SUPPLEMENTAL INFORMATION

MANAGEMENT INTEGRITY AND ACCOUNTABILITY

The Department believes that by maintaining integrity and accountability in all programs and operations, it can promote good government, responsible leadership, sound management in the delivery of services to customers, and achieve desired program outcomes. As a result, the Department has developed and implemented management, administrative, and financial system controls which reasonably ensure that:

- programs and operations achieve their intended results efficiently and effectively;
- resources are used in accordance with the Department's mission;
- programs and resources are protected from waste, fraud, and mismanagement;
- laws and regulations are followed; and
- reliable, complete, and timely data are maintained and used for decision-making at all levels.

Federal Managers' Financial Integrity Act

Since the inception of the Federal Managers' Financial Integrity Act (FMFIA) in 1982, the Department has continually evaluated the effectiveness of management controls in its programs, organizations and functions in accordance with guidelines provided by the Office of Management and Budget (OMB). Since 1982, the Department has identified and reported 159 material weaknesses and 64 accounting system non-conformances. At the end of 1996, the Department had corrected 144 of the material weaknesses (90.6 percent) and 63 accounting system non-conformances (98.4 percent). Much of the progress in these areas was achieved over the last four years. As noted in Figures 33 and 34, since 1992 the Department has reduced the total number of reported material weaknesses by 64 percent (from 42 to 15) and accounting system non-conformances by 93 percent (from 16 to 1).

ANNUAL ASSURANCE STATEMENT
FISCAL YEAR 1996

Based upon the results of its annual assessment process, with the exception of the Office of the Special Trustee and certain administrative program areas within the Bureau of Indian Affairs, the Department can provide reasonable assurance that its systems of management, accounting and administrative control, taken as a whole, achieve the objectives of Section 2 of the FMFIA. The Department can also provide reasonable assurance that its accounting and financial systems generally conform to the Comptroller Generals's principles, standards and related requirements and achieve the objectives of Section 4 of the FMFIA.

Secretary of the Interior

Figure 33

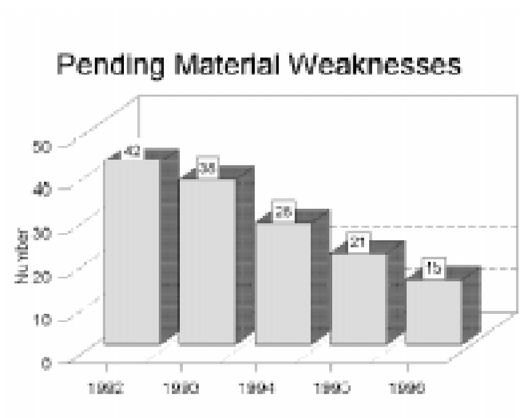
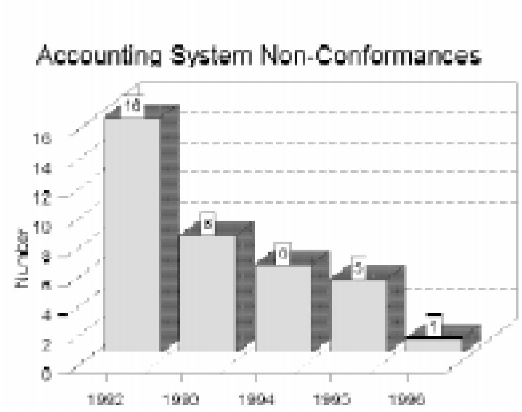


Figure 34



This progress in correcting material weaknesses and accounting system non-conformances exemplifies the Department's strong commitment to improving integrity and accountability in all programs, organizations and functions. Similarly, over the last four years, the Department has made great strides in strengthening and streamlining its management control program. The initiatives and innovations in this program area supported the recommendations in the National Performance Review, and the June 1995 revision to OMB Circular A-123, Management Accountability and Control. Some of the more significant initiatives included:

- providing bureaus with greater flexibility and discretion in planning, conducting and reporting the results of management control reviews;
- reducing the number of Department mandated control reviews by 67 percent;
- decreasing the frequency of periodic corrective action status reporting;
- expanding the membership of the Departmental Management Control Audit Follow-up Council (MCAF) to provide a more "Departmental perspective" to Council deliberations and decisions;
- revising the Department's material weakness criteria; and
- developing and implementing a Material Weakness Corrective Action Project Management Training Program.

