UNITED STATES DEPARTMENT OF THE INTERIOR

Agency Financial Report FY 2011

U.S. DEPARTMENT OF THE INTERIOR

FISCAL YEAR 2011

AGENCY FINANCIAL REPORT

November 15, 2011

AFR	Agency Financial Report
AGO	America's Great Outdoors
AML	Abandoned Mine Land
APD	Application for Permit to Drill
ARRA	American Reinvestment and Recovery Act of 2009
ASG	American Samoa Government
AYP	Adequate Yearly Progress
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
C&A	Certification and Accreditation
CAM	Compliance Asset Management
CEAR	Certificate of Excellence in Accountability Reporting
CFO	Chief Financial Officer
COTS	Commercial Off-the-Shelf Software
CIP	Construction in Progress
CR	Continuing Resolution
CSRS	Civil Service Retirement System
DCIA	Debt Collection Improvement Act
DGoMB	Deep Gulf of Mexico Benthos
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
ERAC	Executive Radio Advisory Committee
FACTS II	Federal Agencies Centralized Trial Balance System II
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
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
GMRA	Government Management Reform Act
GPRA	Government Performance and Results Act
GSA	General Services Administration
HHS	Department of Health and Human Services
HPF	Historic Preservation Fund
HVAC	Heating, Ventilation and Air Conditioning

IA	Indian Affairs
IIM	Individual Indian Monies
IT	Information Technology
KPI	Key Performance Indicator
LCRBD	Lower Colorado River Basin Development Fund
LCRBF	Lower Colorado River Basin Fund
LWCF	Land and Water Conservation Fund
M&I	Municipal and Industrial
MD&A	Management's Discussion and Analysis
MMS	Minerals Management Service
MRM	Minerals Revenue Management
NAWCF	North American Wetlands Conservation Fund
NBC	National Business Center
NHPA	National Historic Preservation Act of 1966
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
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
OWFC	Office of Wildland Fire Coordination
PFM	Office of Financial Management
PI/LSI	Possessory Interest or Leasehold Surrender Interest
PMO	Project Management Office
POA&M	Plan of Actions and Milestones
PPA	Prompt Payment Act of 2002
PP&E	Property, Plant, and Equipment
RIK	Royalty-in-Kind
SAA	Single Audit Act of 1996
SBR	Statement of Budgetary Resources
SFFAS	Statement of Federal Financial Accounting Standard
SMCRA	Surface Mining Control and Reclamation Act
SNPLMF	Southern Nevada Public Land Management Fund
SOL	The Office of the Solicitor
SPFI	Summary of Performance and Financial Information
SPR	Strategic Petroleum Reserve
USFS	U.S. Forest Service
USGS	U.S. Geological Survey
USSGL	U.S. Standard General Ledger
USPP	United States Park Police
WMD	Wetland Management District
WUI	Wildland Urban Interface

I am pleased to submit the U.S. Department of the Interior's Agency Financial Report (AFR) for Fiscal Year 2011. This report presents management, performance, and financial information that demonstrates our commitment to stewardship of America's resources, and transparent and accountable management of the Department's diverse portfolio of programs.

I am particularly proud to report the Department's 15th consecutive unqualified audit opinion, a reflection of our effective management, which is critically important to achieving our strategic goals. The Department's accomplishments are framed by the 2011-2016 Strategic Plan and five mission areas, which highlight 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 honor commitments to Insular Areas including expansion of programs to improve the safety of Indian communities;
- Providing a scientific foundation for decision making including scientific integrity; and
- Building a 21st Century Department of the Interior.

As reflected in these goals, the Department's relevance is substantial. Measured in economic terms the Interior Department supports over $363 billion in economic activity each year. Parks, refuges, monuments and other Interior managed lands supported some 439 million visits, that produced over 388,000 jobs and contributed over $47 billion in economic activity. Conventional and renewable energy produced on Federal lands supported 1.3 million jobs and $246 billion in economic activity. The use of water, timber, and other resources produced from Federal lands supported about 370,000 jobs and $48 billion in economic activity. Grants and payments for projects ranging from the reclaiming of abandoned mines to building coastal infrastructure supported over 114,000 jobs and $10.2 billion worth of economic contributions. Funding that contributed about $1.2 billion in economic output, also supported tribal governments and provided an important mechanism to advance nation-to-nation relationships, improve Indian education, and improve the safety of Indian communities.

Fiscal Year 2011 has been a year of accomplishment relative to our strategic goals. The America's Great Outdoors (AGO) initiative has provided the context for our efforts to improve the alignment and effectiveness of our spending on conservation, accelerated collaboration with other agencies, and expanded partnerships with other Federal agencies and non-governmental entities. In 2011, our partnerships with Conservation Corps and Student Youth Associations engaged 30,000 young people in programs in all 50 States providing 21 million hours of work with an economic value of $448 million.

In 2011, Interior 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. Effective October 1, 2011, we have established two new, independent bureaus, the Bureau of Ocean Energy Management and the Bureau of Safety and Environmental Enforcement. Along with the creation of the Office of Natural Resources Revenue on October 1, 2010, this completes the reorganization first announced in a May 19, 2010 Secretarial Order to reorganize the Minerals Management Service. This was one of a number of reforms undertaken to better align and focus Interior's energy development, regulatory, and safety responsibilities. At the same time, the Department took action in 2011 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.

Interior plays a pivotal role in the President's *Blueprint for a Secure Energy Future* and its goal of cutting America's oil imports by a third from the level at the start of the Administration with a renewable energy program focused on the development of a clean energy future. In 2011, the Department approved the first nine commercial-scale solar energy projects for construction on public lands, including the world's largest solar power plants. When built, these projects will provide nearly 3,700 megawatts of new generating capacity and support an expected 7,300 jobs.

In 2011, Interior worked collaboratively with Indian tribes to improve the safety of Indian communities, achieving reductions of 35 percent in violent crime at four reservations. In 2011 the Department advanced its water conservation goal by 230,000 acre-feet, thereby increasing water supplies for agricultural, municipal, industrial, and environmental uses.

The Department continues to pursue high standards for accountability, transparency, and ethics. Investments continue to be made to strengthen ethics programs, increase transparency in the conduct of business, ensuring strong scientific support for decision-making, and improving openness and collaboration with the public.

Interior's actions in 2011 demonstrate a commitment to good government. This includes implementation of the Administration's Accountable Government Initiative, with close to a $100 million in targeted administrative cost savings planned for 2012 in areas such as supplies, travel, and advisory services and reductions of $62 million in 2011 in travel, information technology, and strategic sourcing. Through efforts to improve acquisition improvement in 2011, Interior reduced high risk contracting, implemented reverse auctions that increase competition and increase the number of awards to small businesses, and reduced the costs of purchasing supplies and other goods and services through strategic sourcing. Interior's efforts to improve asset management, reduce real property costs, and manage leased space costs have been informed through collaboration with the Real Property Advisory Council, which includes representatives of the Office of Management and Budget, the General Services Administration, and other Federal agencies. In 2011, Interior issued revised policies for per-person space allowances and set targets for reduced spending in these areas. Finally, we have taken steps to transform the delivery of information technology services to a more consolidated and customer-oriented model and on July 1, 2011, released DOI's Information Technology Transformation Strategic Plan, which will guide this major effort going forward.

While we review our progress in 2011, we also need to review the 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. In addition to a high level review of challenges, this AFR provides measurable results of our programs, the status of the Department'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 the Office of Management and Budget (OMB). The annual assurance statement required by the Federal Managers' Financial Integrity Act of 1982 (FMFIA) concludes that the Department can provide reasonable assurance that, with the exception of two material weaknesses, Radio Communications and Contingent Liabilities, the Department'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 the Department. It also provides a comprehensive snapshot of the most important financial information related to the programs we manage. This report includes a brief summary of performance information; the Annual Performance Report to be issued at a later date will provide a more comprehensive account of performance. Information on accomplishments related to the goals and mission areas contained in the FY 2011-2016 Strategic Plan are reported in this report based on the five Mission Areas and priority goals. Interior has selected to present this information in the AFR, rather than a Performance and Accountability Report.

In FY 2011, while we were successful in obtaining an unqualified audit opinion, the auditors identified a material weakness in internal controls related to our legal contingent liability reporting process. We take this finding very seriously, and embrace the critical importance of correcting it along with other deficiencies within our control process. As such, we have already begun to develop and implement corrective actions.

I am proud of this report and of the progress we are making at the Department. In particular, we recognize the efforts of our 70,000 employees that carry out the work of this Department. These individuals demonstrate on a daily basis 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

Ken Salazar
Secretary of the Interior
November 15, 2011

ABOUT THIS REPORT

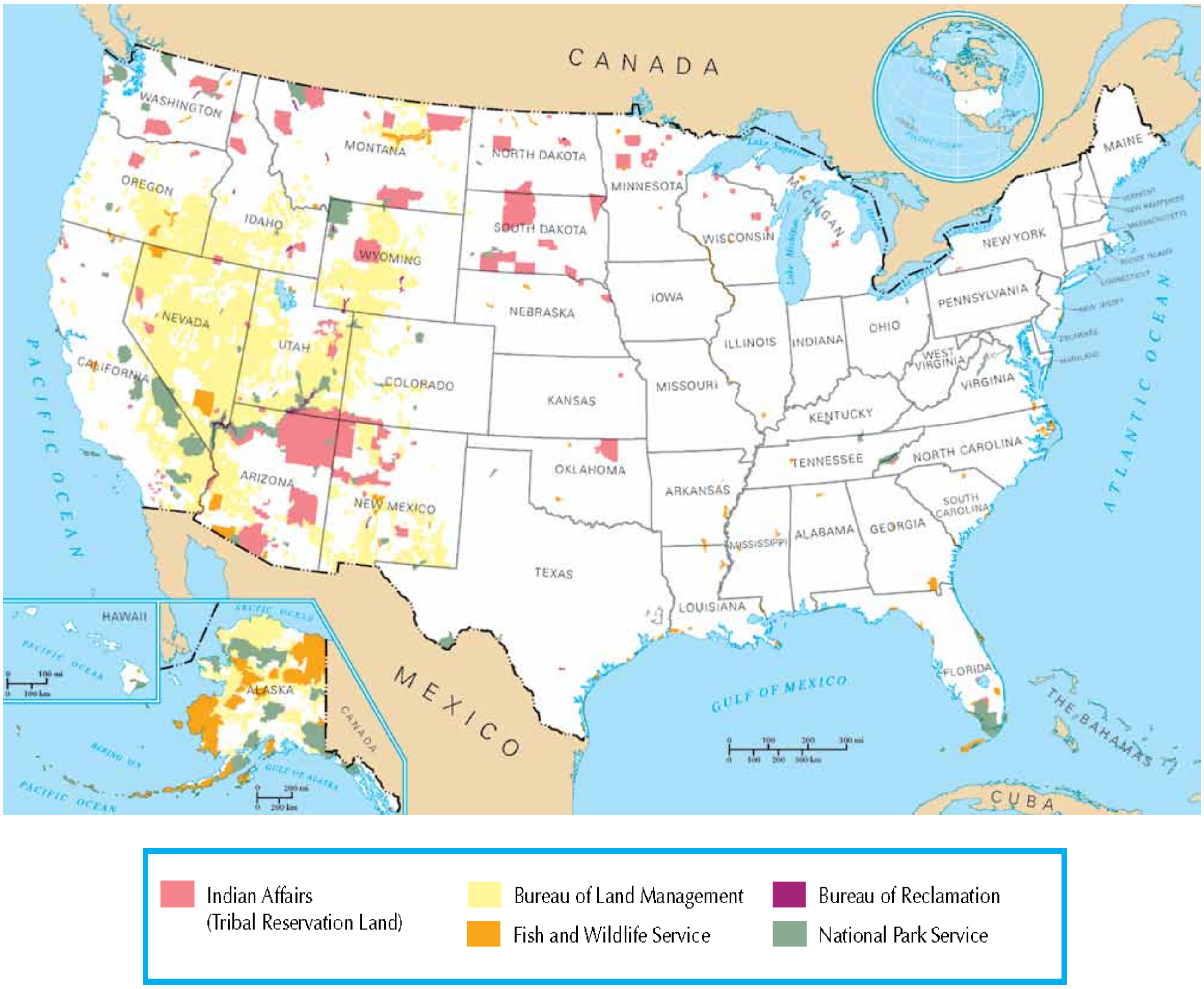
The U.S. Department of the Interior's AFR for FY 2011 provides performance and financial information that enables Congress, the President, and the public to assess the performance of Interior relative to its mission and stewardship of the resources entrusted to it. This AFR satisfies the reporting requirements of the following major legislation:

- 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.

The Office of Financial Management (PFM) chooses to produce the AFR rather than the alternative Performance and Accountability Report. The Annual Performance Report with detailed performance information that meets Government Performance and Results Act requirements is produced and transmitted with the Congressional Budget Justification. 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/finstate/index.html*** or on compact disc by submitting a request to:

U.S. Department of the Interior
Office of Financial Management
Mail Stop 2557
1849 C Street, NW
Washington, DC 20240

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, Interior is the Nation's principal Federal conservation agency. Interior 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. Interior 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. Interior also provides hydropower to the Western States. It 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 Interior'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, Interior manages about one-fifth of America's land, as shown on the previous page, and is made up of departmental offices and eight bureaus with a broad range of responsibilities.

Defining Interior's Goals

The Department's Strategic Plan for FY 2011–2016 provides the framework for activities that are performed by eight bureaus and departmental offices that take place at 2,400 locations throughout the Nation. The Strategic Plan is the guide by which we gauge our success in achieving performance results.

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 Department's activities for the next five years. The performance measures will be used to 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 additional input.

Five mission areas provide the framework for the Department's overarching stewardship responsibilities and define our long-term areas of focus over the next five years. The combined mission areas contain 23 goals, including five priority goals. Each goal has one or more strategies that define how the Department plans to accomplish its goals. The Plan identifies performance measures for each strategy that relate the contributions of programs to the goals for the five mission areas. Five 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 in natural resources, and efforts to improve the safety of Indian communities.

The Statement of Net Cost includes five major program segments, and Reimbursable and Other. The segments consist of the Department's five 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 Other Commitments to Insular Areas; Provide a Scientific Foundation for Decision Making; and Building a 21st Century Department of the Interior.

THE DEPARTMENT OF INTERIOR'S MISSION AREAS

PROVIDE NATURAL AND CULTURAL RESOURCE PROTECTION AND EXPERIENCES

Since its inception in 1849, the Department'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 Department 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 Department 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 Department 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 AFFAIRS

The Department of the Interior 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 Department's bureaus and offices, other Federal agencies, and relationships with tribes. The Department 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 Department of the Interior mission. The U.S. Geological Survey serves as the Department'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. Department science also reaches beyond the boundaries of Interior 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.

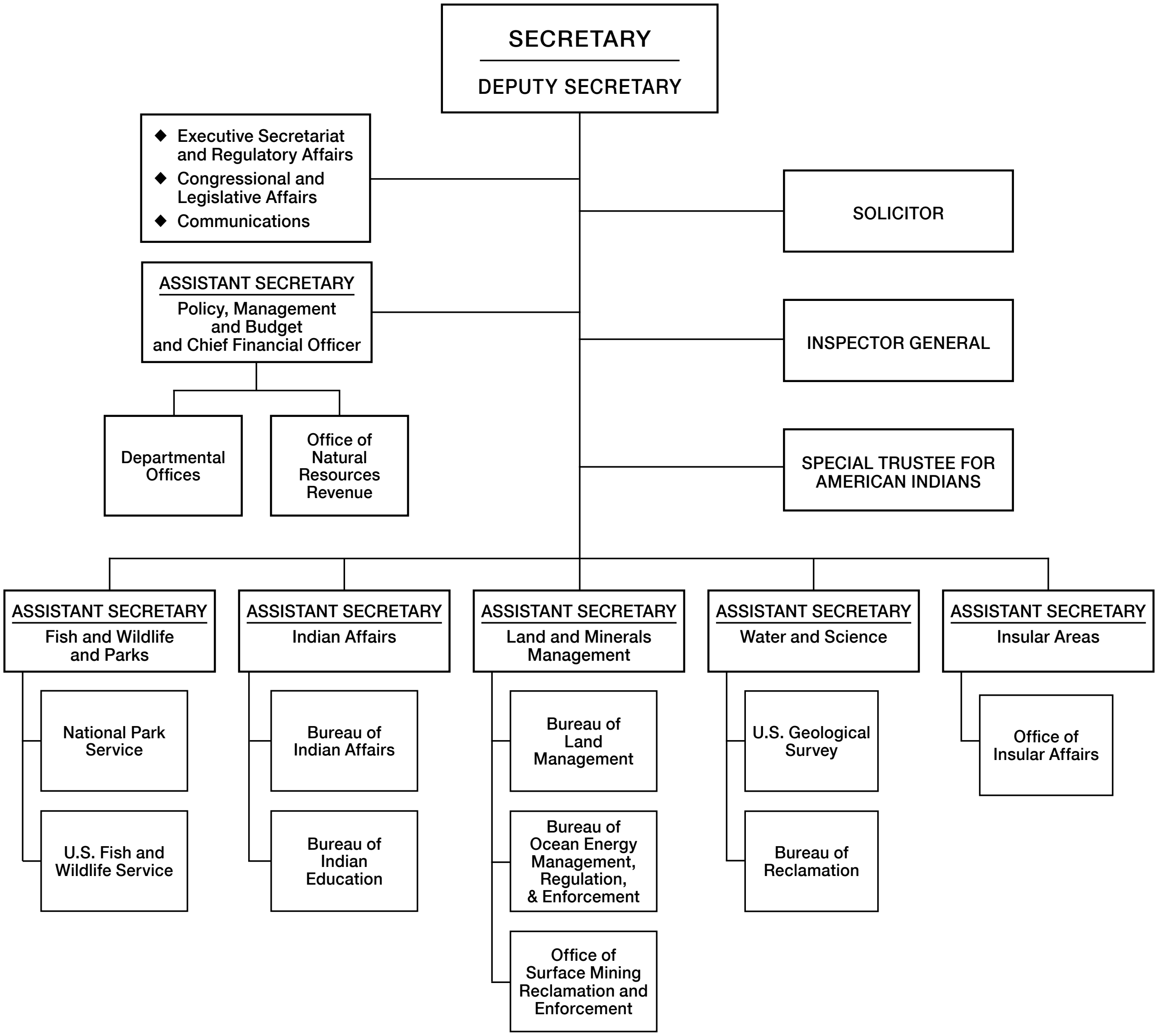
- Ensure the Quality & Relevance of Science Products to Partners & Customers
- Provide Science for Sustainable Resource Use, Protection, and Adaptive Management
- Provide Scientific Data to Protect and Inform Communities
- Develop a Comprehensive Science Framework for Understanding the Earth

BUILDING A 21ST CENTURY DEPARTMENT OF THE INTERIOR

The Department'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 Department's programs, sustainable operations, and effective and efficient management. Attainment of the Department's strategic goals will be facilitated by the cross-cutting efforts that are highlighted here. Success in these areas will be assessed with representative performance metrics geared to specific outcomes for 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



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Bureau and Office Summary

Each Interior 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 248 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, Regulation and Enforcement (BOEMRE)

- Manages access to renewable and conventional energy resources of the Outer Continental Shelf (OCS)
- Administers over 6,700 active fluid mineral leases on approximately 36 million OCS acres
- Oversees 10 percent of the natural gas and 30 percent of the oil produced domestically
- Oversees lease and grant issuance for offshore renewable energy projects
- 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

  Note: Effective October 1, 2011 BOEMRE was reorganized into the Bureau of Ocean Energy Management and the Bureau of Safety and Environmental Enforcement.

Office of Surface Mining Reclamation and Enforcement (OSMRE)

- 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 Department
- 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 supplier and manager of water in the 17 western states
- 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 70 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; and
  - Certain marine mammals.
- Hosts about 46 million visitors annually at 555 refuges located in all 50 states and 38 wetland management districts

National Park Service (NPS)

- Maintains and manages a network of 396 natural, cultural, and recreational sites for the benefit and enjoyment of the American people
- Manages and protects over 27,000 historic structures, nearly 44 million acres of designated wilderness, and a wide range of museum collections and cultural and natural landscapes
- Provides outdoor recreation to over 281 million annual park visitors
- Provides technical assistance and support to state and local natural and cultural resource sites and programs, and fulfills responsibilities under the National Historical Preservation Act

Indian Affairs (IA)

- Fulfills Indian trust responsibilities
- Promotes self-determination on behalf of 565 federally recognized Indian tribes
- Funds compact and contracts to support education, law enforcement, and social service programs that are delivered by tribes
- Operates 183 elementary and secondary schools and dormitories, providing educational services to 41,000 students in 23 states
- Supports 30 tribally 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

Interior's programmatic performance is tracked using 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 is summarized using key indicators which function as gauges that track trends in performance. A summary of FY 2011 performance follows each mission area based on an expected continuation of the trends reflected in the FY 2010 Annual Performance Report. Notable changes occurring in FY 2011 that would affect these existing trends will be identified in the following performance summary and assessed more completely in the Department's FY 2011 Annual Performance Report (APR) to be posted in February, 2012 to the Department's Budget and Performance Portal at ***www.doi.gov/bpp.***

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

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

Goal #1: Protect America's landscapes

This goal has two main related purposes — to protect land and to safeguard the creatures and plants that are its inhabitants. Interior's progress in ensuring the quality of natural resources, which includes upland, wetland, streams, and shorelines, is characterized by the key performance indicators 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 Department 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 increased over the past few years for acres in desired condition.

