Interior's percentage of payments not requiring interest penalties was an estimated 97 percent, meeting the annual target. The Department expects this payment rate to continue as a result of using new technologies and best practices.

Prompt Pay

| | FY 01 Actual | FY 02 Actual | FY 03 Plan | FY 03 Estimate (as of 6/30/03) | FY 04 Plan | FY 05 Plan |
|---|---|---|---|---|---|---|
| Percent of payments not requiring interest penalties | 97.9% | 97.6% | 97.0% | 97.0% | 97% | 97% |

### *Performance Measure - Use of Electronic Funds Transfer (EFT)*

The Debt Collection Improvement Act of 1996 (DCIA) requires that all payments be made by EFT unless covered by waiver.

*Performance Goal:* The Department's goal is to use EFT, including charge cards, to the maximum extent possible except for those payments covered by waiver.

*Performance Objective:* By the end of the current fiscal year, the Department will process 98 percent of salary payments, 87 percent of vendor payments, 92 percent of miscellaneous payments by EFT, and 93 percent of purchases of $25,000 or less via a charge card.

To achieve the stated objectives, the Department has increased the use of the governmentwide purchase charge card, minimized the use of imprest funds and third party drafts, and required new vendors and employees to enroll for EFT payments. Also, the Department is investigating the use of the Central Contractor Registry (CCR) to facilitate vendor enrollment for EFT.

During FY 2003, in addition to the above, the Department actively supported the President's Management Agenda requirement to expand Electronic Government to include use of the CCR as the single validated source of data on vendors doing business with the government and to facilitate vendor enrollment for EFT. The Office of Acquisition and Property Management and the Office of Financial Management jointly issued a policy memorandum implementing the CCR requirement. Interior bureaus did a consistent and thorough job of advising vendors and prospective contractors of the governmentwide CCR registration requirement through a variety of media, e.g., Web site postings and links, fliers, notices in synopses, solicitations and contracts, outreach at trade fairs, and in Business and Economic Development counseling sessions with small businesses. The Interior Department Electronic Acquisition System (IDEAS) has interfaced with the CCR since 2001 and has been used by Interior acquisition and finance personnel as a source of a wide variety of vendor information, including product/service data, addresses, and payment information.

Electronic Funds Transfer

| | FY 01 Actual | FY 02 Actual | FY 03 Plan | FY 03 Estimate (as of 6/30/03) | FY 04 Plan | FY 05 Plan |
|---|---|---|---|---|---|---|
| Salary | 98.6% | 98.9% | 98.0% | 99.3% | 98.0% | 98.0% |
| Vendor | 80.6% | 84.9% | 80.0% | 87.8% | 90.0% | 90.0% |
| Miscellaneous | 92.8% | 92.0% | 92.0% | 93.5% | 92.0% | 92.0% |
| Charge Card ($25,000 or less) | 95.5% | 97.0% | 93.0% | 94.0% | 94.0% | 95.0% |

### Performance Measure - Referral of Eligible Debt

The Debt Collection Improvement Act of 1996 (DCIA) requires agencies to refer eligible 180-day delinquent debt to Treasury for cross-servicing and, if necessary, offset action.

*Performance Goal:* Refer all eligible 180-day delinquent debt to Treasury.

*Performance Objective:* By the end of the current fiscal year, the objective is to achieve a 93 percent referral rate. The Bureau of Indian Affairs, the Minerals Management Service, and the Fish and Wildlife Service are nearing completion of an intensive effort to improve its debt referral performance. This effort, when completed, will greatly improve the percentage of referral of eligible debt to Treasury's Financial Management Service. Interior has worked with Treasury and the bureaus to increase referrals to Treasury. At present, it is uncertain whether the goal will be met for FY 2003 but the Department is working hard to accomplish the goal and efforts will continue until it is accomplished.

Referral of Eligible Debt

| | FY 01 Actual | FY 02 Actual | FY 03 Plan | FY 03 Estimate (as of 6/30/03) | FY 04 Plan | FY 05 Plan |
|---|---|---|---|---|---|---|
| Percent of eligible debt referred to Treasury * | 97% | 83% | 93% | 75% | 94% | 95% |

* Eligible debt excludes amounts in litigation and amounts currently being considered by the agency for compromise. There is a pending issue regarding certain debts of the Minerals Management Service that are included in the FY 2003 performance data above that adversely impacts the overall performance percentage for the Department. We are working with Treasury and the MMS to determine the correct computation of the amount eligible for referral.

### Performance Measure - Reduce SmartPay Program Employee Delinquent Accounts

The Department seeks to reduce the number of charge cards that are delinquent for 60 days or more to one percent, exclusive of former employees, by FY 2005.

*Performance Goal:* The Department's goal is to reduce the amount of 60 days and older delinquent charge card accounts to below the commercial level of the total outstanding balance, exclusive of former employees.

*Performance Objective:* As of July 19, 2003, Interior's percentage of delinquent charge card accounts decreased from 4.80 percent to 3.85 percent since September 30, 2002. By the end of the FY 2005, the Department expects to achieve a level of two percent of the total outstanding balance and continue at that level for each year thereafter.