The cumulative effect of these initiatives has been a 50 percent reduction in burden and improved efficiency and effectiveness in administering bureau and office management control programs.

In March 1996, the Department initiated a Management Control Reengineering Lab to identify new, innovative, and less resource-intensive methods for assessing and reporting on the effectiveness of its management controls. The Lab recommended the adoption of a new management control program model supported by a contemporary, fully-automated approach for either targeting or conducting and reporting the results of management control assessments. The approach is built around eight management integrity measures that are based on the management control standards prescribed in OMB Circular A-123. A unique feature of this new approach is that it provides for the identification of areas of both potential material deficiencies and best practices. The approach utilizes a comprehensive questionnaire developed in the Lab and refined by a customer focus group, the Department's E-Mail network, and a state-of-the-art surveying and analytical software tool. Most importantly, this new approach has a significant potential for resource savings, and provides much improved diagnostic and executive-level reports. The approach is being pilot tested in several bureaus during 1997. Pending the outcome of the pilot testing, the new approach could be the cornerstone of the Department's reengineered Management Control Program beginning in 1998.

Results of the 1996 Management Control Program

The Department conducted an annual assessment of the effectiveness of its management, administrative and accounting systems controls in accordance with the

Figure 35

Corrected Material Weaknesses and Non-conformances (NC)

Title of Material Weakness/Non-conformance	Bureau	Date Originally Reported
Inadequate Hazardous Materials Management	PEP	FY 1991
Inadequate Internal Control Systems Within the Insular Governments	OIA	FY 1988
Inadequate Personal Property Management	BIA	FY 1991
Ineffective Controls in Housing Improvement Program	BIA	FY 1992
Inadequate Protection and Controls Over Certain Historic Properties and Park Archaeology	NPS	FY 1990
Lack of Compliance With Chief Financial Officers Act	NPS	FY 1994
Property Accounting - Capitalization, Depreciation, and Reconciliation (NC)	BLM	FY 1992
Inefficiencies in FFS Operations (NC)	BOR	FY 1991
Failure to Integrate Systems (NC)	USGS	FY 1992
Property Accounting (NC)	FWS	FY 1993

Figure 36

Mission Critical Material Weaknesses		
Title of Material Weakness	**Bureau**	**Targeted Correction Date**
Inadequate Management of Trust Funds	OST	TBD
Inadequate Records Management	BIA	FY 2000
Failure to Provide Effective Oversight of the Trans-Alaska Pipeline System	BLM	FY 1998
Inadequate Range Monitoring	BLM	FY 1998
Failure to Effectively Inspect and Enforce Fluids Minerals	BLM	FY 1997
Lack of Accountability and Control Over Artwork and Artifacts	PAM	FY 1999
Irrigation of Ineligible Land	BOR	FY 1999

FMFIA and guidelines established by OMB. The Department conducted internal reviews and evaluations of controls in 91 programs and administrative functions. The Department also relied upon the results of the independent bureau financial statement audits conducted by the Office of Inspector General under the auspices of the Chief Financial Officers (CFO) Act of 1990 and the Government Management Reform Act of 1994 during the assessment process. The Department's MCAF Council reviewed and analyzed the results of the 1996 assessment process and concluded that no new material weaknesses were identified.

During 1996, the Department completed corrective actions on 6 of 21 (29 percent) material weakness and 4 of 5 (80 percent) accounting system non-conformances carried forward from 1995. The material weaknesses and accounting system non-conformances corrected are listed in Figure 35.