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 Target	2011 Actual
BLM, FWS, NPS	68%	69%	74%	70%	84%
Acres in desired condition	260,199,936	263,419,255	315,877,213	268,416,198	318,874,261
Total Acres Assessed	385,005,230	383,166,319	426,431,820	380,879,726	380,879,726

Fish, wildlife, and plant species are also under the Department'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 take several years to realize success, 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 Department's Priority Performance Goal on Climate Change Adaptation *(see Table 4, page 21)*. These strategies will be further enhanced by science and collaborative knowledge facilitated by the creation of Climate Science Centers and Landscape Conservation Cooperatives. The establishment of these capabilities has been progressing at a moderate rate through FY 2011 and is expected to be advanced in FY 2012.

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

Bureau	2008 Actual	2009 Actual	2010 Actual	2011 Target	2011 Actual
FWS	62.3%	62.3%	72.0%	72.1%	72.1%
Healthy and sustainable bird species	568	568	725	726	726
Total species	912	912	1,007	1,007	1,007

In the table above, the sustainability of migratory bird species continues to be estimated at an increased level of performance. 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 public recognition of the importance of birds as an indicator of environmental health and is updated on a rotating basis over five years.

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

The condition of historic structures is the key indicator used for determining the success in maintaining heritage assets. Our goal is to maintain historic structures and the collections of assets they house in good condition. These 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 Target	2011 Actual
BIA, BLM, FWS, NPS	52%	53%	52%	52%	50%
Structures in good condition	15,871	16,390	16,571	16,652	16,006
Total structures	30,586	30,948	31,690	31,863	31,881

This key indicator of historic structures in good condition, displayed in the table above, decreased in 2011 as more damaged/aged structures required more attention than could be provided in a year's time. The Department was also challenged by an abbreviated time frame to conduct this work as a result of uncertainty in funding levels caused by the delay in securing the full FY 2011 appropriation.

Goal #3: Provide recreation and visitor experience

The key performance indicator used for this goal is visitor satisfaction, which is measured through surveys. Despite the challenges, performance has remained steady. There are challenges to maintaining funding 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 Target**	**2011 Actual**
BLM, FWS, NPS	91%	92%	92%	91%	91%

Goal #4: Manage the impacts of Wildland fire

The key performance indicator is Interior'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. 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 (WUI). In 2011, DOI had planned to focus resources on the WUI to populated areas which dictates a more complex and costly approach to reduce the risk of potential wildland fire to life and property but results in less acres treated. The following table depicts Interior's efforts.

Percent of acres treated which achieve fire management objectives as identified in applicable management plans.					
Bureau	**2008 Actual**	**2009 Actual**	**2010 Actual**	**2011 Target**	**2011 Actual**
OWFC	98%	99%	94%	94%	100%
Acres with achieved objectives	1,239,740	1,489,438	1,197,828	660,000	966,075
Total acres treated	1,260,035	1,500,854	1,279,820	700,000	966,075

In FY 2011 DOI conducted more treatments on non-WUI acres than was planned, but ended up with more acres treated.

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

This mission area reflects Interior'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 Department provides access to potential users who extract resources from Federally-managed areas for the benefit of the American public and the economy. Conventional energy development in coal and both onshore and offshore oil and gas is essential to achieving this goal. Interior has a key responsibility in ensuring that these efforts are conducted in a responsible, safe, and environmentally sensitive manner. Offshore fluid mineral leasing, affected by the Deepwater Horizon oil spill, slowed in 2011. Reforms have been implemented to improve the Department's oversight of offshore oil and gas operations and resources have been requested to accelerate activities leading to development.

The Nation's clean energy future relies on emerging sources of renewable energy resources from wind, solar, and geothermal. This endeavor is being tracked and reported through the Renewable Energy Sources Priority Performance Goal (*see Table 1, page 20*).

Number of megawatts of approved generating capacity authorized on public land for renewable energy development while ensuring full environmental review.					
Bureau	**2008 Actual**	**2009 Actual**	**2010 Actual**	**2011 Target**	**2011 Actual**
BLM	595	700	834	9,700	6,755

As displayed in the table above, the FY 2011 target was ambitious, and assumed successful completion of all planned projects. Complex issues and challenges included project siting relative to sensitive avian and wildlife species, tribal concerns, and the sponsor's ability to finance a project and establish a power purchase agreement with an electric utility company. While the FY 2011 target was not met, Interior created the potential to power over 2.3 million homes from these emerging sources of energy.

Goal #2: Manage water for the 21st century

The Department 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 Target**	**2011 Actual**
BOR	98.6%	98.0%	98.3%	63.8%	72.9%

As displayed in the preceding table, from FY 2008-2010, this measure was calculated to include facilities that were in fair to good condition. During the Strategic Plan update of FY 2011-2016, the measure was strengthened to include only facilities in good condition. This 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 aging infrastructure is attended to while the cost of workforce and materials continue to increase.

Water conservation is an important component of the Department'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 20*).

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

The key performance measures for granting non-energy mineral leases, grazing, and timber are generally showing level or decreasing trends in permits approved due to the significant number of legal challenges and increased demand for additional assessments to be conducted prior to approving access. As approval of these permits becomes more complicated, there is an increase in processing costs and erosion of budgets, 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.

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

Bureau	2008 Actual	2009 Actual	2010 Actual	2011 Target	2011 Actual
BLM	86%	31%	86%	70%	70%
Offered for sale (mmbf*)	174	155	174	142	143
Total allowable timber (mmbf)	203	502	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 in relation to quality of life, 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 the tribal community. Increased performance in education is challenging but progress is being made. Higher standards went into effect in the past year creating additional challenges and a reduced level of achievement.

Percent of Bureau of Indian Education (BIE) schools achieving Adequate Yearly Progress (AYP) or comparable measure.					
Bureau	**2008 Actual**	**2009 Actual**	**2010 Actual**	**2011 Target**	**2011 Actual**
BIE	32%	24%	32%	38%	29%
Schools achieving AYP	54	42	56	66	50
Total BIE schools	170	173	173	173	173

A new strategy with promising results is being piloted to address violent crime in Indian communities. The Bureau of Indian Affairs is partnering with four Tribes to increase community policing. With the strategic deployment of increased numbers of officers and increased training and equipment, BIA has been able to demonstrate reduced crime as shown in *Table 3, page 20.* In these four communities violent crime was reduced in 2011 by 11 percent and in 2012 by 35 percent. This is one of Interior'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 reported have increased as shown in the following table. Interior will be sharing lessons learned in the four communities to apply to other communities in order to address this issue.

Violent (Part 1) crime incidents per 100,000 Indian Country inhabitants receiving law enforcement services.					
Bureau	**2008 Actual**	**2009 Actual**	**2010 Actual**	**2011 Target**	**2011 Actual**
BIA	463	479	413	432	454
Number of crime incidents	5,698	6,002	5,178	5,410	5,694
Total inhabitants (100,000)	12.3	12.53	12.53	12.53	12.53

Goal #2: Empower insular communities

The Office of Insular Affairs (OIA) measures performance of island communities in terms of 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 captured through the key performance indicator displayed in the following table. Results for FY 2011 are estimated.

Percent of community water systems that receive health-based violation notices.					
Bureau	**2008 Actual**	**2009 Actual**	**2010 Actual**	**2011 Target**	**2011 Estimate**
OIA	New Measure	15.5%	11.4%	10.9%	18.0%

MISSION AREA FOUR: PROVIDE A SCIENTIFIC FOUNDATION FOR DECISION MAKING

Science is an essential, cross-cutting element that assists bureaus 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 change, energy and mineral assessments 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 those customers who use this information. The level of satisfaction with 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.

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

Bureau	2008 Actual	2009 Actual	2010 Actual	2011 Target	2011 Actual
USGS	93%	93%	93%	≥90%	92%

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. Adapting to climate change is tracked through the key indicator that measures the ability to forecast ecosystem change. As displayed in the next 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 Target	2011 Actual
USGS	11%	11%	22%	22%	22%
Ecosystems with information products	1	1	2	2	2
Ecosystems under study	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 communities and tribes using science-based products, developed by the U.S. Geological Survey (USGS), to better understand the threats, necessary preparedness, and means for avoidance of natural hazards to include earthquakes and volcanoes. The trend in the next table shows an increase in communities using this information.

Percent completion of earthquake and volcano hazard assessments for moderate to high hazard areas.					
Bureau	**2008 Actual**	**2009 Actual**	**2010 Actual**	**2011 Target**	**2011 Actual**
USGS	26.6%	28.5%	30.8%	33.0%	34.0%

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

The USGS will lead efforts to create a scientific framework that will provide knowledge of the Earth through an integrated data framework to guide science-based stewardship of natural resources. The Department, through USGS, will generate geologic maps and models and use geospatial information 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 Target**	**2011 Actual**
USGS	48.0%	49.0%	49.4%	50.4%	50.0%
Area (square miles) available in the National Geologic Database	1,687,637	1,729,771	1,746,550	1,782,868	1,767,763
Area (square miles) of the US to be mapped	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 Department'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 Department, sustainable operations, and effective and efficient management by optimizing the use of information technology, acquisition, and real property.

Since this is a relatively new area of emphasis for the Department, the FY 2011 focus was on setting up processes to manage and gauge progress in areas that support the attainment of goals that support change to business operations in IT, acquisition reform, and human capital reform prior to implementation. The level of results achieved in this first year for the following goals are presently being assessed and will be reported in the Department's FY 2011 Annual Performance Report to be posted to the Department's Budget and Performance Portal ***www.doi.gov/bpp*** in February, 2012.

Goal #1: Building a 21st Century Workforce

The Department is developing and implementing critical workforce management reforms. The Department benefits from a workforce that is passionate about the mission, dedicated to public service, and highly skilled and knowledgeable. The challenges lie in a diverse and geographically dispersed mission, a workforce approaching retirement, and the demands of technology and knowledge management. Interior'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, education, and experience contribute to varied perspectives in the workplace and create a dynamism for higher performance and success in achieving mission goals. Activities underway include workforce assessment and planning and hiring reforms to reduce the time it takes to bring employees on board. Other efforts are aimed at increasing efforts to recruit veterans and individuals with disabilities.

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 that 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 Department 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 Department's Priority Performance Goals. (see Table 5, page 21).

Goal #3: Sustainability of Interior's Operations

The efforts in this goal center around reducing the Department's environmental footprint through reducing energy intensity and increasing the use of alternative fuels within the Department. Sustainability is integral to Interior's mission as the agency is entrusted with stewardship of America's lands and waters. Bureaus are making considerable investments in green building, recycling, and water efficiency.

Goal #4: Dependability and Efficiency of Information Technology

Information Technology supports every facet of the Department'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 Department will continue to implement a series of technology innovations and efficiencies as part of an enterprise-wide IT Transformation with a focus on consolidating and centralizing the IT infrastructure across the Department. The Department released the IT Transformation Plan on July 1, 2011.

Goal #5: Improving Acquisition and Real Property Management

The mission goals of the Department are significantly advanced through effective management of contracts in a manner that reduces risk and achieves desired results, that costs less. Efforts are centered around leveraging purchasing power, promoting efficient business practices, and developing and retaining a skilled acquisition workforce.

The Department's real property portfolio contains approximately 47,000 buildings and 115,000 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 minimize expenditures for the purchase of real property, and reduce costs for leased and owned space.

PRIORITY PERFORMANCE GOALS

Priority Goals identify key mission areas with opportunities to significantly improve near-term performance. The Department chose Priority Goals that improve outcomes or speed progress on projects and processes critical to Interior's mission and Administration priorities targeted by the Secretary of Interior for achievement.

Priority Goal Table 1	Renewable Energy Development
Goal	Increase approved capacity authorized for renewable (solar, wind, and geothermal) energy resources on Department of the Interior managed lands, while ensuring full environmental review, by at least 9,000 megawatts through 2011.
Overview	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 to Date	Approved projects total over 6,000 mw of generating capacity relative to the original 9,000 MW goal.
Challenges	Projects have been withdrawn due to planning challenges and changes in the economy.
2011 Strategy	Develop a 2011 Priority Project list to expand Department efforts and resources beyond the original "Fast Track" renewable energy projects pursued in 2010; establish strike teams to work on the environmental impact documents as their primary focus.

Priority Goal Table 2	Water Conservation
Goal	Enable capability to increase available water supply for agricultural, municipal, industrial, and environmental uses in the western United States up to 350,000 acre-feet (estimated amount) by the end of 2011.
Overview	Reclamation is working closely with non-Federal, state, and local governments, water districts, other entities, and individuals to identify practices and select projects that will increase water conservation capacity in Western States.
Progress to Date	The two-year cumulative water conservation target of 350,000 acre-feet was met when including Reclamation's full collection of water conservation programs.
Challenges	Title XVI and WaterSMART proposals yielded less than expected number of adequately defined projects.
2011 Strategy	Aggressive action was taken to identify additional water conservation from other Reclamation programs and projects to complement the water conservation outcomes from WaterSMART Grants and Title XVI projects.

Priority Goal Table 3	Safe Indian Communities
Goal	Achieve significant reduction in violent criminal offenses of at least five percent within 24 months on 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 to Date	Based on crime statistics for Fiscal Years 2007-2009, violent crime has shown an overall decrease of 35% through FY 2011.
Challenges	The IA Office of Justice Services and other Federal Bureau partners have implemented numerous community policing initiatives, to include increased staffing, training, equipment modernization, that have shown results indicated by a reduction in crime.
2011 Strategy	Evaluate the need for improved infrastructure and support, including improved human resources support, which is critical for hiring, and enhanced acquisition support to ensure there are adequate equipment and services. A computer aided dispatch and records management system will be implemented to provide better tools to analyze crime data, identify crime trends, and report criminal offenses.

Priority Goal Table 4	Climate Change
Goal	By the end of 2012, for 50 percent of the Nation, resources will be identified that are particularly vulnerable to climate change, and coordinated adaptation response actions will be implemented.
Overview	DOI is addressing the impacts that climate change is having on America's natural resources and developing strategies to ensure that our Nation's resources remain resilient in the face of those changes.
Progress to Date	An inventory of planned vulnerability assessments has been developed for regions corresponding to greater than 50 percent of the Nation with initial adaptation actions similarly inventoried for ten regions. Some studies have fallen behind schedule due to delays in receipt of funding.
Challenges	Funding to establish planned Climate Science Centers and Landscape Conservation Cooperatives was delayed and redirected during the FY 2011 budget process. The Department expects to make progress during the third quarter of FY 2012.
2011 Strategy	Assess the vulnerability of resources that may be impacted by climate change and the threats to resources that may be exacerbated by climate change. Those resources include (i) fresh water supplies; (ii) landscapes, including wildlife habitat; (iii) native and cultural resources; and (iv) ocean health; and specific threats to those resources, including (i) invasive species; (ii) wildfire risk; (iii) sea-level rise; and (iv) melting ice/permafrost.

Priority Goal Table 5	Youth Stewardship
Goal	By the end of 2011, increase by 50 percent (from 2009 levels), the employment of youth between the ages of 15-25 in the conservation mission of the Department.
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 to Date	The DOI achieved its goal of a 50% increase in DOI youth hires.
Challenges	Goal achieved.
2011 Strategy	Maintain comparable youth hiring levels in FY 2011 despite the fact that budget uncertainty for FY 2011 resulted in postponement of recruitment actions, particularly for DOI partnerships.

This section of the report provides the required information on the U.S. Department of the Interior'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 Amendments (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 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) 2011, 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. Interior's FY 2011 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 Department believes that maintaining integrity and accountability in all programs and operations: (1) is critical for good government; (2) demonstrates responsible stewardship over assets and resources; (3) ensures high-quality, responsible leadership; (4) ensures the effective delivery of services to customers; and (5) maximizes desired program outcomes. Interior has developed and implemented management, administrative, and financial system controls that reasonably ensure:

- 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.

Interior'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 Cards*, 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

Interior 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 2011 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. Interior 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 Interior'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

FY 2011 ASSURANCE STATEMENT

The Department of the Interior's 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). Interior 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 two material weaknesses, Radio Communications and Contingent Liabilities. The details of the exception are provided in *Figures 1-1* and *1-2* in this section of the report.

Interior 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, Interior 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, 2011. 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, Interior 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 No. A-123. Based on the results of this evaluation, Interior can provide reasonable assurance that its internal control over financial reporting as of June 30, 2011, was operating effectively with the exception of one material weakness found in the design or operation of the internal control over contingent liabilities. The financial audit identified, and management concurs, that a material weakness exists in the internal control over reporting contingent liabilities. Interior will implement a corrective action plan to resolve the deficiency in the second quarter of FY 2012.

Ken Salazar

Ken Salazar
Secretary of the Interior
November 15, 2011

affecting the agency. Interior has adopted the 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 2011 Interior 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 Department reinstated the Radio Communications Program as a Department-level material weakness. *(See Figure 1-1)*

During FY 2011 deficiencies in the completeness and accuracy of the interim legal letter used to support Interior's contingent liabilities balance and related footnote were identified. Despite an increased review of the year-end legal letter, these issues were repeated. Because of the recurring nature of these issues and the significant amount of Interior's contingent liabilities, the department concluded a material weakness existed. *(See Figure 1-1)*

The Department 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; or
- Corrective actions have been substantially completed, remaining actions are minor in scope, and the actions will be completed within the next Fiscal Year.

FIGURE 1-1

FMFIA Material Weaknesses
as of September 30, 2011

Description	Corrective Actions	FY 2011 Progress	Target Completion Date	Status
Office: The Chief Information Officer (OCIO) **Department of the Interior Radio Communications Program:** Interior has an unsafe and unreliable radio communications environment that jeopardizes the health and safety of Interior employees and the public.	Interior will: 1) Assign responsibility over the radio communications program to the OCIO; 2) Develop a comprehensive management plan for the radio communications program; 3) Identify specific user groups and ensure that user needs are assessed and addressed, guidance is provided and enforced, and training is provided; 4) Enforce existing safety procedures to notify employees and the general public of hazardous site conditions; and 5) Implement best practices, where appropriate.	1) A policy establishing radio site standards and safety inspection criteria has been issued requiring adherence to industry guidelines and standards. 2) A radio facilities management official has been recruited in the National Radio and Spectrum Program Management office to direct material weakness efforts. 3) An organizational transformation analysis has been completed with recommendations to restructure the DOI radio programs to achieve efficiency in spending and service delivery. 4) Radio over internet protocol technology has been tested and a framework established for integration within DOI. 5) Analysis and project planning has been completed to migrate DOI radio users in the states of Wyoming and Montana to state-wide radio networks. This analysis provides a proof of concept for future consolidation of radio facilities, towers, and services. 6) A radio program transformation planning process has been initiated to establish a comprehensive management plan for a holistic approach to all facets of the radio program including organizational transformation, technology frameworks, radio facilities improvement and the use of external systems, such as those proposed in Wyoming and Montana. This effort addresses customer requirements, service delivery, facilities management, enterprise services, and funding. 7) A radio regionalization project has been initiated to establish a single radio service delivery method across all bureaus along the southwest border resulting in a comprehensive management plan based on best practices and customer service delivery.	FY 2014	Ongoing
Office: The Office of the Solicitor (SOL) **Contingent Liabilities**	Interior will: 1) Provide training to SOL staff; 2) Ensure the interim and year-end legal letters are reviewed by SOL staff and program management; and 3) Consider additional procedures to address this material weakness.	Identified in FY 2011.	FY 2012	Ongoing

- 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 Department's FMFIA material weaknesses, financial statement audit material weaknesses, and management assurances and accounting system nonconformances are presented in Section 3.

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 2011, Interior completed its sixth 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. Except for its controls over contingencies for asserted and unasserted litigation, claims, and assessments, the Department'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 2011 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 Interior'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. Because of the Department's material weakness related to controls over contingencies for asserted and unasserted litigation, claims, and assessments, the Department's financial management systems did not substantially comply with the applicable Federal accounting standards requirements of FFMIA. Corrective actions to correct this non-compliance are being developed and will include a strengthened review process and training.

Inspector General Act Amendments (Audit Followup)

Interior 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 2011, Interior 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, Interior has an aggressive performance goal to implement 85 percent of all GAO and OIG recommendations where implementation was scheduled to occur during the current year or in previous years. In FY 2011, the Department exceeded this performance goal with a composite implementation rate of 88 percent.

Results of Financial Statement Audit

As required by the GMRA, Interior prepares consolidated financial statement s. 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 Interior's centralized process to ensure the integrity of financial information.

Figures 1-2 and 1-3 summarize the status of material weakness and noncompliance issues reported in the FY 2011 and FY 2010 audits. The FY 2011 audit report identified one material weakness, three significant deficiencies, and two instances of noncompliance with laws and regulations. The noncompliance with the Federal Financial Management Improvement Act resulted from the material weakness related to Interior's contingent liability recording process.