SmartPay Delinquent Accounts

| | FY 01 Actual | FY 02 Actual | FY 03 Plan | FY 03 Estimate (as of 6/30/03) | FY 04 Plan | FY 05 Plan |
|---|---|---|---|---|---|---|
| Percent of SmartPay Program Employee Delinquent Accounts (60 days or older) | 4.6% | 4.1% | 2.0% | 2.5% | 2.0% | 1.0% |

## *Performance Measure - Reduce Erroneous Payments*

OMB Circular A-11 defines "erroneous payments" as payments that should not have been made or were made for an incorrect amount. Interior makes financial assistance payments under a variety of programs and to vendors for goods and services. To better assess the Department's performance in the area of erroneous payments, Interior has established a goal for payments made to external parties associated with Interior's financial assistance programs and to establish pre-audit and post-audit programs related to employee or vendor payments to better monitor these activities.

*Performance Goal:* The Department's goal is to have no erroneous payments.

*Performance Objective:* The annual target is to maintain adequate controls over federal assistance payment processes to ensure that any erroneous payments are below .06 percent of the program as measured by audit disallowances and that 60 percent of the disallowances are returned to the government. To further enhance the program, the Department will expand pre-audit and post-audit programs by establishing additional programs to cover vendor payments (recovery auditing). These additional programs will be phased-in beginning in the last quarter of FY 2003 and will cover all government bills-of-lading. Plans are also being established to comply with the Improper Payments Information Act of 2002 (P.L. 107-300). An internal work group has been created to coordinate and satisfy the requirements of this legislation. A report from this group will be included in the FY 2004 Performance and Accountability Report.

Erroneous Payments

| | FY 01 Actual | FY 02 Actual | FY 03 Plan | FY 03 Estimate (as of 6/30/03) | FY 04 Plan | FY 05 Plan |
|---|---|---|---|---|---|---|
| Federal Assistance – Percent of Audit Disallowances | .02% | .03% | .06% | .058% | .06% | .06% |
| Federal Assistance – Percent of Disallowances Returned to Government | 13% | 35% | 45% | 45% | 60% | 60% |
| Number of Pre-Audit Programs | 1 | 1 | 2 | 2 | 2 | 2 |
| Number of Post-Audit Programs | 0 | 0 | 1 | 0 | 1 | 1 |

## *Strategic Goal 3 - Reporting: Improve financial and performance reporting to better support management decisions at all levels and to ensure compliance with the Government Management Reform Act and the Government Performance and Results Act (GPRA).*

### Performance Measure - Combining financial statement information with performance data

Combining annual financial and performance reports provides a more accurate overview of financial operations and program results. Performance information is necessary to comply with GPRA requirements and is critical to supporting management decisions. Combining cost data with performance data further enhances the reporting of information to managers.

*Performance Goal:* The Department's objective is to increase the reporting of performance information in Interior's Accountability Report and in bureau-level reports, improve the reporting of cost information in the Performance and Accountability Report, and increase cost information related to GPRA goals.

*Performance Objective:* Beginning in FY 2001, the Department reported 100 percent of the high-level annual performance measures in the Accountability Report and reported costs for 100 percent of GPRA program activities. In FY 2002, the Department consolidated the Annual Performance Report with the Annual Accountability Report and reported costs for 100 percent of the GPRA program activities. This reporting format will continue in FY 2003 and future years.

Combining Financial Statements with Performance Data

| | FY 01 Actual | FY 02 Actual | FY 03 Plan | FY 03 Estimate (as of 6/30/03) | FY 04 Plan | FY 05 Plan |
|---|---|---|---|---|---|---|
| Ratio of selected, high-level annual performance measures reported in the Accountability Report | 100% | 100% | 100% | 100% | 100% | 100% |
| Percent of GPRA Program Activity performance measures in the Accountability Report | N/A | 100% | 100% | 100% | 100% | 100% |

## Performance Measure - Interim financial statements and performance reports

The Department intends to complete a three day close for all bureaus and a five day close for the Department as well as improve the availability of financial and budget information to Interior management.

*Performance Goal:* The Department's goal is to produce monthly financial statements and reports on performance data during the year.

*Performance Objective:* By the end of the current fiscal year and each year thereafter, produce monthly financial statements, including the Statement of Budgetary Resources, for each bureau and the Department using the Consolidated Financial Statement application.

Interim Financial Statements with Performance Data

| | FY 01 Actual | FY 02 Actual | FY 03 Plan | FY 03 Estimate (as of 6/30/03) | FY 04 Plan * | FY 05 Plan * |
|---|---|---|---|---|---|---|
| Number of interim financial statements | 1 | 1 | 1 | 5 | 11 | 11 |
| Number of interim reports on performance data | 0 | 1 | 0 | 0 | 11 | 11 |

* The Department intends to produce monthly statements and reports in FY 2004 and FY 2005.