OMB's 1996 FMFIA Annual Report guidance requested each agency to denote and report on the most critical material weaknesses affecting the agency. In response to this reporting requirement, the Department has identified 7 of its 15 pending material weaknesses as "mission critical weaknesses" **--** those material weaknesses that prevent the Department from fulfilling a programmatic mission or strategic goal, and that warrant senior management focus and attention and resource priorities throughout the corrective action process.

Collectively, these weaknesses could adversely impact

Figure 37

Pending Material Weaknesses and Non-conformance		
Title of Material Weakness/Non-conformance	**Bureau**	**Targeted Correction Date**
Inadequate Management of Trust Funds	OST	TBD
Deficiencies in Real Property Management	BIA	FY 2003
Inadequate Debt Collection	BIA	FY 2003
Inadequate Acquisition Management Program	BIA	FY 1998
Irrigation Operations and Maintenance	BIA	FY 1998
Inadequate Records Management	BIA	FY 2000
Failure to Provide Effective Oversight of Trans-Alaska Pipeline System	BLM	FY 1998
Inadequate Range Monitoring	BLM	FY 1998
Failure to Effectively Inspect and Enforce Fluids Minerals	BLM	FY 1997
Inadequate Policies & Procedures for Recovery of Oper & Maintenance Program Expenses	BOR	FY 1997
Irrigation of Ineligible Land	BOR	FY 1999
Deficiencies in Administration of Miscellaneous Revenues	BOR	FY 1998
Lack of Accountability and Control Over Artwork and Artifacts	PAM	FY 1999
Incomplete/Inaccurate Data in the Interior Procurement Data System	PAM	FY 1997
BIA Facilities Program	PCM	FY 1999
Property Accounting - non-conformance	NPS	FY 1997

Figure 38

LINKING FY 1996 REPORTABLE CONDITIONS FROM AUDITED FINANCIAL STATEMENTS TO REPORTED MATERIAL WEAKNESSES

Bureau	Audited Financial Statements Reportable Condition	Linked to Existing Material Weakness	Title of Material Weakness
BLM	Weak internal controls for real property resulted in the bureau not maintaining records for its real property subsidiary system on a regular or periodic basis. Differences in the amounts reported in the real property system and in the general ledger had not been reconciled.	No	
OSM	NONE		
MMS	NONE		
PIA	NONE		
OS	NONE		
FWS	Weak internal controls allowed the construction costs of some buildings and structures to be included simultaneously in the CIP general ledger account and in the buildings or the structures general account.	No	
NPS	1. Internal controls insufficient to ensure that (a) property and equip't subsidiary ledgers will be maintained in agreement with related gen'l control acct; (b) delinquent A/R will be collected in a timely manner; (c) completed projects in the CIP account will be timely & appropriately transferred to the buildings and other structures & facilities accts; (d) effective and periodic financial info integrity reviews will be made of the financial info contained in the G/L control accts and related subsidiary ledgers, listings, and reconciliations. 2. NPS had not established an adequate process to allow it to obtain, in a timely manner, reliable info. on the number of the special concession accounts and their balances or on the financial activities in these accts.		
USGS	1. Internal controls insufficient to ensure that (a) amts. reported in G/L accts. for Advances from Others, A/R Unbilled, and A/P were properly supported by subsidiary ledgers; (b) costs related to Federal-State Cooperative Projects were reported accurately; (c) delinquent A/R were collected in a timely manner; (d) monies were disbursed from the investment plan, a unit of the Working Capital Fund, in accordance with established policies; and (e) Biological Resources Division property was accounted for and reported correctly. 2. Two prior IG reports with significant recommendations remain unimplemented regarding (a) FFS sytem integrity weaknesses and (b) cost accounting of projects under the Fed-State Cooperative Program.	No	
BOR	1. Noncompliance with provisions of P.L. 87-483 that authorized the construction of the Navajo Indian irrigation project for BIA. 2. Six prior IG reports with unresolved and unimplemented recommendations affect BOR's internal control structure and compliance with laws and regulations.	No	
BIA	1. Inadequate internal control system in accounting for buildings, other structures, and facilities, equipment, land, and construction in progress. 2. Ineffective controls over automated subsidiary information systems at BIA's Operations Service Center. 3. Lack of timely collection of accounts and loans receivable was not in compliance with the Debt Collection Act of 1982.	Yes. Condition Three	Inadequate Debt Collection
OTFM	1. Lack of accounts receivable system (GAO 1994 audit finding unresolved). 2. Ownership records not timely updated.	Yes	Inadequate mgmt of Trust funds correction date TBD