Major Management Challenges Confronting Interior

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

Compliance with Other Key Legal and Regulatory Requirements

Interior 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 Department 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 Department exceeded its FY 2011 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, DOI has initiated the Information Technology (IT) Transformation. In July, Interior released an IT Transformation Strategic Plan, a high-level roadmap that outlines how Interior will change the way IT services are delivered. The plan outlines a model that is cost-effective, customer-friendly and will better support DOI's missions. The transformation is expected to produce $100 million in annual savings from 2016 to 2020, saving taxpayers a cumulative total of $500 million.

Financial Management Systems

Interior 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 Interior program and financial managers to more effectively achieve mission goals. Interior 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. Interior'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, Interior is following the information technology investment management practices and principles identified in
the Clinger-Cohen Act of 1996.

Financial Management Systems Improvement Strategy

Interior's goal is to continue improvements in financial transaction processing, analysis, and reporting and to enhance financial management systems support through an effective partnership

FIGURE 1-2

FYs 2011 and 2010 Audited Financial Statements Departmental Material Weakness Corrective Action Plan (as of September 30, 2011)					
Material Weakness Description	Corrective Actions	Fiscal Year		Original Target Date	Status
		2011	2010		
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. 2) Continue to require individuals to review case summaries to ensure that all sections of the case summary are consistent. 3) Dedicate sufficient resources to update the case summaries. 4) Have finance team members periodically meet with representatives of the Office of the Solicitor to discuss cases.	X		9/30/12	Ongoing

FIGURE 1-3

FYs 2011 and 2010 Audited Financial Statements Departmental Noncompliance Corrective Action Plan (as of September 30, 2011)					
Noncompliance Description	Corrective Actions	Fiscal Year		Original Target Date	Status
		2011	2010		
Prompt Payment Act of 2002	1) Modify the accounting system to properly calculate prompt payment interest; and 2) Improve policies and procedures that outline the manual calculation of interest and the requirement for second-level review.		X	9/30/10	Completed
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	Carryover
Anti-Deficiency Act	Implement policies and procedures requiring the review of legislative provisions in appropriations acts to identify provisions affecting any aspect of BOEMRE operations.		X	9/30/11	Completed
FFMIA	See corrective actions for contingent liabilities material weakness above in Figure 1-2.	X		9/30/12	Ongoing

of program, information system, and financial managers. Interior relies on financial management systems that are planned for, managed together, and operated collectively to support program and financial managers.

Some systems are managed at the bureau level, some at the Departmental level, and some are government-wide systems on which the Department relies. Collectively, they represent the Department's financial management systems architecture. The Department 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 Department's current, major financial management system improvement effort centers on FBMS. In early FY 2012, Interior will implement the sixth of eight FBMS deployments that will facilitate the Department'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.

In FY 2011, the Department contracted for an independent third party review of the FBMS project scope and schedule project governance and change management. This review resulted in improvements to the schedule, endorsed planned enhancements to training and change management, provided a streamlined approach to blueprinting and initiated value-capture projects. The current scope and schedule reflects the recommendations of the independent third-party endorsed by the Executive Steering Committee.

With each deployment, Interior enhances the functionality and value of FBMS and moves closer to meeting the following goals;

- 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;

FIGURE 1-4

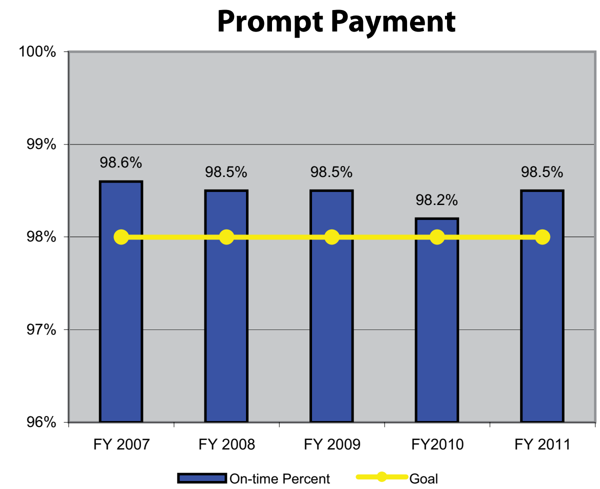


FIGURE 1-5

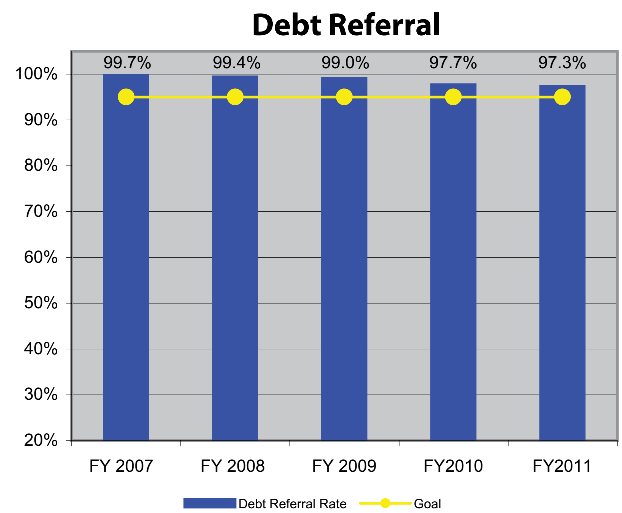
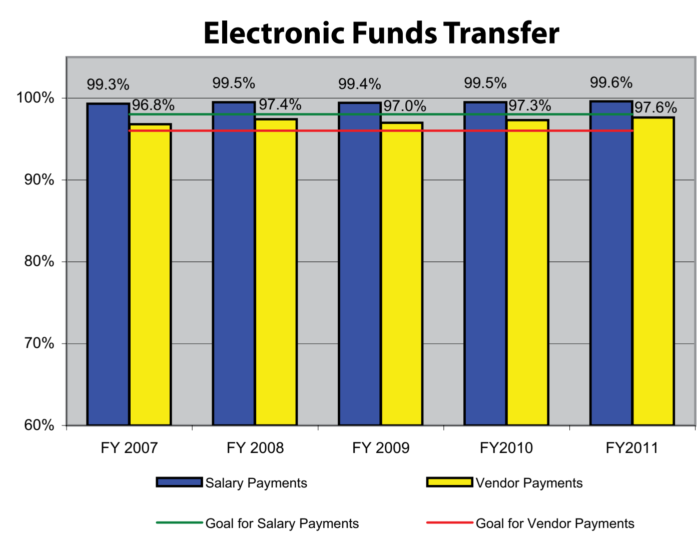


FIGURE 1-6



- Improved Department-wide and bureau-specific reporting capabilities;
- Increased data integrity; and
- Retirement of aged and unsupported legacy systems.

FY 2011 Accomplishments

The FBMS is in use by the Office of Surface Mining (OSM), the Bureau of Ocean Energy Management Regulation and Enforcement (BOEMRE), the Bureau of Land Management (BLM), and the U.S. Geological Survey (USGS). The FBMS Program 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 2011 include:

- Deployed FBMS to the USGS;
- Deployed FBMS Real Property functionality to BLM, BOEMRE, OSM, and USGS;
- Completed integration of FBMS with the Internet Payment Platform, Treasury's electronic invoicing solution;
- Enhanced FBMS capabilities and closed functionality gaps through monthly Point Releases;
- Deployed 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 6 to the Fish and Wildlife Service (FWS) and Interior's Departmental Offices; and
- Conducted and met the requirements of the deployment baseline review for Deployment 7 which will migrate Indian Affairs (IA) and the National Park Service (NPS) to FBMS from their legacy systems in November 2012.

Future Planned Activities

Deployment to the FWS and Departmental Offices will take place in November 2011, with IA and NPS scheduled to deploy in November 2012, including the same functionality as has been deployed to date. Future plans also include the final deployment of FBMS to the Bureau of Reclamation and deployment of the new reporting capability.

Interior received, for the 15th consecutive year, an unqualified audit opinion on its financial statements. The statements were audited by the independent accounting firm KPMG, LLP.

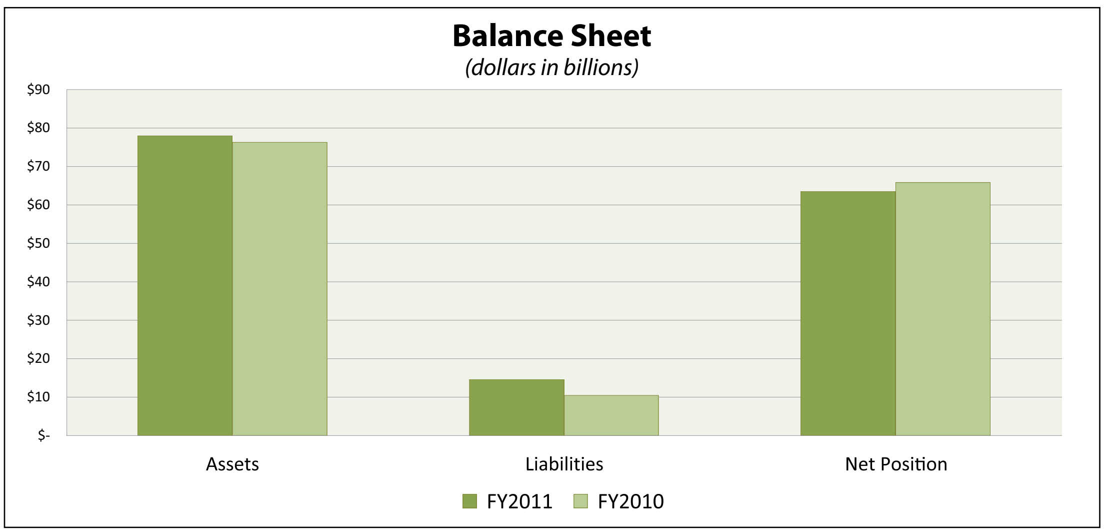
Preparing the financial statements is part of Interior's goal to improve financial management and to provide accurate and reliable information that is useful for assessing financial performance and allocating resources. Interior management is responsible for the integrity and objectivity of the financial information presented in the financial statements.

The financial statements and financial data presented in this report have been prepared from Interior'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).

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.

Interior expects that balances of line items will fluctuate in the normal course of business. For the purpose of this analysis, we have explained variances in excess of 10 percent and material to Interior as a whole. We have also provided a discussion of significant qualitative items that relate to financial management.

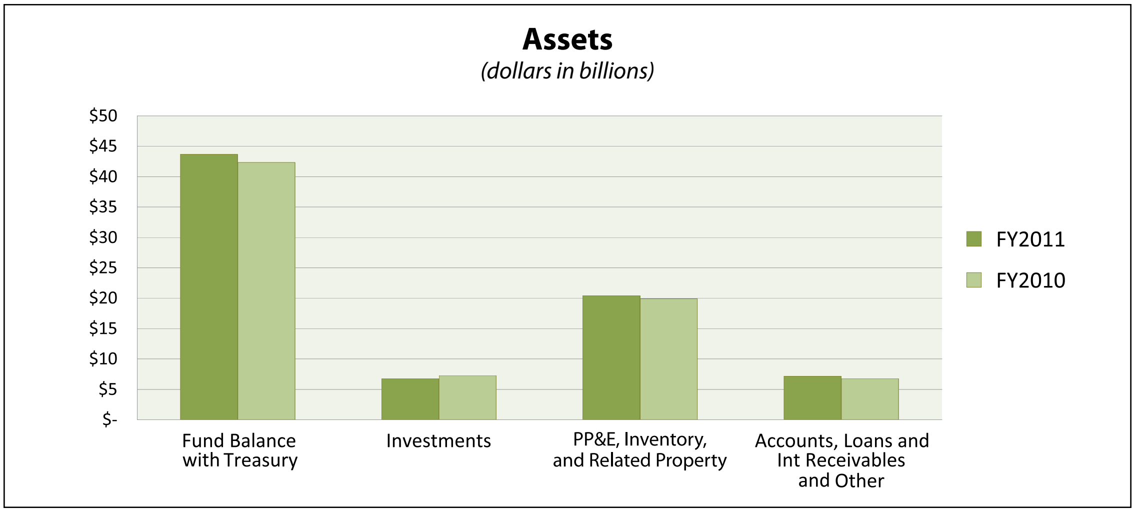
The charts and tables presented on pages 45 through 49 are based on the Key Financial Measures and Key Budgetary Measures presented at the end of this section. All amounts in the following charts are presented "in billions", unless otherwise noted.

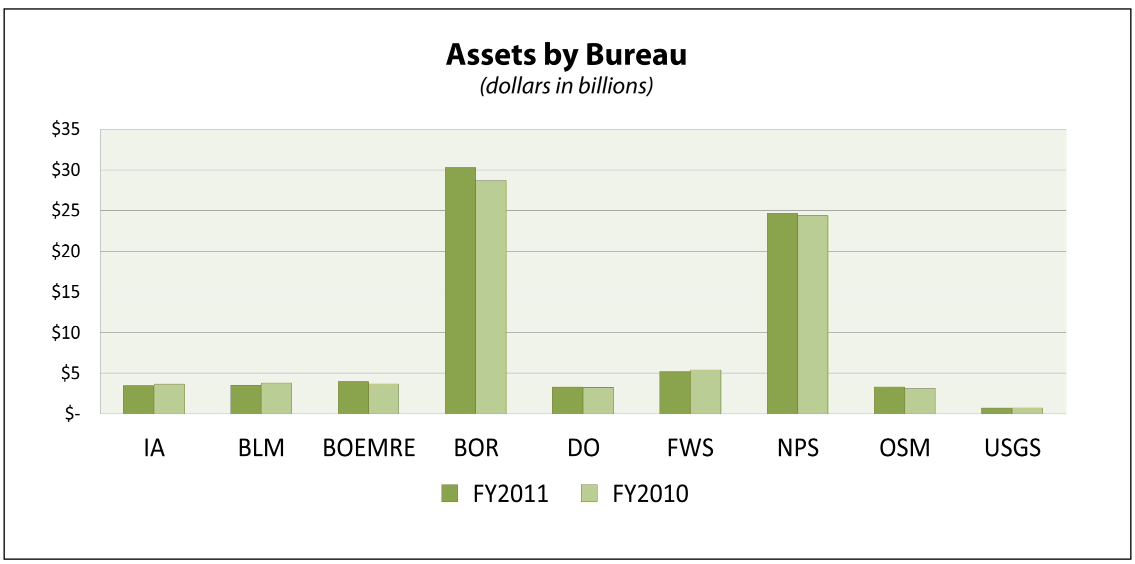


Analysis of Assets

Interior's assets are primarily composed of Fund Balance with Treasury, General Property, Plant, and Equipment (PP&E), and Investments. Interior 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. PP&E is primarily composed of land, structures, and facilities which are used for general operations, power, wildlife enhancement, and recreation. Interior has over 160,000 buildings and structures, which are included in PP&E. Interior ranks second among all Federal agencies in the number of constructed assets in its real property portfolio. Most of Interior's structures and facilities are composed of power and irrigation facilities, and dams managed by the Bureau of Reclamation (BOR). The remainder consists of buildings and facilities used in Interior's operations. Assets as reflected in the balance sheet are summarized above.

At the end of FY 2011, Interior's assets totaled $78,002,304 thousand. This is an increase of approximately $1,667,222 thousand or 2 percent over last year's assets of $76,335,082 thousand. This increase is primarily the result of an increase to the Fund Balance with Treasury resulting from deposits to the Reclamation Fund in FY 2011. These deposits include BOR and Western Area Power receipts for the sale of water and power.





Special Account Funds

The NPS 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 for the concessioners. They are not assets of the NPS, and may not be used in NPS operations.

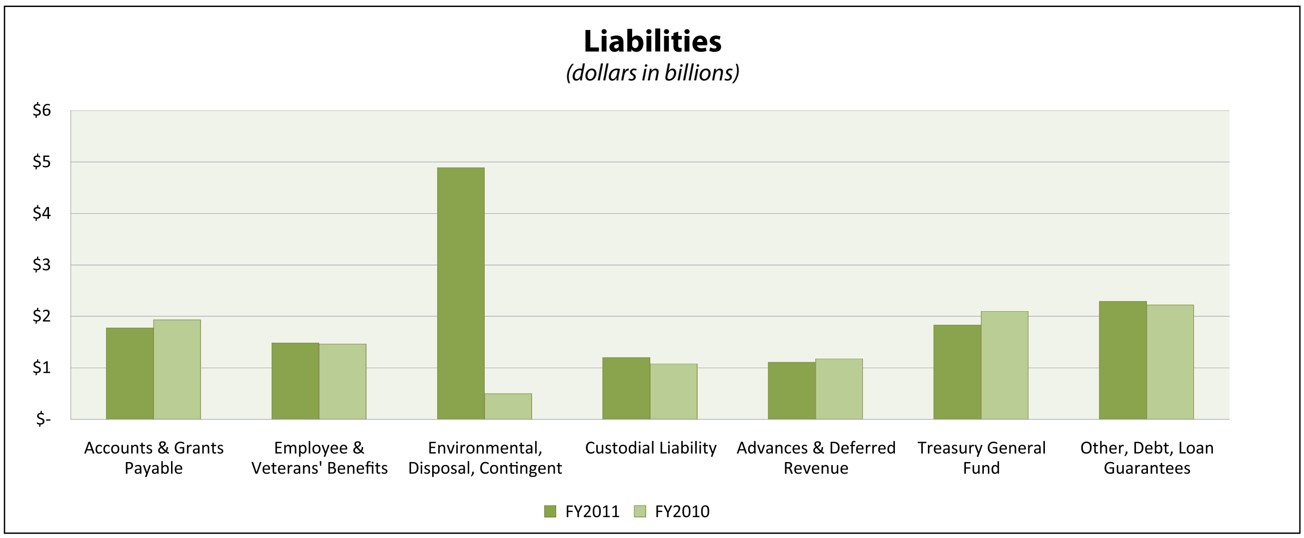
The balances, inflows, and outflows of these concessioner special accounts are not recognized in the consolidated financial statements of the NPS. The concessioners reported that these special accounts balances totaled approximately $24.6 million and $31.9 million (unaudited), as of September 30, 2011 and 2010, respectively.

Analysis of Liabilities

Interior's liabilities are composed of Accounts Payable, Transfers due to the General Fund of the Treasury, Debt & Loan Guarantees, Federal Employee and Veteran Benefits, Environmental and Disposal Liabilities, Refunds Payable, Contingent Liabilities, Advances and Deferred Revenue, Payments due to States, Grants Payable, and Other Liabilities. Liabilities as reflected in the balance sheet are summarized below.

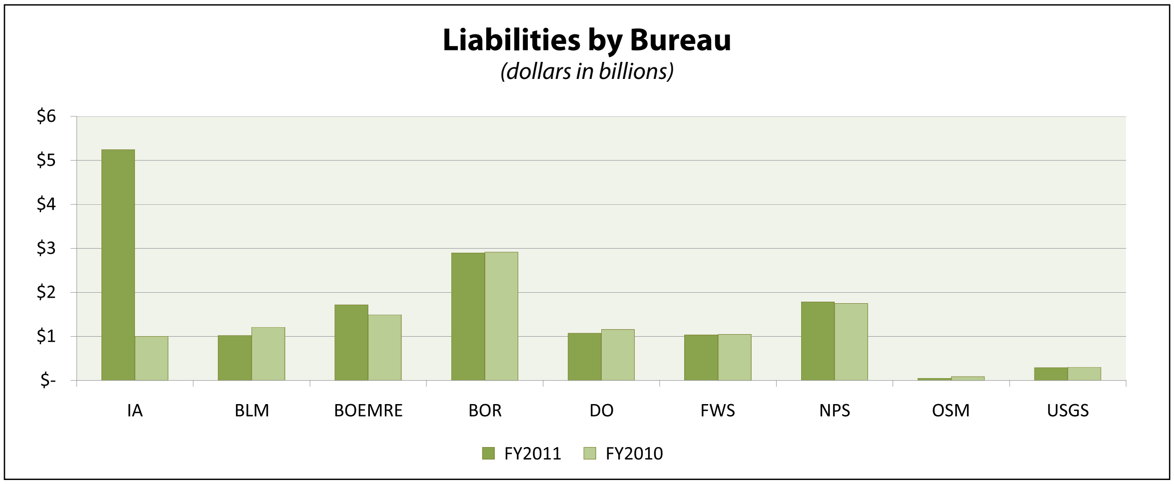
Federal agencies, by law, cannot disburse money unless Congress has appropriated funds. Funded liabilities are expected to be paid from funds currently available to the Department. Interior's unfunded liabilities consist primarily of Liabilities for Capital Transfers due to the General Fund of the Treasury, Custodial Liabilities, Environmental and Legal Contingent Liabilities, and unfunded employee compensation costs, which include the Federal Employment and Compensation Act and annual leave amounts. These liabilities will be paid from funds made available to Interior in future years. The associated expense is recognized in the period in which the liability is established, regardless of budgetary funding considerations.

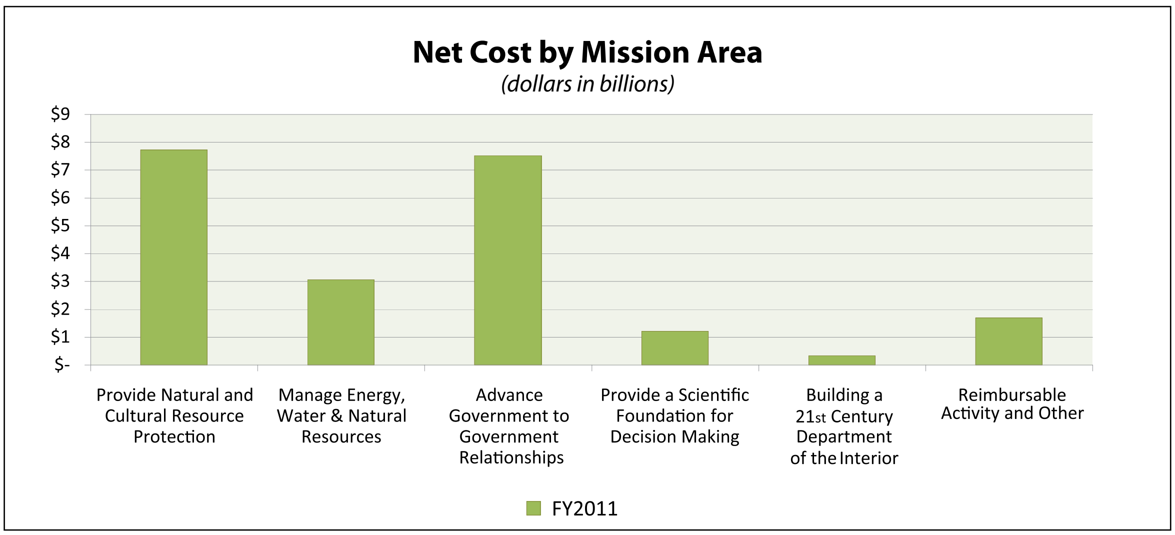
At September 30, 2011, Interior's liabilities totaled $14,570,163 thousand. This is an increase of $4,097,605 thousand, or 39 percent from previous year's liabilities of $10,472,558 thousand. The increase is primarily the result of the passage of the Claims Litigation Act of 2010, and an unfavorable ruling against Interior in another tribal case. This act authorizes, ratifies, and confirms Interior's liability resulting from the $3.4 billion settlement of the 1996 class action law suit filed by certain parties for whom Interior holds funds in trust. The settlement includes the distribution of $1.5 billion directly to individual Indians, the creation of a $1.9 billion fund to purchase highly fractionated interest in trust lands that stymie and slow the government's management, and set aside up to $60 million for education scholarships for Indian children.



Effective in FY 2013, FASAB Technical Bulletin 2009-1, *Recognition and Measurement of Asbestos-Related Cleanup Costs,* will require Federal agencies to recognize liabilities and the expenses for asbestos-related cleanup costs for both friable and non-friable asbestos and to disclose related information in the notes to the financial statements.

Asbestos-related cleanup costs are the costs of removing, containing, and/or disposing asbestos-containing materials from property or material and/or property that consists of asbestos-containing material at permanent or temporary closure or shutdown of the associated Property, Plant, and Equipment (PP&E). Interior currently recognizes liabilities and expenses for cleanup costs associated with the removal of asbestos that posed an immediate health threat (i.e., friable asbestos). Interior is in the process of developing an estimate of cleanup costs for the future removal of asbestos that did not pose an immediate health threat (i.e., non-friable asbestos). Implementation of this Technical Bulletin in FY 2013 will result in an increase to Interior's environmental liabilities and unfunded expenses due to the large volume of buildings and structures owned by Interior.





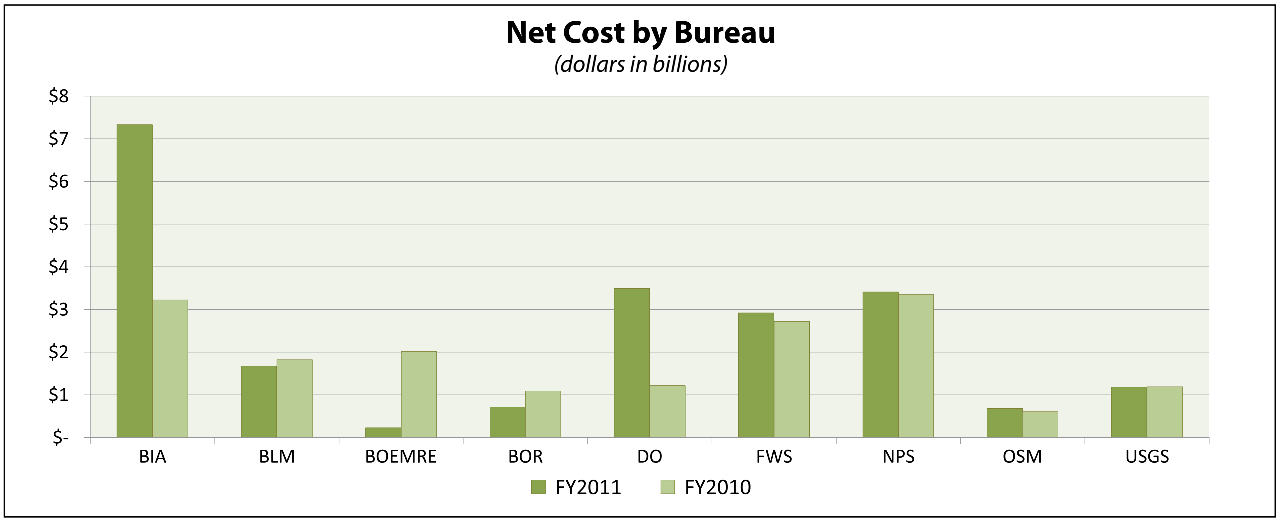
Analysis of Net Costs

Most costs incurred by Interior are directly related to providing services to the public. The Consolidated Statement of Net Cost includes the Departments five 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 Other Commitments to Insular Areas; Provide a Scientific Foundation for decision Making; and Building A 21st Century Department of the Interior. The Statement of Net Cost also includes Reimbursable Activity and Other, which is predominately the intra-governmental acquisition of goods and services through the Department's Working Capital Fund and Franchise Fund. Additional Strategic Plan Information is available on pages 6 and 7. FY 2011 Net Cost by mission area is displayed above.

Net Cost by Mission Area is not comparable from FY 2011 to FY 2010 due to the current year implementation of the FY 2011-2016 Strategic Plan. The FY 2010 Net Cost data is not comparable as it was presented in alignment with the FY 2007-2012 Strategic Plan that comprised four mission areas, Resource Protection; Resource Use; Recreation; and Serving Communities; plus Reimbursable Activity and Other.

Interior's net cost of operations for FY 2011 was $21,549,896 thousand. This is an increase of $4,403,830 thousand or 26 percent from the previous year's net cost of $17,146,066 thousand. The increase is primarily the result of the passage of the Claims Litigation Act of 2010, and an unfavorable ruling against Interior in another tribal case. This act authorizes, ratifies, and confirms Interior's liability resulting from the $3.4 billion settlement of the 1996 class action law suit filed by certain parties for whom Interior holds funds in trust. The settlement includes the distribution of $1.5 billion directly to individual Indians, the creation of a $1.9 billion fund to purchase highly fractionated interest in trust lands that stymie and slow the government's management, and set aside up to $60 million for education scholarships for Indian children.

Net Costs by Interior bureau component are shown in the chart below. The large increase in net costs for DO and the large decrease in net costs for BOEMRE, are a result of the transfer of the ONRR program from BOEMRE to DO in FY 2011. A description of each bureau can be found on page 8.



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

Interior's people and programs impact all Americans. The Department is the steward of 20 percent of the Nation's lands including national parks, national wildlife refuges, and public lands. Interior manages the resources on these lands and the Outer Continental Shelf. The Department of the Interior is also the largest supplier and manager of water in the 17 Western States and provides hydropower resources used to power much of the country. Interior is responsible for migratory wildlife and endangered species conservation as well as the preservation of the Nation's historic and cultural resources. The Department supports cutting edge research in the earth sciences – geology, hydrology, and biology – to inform resource management decisions at Interior and organizations all across the world. The Department of the Interior also fulfills the Nation's unique trust responsibilities to American Indians and Alaska Natives, and provides financial and technical assistance for the Insular areas.

Measured in economic terms the Interior Department supports over $363 billion in economic activity each year. Parks, refuges, monuments, and other Interior managed lands supported some 439 million visits, that produced over 388,000 jobs and contributed over $47 billion in economic activity. Conventional and renewable energy produced on Federal lands supported 1.3 million jobs and $246 billion in economic activity. The use of water, timber, and other resources produced from Federal lands supported about 370,000 jobs and $48 billion in economic activity. Grants and payments for projects ranging from the reclaiming of abandoned mines to building coastal infrastructure supported over 114,000 jobs and $10.2 billion worth of economic contributions. Funding that contributed about $1.2 billion in economic output, supported tribal governments, and provided an important mechanism to advance nation-to-nation relationships, improve Indian education, and improve the safety of Indian communities.

While Interior is committed to not only meeting, but exceeding, stakeholder expectations as it fulfills its mission responsibilities, we also understand the importance of providing good value for the activities we perform. Interior is fully cognizant of its duty to be publicly accountable for the monies it spends and for ensuring that its operations are efficient and effective in order to contribute to the nation's current and future well being. In meeting its vast array of responsibilities in FY 2011, the Department incurred $26,876,339 in gross cost, off-set by $5,326,443 in revenue, for a net operating cost of $21,549,896. The following schedule indicates the net costs incurred by each of Interiors' bureaus, and highlights some of the most significant values resulting from the incurrence of these costs.

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 41,000 Indian students through 183 schools and dormitories***
- ***Works in partnership with the more than 565 federally recognized Indian tribes to build stronger economies and safer Indian communities***

Gross Cost	$7,801,035
Earned Revenue	$468,853
Net Cost	**$7,332,182**

Bureau of Land Management

- ***Managed over 248 million acres of public land, over 11% of the U.S. land mass, supporting multiple use and sustainment.***
- ***Managed 380 recreation sites, 17 national conservation areas, and 16 national monuments hosting 59 million visitors annually***
- ***Managed 818 geothermal leases, generating more than 40% of U.S. geothermal capacity, enough to power 390,000 homes***

Gross Cost	$2,282,391
Earned Revenue	$609,004
Net Cost	**$1,673,387**

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 land, and supplied water to over 31 million non-farming citizens***
- ***Generated 40 billion kilowatt hours of energy annually, enough to power 3.7 million homes per year***

Gross Cost	$2,577,522
Earned Revenue	$1,860,762
Net Cost	**$716,760**

Departmental Offices

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

Gross Cost	$6,211,942
Earned Revenue	$2,722,206
Net Cost	**$3,489,736**

Bureau of Ocean Energy Management, Regulation and Enforcement

- ***Administered over 6,700 active mineral leases on approximately 36 million leased Outer Continental Shelf acres***
- ***Oversaw 15% of the natural gas and 27 % of the oil produced domestically***
- ***Conducted over 22,000 inspections of off-shore facilities to ensure regulatory compliance and safety***

Gross Cost	$355,884
Earned Revenue	$129,776
Net Cost	**$226,108**

National Park Service

- ***Managed 396 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 281 million visitors throughout the National Park system***
- ***Maintained over 71,000 fragile and irreplaceable archeological sites, preserving links to our countries cultural and historical past***

Gross Cost	$3,859,987
Earned Revenue	$451,204
Net Cost	**$3,408,783**

Office of Surface Mining

- ***Reclaimed 10,836 abandoned mined acres (or equivalents) to eliminate hazards to the public and abate environmental degradation***
- ***Conducted inspections and site visits on 7,675 coal mining sites and found 6,588 free of offsite impacts or 86%***
- ***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***

Gross Cost	$682,581
Earned Revenue	$1,532
Net Cost	**$681,049**

U.S. Fish and Wildlife Service

- ***Managed 555 fish and wildlife refuges and thousands of small wetlands, composing over 150 million acres of land and water***
- ***Hosted over 41 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***

Gross Cost	$3,211,888
Earned Revenue	$292,512
Net Cost	**$2,919,376**

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***

Gross Cost	$1,678,750
Earned Revenue	$496,785
Net Cost	**$1,181,965**

Analysis of Net Cost – DOI Workforce

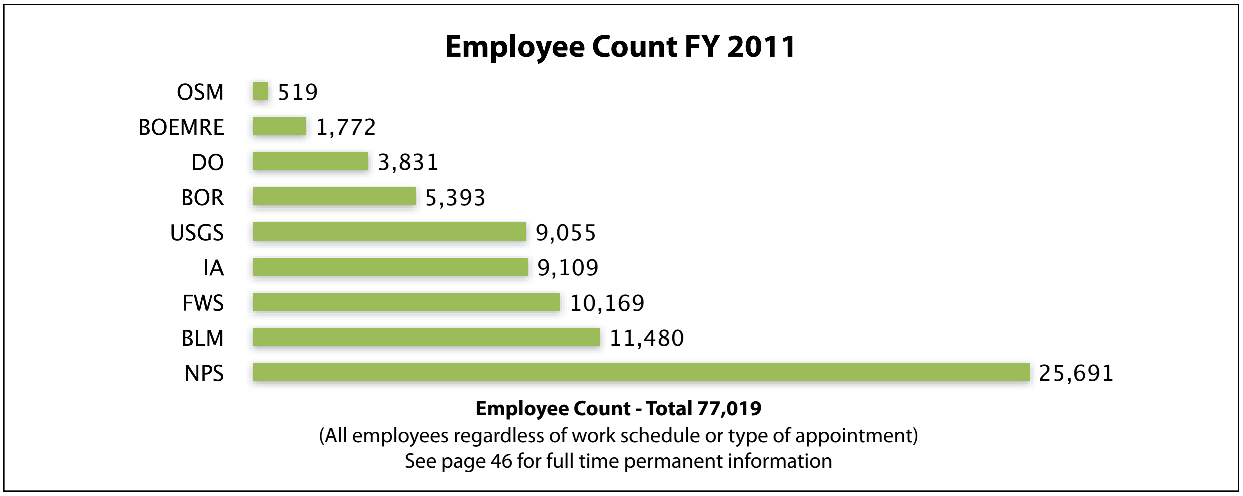
Interior costs include $6,603,917 thousand in payroll and benefit costs for employees executing Interior's mission and programs.

Interior employs 77,019 people in approximately 2,400 locations with offices across the United States, Puerto Rico, U.S. territories, and Freely Associated States.

At Interior, our employees take pride in knowing that the work they do every day is of real significance – from managing our Nation's natural resources and cultural heritage to honoring responsibilities to strengthen tribal nations and advocate for America's island communities. We rely on their expertise and commitment to better serve the public and to help achieve our organizational goals and objectives.

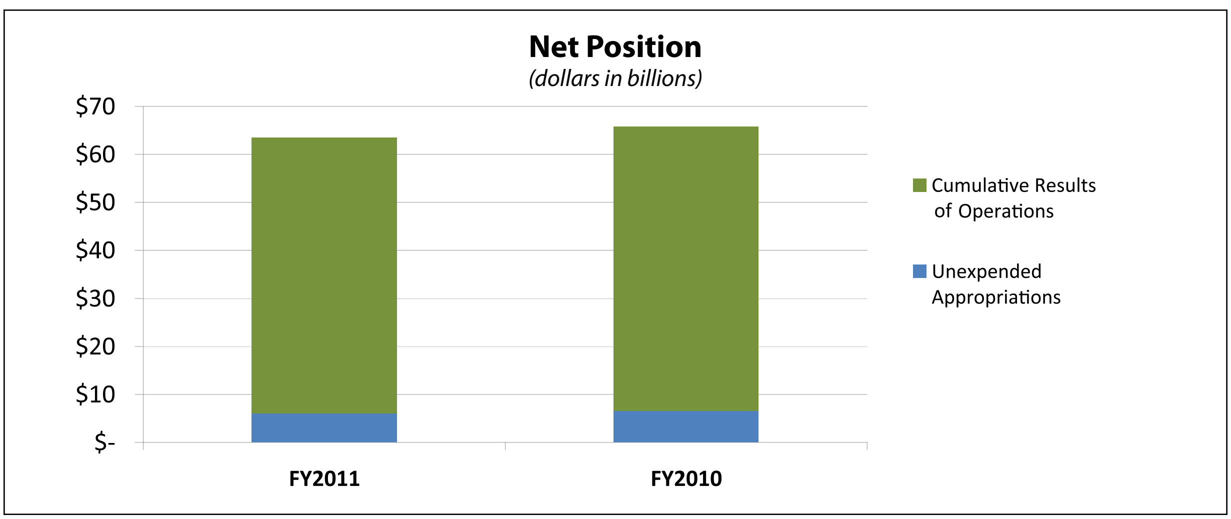
In our continuing effort to better serve America, we continue to broaden the diversity of our Department's workforce. We are committed to identifying, hiring, and retaining the best qualified individuals, wherever they are and whatever their background, so we reflect the diversity of the communities in which we operate.

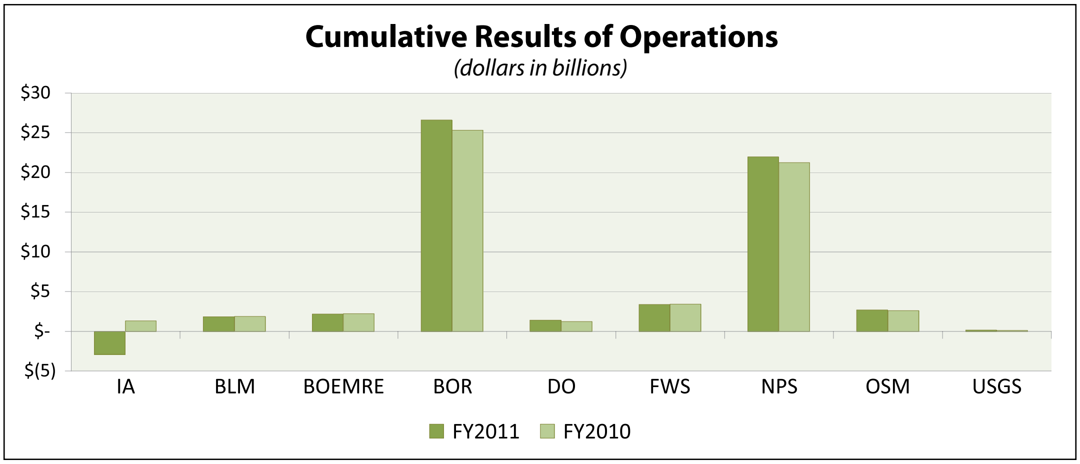
Total Payroll & Benefits	*(dollars in thousands)*
DO	$ 474,555
BLM	999,949
IA	705,668
BOR	523,897
USGS	907,085
NPS	1,796,248
FWS	935,495
OSM	57,676
BOEMRE	203,344
TOTAL	$ 6,603,917



Analysis of Net Position

The Net Position of Interior 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 Interior as a whole. At September 30, 2011 the Department's Net Position was $63,432,141 thousand of which $6,041,022 thousand was Unexpended Appropriations and $57,391,119 was Cumulative Results of Operations. The FY 2011 Net Position is a decrease of $2,430,383 thousand from the FY 2010 balance of $65,862,524 thousand. This decrease is primarily due to the settlement provided in the Indian Claims Litigation Act of 2010.



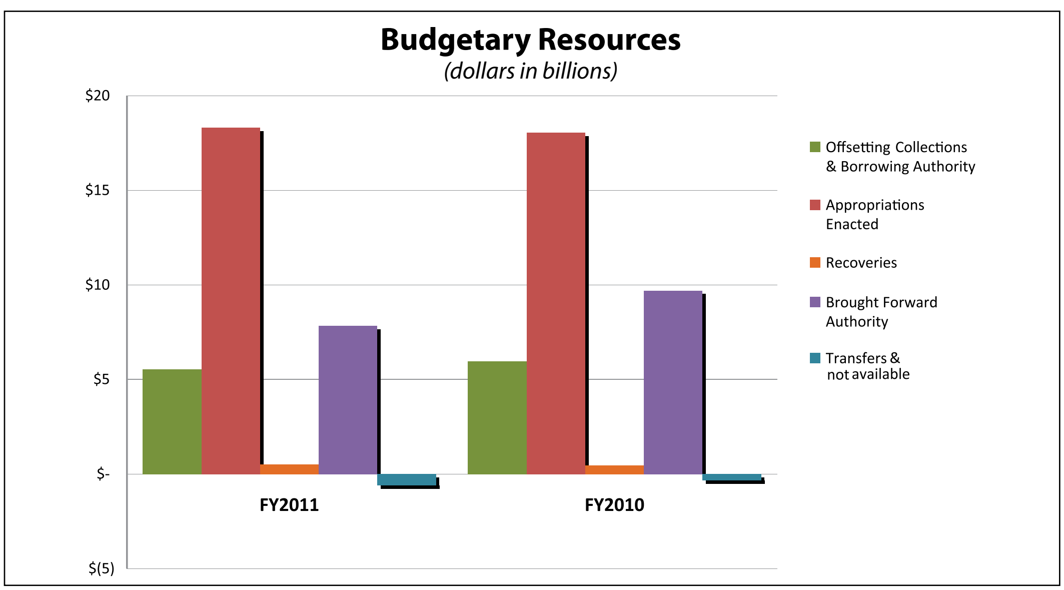


Analysis of Budgetary Resources

Interior receives most of its funding from general government funds administered by the U.S. Treasury and appropriated for Interior's use by Congress. Interior's resources consist of unobligated balances brought forward, new appropriations received during the year, spending authority from offsetting collections, and reimbursable work done for others. A portion of Interior'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 Federal budgetary outlook for 2012 and 2013 will emphasize constraint and reductions. As a result, Interior will continue to focus on identifying efficiencies and on efforts to avoid costs through operational consolidation and process reengineering. At the same time, as the Administration and Congress try to balance priorities, Interior will place additional scrutiny on the execution of discretionary funding and the appropriateness of carryover balances.