the safety of employees and other citizens, damage the environment, prevent the collection and distribution of royalties and other funds owed to the Government and Native Americans, and preclude the identification, collection, and preservation of irreplaceable historical art and artifacts. The seven mission critical weaknesses for the Department are listed in Figure 36.

The Department recognizes the importance of correcting these mission critical weaknesses in a timely manner. Corrective action plans with key milestones, target dates, and accountable officials have been established and corrective action progress will be continuously monitored by officials in each cognizant bureau or office. In addition, a semi-annual progress review meeting will be held with the staff of the cognizant bureaus, the Office of the Inspector General, and the Department's CFO.

Figure 37 presents all of the 15 remaining material weaknesses and one accounting system non-conformance carried forward to 1997.

The 1996 bureau audited financial statement process resulted in the identification of several "reportable conditions" in internal controls. Figure 38 presents the linkage of these reportable conditions with the 15 pending material weaknesses being carried forward to 1997.

Summary of Management Controls - Section 2 of the FMFIA

Progress in correcting material weaknesses and material non-conformances is summarized in Figures 39 and 40.

Figure 39

Number of Material Weaknesses			
Period Reported	Reported	Corrected	Pending
Prior Years	155	142	13
1994	3	2	1
1995	1	0	1
1996	0	0	0
Total	159	144	15

Summary of Financial Management Systems - Section 4 of the FMFIA

While the Department can provide assurance that its financial systems generally conform to governmentwide standards, it is aggressively pursuing initiatives to ensure that:

Figure 40

Number of Material Non-conformances			
Period Reported	Reported	Corrected	Pending
Prior Years	62	61	1
1994	2	2	0
1995	0	0	0
1996	0	0	0
Total	64	63	1

- all financial systems are linked electronically,
- the migration to a single, primary accounting system is achieved; and
- the data integrity and consistency are provided for in all financial system components.

AUDIT FOLLOW-UP

The Department's follow-up actions on audit recommendations are essential to improving efficiency and effectiveness in its programs and operations. The Department's audit follow-up program workload for 1996 was substantial, including 721 single audits, 45 internal audits, and 68 GAO audits. During 1996, the Department made significant progress in reaching management decisions on open audit recommendations, implementing audit recommendations and closing audits, and collecting disallowed costs.

Single Audits: The Department provides over $1 billion each year in funding for grants, cooperative agreements, Indian Self-Determination contracts, and Self Governance Compacts to State and local governments, Indian Tribes, colleges and universities and other non-profit organizations. Under the provisions of the Single Audit Act, the grantees' financial operations, management control structure, and level of compliance with applicable laws and regulations must be audited each year. During 1996, 721 single audits were conducted of Department grantees. Figure 41 presents the distribution of single audits by bureau over the last several years. As noted, the Bureau of Indian Affairs grantees accounted for over 60 percent (433 of 721) of the single audit reports received in 1996.