The Statement of Budgetary Resources provides information on how budgetary resources and non-budgetary credit program financing were made available to Interior for the year and their status at fiscal year-end. In FY 2011, Interior's Budgetary Resources were $31,588,627 thousand, a decrease of approximately $2,224,116 thousand from the FY 2010 amount of $33,812,743 thousand. The decrease is a result of budgetary resources available to fund ARRA activity in FY 2010 that have expired and are no longer available for obligation. Budgetary Resources are summarized in the following table.



Analysis of Budgetary Resources (continued)

Interior incurred obligations $23,976,432 thousand in FY 2011. This is a decrease of $1,992,455 thousand from obligations incurred in FY 2010 of $25,968,887 thousand. The decrease is a result of budgetary resources available to fund ARRA activity in FY 2010 that have expired and are no longer available for obligation. Additional information on the status of ARRA projects is available on the following pages 41-46.

Analysis of Net Cost Concerning the American Recovery and Reinvestment Act of 2009 (ARRA)

The American Recovery and Reinvestment Act was signed into law by President Obama on February 17, 2009. The Department of the Interior received over $2.9 billion in Recovery Act funding for eight bureaus and offices, including the Bureau of Reclamation, National Park Service, Bureau of Indian Affairs, Bureau of Land Management, Fish and Wildlife Service, and U.S. Geological Survey. In addition to these bureaus and offices receiving Recovery Act funds, the Office of the Inspector General received $15 million to provide oversight of Recovery Act implementation.

As the largest investment in public lands since the Civilian Conservation Corps of the New Deal, the Recovery Act provided the Department with a unique opportunity to create jobs while making major upgrades to its asset base and addressing longstanding challenges that will leave a historic legacy for generations to come. At the same time, the Act has provided DOI with an opportunity to direct significant investment towards Departmental goals. The Recovery Act provided an opportunity to accelerate a move toward a clean energy economy by directly supporting the use and generation of renewable sources and reducing energy consumption by improving energy efficiency in existing facilities; put young adults to work in jobs that provide an opportunity to build employable skills and develop an appreciation for environmental stewardship; and preserve and restore the Nation's iconic and treasured structures, landscapes, and cultural resources.

"These investments in our American landscapes and icons are the Nation's most significant since President Franklin D. Roosevelt, in the midst of the Great Depression, put people to work building the trails, roads, water systems, and other public lands infrastructure that we still enjoy today. This is our time—through the investments we make in our Nation's treasures, in renewable energy, and in opportunities for youth—to create a lasting legacy for our children and grandchildren."

-Secretary Salazar
February 20, 2009,
Media Roundtable at DOI

The Recovery Act investment funded some 3,900 projects. The ARRA funding has been used for projects in parks, refuges, and public lands throughout the nation; to improve conditions in Indian Country; to strengthen the Department's scientific infrastructure; and for water projects throughout the Western States. To view additional information about Interior's Recovery Act program, please visit *http://recovery.doi.gov/*.

Interior's Recovery Act program is geographically dispersed involving headquarters, regional, and local staff from across the Department, in addition to thousands of contractors, cooperators, and tribes. During Fiscal Year 2011, the Department of the Interior made significant progress towards the completion of its Recovery Act program. One thousand four hundred and fifty projects were substantially completed during Fiscal Year 2011. Interior has now outlayed over 80% of its Recovery Act funds in comparison to the 39% at the end of Fiscal Year 2010.

ARRA Milestones and Progress at the Department of the Interior

While the types of projects funded by ARRA are different, each project is monitored through the use of three milestones. These milestones are awarded, mobilized, and substantially complete. The DOI bureaus track each project to these three milestones, which help those responsible for project oversight and monitoring to evaluate if the projects are being completed on time, within budget, and in line with the goals of ARRA. Milestone tracking also supports the Department's effort to monitor ARRA implementation at the portfolio level. Provided below are definitions of these three project milestones and their importance to effectively monitor and oversee the activities of the program.

- **Awarded** indicates that the bureau has successfully issued an award for the activities of the project. Once a project is awarded, contractors are provided with contracting documentation that enables them to begin the planning for the project. This may involve hiring resources, purchasing materials, or creating teaming agreements that help stimulate the economy.

- **Mobilized** indicates that the project activities have started on the ground. A mobilized project is one where people and/or resources are currently being leveraged on the project site. To execute the work, contractors may need to hire additional resources or execute teaming agreements to properly staff the project. They may also fully utilize their own teams to execute the contract requirements, which help to keep people employed and funding moving through the economy.

- **Substantially Complete** indicates that project activities are 90 percent complete according to the project outlays. Outlays are an indicator used to assess payments provided to the contractor by the government for services rendered. If a project is substantially complete, this indicates that the contractor has successfully invoiced and received 90 percent of the value of the project. The funding provided to the contractor allows the contractor to retain and/or hire additional employees, which is a key goal of ARRA.

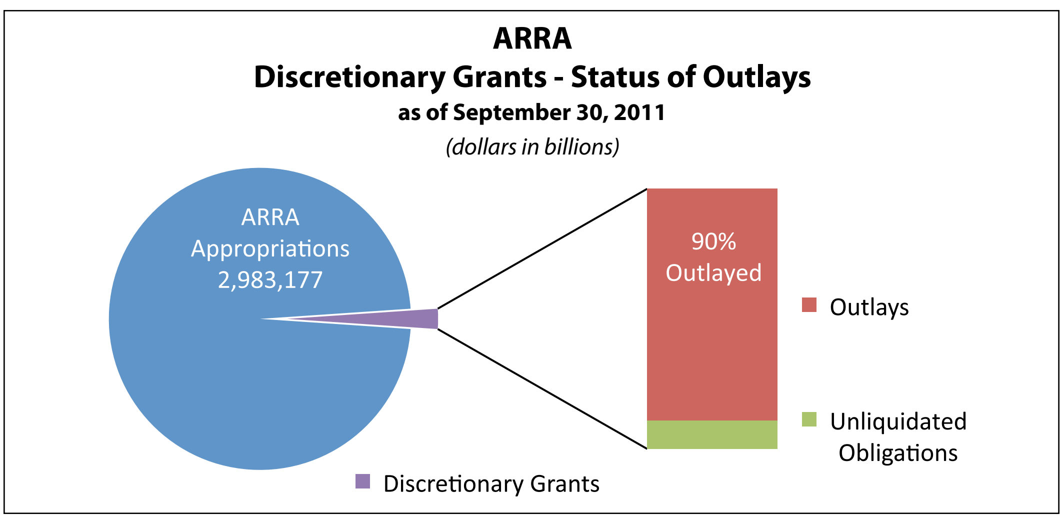
Milestones

Milestone tracking is an important element of monitoring and overseeing the DOI ARRA implementation. The table below shows milestone progress as of September 30, 2011, and highlights milestone achievements relative to the total number of projects.

	By Count		
Milestones (through 9/30/2011)	**Current Actual**	**Total Projects**	**Percent Achieved**
Awarded	3,871	3,871	100%
Mobilized	3,866	3,871	100%
Substantially Complete	3,222	3,871	83%

Discretionary Grants

Interior awarded $64 million in discretionary grants from ARRA appropriations. The majority of grants awarded have been outlayed as of September 30, 2011. In support of OMB memorandum M-11-34, *Accelerating Spending of Remaining Funds from the American Recovery and Reinvestment Act for Discretionary Grant Programs*, existing unliquidated obligations for discretionary grants are expected to be outlayed in FY 2012 and FY 2013. Outlays are not currently scheduled to extend beyond FY 2013.



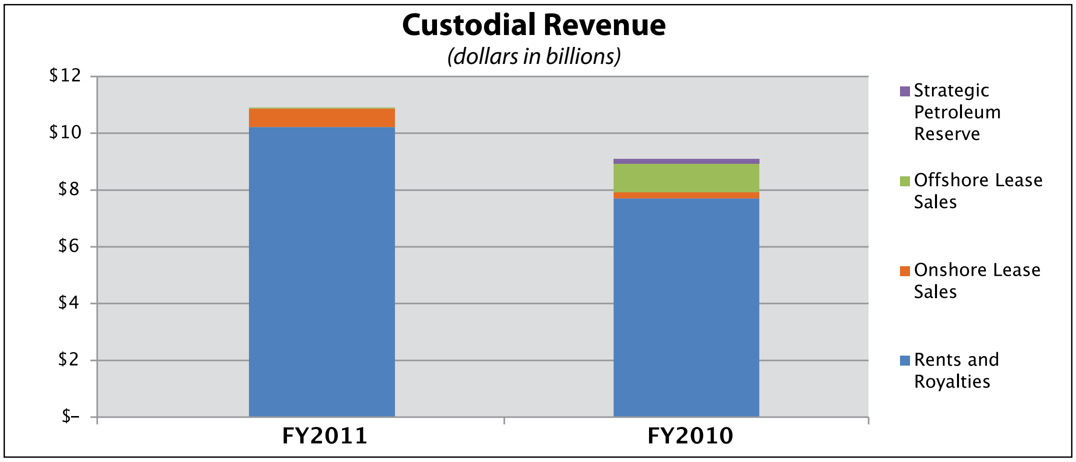
Financial Update

The table below provides an overview of the Department's ARRA obligations and outlays, by bureau, through September 30, 2011.*

Bureau	Appropriation *dollars in thousands*	Appropriation	Obligations through 9/30/2011	% of Appropriation Obligated	Outlays through 9/30/2011	% of Appropriation Outlayed
BLM	Management of Lands and Resources Recovery Act 14-1108	$ 123,135	$ 121,195	98%	$ 93,225	76%
	Construction 14-1112	180,975	179,198	99%	165,335	91%
	Total	**$ 304,110**	**$ 300,393**	**99%**	**$ 258,560**	**85%**
BOR	Water / Related Resources 14-0681	919,462	903,402	98%	675,403	73%
	Water / Related Resources (14-0681,2012)	2,249	1,548	69%	1,485	66%
	Working Capital Fund	27,980	27,980	100%	27,822	99%
	Total	**$ 949,691**	**$ 932,930**	**98%**	**$ 704,710**	**74%**
CUPCA	**Central Utah Project Completion 14-0786**	**$ 50,000**	**$ 49,710**	**99%**	**$ 49,710**	**99%**
FWS	Resource Management 14-1610	164,596	164,522	100%	155,605	95%
	Construction-14-1613	114,719	114,668	100%	97,219	85%
	Total	**$ 279,315**	**$ 279,190**	**100%**	**$ 252,824**	**91%**
IA	Operation of Indian Programs 14-2101	42,944	42,749	100%	42,373	99%
	Construction 14-2302	445,596	442,814	99%	351,761	79%
	Indian Guaranteed Loan 14-2629	3,178	3,178	100%	3,178	100%
	Total	**$ 491,718**	**$ 488,741**	**99%**	**$ 397,313**	**81%**
NPS	Operation of the National Park System 14-1035	146,000	145,774	100%	140,377	96%
	Construction14-1041	587,240	586,547	100%	479,977	82%
	Historic Preservation Fund 14-5541	14,925	14,912	100%	4,842	32%
	Total	**$ 748,165**	**$ 747,233**	**100%**	**$ 625,196**	**83%**
USGS	**Surveys, Investigations, and Research 14-0803**	**$ 139,591**	**$ 139,337**	**100%**	**$ 129,774**	**93%**
FIRE	**Wildland Fire Management 14-1126**	**$ 15,000**	**$ 14,284**	**95%**	**$ 13,904**	**93%**
WCF	**DOI Working Capital Fund**	**$ 5,586**	**$ 5,563**	**100%**	**$ 5,491**	**98%**
TOTAL		**$ 2,983,176**	**$ 2,957,381**	**99%**	**$ 2,437,482**	**82%**

Analysis of Custodial Activity

Mineral leasing revenue collected by Interior includes Outer Continental Shelf and onshore oil, gas, and mineral sales and royalties. In accordance with Federal accounting standards, receipts from mineral leasing revenue are presented in Interior's Statement of Custodial Activity. This activity is considered to be revenue of the Federal Government as a whole and is therefore excluded from Interior's SNC. Mineral leasing revenue was $10,901,740 thousand and $9,085,364 thousand as of September 30, 2011, and September 30, 2010, respectively. This increase in Mineral leasing revenue is a result of an overall increase in commodity prices compared to this time last year, yielding greater royalty values combined with the reduction of revenue in the prior year due to the loss of the "Kerr-McGee" case. Custodial revenue is summarized in the table below.



Analysis of Custodial Activity Related to the Deepwater Horizon Oil Spill

On July 15, 2010, BOEMRE sent a letter to BP indicating to them that royalties were due immediately on the oil and gas captured from the Macondo well. On August 24, 2010, BOEMRE sent similar letters to MOEX OFFSHORE and Anadarko Petroleum informing them that they were responsible for their share of royalties due on oil and gas captured from the Macondo well. BP held 65 percent record title in the lease, Anadarko held 25 percent record title, and MOEX held 10 percent record title. Under 30 USC 1712, the person owning operating rights in a lease shall be primarily liable for its pro rata share of payment obligations under the lease.

The most recent estimates provided by the Flow Rate Technical Group (FRTG) as of August 2, 2010 were that 4.9 million barrels of oil had been released from the well. It also estimated that burning, skimming, and direct recovery from the wellhead removed 25 percent of the oil released from the well. BP, MOEX OFFSHORE and Anadarko Petroleum have reported and paid royalties of approximately $8.1 million on oil captured from the Macondo well through FY 2011. The companies may also be responsible for paying royalties for oil and gas lost or wasted from the Macondo well if the unrecovered oil is deemed "avoidably lost", and other legal criteria are met.

Stewardship Investments

Stewardship investments represent expenses charged to current operations that are expected to benefit the Nation over time. Interior's Stewardship Investments include research and development programs, investments in human capital, and investments in non-Federal physical property. Stewardship investments are summarized in the following table.

Interior's reported values for Property, Plant, and Equipment exclude stewardship assets because they are considered priceless and do not have an identifiable value. Therefore, monetary amounts cannot be assigned. An in-depth discussion of these assets is presented in the Notes to the Financial Statements Section and the Required Supplementary Information section of the Agency Financial Report.

Stewardship Investments				
(in thousands)	FY 2011	FY 2010	Change	% Change
Non-Federal Physical Property	$ 817,000	$ 765,000	$ 52,000	6.8%
Research and Development	$ 939,000	$ 1,123,000	$ (184,000)	-16.4%
Human Capital	$ 727,000	$ 688,000	$ 39,000	5.7%

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

Key Financial Measures *(dollars in thousands)*	FY 2011	FY 2010	Increase/ (Decrease)	% Change
Fund Balance with Treasury	$ 43,662,297	$ 42,361,746	$ 1,300,551	3.1%
Investments	6,748,319	7,290,305	(541,986)	-7.4%
PP&E, Inventory, and Related Property	20,583,571	19,896,900	686,671	3.5%
Accounts, Loans and Int Receivable & Other	7,008,117	6,786,131	221,986	3.3%
Assets	**$ 78,002,304**	**$ 76,335,082**	**$ 1,667,222**	**2.2%**
Accounts & Grant Payable	1,774,506	1,931,856	(157,350)	-8.1%
Employee & Veterans Benefits	1,483,240	1,463,623	19,617	1.3%
Environmental, Disposal, Contingent	4,887,533	495,692	4,391,841	886.0%
Custodial Liability	1,200,865	1,079,820	121,045	11.2%
Advances & Deferred Revenue	1,105,420	1,178,760	(73,340)	-6.2%
Treasury General Fund	1,828,365	1,820,533	7,832	0.4%
Other, Debt, Loan Guarantees	2,290,234	2,502,274	(212,040)	-8.5%
Liabilities	**$ 14,570,163**	**$ 10,472,558**	**$ 4,097,605**	**39.1%**
Unexpended Appropriations	6,041,022	6,593,065	(552,043)	-8.4%
Cumulative Results of Operations	57,391,119	59,269,459	(1,878,340)	-3.2%
Net Position	**$ 63,432,141**	**$ 65,862,524**	**$ (2,430,383)**	**-3.7%**
Indian Affairs	7,332,182	3,221,057	4,111,125	127.6%
Bureau of Land Management	1,673,387	1,824,869	(151,482)	-8.3%
Bureau of Reclamation	716,760	1,090,171	(373,411)	-34.3%
Departmental Offices	3,489,736	1,217,722	2,272,014	186.6%
Bureau of Ocean Energy Management, Regulation & Enforcement	226,108	2,015,296	(1,789,188)	-88.8%
National Park Service	3,408,783	3,348,574	60,209	1.8%
Office of Surface Mining	681,049	608,244	72,805	12.0%
U.S. Fish & Wildlife Service	2,919,376	2,722,086	197,290	7.2%
U.S. Geological Survey	1,181,965	1,188,931	(6,966)	-0.6%
Eliminations	(79,450)	(90,884)	11,434	-12.6%
Net Costs - by Bureau	**$ 21,549,896**	**$ 17,146,066**	**$ 4,403,830**	**25.7%**
Rents and Royalties	10,216,122	7,703,199	2,512,923	32.6%
Onshore Lease Sales	648,822	212,879	435,943	204.8%
Offshore Lease Sales	36,796	1,015,069	(978,273)	-96.4%
Strategic Petroleum Reserve	0	154,217	(154,217)	-100.0%
Total Custodial Revenue	**$ 10,901,740**	**$ 9,085,364**	**$ 1,816,376**	**20.0%**

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.

Key Budgetary Measures *(dollars in thousands)*	FY 2011	FY 2010	Increase/ (Decrease)	% Change
Brought Forward Authority	$ 7,843,856	$ 9,703,416	$ (1,859,560)	-19.2%
Recoveries	508,895	459,239	49,656	10.8%
Appropriations Enacted	18,307,167	18,042,865	264,302	1.5%
Borrowing Authority	18,802	7,620	11,182	146.7%
Offsetting Collections Authority	5,502,842	5,931,026	(428,184)	-7.2%
Transfers & Not Available	(592,935)	(331,423)	(261,512)	78.9%
Total Budgetary Resources	**$ 31,588,627**	**$ 33,812,743**	**$ (2,224,116)**	**-6.6%**
Obligations Incurred	23,976,432	25,968,887	(1,992,455)	-7.7%
Unobligated Balance Available	7,455,159	7,655,235	(200,076)	-2.6%
Unobligated Balance Not Available	157,036	188,621	(31,585)	-16.7%
Status of Budgetary Resources	**$ 31,588,627**	**$ 33,812,744**	**$ (2,224,117)**	**-6.6%**

Bureau / Office Full Time Permanent Employee Information	FTP	Total
IA	5,216	9,109
BLM	9,408	11,480
BOEMRE	1,733	1,772
BOR	5,014	5,393
DO	3,532	3,831
FWS	8,498	10,169
NPS	16,302	25,691
OSM	467	519
USGS	7,065	9,055
Total Employees by Bureau	**57,235**	**77,019**

On January 24, 2011 the Interior issued a new Strategic Plan for Fiscal Years 2011 – 2016. The plan is the result of an 18 month process to integrate Interior's diverse activities and develop a unified approach to key goals for stewardship of lands and resources; responsible development of energy minerals, and other resources; enhancing the government-to-government relationship with Indian Tribes and Alaska Natives and upholding commitments to Insular areas; establishing a scientific foundation for decision making; and creating a 21st Century Department of the Interior. As we look ahead, Interior is committed to continuing its efforts in meeting these goals.

Interior manages 20 percent of the land mass of the United States and 1.7 billion acres of the Outer Continental Shelf. Interior is the steward of lands, waters, wildlife, and cultural and historic resources. Interior also fulfills special responsibilities to Native Americans as the manager of one of the largest land trusts in the world – over 10 million acres owned by individual Indians and 46 million acres held in trust for Indian tribes.

Energy generated from public lands powers America's homes and businesses; mineral and timber resources are building blocks for the products consumed; grazing helps supply food; and the landscapes, recreational opportunities, and cultural properties draw visitors to Interior lands and support jobs and businesses in surrounding communities. These important functions and many others are administered by Interior's 77,019 employees.

Interior also continues to place great emphasis on addressing its major management and performance challenges. As outlined in the accompanying Inspector General's Statement, Interior is facing major management and performance challenges in the areas of energy management, climate change, water programs, responsibility to Indians and Insular Areas, Cobell and Indian land consolidation, and operational efficiencies. Interior's goals focus on meeting these challenges, but more importantly support America's future. We understand our responsibility to America and look forward to the challenges and opportunities ahead. Moving forward, Interior will:

- Create jobs, reduce the Nation's dependency on foreign oil, and reduce carbon impacts. Interior is focused on implementing a comprehensive, New Energy Frontier strategy. The Departments goal is to significantly increase the approved capacity for renewable energy production on Interior managed lands, with an increase to at least 10,000 megawatts by the end of 2012.

- Solidify reforms in the management of offshore energy programs. On October 1, 2011, the Department completed its restructuring of the offshore oil and gas program by establishing the Bureau of Ocean Energy Management and the Bureau of Safety and Environmental Enforcement. Along with the creation of the Office of Natural Resources Revenue on October 1, 2010, this completed the reorganization first announced in a May 19, 2010 Secretarial Order to reorganize the former Minerals Management Service. As we move ahead Interior will leverage these reforms to encourage safe and effective offshore exploration.

- Work diligently to address the issues that caused the Government Accountability Office to place the Department's management of oil and gas on leased Federal lands and waters on its "High-Risk List". Among other things, the Department's Office of Natural Resources Revenue is taking steps to improve the quality and reliability of company-reported royalty and production data and perform independent inspections to address production verification issues.

- Continue to confront the challenges of a changing climate that impacts the American landscape. Through an integrated strategy that leverages expertise across the Department, the Federal government, and with outside partners, Interior will identify resources that are vulnerable to climate change and implement coordinated adaption response actions for 50 percent of the Nation by the end of 2012.

- Continue its efforts to tackle the water challenges facing the county. WaterSMART, Interior's sustainable water strategy, will assist local communities in stretching water supplies and improving water management. A Priority Performance Goal has been established to enable capability to increase water supply for agricultural, municipal, industrial, and environmental uses in the Western United States. Through Bureau of Reclamation programs including water reuse and recycling and WaterSMART grants, The Department's goal is to increase available water supplies in the west by 163,000 acre-feet by the end of 2012.

- Honor its trust responsibilities and strengthen Tribal Nations. Over the next 24 months, Interior's goal is to reduce violent crimes on targeted tribal reservations by at least five percent.

- Conduct tribal consultation meetings throughout the Nation. These meetings are an important step in Departmental efforts to develop a comprehensive plan to reduce fractionation and prepare for the planning and implementation of the prospective Indian land consolidation project.

- Engage America's youth in the great outdoors. We will continue to employ, educate, and engage young people from all backgrounds in exploring, connecting with, and preserving America's natural and cultural heritage. In 2012, we will continue concerted efforts to effectively employ or otherwise engage individuals aged 18-25.

- Share the lead in protecting, improving, and providing greater access to natural areas and their resources through America's Great Outdoors program. In partnership with citizens, community groups, and local, state, and tribal governments will work to leave a healthy, vibrant legacy for the future.

- Begin planning activities with the National Aeronautics and Space Administration for an operational Landsat program. Over the next several months Interior will begin gathering and prioritizing Federal user community requirements for land image data, conduct trade studies on key design alternatives related to the development of the imaging device, initiate the procurement process through NASA for the Landsat 9 instrument and spacecraft, and establish a science advisory team.

- Change the way Interior manages travel, employee relocation, acquisition of supplies and printing, and the use of advisory services, in order to cut administrative costs and meet the goals of the Administration's Accountable Government Initiative. The Departments goal is to reduce administrative costs by nearly $100 million in 2012.

Interior's goals over the near and far term must be viewed in the context of the difficult fiscal times facing the Nation. We have worked tirelessly to evaluate our programs to identify the highest priority requirements while shrinking spending. We understand that to meet these conflicting requirements we must find creative solutions to reducing low priority programs, deferring lower priority projects, reducing redundancy, streamlining management, and capturing efficiencies and savings.

The Fiscal Year 2011 audit is Interior's 15th consecutive unqualified opinion on the consolidated financial statements. We are proud of this sustained achievement 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, Interior's managers understand the need to be accountable, the challenges of operating cost effective and efficient programs, and the fact that sound financial management is a cornerstone of program performance.

Interior's mission is vast in economic and physical terms and in terms of the impacts on the American Public. Interior 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, the Department's lands produce approximately 30 percent of the Nation's energy. The Department 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. Interior 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, the auditors identified a material weakness in internal controls related to our legal contingent liability reporting process. As a result of the material weakness, we are non-compliant with the Federal Financial Managers Integrity Act as it pertains to compliance with accounting standards.

We also report on three 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 2012. In FY 2011, we closed 88 percent of the corrective actions in our goal base related to Government Accountability Office and Office of the Inspector General findings.

The Department is also working diligently to correct audit weaknesses and instances of noncompliance identified as a result of the FY 2010 and FY 2011 audits. We have implemented a significant number of the recommendations noted during the FY 2010 and FY 2011 audits and have fully closed three of the seven 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 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.

While we do not want to understate our weaknesses and challenges, we have had many positive results over the past year. First, in FY 2011, the Department continued the migration to FBMS with the deployment of the U.S. Geological Survey in November 2010. We are also on schedule to successfully meet the rest of our planned deployments with Departmental Offices and the U.S. Fish and Wildlife Service "going-live" in

November 2011. We are working on improvements to the system to support user needs and to garner value from the system. We took lessons learned from an independent, third-party review of the system completed in FY 2011 that allowed us to streamline blueprinting and reduce costs for modifications, improved training, and user acceptance.

The Department is also exploring other opportunities to leverage its information technology infrastructure for more efficient operations and savings. This past July, the Department released its information technology (IT) Transformation Strategic Plan, found at *http://www.doi.gov/ocio/IT_Transformation.html*. This plan is a major efficiency initiative that will leverage modern technology to save up to $500 million in taxpayer dollars by 2020. The plan's high-level road map will guide the transformation of Interior'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 the Department 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 forms, documents, records, and content management.

In January 2011, we published our 2011-2016 Strategic Plan in accordance with the Government Performance and Results Act of 1993 and the GPRA Modernization Act of 2010. The plan can be found at *www.doi.gov/bpp/data/PPP/DOI_StrategicPlan.pdf* and presents a new vision for the Department. It incorporates input from citizens, Congress, Federal employees, Indian tribes, and other organizations. The plan provides a simpler and more strategic set of goals and strategies with more finite and focused performance measures. The plan also establishes a set of Priority Goals that focus efforts on near term achievements in renewable energy, sustainable water management and conservation, climate change adaption, youth in natural resources, and improved safety of Indian communities. Both the longer term strategic goals and the shorter term priority goals are being used to focus the efforts of our many programs over the next five years. In conjunction with the GPRA Modernization Act of 2011, the Department has designated a Chief Operating Officer, a Performance Improvement Officer, and is conducting quarterly data-intensive reviews of its goals. These actions reflect our commitment to advance the Department's strategic and priority performance goals.

The Department continues to make strides in implementing its Acquisition Improvement Plan and in 2011 realized a savings of 10.4 percent from the 2009 baseline by reducing high-risk contracting, strengthening the acquisition workforce, and increasing collaboration and cooperation in the acquisition community to achieve efficiencies. Key among our efforts is our focus on strategic sourcing to promote acquisition from common contract vehicles thereby achieving economies of scale and savings, standardizing the use of equipment and maintenance, while ensuring continued high levels of award to small businesses.

The Department has been successful in realizing benefits from our Service First initiative. The Bureau of Land Management and U.S. Forest Service have demonstrated effective program delivery through coordination at the local level. By sharing space, equipment, personnel and programs, these entities have achieved improved delivery to the public while reducing costs. In order to create an environment that provides incentives for improved program delivery the Department's broadened Service First initiative 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.

The Department 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, the Department's overarching mission. The Strategic Sustainability Performance Plan, found at *www.doi.gov/greening/sustainability_plan/SSPP.pdf*, supports this vision by integrating sustainability within Departmental operations and reducing our green house gas emissions which, in turn, further demonstrates Interior's commitment to conservation, protection, and the responsible use of natural and cultural resources.

The Department continues to execute the requirements of the American Recovery and Reinvestment Act. At the close of FY 2011, 83 percent of the Department's 3,942 ARRA funded projects were substantially complete. The Department has also expended $2.4 billion, or 81 percent of available funds. Oversight of the ARRA program requires rigorous control and oversight to balance the requirements of speed, quality, and accountability to ensure that ARRA funds are executed quickly and accurately.

Other noteworthy accomplishments achieved in FY 2011 include:

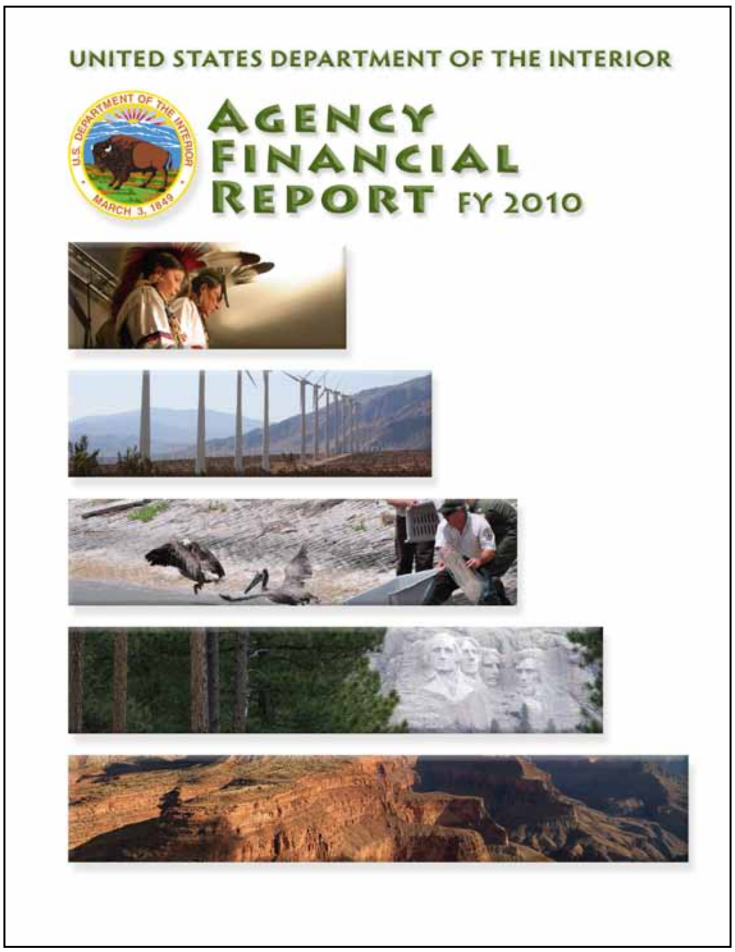
- Receiving the Association of Government Accountants' Certificate of Excellence in Accountability Reporting, as well as a "best in class" class recognition award for our Summary of Performance and Financial Information. This marks the 11th consecutive year that Interior has been recognized for quality reporting by CEAR.
- Exceeded the Department's annual goal of closing 85 percent of prior year OIG and Government Accountability Office audit recommendations. This accomplishment demonstrates our commitment to addressing audit findings in order to provide better management across the Department.
- 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.

This Agency Financial Report provides timely information that the American Public can use to better understand Interior's programs. We hope that you find it useful and that you will follow our progress in advancing the Department'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/finstate/index.html.*

Rhea Suh
Assistant Secretary – Policy, Management and Budget
and Chief Financial Officer
November 15, 2011

CERTIFICATE OF EXCELLENCE IN ACCOUNTABILITY REPORTING

We are pleased to present our FY 2010 Certificate of Excellence in Accountability Reporting (CEAR)© 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 2010, Interior was also one of eight agencies to be awarded a "Best in Class" award, for the Summary of Performance and Financial Information. 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.



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

NOV 15 2011

Memorandum

To: Secretary Salazar

From: Mary L. Kendall
Acting Inspector General

Mary L. Kendall

Subject: Independent Auditors' Report on the U.S. Department of the Interior Financial Statements for Fiscal Years 2011 and 2010
Report No. X-IN-MOA-0006-2011

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) 2011 and 2010. 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 FY2011 and FY2010 financial statements. The contract required that the audit be performed in accordance with the "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. However, KPMG identified one material weakness and three significant deficiencies in internal controls over financial reporting. In addition, KPMG identified two instances in which DOI did not comply with laws and regulations, specifically, the Single Audit Act Amendments of 1996 and the Federal Financial Management Improvement Act 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, the 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 auditors' report, and the conclusions expressed in it. 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 the OIG requires semiannual reporting to the 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.

Attachments

KPMG LLP
2001 M Street, NW
Washington, DC 20036-3389

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, 2011 and 2010, 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 2011 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, 2011 and 2010, are presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles.

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

Material Weakness
A. Controls Over Contingencies

Significant Deficiencies
B. Information Technology Controls Over Financial Management Systems
C. Controls Over Undelivered Orders
D. Grant Monitoring Controls

The results of our tests of compliance with certain provisions of laws, regulations, contracts, and grant agreements disclosed the following instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, issued by the Comptroller General of the United States, and Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*, as amended:

E. *Single Audit Act Amendments of 1996*
F. *Federal Financial Management Improvement Act 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, 2011 and 2010, 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, 2011 and 2010, 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.

The information in the Management's Discussion and Analysis, Required Supplementary Information, and Required Supplementary Stewardship Information sections is not a required part of the financial statements, but is supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of this information. However, we did not audit this information and, accordingly, we express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the financial statements taken as a whole. 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 purposes of additional analysis and is not required as part of the financial statements. This information has not been subjected to auditing procedures and, accordingly, we express no opinion on it.

Internal Control Over Financial Reporting

Our consideration of the 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 significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, in our fiscal year 2011 audit, we identified a deficiency in internal control over financial reporting that we consider to be a material weakness and other deficiencies that we consider to be significant deficiencies.

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 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. We consider the deficiency described below to be a material weakness.

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A. Controls Over Contingencies

Interior should improve controls to ensure contingencies for asserted and unasserted litigation, claims, and assessments (i.e., matters) are promptly and accurately recorded or disclosed and properly classified. Interior prepares a summary letter for each matter that Interior used to determine the estimated contingent liabilities reported on the balance sheet and estimated potential losses disclosed in the notes to the financial statements; however, Interior did not consistently prepare the summary letters because the progress of the case noted in the summary letter was not consistent with the government's response, outcome of the matter, and estimated range of loss documented in the summary letters for certain matters. In addition, Interior did not consistently update the outcome of the matter and estimated range of loss documented in the summary letters for progress that occurred.

Interior did not consistently prepare and update the summary letters because individuals responsible for preparing and updating the summary letters had limited time due to competing priorities and management did not effectively review the summary letters. As a result, the summary letters understated the contingent liabilities reported on the balance sheet by approximately $855 million, understated the estimated upper end of the range of loss for probable matters by approximately $813 million, overstated the estimated lower end of the range of loss for reasonably possible matters by approximately $954 million, and overstated the estimated upper end of the range of loss for reasonably possible matters by approximately $976 million. In response to our findings, Interior corrected the summary letters and adjusted the contingent liabilities reported on the balance sheet and estimated potential losses disclosed in the notes to the financial statements.

Recommendations
We recommend that Interior improve controls over contingencies for asserted and unasserted litigation, claims, and assessments as follows:
1. Dedicate sufficient resources to prepare, update, and review the summary letters.
2. Provide training to summary letter preparers and reviewers on what should be documented in the summary letters, when to designate a matter as probable versus reasonably possible or remote, and the need to consistently prepare all sections of the summary letters.
3. Continue to have finance team members review the summary letters and meet with the solicitor's office to discuss matters.
4. Require managers to review the summary letters to ensure that the summary letters are updated and that all sections of the summary letter are consistent and document evidence of their review.

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

A 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. We consider the deficiencies described below to be significant deficiencies.

B. 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. One Interior component had user access policies that were not consistent with Interior's Department-wide guidance. In addition, Interior did not consistently approve user access before granting access, document review and approval of user access, recertify user access, and maintain user access documentation for six applications. Interior also did not consistently remove terminated users' access to six applications timely. Furthermore, Interior did not establish controls over contractor access to applications. Additionally, Interior did not limit access to audit log configuration to appropriate personnel for one application. Finally, Interior did not consistently configure applications to prepare audit logs, review audit logs, or document that audit log reviews were completed for two applications.

2. *Configuration Management*
   Configuration management controls ensure that only authorized programs and modifications are implemented. Interior did not restrict access to appropriate personnel for one application. In addition, Interior did not consistently maintain test documentation for changes made to two applications and did not maintain an inventory of changes for another application. Furthermore, Interior did not effectively segregate responsibilities for testing and migrating changes in one application. Finally, Interior did not fully segregate conflicting user responsibilities in three applications.

3. *Service Continuity*
   Service continuity plans protect information resources, minimize the risk of unplanned interruptions, and recover critical operations should interruptions occur. Interior did not have a formal approved contingency plan for one application.

Recommendations
We recommend that Interior continue to improve the information technology controls over its financial management systems to ensure adequate security and protection of the systems as follows:
1. Issue consistent user access policies, approve user access before granting access, document review and approval of user access, recertify user access, maintain user access documentation, remove access for terminated users, establish controls over contractor access to applications, limit access to audit log configuration, prepare audit logs, review audit logs, and document audit log reviews.
2. Restrict application access to appropriate personnel, maintain test documentation for changes made to applications, maintain an inventory of changes, and segregate responsibilities.
3. Finalize and approve the contingency plan.

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

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C. Controls Over Undelivered Orders

Interior obligates its budgetary resources when placing orders with other federal entities and public organizations and reduces the order balances as goods and services are received. Interior policies require Interior components to review and certify undelivered orders quarterly and to de-obligate invalid obligations. Although Interior has improved compliance with its policies, Interior should continue improving the effectiveness of the review and certification procedures because Interior incorrectly certified undelivered orders of approximately $52 million. In addition, Interior did not review and approve 3 of the 45 de-obligation transactions tested. Finally, Interior recorded invalid recoveries or did not record recoveries of undelivered orders timely for approximately $49 million. As a result of our observations, Interior analyzed and adjusted its undelivered orders and recoveries.

Recommendations
We recommend that Interior improve controls over its undelivered orders as follows:

1. Provide training to program and finance personnel on certifying and closing out undelivered orders and review and approval of de-obligation transactions.
2. Improve the effectiveness of the review and certifications of undelivered orders.
3. Monitor and close out, as appropriate, undelivered orders with minimal to no activity during the past three months, on at least a quarterly basis.
4. Analyze system-generated recoveries to ensure that the transactions are valid recoveries.

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

D. Grant Monitoring Controls

Interior should improve controls over grant monitoring as 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 have a complete listing of grant awards or grantees to ensure that it monitored grantees, obtained single audit reports, and issued management decisions on audit findings. In addition, Interior did not clearly define and 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 5 of 58 grantees tested and did not issue management decisions on audit findings within six months after receipt of single audit reports for 3 of the 58 grantees tested. Interior also did not obtain or follow up on past due financial, narrative, and progress reports for 10 of the 64 grantees tested. Finally, Interior did not review 4 of the 44 grantees' financial reports tested.

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

1. Maintain a complete and accurate listing of grantees to enable monitoring of grantees, receipt of single audit reports, and issuance of management decisions on findings.
2. Revise the grant monitoring policies and procedures to clearly define who is responsible for following up on single audit reports not received and issuance of management decisions on findings.
3. Communicate the updated grant monitoring policies and procedures to those responsible for implementing such policies and procedures.

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4. 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.
6. Review the financial reports that are received.

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

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 are described below.

E. *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 2012, Interior obtain 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 instances, described below, where Interior's financial management systems did not substantially comply with applicable Federal accounting standards. The results of our tests of FFMIA disclosed no instances in which Interior's financial management systems did not substantially comply with Federal financial management systems requirements and the United States Government Standard General Ledger at the transaction level.

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F. *Federal Financial Management Improvement Act of 1996*

Interior is required to prepare its financial statements in accordance with applicable Federal accounting standards. As discussed in the Internal Control Over Financial Reporting section of this report, we identified a material weakness related to controls over contingencies that affected Interior's ability to prepare its financial statements in accordance with Federal accounting standards. As a result of these deficiencies, Interior's financial management systems did not substantially comply with the applicable Federal accounting standards.

Recommendation
We recommend that in fiscal year 2012, Interior improve its internal controls over contingencies to ensure that Interior's financial management systems comply with the Federal accounting standards.

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 recommendation.

* * * * * * *

Responsibilities

Management's Responsibilities. Management is responsible for the financial statements; establishing and maintaining effective internal control; 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 2011 and 2010 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 2011 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*.

As part of obtaining reasonable assurance about whether Interior's fiscal year 2011 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.