Single audit reports are forwarded to the Office of Inspector General (OIG) for review and where necessary, the audit reports are forwarded to the bureaus working with the grantees to resolve deficiencies

Figure 41

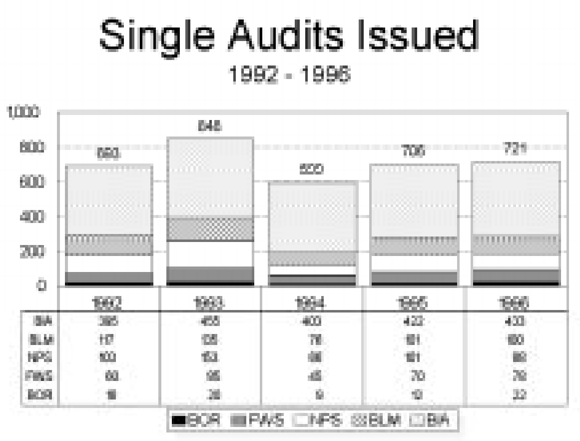
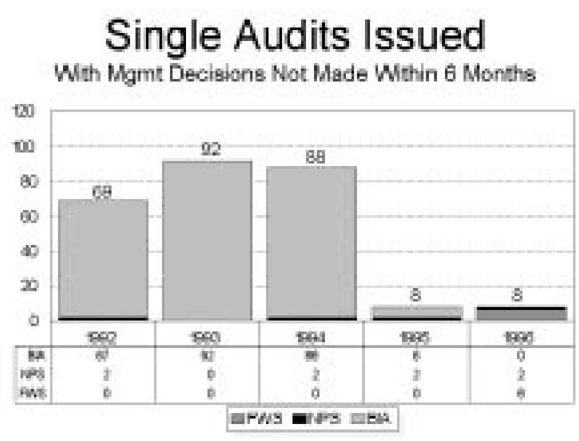


Figure 42



identified in the audit reports, and to determine the allowability of any expenditure of Federal funds which have been questioned by the auditor.

Reaching Timely Management Decisions on Single Audits: Single audit management decisions are expected to be agreed to within six months from receipt of the audit report. If an audit results in disallowed costs, bureaus are responsible for collecting the disallowed costs from the grantees. Figure 42 presents the marked improvement since 1992 in reaching timely management decisions on single audits -- with only eight of the 1996 single audits in the category of "with management decisions not made within six months" -- or about one percent of single audit reports received in 1996.

Collecting and Offsetting Disallowed Costs in Single Audits: The Department made good progress in collecting and closing audits with disallowed costs during 1996. At the beginning of the year, there were 39 pending audits with $6.9 million in disallowed costs. An additional 23 audit reports with $348 thousand in disallowed costs were received during the year. By the end of 1996, 32 audits were closed (52 percent) and $1.4 million in disallowed costs were collected (19 percent). Figure 43 provides a summary of audits with disallowed costs.

Internal Audits: Internal audits are audits conducted by the Office of Inspector General (OIG) of the programs, organizations, financial and administrative operations of the Department. Since 1992, the number of internal audits performed by the OIG has declined slightly from 48 to 43. However, due to the significant efforts the bureaus have directed at the audit of bureau financial statements, and the Department's consolidated financial statements, the effectiveness of the internal audit program is reflected in the overall improvement in the number of material weaknesses and accounting system non-conformances existing within the Department.

One category of internal audits are those audits where the OIG presents recommendations where funds can be put to better use (FBU audits). During 1996, the Department made significant progress in implementing recommendations and closing FBU audits. Of the 78 FBU audits carried forward from 1995, or added during 1996, a total of 31 audits (40 percent) were closed. The audits closed involved $8.5 million of FBU funds, or 13 percent of total pending audits with FBU funds (see Figure 43).

Reaching Timely Management Decisions on Internal Audits: Since 1992, the Department has made steady progress in reducing the number of pending internal audits with unimplemented recommendations greater than one-year old. Audits in this category have declined by approximately 60 percent (15 to 6 audits) during that period. Those audits still pending involve recommendations with long-term and multi-faceted corrective actions, or require statutory changes. While the Department is pleased with this progress, it views the percentage of internal audits in this category to total pending internal audits at the end of the period as excessive (19 percent). The Department and the OIG will be focusing efforts during the coming year to reduce this percentage to a more acceptable level.

Promptly Responding to General Accounting Office Audit Recommendations: General Accounting Office (GAO) audits are a major component of the

Figure 43

SUMMARY OF AUDIT WORKLOADS FOR AUDITS WITH DISALLOWED COSTS AND FUNDS TO BE PUT TO BETTER USE FY 1996						
	Disallowed Costs		Internal Costs		Total	
	Reports	Dollar Value	Reports	Dollar Value	Reports	Dollar Value
Beg Balance @10/01/95	39	$6,876,725	60	$63,860,142	99	$70,736,867
New Audits	23	$348,197	18	3,149,000	41	$3,497,197
Total Workload	62	$7,224,922	78	$67,009,142	140	$74,234,064
Audits Closed	<32>	<$1,348,184>	<31>	<$8,505,506>	<63>	<$9,853,690>
Closure Rate	52%	19%	40%	13%	45%	13%
End Balance @9/30/96	30	$5,876,738	47	$58,503,636	77	$64,380,374

Department's audit followup program workload. During 1996, 68 GAO audits were initiated with the Department and resulted in 37 final audit reports. The final reports contained 17 recommendations of which 16 (or 94 percent) were implemented by the end of 1996. The remaining recommendation involves actions that appear to be cost prohibitive and the recommendation is being re-evaluated by the Department. Figure 44 shows the GAO audit followup activity by major subject area for 1996.

Figure 44

Summary of 1996 GAO Audit Activity					
	Reviews Initiated	Reports Issued	Number of Recommendations	Number of Recommendations Implemented	Number of Reports without Recommendations
Natural Resources	36	20	14	13	10
Science	2	3	1	1	1
Indian Affairs	4	1	-	-	-
Insular Affairs	-	-	-	-	-
Departmental Management	26	13	2	2	8
Total	68	37	17	16	20

ASSET AND DEBT MANAGEMENT

Civil Monetary Penalties

In 1996, Civil Monetary Penalties were assessed in the amount of $1.3 million. During the same period, $1.5 million was actually collected. Civil Monetary Penalties are assessed as a result of enforcement actions of the Office of Surface Mining, the Bureau of Land Management, the Minerals Management Service, and the Fish and Wildlife Service. Figure 45 shows civil monetary assessments and collections for 1994 - 1996.

Debt Collection

The prevention and reduction of delinquent debt due from the public is a major goal of the Department. In an effort to meet its debt collection goals, the Department has implemented several debt management initiatives that are intended to control and manage debt due from the public and ensure that future delinquencies are held to a minimum. The Department's policies are designed to (1) provide sufficient and accurate management information, (2) help bureaus become more effective in their debt collection efforts, and (3) initiate appropriate litigation as necessary. With the policies and guidelines now implemented, the Department expects a greater rate of collection and a lower percentage of delinquencies in the years ahead.

In 1996, approximately $184.3 million (63 percent) of the Department's $293.2 million accounts receivables due from the public were delinquent. The allowance for doubtful accounts is approximately $87 million (30 percent). The nature of this debt, comprising fines and penalties, has a historically high rate of write-offs. Figure 46