Interior's response to the findings identified in our audit are presented as a separate attachment to this report. We did not audit Interior's response 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, 2011

Exhibit I

U.S DEPARTMENT OF THE INTERIOR

Status of Prior Year Findings

September 30, 2011

FY2010 Ref	Fiscal Year 2010 Finding	Status of Fiscal Year 2010 Findings
A	Information Technology Controls over Financial Management Systems	This condition has not been corrected and is repeated in fiscal year 2011. See finding B.
B	Controls over Undelivered Orders	This condition has not been corrected and is repeated in fiscal year 2011. See finding C.
C	Monitoring Legislation	This condition has been corrected.
D	Grant Monitoring Controls	This condition has not been corrected and is repeated in fiscal year 2011. See finding D.
E	*Anti-deficiency Act*	This condition has been corrected.
F	*Single Audit Act Amendments of 1996*	This condition has not been corrected and is repeated in fiscal year 2011. See finding E.
G	*Prompt Payment Act*	This condition has been corrected.

United States Department of the Interior

OFFICE OF THE SECRETARY
Washington, DC 20240

NOV 14 2011

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 2011
(Assignment No. X-IN-MOA-0006-2011)

The Department of the Interior 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. The Department appreciates the recognition noted of the progress we have achieved during Fiscal Year (FY) 2011 in further improving our financial management. We also appreciate the additional recommendations and notes of 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

Material Weakness

A. Controls over Contingencies

Management concurs. A Department-wide corrective action plan is being implemented to ensure that contingencies for asserted and unasserted litigation, claims, and assessments are promptly and accurately recorded or disclosed and properly classified. Interior is taking action to provide training on the effective and consistent completion of case summaries, ensure reviews of case summaries are completed timely and thoroughly and establish effective communication channels between the Department, the Solicitor, and the bureaus. As a result, the Department's process for reviewing contingencies for asserted and unasserted litigation, claims, and assessments will be strengthened and communication between the Department, the Solicitor, and the components responsible for monitoring and recording each claim will be enhanced.

Significant Deficiencies

B. <u>Information Technology Controls over Financial Management Systems</u>

Management concurs. During FY 2011 Interior continued to improve its information technology controls including policies and guidance. In FY 2012, 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.

C. <u>Controls over Undelivered Orders</u>

Management concurs. Interior and its components will continue to enhance its controls over undelivered orders (UDO). We will continue to improve the quarterly review and certification process and provide training over certifying and closing aged and completed UDO's. We will also analyze the treatment of expired orders in order to develop effective modification procedures. Additionally, we will evaluate our process for analyzing system-generated recoveries to ensure the appropriateness of those transactions. Management is committed to bringing its components together to address the deficiencies noted in an integrated and consistent manner.

D. <u>Grant Monitoring Controls</u>

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 and its components will enhance its system for maintaining an inventory of grantees to provide a more robust means for monitoring grantees and ensure receipt of single audit, financial status, and grant performance 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 2012 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

E. <u>Single Audit Act Amendments of 1996</u>

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

F. <u>Federal Financial Management Improvement Act of 1996</u>

Management concurs. As noted in the Controls over Contingencies section above, the Department is implementing procedures to ensure the effective and timely review of contingencies for asserted and unasserted litigation, claims, and assessments. As a result, the Department's process for reviewing and recording contingencies for asserted and unasserted litigation, claims, and assessments will be strengthened.

In closing, I would again like to thank your offices for their contributions to a strong and ever improving internal control environment within the Department. Interior is committed to the prompt resolution of the deficiencies that have been identified. Corrective action plans are being developed and implemented for each of these findings, and plans will be monitored and tracked through completion.

The Department of Interior's financial statements have been prepared to report the financial position, results of operations, net position, budgetary resources, and custodial activity of the Department 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 Interior's management. The audit of Interior's principal financial statements was performed by an independent certified public accounting firm selected by Interior's Office of Inspector General. 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 Department (assets), amounts owed by the Department (liabilities), and residual amounts which comprise the difference (net position).

Statement of Net Cost

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

For Fiscal Year 2010, the Statement of Net Cost mission areas were aligned with the Department's 2007 - 2012 Strategic Plan. For FY 2011, the mission areas are aligned with the Departments new 2011 – 2016 Strategic Plan. Due to the adoption of the new Strategic Plan, 2011 Statement of Net Cost balances are not comparable with balances presented for 2010.

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 Department's Budgetary Resources, Status of Budgetary Resources, Change in Obligated Balances, and Net Outlays. The Department's budgetary resources consist of appropriations, borrowing authority, and spending authority from offsetting collections. Budgetary resources provide the Department 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 Department 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, 2011 and 2010

(dollars in thousands)	FY 2011	FY 2010
ASSETS		
Intragovernmental Assets:		
Fund Balance with Treasury (Note 2)	$ 43,662,297	$ 42,361,746
Investments, Net (Note 3)	6,748,299	7,290,284
Accounts and Interest Receivable (Note 4)	1,940,799	1,864,132
Loans and Interest Receivable, Net (Note 5)	3,209,638	3,234,340
Other	2,076	2,989
Total Intragovernmental Assets	$ 55,563,109	$ 54,753,491
Cash	449	457
Investments, Net (Note 3)	20	21
Accounts and Interest Receivable, Net (Note 4)	1,521,541	1,285,003
Loans and Interest Receivable, Net (Note 6)	79,605	101,860
Inventory and Related Property, Net (Note 7)	168,894	205,674
General Property, Plant and Equipment, Net (Note 8)	20,414,677	19,691,226
Other	254,009	297,350
TOTAL ASSETS (Note 10)	$ 78,002,304	$ 76,335,082
Stewardship Assets (Note 9)		
LIABILITIES		
Intragovernmental Liabilities:		
Accounts Payable	$ 631,777	$ 616,958
Debt (Note 11)	277,325	490,410
Other		
Liability for Capital Transfers to the General Fund of the Treasury (Note 21)	1,828,365	1,820,533
Advances and Deferred Revenue	427,440	485,879
Custodial Liability	643,338	638,718
Other Liabilities	914,629	881,224
Total Intragovernmental Liabilities	$ 4,722,874	$ 4,933,722
Accounts Payable	816,055	988,258
Loan Guarantee Liability (Note 6)	41,564	62,763
Federal Employee and Veteran Benefits (Note 12)	1,483,240	1,463,623
Environmental and Disposal Liabilities (Note 13)	179,712	162,395
Other		
Refunds Payable	-	10,008
Contingent Liabilities (Note 13)	4,707,821	333,297
Advances and Deferred Revenue	677,980	692,881
Payments Due to States	557,527	431,094
Grants Payable	326,674	326,640
Other Liabilities	1,056,716	1,067,877
TOTAL LIABILITIES (Note 14)	$ 14,570,163	$ 10,472,558
Commitments and Contingencies (Notes 13 and 15)		
Net Position		
Unexpended Appropriations -Earmarked Funds (Note 20)	750,131	385,103
Unexpended Appropriations -Other Funds	5,290,891	6,207,962
Cumulative Results of Operations -Earmarked Funds (Note 20)	57,217,971	55,674,628
Cumulative Results of Operations -Other Funds	173,148	3,594,831
Total Net Position	$ 63,432,141	$ 65,862,524
TOTAL LIABILITIES AND NET POSITION	$ 78,002,304	$ 76,335,082

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

Statement of Net Cost*
for the year ended September 30, 2011

(dollars in thousands)	FY 2011
Provide Natural and Cultural Resource Protection	
Gross Costs	$ 8,537,412
Less: Earned Revenue	810,047
Net Cost	7,727,365
Manage Energy, Water & Natural Resources	
Gross Costs	4,996,796
Less: Earned Revenue	1,938,482
Net Cost	3,058,314
Advance Government to Government Relationships	
Gross Costs	7,915,007
Less: Earned Revenue	391,431
Net Cost	7,523,576
Provide a Scientific Foundation for Decision Making	
Gross Costs	1,586,986
Less: Earned Revenue	374,231
Net Cost	1,212,755
Building a 21st Century Department of the Interior	
Gross Costs	339,416
Less: Earned Revenue	3,499
Net Cost	335,917
Reimbursable Activity and Other	
Gross Costs	3,500,722
Less: Earned Revenue	1,808,753
Net Cost	1,691,969
TOTAL	
Gross Costs	26,876,339
Less: Earned Revenue	5,326,443
Net Cost of Operations (Notes 17 and 19)	$ 21,549,896

* Due to a 2011 update to Interior's Strategic Plan, the Statement of Net Cost for 2011 and 2010 will not be comparable and are presented separately. Please refer to Note 17 for additional information.

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

Statement of Net Cost*

for the year ended September 30, 2010

(dollars in thousands)	FY 2010
Resource Protection	
Gross Costs	$ 5,045,636
Less: Earned Revenue	742,565
Net Cost	4,303,071
Resource Use	
Gross Costs	4,494,278
Less: Earned Revenue	1,615,699
Net Cost	2,878,579
Recreation	
Gross Costs	3,592,420
Less: Earned Revenue	325,149
Net Cost	3,267,271
Serving Communities	
Gross Costs	5,910,444
Less: Earned Revenue	550,819
Net Cost	5,359,625
Reimbursable Activity and Other	
Gross Costs	2,950,858
Less: Earned Revenue	1,613,338
Net Cost	1,337,520
TOTAL	
Gross Costs	21,993,636
Less: Earned Revenue	4,847,570
Net Cost of Operations (Notes 17 and 19)	$ 17,146,066

* Due to a 2011 update to Interior's Strategic Plan, the Statement of Net Cost for 2011 and 2010 will not be comparable and are presented separately. Please refer to Note 17 for additional information.

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

Statement of Changes in Net Position

for the years ended September 30, 2011 and 2010

(dollars in thousands)	FY 2011 Earmarked (Note 20)	FY 2011 All Other	FY 2011 Consolidated	FY 2010 Earmarked (Note 20)	FY 2010 All Other	FY 2010 Consolidated
UNEXPENDED APPROPRIATIONS						
Beginning Balance	$ 385,103	$ 6,207,962	$ 6,593,065	$ 448,217	$ 6,437,188	$ 6,885,405
Budgetary Financing Sources						
Appropriations Received, General Funds	642,416	12,162,019	12,804,435	297,291	11,894,556	12,191,847
Appropriations Transferred In/(Out)	1,497	2,066	3,563	1,429	10,083	11,512
Appropriations - Used	(278,682)	(12,807,840)	(13,086,522)	(361,834)	(12,090,368)	(12,452,202)
Other Adjustments	(203)	(273,316)	(273,519)	-	(43,497)	(43,497)
Net Change	365,028	(917,071)	(552,043)	(63,114)	(229,226)	(292,340)
Ending Balance - Unexpended Appropriations	$ 750,131	$ 5,290,891	$ 6,041,022	$ 385,103	$ 6,207,962	$ 6,593,065
CUMULATIVE RESULTS OF OPERATIONS						
Beginning Balance	$ 55,674,628	$ 3,594,831	$ 59,269,459	$ 54,125,552	$ 3,551,863	$ 57,677,415
Adjustments						
Changes in Earmarked Classification (Note 20)	(338,693)	338,693	-	-	-	-
Beginning Balance, as adjusted	55,335,935	3,933,524	59,269,459	54,125,552	3,551,863	57,677,415
Budgetary Financing Sources						
Appropriations - Used	278,682	12,807,840	13,086,522	361,834	12,090,368	12,452,202
Royalties Retained	4,775,496	2,570	4,778,066	4,397,252	2,407	4,399,659
Non-Exchange Revenue	943,257	7,438	950,695	893,574	4,387	897,961
Transfers In/(Out) without Reimbursement	379,665	66,557	446,222	336,221	50,523	386,744
Donations and Forfeitures of Cash and Cash Equivalents	23,560	-	23,560	46,687	-	46,687
Other Financing Sources						
Donations and Forfeitures of Property	108	12,625	12,733	96	18,080	18,176
Transfers In/(Out) without Reimbursement	(41,102)	49,042	7,940	(86,010)	101,530	15,520
Imputed Financing from Costs Absorbed by Others (Note 16)	114,314	463,572	577,886	133,667	533,211	666,878
Other Non-Budgetary Financing Sources/(Uses)	(19,952)	(192,116)	(212,068)	(14,383)	(131,334)	(145,717)
Total Financing Sources	6,454,028	13,217,528	19,671,556	6,068,938	12,669,172	18,738,110
Net Cost of Operations	(4,571,992)	(16,977,904)	(21,549,896)	(4,519,862)	(12,626,204)	(17,146,066)
Net Change	1,882,036	(3,760,376)	(1,878,340)	1,549,076	42,968	1,592,044
Ending Balance - Cumulative Results of Operations	$ 57,217,971	$ 173,148	$ 57,391,119	$ 55,674,628	$ 3,594,831	$ 59,269,459
TOTAL NET POSITION	$ 57,968,102	$ 5,464,039	$ 63,432,141	$ 56,059,731	$ 9,802,793	$ 65,862,524

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

Statement of Budgetary Resources

for the years ended September 30, 2011 and 2010

(dollars in thousands)	Total Budgetary Accounts FY 2011	Total Budgetary Accounts FY 2010	Non-Budgetary Credit Program Financing Accounts FY 2011	Non-Budgetary Credit Program Financing Accounts FY 2010
Budgetary Resources:				
Unobligated Balance, Beginning of Fiscal Year:	$ 7,775,378	$ 9,667,949	$ 68,478	$ 35,467
Recoveries of Prior Year Unpaid Obligations	508,895	459,239	-	-
Budget Authority				
Appropriation	18,307,167	18,042,865	-	-
Borrowing Authority	-	-	18,802	7,620
Spending Authority from Offsetting Collections				
Earned				
Collected	5,627,233	5,297,379	56,758	65,151
Change in Receivables from Federal Sources	26,299	30,775	-	-
Change in Unfilled Customer Orders				
Advance Received	(103,477)	(148,388)	-	-
Without Advance from Federal Sources	(103,971)	686,109	-	-
Total Budget Authority	23,753,251	23,908,740	75,560	72,771
Nonexpenditure Transfers, Net, Anticipated and Actual	(219,153)	(197,919)	-	-
Temporarily Not Available Pursuant to Public Law	(5,058)	-	-	-
Permanently Not Available	(346,837)	(118,022)	(21,887)	(15,482)
Total Budgetary Resources	**$ 31,466,476**	**$ 33,719,987**	**$ 122,151**	**$ 92,756**
Status of Budgetary Resources:				
Obligations Incurred (Note 18):				
Direct	$ 18,470,365	20,033,557	$ 30,649	24,278
Reimbursable	5,475,418	5,911,052	-	-
Total Obligations Incurred	23,945,783	25,944,609	30,649	24,278
Unobligated Balance Available:				
Apportioned	7,189,378	7,550,251	91,502	64,746
Exempt from Apportionment	174,279	40,238	-	-
Total Unobligated Balance Available	7,363,657	7,590,489	91,502	64,746
Unobligated Balance Not Available (Note 18)	157,036	184,889	-	3,732
Total Status of Budgetary Resources	**$ 31,466,476**	**$ 33,719,987**	**$ 122,151**	**$ 92,756**
Change in Obligated Balance:				
Obligated Balance, Net				
Unpaid Obligations, Brought Forward, Beginning of Fiscal Year	$ 12,009,557	$ 9,836,765	$ -	$ -
Less: Uncollected Customer Payments From Federal Sources, Brought Forward, Beginning of Fiscal Year	(2,732,350)	(2,015,466)	-	-
Total Unpaid Obligated Balances, Net, Beginning of Fiscal Year	9,277,207	7,821,299	-	-
Obligations Incurred, Net	23,945,783	25,944,609	30,649	24,278
Less: Gross Outlays	(24,471,192)	(23,312,578)	(30,649)	(24,278)
Less: Recoveries of Prior Year Unpaid Obligations, Actual	(508,895)	(459,239)	-	-
Change in Uncollected Customer Payments From Federal Sources	77,672	(716,884)	-	-
Total, Unpaid Obligated Balance, Net, End of Period	**$ 8,320,575**	**$ 9,277,207**	**$ -**	**$ -**
Obligated Balance, Net, End of Period				
Unpaid Obligations	10,975,256	12,009,557	-	-
Less: Uncollected Customer Payments From Federal Sources	(2,654,681)	(2,732,350)	-	-
Total, Unpaid Obligated Balance, Net, End of Period	**$ 8,320,575**	**$ 9,277,207**	**$ -**	**$ -**
Net Outlays				
Gross Outlays	24,471,192	23,312,578	30,649	24,278
Less: Offsetting Collections	(5,523,756)	(5,148,991)	(56,757)	(65,151)
Less: Distributed Offsetting Receipts	(5,379,787)	(5,007,103)	-	-
Net Outlays (Receipts)	**$ 13,567,649**	**$ 13,156,484**	**$ (26,108)**	**$ (40,873)**

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

Statement of Custodial Activity

for the years ended September 30, 2011 and 2010

(dollars in thousands)	FY 2011	FY 2010
Revenues on Behalf of the Federal Government		
Mineral Lease Revenue		
Rents and Royalties	$ 10,216,122	$ 7,703,199
Onshore Lease Sales	648,822	212,879
Offshore Lease Sales	36,796	1,015,069
Strategic Petroleum Reserve	-	154,217
Total Revenue	$ 10,901,740	$ 9,085,364
Disposition of Revenue		
Distribution to Department of the Interior		
Departmental Offices	1,957,519	--
National Park Service Conservation Funds	1,041,976	1,049,000
Bureau of Reclamation	1,532,623	1,363,952
Bureau of Ocean Energy Management, Regulation and Enforcement	175,746	2,210,090
Bureau of Land Management	21,774	23,769
Fish and Wildlife Service	2,063	1,323
Distribution to Other Federal Agencies		
Department of the Treasury	5,780,218	3,986,774
Department of Agriculture	119,867	108,541
Department of Energy	50,000	204,217
Distribution to States and Others	40,996	46,787
Change in Untransferred Revenue	178,958	79,635
Royalty Credits Redeemed	-	11,276
Total Disposition of Revenue	**$ 10,901,740**	**$ 9,085,364**
Net Custodial Activity	$ -	$ -

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The U.S. Department of the Interior is a Cabinet-level agency of the Executive Branch of the Federal Government. Created in 1849 by Congress as the Nation's principal conservation agency, Interior has responsibility for most of the Nation's publicly owned lands and natural resources. Interior protects and manages the Nation's natural resources and cultural heritage; provides scientific and other information about those resources; and, honors its trust responsibilities or special commitments to American Indians, Alaska Natives, and affiliated island communities.

The accompanying financial statements include all Federal funds under Interior's control or which are a component of the reporting entity, including Conservation Funds (Land and Water Conservation Fund, Historic Preservation Fund, and Environmental Improvement and Restoration Fund), and Custodial Funds. A summary of fiduciary activities managed by Interior is included in Note 22. Fiduciary Assets are not assets of Interior 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 Interior.

B. Organization and Structure of Interior

Interior is composed of the following eight operating bureaus and the Departmental Offices:

- National Park Service (NPS) (includes the Land and Water Conservation Fund and Historic Preservation Fund)
- 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, Regulation and Enforcement (BOEMRE)
- 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 Interior's FY 2011 and FY 2010 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 Interior as required by the Chief Financial Officers Act of 1990 and the Government Management Reform Act of 1994. These financial statements have been prepared from the books and records of Interior in accordance with generally accepted accounting principles (GAAP) and Office of Management and Budget (OMB) Circular No. A-136, *Financial Reporting Requirements.* 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. Interior, pursuant to OMB directives, prepares additional financial reports that are used to monitor and control Interior'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

Interior 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 Interior and Interior'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

Interior invests funds in Federal Government and public securities on behalf of various Interior programs and for amounts held in certain escrow accounts. The Federal government securities include marketable Treasury securities and/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 Interior by other Federal agencies and the public. Federal accounts receivable arise generally from the provision of goods and services to other Federal agencies and, with the exception of occasional billing disputes, are considered to be fully collectible. 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 Interior's regulatory responsibilities. An allowance for doubtful accounts is established for reporting purposes based on past experience in the collection of accounts receivable and analysis of outstanding balances.

G. Loans and Interest Receivable, Net

Intragovernmental Loans. Interior 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 Interior'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 Interior. Interior 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

Interior'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 Interior's major activities and the services Interior provides to the Federal Government and the public. There are no restrictions on these inventories.

The USGS maintains maps and map products that are located at several Earth Science Information Centers across the United States. 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, Interior is authorized to store, transport, and withdraw crude helium and maintain and operate crude helium storage facilities that were in existence when the Helium Privatization Act was enacted. This act designates a portion of the crude stockpile helium to be held in reserve in the interest of national security and authorizes Interior 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. Interior 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.

Interior's Working Capital Fund maintains an inventory of operating materials that will be consumed during future operations and is stated at historical cost using the weighted average cost method. These operating materials are maintained for sign construction, employee uniforms, and Interior'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 assigned 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 life of the lease.

For land, buildings, structures, land improvements, leasehold improvements, and facilities purchased prior to October 1, 2003, capitalization thresholds were established by the individual bureaus and generally ranged from $50,000 to $500,000. For these same items purchased subsequent to September 30, 2003, Interior has established a capitalization threshold of $100,000 with the exception of dams and certain related property, which are fully capitalized.