Figure 45

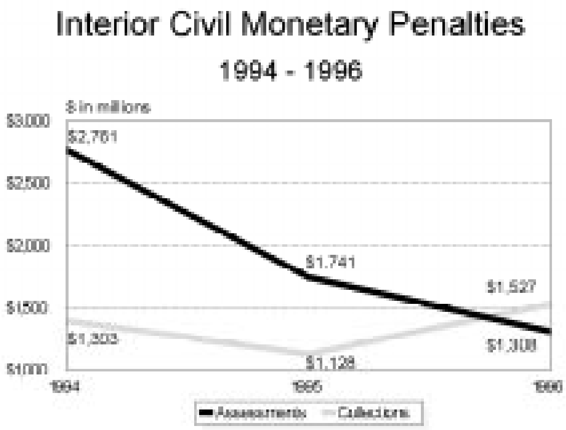
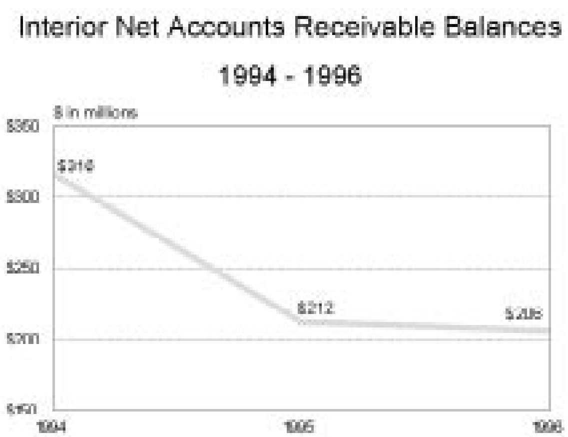


Figure 46



shows the Department's accounts receivable balances (net of allowance for doubtful accounts) due from the public for 1994-1996.

The Department is an active participant in the Internal Revenue Service's taxpayer refund offset program. In 1996, the program collected over $88 thousand. Over $1.2 million has been collected since the inception of the program. In 1996, the Department began negotiations with the Department of the Treasury to participate in a pilot program using the Treasury's Offset Program (TOP). As a result, we anticipate that the names of over 2,500 debtors will be matched against Treasury's payments. Additionally, the Office of Surface Mining Reclamation and Enforcement, and the Bureau of Indian Affairs are using Treasury's cross-servicing collections service. Under the provisions of the Debt Collection Improvement Act of 1996, we expect to have all bureaus and offices transferring delinquent debt over 180 days past due to the Treasury Department.

Prompt Payment Act

The Department of the Interior's percentage of on-time payments decreased from 74 percent in 1995 to 72.8 percent in 1996. This decrease is largely attributable to the Federal Government shutdown that resulted from the 1996 budget impasse. It should be noted that while the on-time payment percentage deteriorated in 1996, the dollar amount of late payment interest penalties decreased by 7 percent and the number of late payments with interest penalties decreased by 25 percent.

Over the past several years, the number of payments subject to the Prompt Payment Act has shown a steady decline. This decrease is attributable to the Department's increased use of the government-wide purchase card. Figures 47 and 48 show selected prompt pay statistics for 1994 to 1996.

In 1997, the Department plans to restructure its reporting and monitoring of prompt pay performance to achieve a higher percentage of on-time payments and hold late payment interest penalties to a minimum. Additionally, systems enhancements and other mechanisms will be explored to improve the Department's on-time payment performance.

Figure 47

Timeliness of Vendor Payments			
	Percent of Payments		
	1996	1995	1994
Total	100.0%	100.0%	100.0%
On time	72.8%	74.0%	74.0%
Early	0.8%	0.4%	0.8%
Late	26.4%	25.6%	25.2%
Interest penalty paid	(9.8%)	(9.5%)	(6.5%)
Interest not due *	(15.9%)	(15.4%)	(18%)
Interest due but not paid	(0.7%)	(0.7%)	(0.7%)

* Interest was not due because interest was less than $1

Figure 48

Selected Prompt Pay Data	1996	1995	1994
Invoices paid:			
Dollar amount	$1,874 million	$2,022 million	$2,120 million
Number	612,061	846,880	883,704
Interest Penalties:			
Dollar amount	$1.4 million	$1.5 million	$.9 million
Number	60,422	80,357	57,569
Interest Penalties as a Percentage of Invoices Paid:			
Dollar amount	0.075%	0.074%	0.042%
Number	9.8%	9.5%	6.5%

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