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

In accordance with the standards, Interior 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. Interior estimated these costs and net book values based on available historic supporting documents, current replacement cost deflated to date of acquisition, and the cost of similar assets at the time of acquisition.

Construction in Progress. Construction in Progress (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, Interior 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 Interior to be maintained in perpetuity for the benefit of current and future generations.

The majority of public lands, presently under the management of Interior were acquired by the Federal Government during the first century of the Nation's existence and are considered stewardship land. A portion of these lands has been reserved as national parks, wildlife refuges, and wilderness areas, while the remainder is managed for multiple uses. Interior is also responsible for maintaining a variety of cultural and natural heritage assets, which include national monuments, historic structures, and library and museum collections.

The stewardship land and heritage assets managed by Interior are considered priceless and irreplaceable. As such, Interior 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% of the entire building, structure, or land being used in government operations. For financial reporting purposes, multi-use heritage assets are included in Interior's 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 Interior as the result of a transaction or event that has already occurred. No liability can be paid by Interior absent an appropriation of funds by 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.

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

Environmental and Disposal Liabilities. Interior has a responsibility to remediate the sites on Interior 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. Interior 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 Interior is not legally liable, but chooses to accept financial responsibility, it is considered government-acknowledged. When Interior accepts financial responsibility for cleanup, has an appropriation for the cleanup, and has begun incurring cleanup costs, then any unpaid amounts for work performed are reported as accounts payable.

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. Interior recognizes contingent liabilities when the liability is probable and reasonably estimable. Interior discloses contingent liabilities in the notes to the financial statements when the conditions for liability recognition are not met and when the outcome of future events is more than remote. In some cases, once losses are certain, payments may be made from the Judgment Fund maintained by Treasury rather than from amounts appropriated to Interior.

M. Revenues and Financing Sources

Appropriations. Congress appropriates the majority of Interior's operating funds from the general receipts of the Treasury. These funds are made available to Interior for a specified time period (one or more fiscal years) or until expended. 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. Interior classifies revenues as either exchange revenue or non-exchange revenue.

Exchange revenues are those transactions in which Interior 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 Interior are set by law or regulation, which for program and other reasons may not represent full cost (e.g., grazing fees, park entrance, and other recreation fees). Prices set for products and services offered through working capital funds are intended to recover the full costs (cost, plus administrative fees) incurred by these activities.

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

Interior transfers a portion of royalty collections from the custodial fund to the operating funds for distribution to certain states. In accordance with SFFAS No. 7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*, Interior 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 Interior incurred minimal costs in earning this revenue.

Custodial Revenue. Interior'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. Interior is authorized to retain a portion of the custodial rental income collected to fund operating costs. Interior records custodial revenue based on accounts reported by producers. Custodial revenue is reported when the government has a legal claim to the revenue.

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

Royalty-in-Kind (RIK). Interior, under the provisions of the Mineral Lands Leasing Act of 1920 and the Outer Continental Shelf Lands Act of 1953, could take part or all of its oil and gas in RIK (a volume of the commodity) rather than in value (cash). Interior could either transfer the volume of oil or gas commodity taken in-kind to Federal agencies for internal use or sell the commodity on the open market at fair market value and transfer the cash received. Interior reflected RIK as mineral lease revenue on the Statement of Custodial Activity.

On September 16, 2009, the Secretary of the Interior announced the orderly termination of the RIK program. Interior is currently conducting a phase-out plan that will eliminate the RIK program in a deliberate, transparent, and orderly fashion.

All current RIK contracts were executed through the existing contract termination date and, upon termination, Federal royalties previously paid in-kind reverted to being paid as royality-in-value. The RIK program was phased out as of September 30, 2011, except for a limited number of imbalances in the process of final resolution, a small number of open accounts receivable, and amounts in pending litigation. Both royalty-in-kind and royalty-in-value collections are reported as rents and royalties on the Statement of Custodial Activity.

Imputed Financing Sources. In certain instances, operating costs of Interior are paid out of funds appropriated to other Federal agencies. For example, the Office of Personnel Management (OPM), by law, pays certain costs of retirement programs, and certain legal judgments against Interior are paid from the Judgment Fund maintained by Treasury. When costs that are identifiable to Interior and directly attributable to Interior's operations are paid for by other agencies, Interior recognizes these amounts as operating expenses. In addition, Interior recognizes an imputed financing source on the Consolidated Statement of Changes in Net Position to indicate the funding of Interior operations by other Federal agencies.

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 Interior as of the date of the financial statements. The amount accrued is based upon current pay rates of the employees. Sick leave and other types of leave are expensed when used and no 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 Interior for these paid claims.

The FECA liability consists of two components. The first component is based on actual claims paid by DOL but not yet reimbursed by Interior. Interior reimburses DOL for the amount of the actual claims as funds are appropriated for this purpose. There is generally a 2 to 3 year lag between payment by DOL and reimbursement by Interior. As a result, Interior recognizes a liability for the actual claims paid by DOL and to be reimbursed by Interior.

The second component is the estimated liability for future benefit payments as a result of past events. This liability includes death, disability, medical, and miscellaneous costs. DOL determines this component annually, as of September 30, using a method that considers historical benefit payment patterns, wage inflation factors, medical inflation factors, and other variables. Interior 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 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 Interior employees are entitled to participate in the FEGLI Program. Participating employees can obtain "basic life" term life insurance, with the employee paying two-thirds of the cost and Interior paying one-third. Additional coverage is optional, to be paid fully by the employee. The basic life coverage may be continued into retirement if certain requirements are met. The OPM administers this program and is responsible for the reporting of liabilities. For each fiscal year, OPM calculates the U.S. Government's service cost for the post-retirement portion of the basic life coverage. Interior has recognized the entire service cost of the post-retirement portion of basic life coverage as an imputed cost and imputed financing source, as Interior's contributions to the basic life coverage are fully allocated by OPM to the pre-retirement portion of coverage.

Retirement Programs. Interior employees participate in one of three retirement programs: (1) the Civil Service Retirement System (CSRS); (2) the Federal Employees Retirement System (FERS), which became effective on January 1, 1987; or (3) the United States Park Police (USPP) Pension Plan. The majority of Interior employees hired after December 31, 1983, are automatically covered by FERS and Social Security. Employees hired prior to January 1, 1984, could elect to either join FERS and Social Security or remain in CSRS. Employees covered by CSRS are not subject to Social Security taxes, nor are they entitled to accrue Social Security benefits for wages subject to CSRS.

For employees participating in FERS, Interior 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 Interior.

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 Interior participants. Interior has recognized an imputed cost and imputed financing source for the difference between the estimated service cost and the contributions made by Interior and covered CSRS employees.

Police Officers hired 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.

Interior reports the USPP pension liability and associated expense in accordance with OMB guidance. Interior 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, morbidity, 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

Interior's financial activities interact with and are dependent upon the financial activities of the centralized management functions of the Federal government. These activities include public debt and cash management activities and employee retirement, life insurance, and health benefit programs. The financial statements of Interior do not contain the costs of centralized financial decisions and activities performed for the benefit of the entire government. However, expenses have been recognized as expenses incurred by other agencies on behalf of Interior, including settlement of claims and litigation paid by Treasury's Judgment Fund and the partial funding of employee benefits by OPM.

Transactions and balances among Interior'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 Interior's entities have not been eliminated on the Statement of Custodial Activity.

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

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

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

Interior 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 Interior, and may not be used in Interior 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

Interior receives appropriations from Treasury's General Fund to construct, operate, and maintain various multipurpose projects. Many of the projects have reimbursable components, for which Interior 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.

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

In addition, during FY 2011, in order to more accurately reflect the repayment responsibilities associated with recovering the allocated power costs for the Colorado River Storage Project, BOR reclassified a portion of its liability for the Capital Fund Transfers to the General Fund of the Treasury in the amount of $285 million to a liability to Western Area Power Administration. This liability was originally recorded as a liability for Capital Fund Transfers to the General Fund of the Treasury. Although the original funding was provided to Reclamation from the General Fund of the Treasury, the actual repayment is the responsibility of Western Area Power Administration because they are responsible for establishing power rates to collect revenues from power customers that are sufficient enough to repay the general fund. This reclassification is also reflected on the "beginning balance" line of the note. In order to be consistent with the FY 2011 presentation for BOR's reclassification, the FY 2010 beginning balance was adjusted $279 million.

For additional information, see Note 21, Liability for Capital Transfers to the General Fund of the Treasury.

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

Interior 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 Department of Agriculture, the Department of Transportation, and the Army Corps of Engineers. Interior receives allocation transfers, as the child, from the 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, Interior 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

Interior 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 Interior's balance sheet. (See Note 22, *Fiduciary Activities*)

W. Change in Organization

In Fiscal Year 2010, Secretary Salazar announced the restructuring and renaming of the former Minerals Management Service (MMS), to the Bureau of Ocean Energy Management, Regulation and Enforcement (BOEMRE). The structure established in Secretarial Order No. 3299 results in three separate and distinct new agencies, and reflects Interior'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.

Effective October 1, 2010, the Office of Natural Resources Revenue (ONRR) was established to perform the roles of the former Minerals Revenue Management organization. The ONRR is a separate office within Interior's Departmental Offices (DO), and reports to the Assistant Secretary for Policy, Management and Budget. As a result, the Statement of Custodial Activity presents distributions to BOEMRE in FY 2010 and to DO in FY 2011. In addition, Note 17 presents certain costs in the BOEMRE responsibility segment in FY 2010 and in the DO responsibility segment in FY 2011.

Effective on October 1, 2011, BOEMRE was divided into two new entities: the Bureau of Ocean Energy Management (BOEM) and the Bureau of Safety and Environmental Enforcement (BSEE). These two Bureaus will divide 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 will report to the Assistant Secretary for Land and Minerals Management.

X. 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, 2011 and 2010, consists of the following:

(dollars in thousands)	FY 2011	FY 2010
General Funds	$ 7,861,753	$ 8,798,946
Special Funds	33,452,828	31,804,348
Revolving Funds	1,859,489	1,305,372
Trust Funds	205,470	196,267
Other Fund Types	282,757	256,813
Total Fund Balance with Treasury by Fund Type	$ 43,662,297	$ 42,361,746

Treasury performs cash management activities for all Federal agencies. The net activity represents Fund Balance with Treasury. The Fund Balance with Treasury represents the right of Interior to draw down funds from Treasury for expenses and liabilities.

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 Interior 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, 2011 and 2010, consists of the following:

(dollars in thousands)	FY 2011	FY 2010
Unobligated		
Available	$ 5,341,054	$ 5,085,511
Unavailable	156,976	188,548
Obligated Not Yet Disbursed	7,295,890	8,054,864
Subtotal	12,793,920	13,328,923
Fund Balance with Treasury Not Covered by Budgetary Resources		
Unavailable Receipt Accounts	30,688,912	28,857,320
Clearing and Deposit Accounts	179,465	175,503
Subtotal	30,868,377	29,032,823
Total Status of Fund Balance with Treasury	$ 43,662,297	$ 42,361,746

NOTE 3. INVESTMENTS, NET

Interior invests funds in Federal Government and public securities on behalf of various Interior programs and for amounts held in certain escrow accounts. The Federal Government securities include marketable Treasury securities and/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, 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

Investments as of September 30, 2010, consist of the following:

(dollars in thousands)	Cost	Net Amortized (Premium)/ Discount	Investments, Net	Market Value Disclosure
U.S. Treasury Securities				
Marketable	$ 54,568	$ -	$ 54,568	$ 54,568
Nonmarketable, market-based	7,231,380	(17,471)	7,213,909	7,510,439
Total U.S. Treasury Securities	7,285,948	(17,471)	7,268,477	7,565,007
Accrued Interest	21,807	-	21,807	-
Total Non-Public Investments	7,307,755	(17,471)	7,290,284	7,565,007
Public Securities				
Marketable	21	-	21	21
Total Investments	$ 7,307,776	$ (17,471)	$ 7,290,305	$ 7,565,028

NOTE 4. ACCOUNTS AND INTEREST RECEIVABLE, NET

Due From the Public, Net. Accounts receivable due to Interior from the public may arise either from the sale of products and services or from the imposition of regulatory fines and penalties. Products and services sold by Interior are diverse and include mineral leases sold, 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 NPS; and, fees for irrigation and power services collected by 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. 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. Also, power-marketing agencies enter into agreements with power users to recover capital investment costs allocated to power, on BOR's behalf. Costs associated with multipurpose plants are allocated to the various purposes 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.

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, 2011 and September 30, 2010, amounts not yet earned under unmatured repayment contracts were $2.5 billion and $2.6 billion, respectively.

Due from Federal Agencies, Net. Accounts receivable due from Federal agencies arise from the sale of products and services to other Federal agencies, including the sale of maps, the performance of environmental and scientific services, and administrative and other services. These reimbursable arrangements generally reduce the duplication of effort within the Federal Government resulting in a lower cost of Federal programs and services. Substantially, all receivables from other Federal agencies are considered to be collectible, as there is no credit risk. However, an allowance for doubtful accounts is used occasionally to recognize billing disputes.

Accounts and Interest Receivable from Federal agencies consist of the following as of September 30, 2011 and 2010:

(dollars in thousands)	FY 2011	FY 2010
Accounts and Interest Receivable from Federal Agencies		
Billed	$ 1,301,115	$ 1,293,372
Unbilled	639,684	570,760
Total Accounts and Interest Receivable from Federal agencies	**$ 1,940,799**	**$ 1,864,132**

Accounts and Interest Receivable from the Public consist of the following as of September 30, 2011 and 2010:

(dollars in thousands)	FY 2011	FY 2010
Accounts and Interest Receivable from the Public		
Billed	$ 249,323	$ 259,066
Unbilled	1,401,214	1,145,243
Total Accounts and Interest Receivable from the Public	1,650,537	1,404,309
Allowance for Doubtful Accounts	(128,996)	(119,306)
Total Accounts and Interest Receivable from the Public, Net	**$ 1,521,541**	**$ 1,285,003**

NOTE 5. INTRAGOVERNMENTAL LOANS AND INTEREST RECEIVABLE, NET

Intragovernmental Loans and Interest Receivable, as of September 30, 2011 and 2010, are summarized as follows:

(dollars in thousands)	FY 2011	FY 2010
Principal	$ 7,235,955	$ 7,173,016
Interest	2,812,155	2,688,648
Cumulative Repayments	(6,508,467)	(6,297,319)
Allowance for Non-Reimbursable Costs	(330,005)	(330,005)
Intragovernmental Loans and Interest Receivable, Net	$ 3,209,638	$ 3,234,340

The interest rate for FY2011 and FY2010 was 4.2% and 4% respectively. Repayment terms are generally over a period not to exceed 50 years from the time revenue producing assets are placed in service.

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 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 consolidated 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 2011 and FY 2010 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 2011 and FY 2010, there were no additional loan appropriations; therefore, there is no budget subsidy rate.

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. Reclamation's 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 2011 and FY 2010 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 Interior reserves the amount of the loan that is required, based on reassessment of the loan's collectability.

National Park Service. The NPS has a single 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 2011 and FY 2010, 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.

Outstanding loan balances, as of September 30, 2011 and 2010, are summarized as follows:

A. Direct Loan and Loan Guarantee Program Names:		*(dollars in thousands)*
	FY 2011	FY 2010
Indian Affairs - Direct Liquidating Loans (Pre-Credit Reform)	$ 4,365	$ 5,536
Indian Affairs - Direct Loans (Credit Reform)	3,237	6,047
Indian Affairs - Guaranteed Liquidating Loans (Pre-Credit Reform)	69	72
Indian Affairs - Guaranteed Loans (Credit Reform)	1,224	1,693
Bureau of Reclamation - Direct Loans (Pre-Credit Reform)	32,472	35,409
Bureau of Reclamation - Direct Loans (Credit Reform)	36,799	47,264
Departmental Offices - American Samoa Government (Credit Reform)	-	4,040
National Park Service - Wolf Trap Foundation (Pre-Credit Reform)	1,439	1,799
Total Loans and Interest Receivable, Net	$ 79,605	$ 101,860

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	$ 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
	Indian Affairs	$ 4,750	$ 1,783	$ (997)	$ -	$ 5,536
	Bureau of Reclamation	42,594	70	(7,255)	-	35,409
	National Park Service - Wolf Trap Foundation	1,799	-	-	-	1,799
FY 2010	Total	$ 49,143	$ 1,853	$ (8,252)	$ -	$ 42,744

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	$ 3,595	$ 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	$ 60,589	$ 572	$ -	$ (21,126)	$ 40,036
	Indian Affairs	$ 4,064	$ 276	$ -	$ 1,707	$ 6,047
	Bureau of Reclamation	69,215	-	-	(21,951)	47,264
	Departmental Offices - American Samoa Government	13,467	369	-	(9,796)	4,040
FY 2010	Total	$ 86,746	$ 645	$ -	$ (30,040)	$ 57,351

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

	Modifications and Re-estimates Direct Loan Programs (Credit Reform)	Total Modifications	Interest Rate Re-estimates	Technical Re-estimates	Total Re-estimates
	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)
	Indian Affairs	$ -	$ (470)	$ 711	$ 241
	Bureau of Reclamation	-	-	(18,802)	(18,802)
	Departmental Offices - American Samoa Government	-	-	(4,042)	(4,042)
FY 2010	Total	$ -	$ (470)	$ (22,133)	$ (22,603)

Total Direct Loan Subsidy Expense Direct Loan Programs (Credit Reform)	FY 2011	FY 2010
Indian Affairs	$ 158	$ 241
Bureau of Reclamation	(19,519)	(18,802)
Departmental Offices - American Samoa Government	(341)	(4,042)
Total	$ (19,702)	$ (22,603)

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

	FY 2011	FY 2010
Beginning balance of the subsidy cost allowance	$ 30,039	$ 51,765
Adjustments:		
(a) Loans written off	136	(358)
(b) Subsidy allowance amortization	8,600	1,236
(c) Other	2,051	-
Ending balance of the subsidy cost allowance before reestimates	40,826	52,643
Add or subtract subsidy reestimates by component:		
(a) Interest rate reestimate	(527)	(470)
(b) Technical/default reestimate	(19,175)	(22,134)
Total of the above reestimate components	(19,702)	(22,604)
Ending balance of the subsidy cost allowance	$ 21,124	$ 30,039

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 2011	$ 1,577	$ 719	$ -	$ (2,227)	$ 69
FY 2010	$ 1,685	$ 690	$ -	$ (2,303)	$ 72

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 2011	$ 11,129	$ 2,225	$ -	$ (12,130)	$ 1,224
FY 2010	$ 15,595	$ 2,662	$ -	$ (16,564)	$ 1,693

H. Guaranteed Loans Outstanding as of September 30, 2011: *(dollars in thousands)*

Loan Guarantee Programs	Outstanding Principal of Guaranteed Loans, Face Value	Amount of Outstanding Principal Guaranteed
Pre-1992	$ 65	$ 59
FY 1992-2009	350,715	315,110
FY 2010	96,481	86,833
FY 2011	35,841	32,232
Total	$ 483,102	$ 434,234
New Guaranteed Loans Disbursed (Current reporting year):		
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
Amount Paid in FY 2010 for Prior Years	$ 66,476	$ 59,828
Amount Paid in FY 2010 for 2010 Guarantees	51,455	46,310
FY 2010 Total	$ 117,931	$ 106,138

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 2011	$ -	$ 41,564	$ 41,564
FY 2010	$ -	$ 62,763	$ 62,763

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 2011	$ 4,405	$ 3,588	$ (1,520)	$ -	$ 6,473
FY 2010	$ 5,474	$ 5,407	$ (2,129)	$ -	$ 8,752

Guaranteed Loans (Credit Reform)	**Total Modifications**	**Interest Rate Reestimates**	**Technical Reestimates**	**Total**
Modifications and Reestimates				
FY 2011 Total	$ -	$ (7,868)	$ (20,857)	$ (28,725)
FY 2010 Total	$ -	$ 985	$ 1,859	$ 2,844

Total Loan Guarantee Program Subsidy Expense	**FY 2011**	**FY 2010**
Indian Affairs	$ (22,252)	$ 11,596

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 2011	5.1%	4.7%	-1.8%	0.0%	8.0%
FY 2010	5.0%	4.00%	(2.0%)	0.0%	7.0%

L. Schedule for Reconciling Loan Guarantee Liability Balances:				*(dollars in thousands)*
		FY 2011		**FY 2010**
Beginning balance of the loan guarantee liability	$	62,763	$	50,779
Add: Subsidy expense for guaranteed loans disbursed during the reporting years by component:				
(a) Interest supplement costs		4,405		5,474
(b) Default costs (net of recoveries)		3,588		5,407
(c) Fees and other collections		(1,520)		(2,129)
Total of the above subsidy expense components	$	6,473	$	8,752
Adjustments:				
(a) Fees received		1,697		2,120
(b) Interest supplements paid		(1,349)		(1,540)
(c) Claim payments to lenders		(3,356)		(3,218)
(d) Interest accumulation on the liability balance		5,971		3,774
(e) Other (recovery, revenue, and prior period adjustments)		(1,910)		(748)
Ending balance of the loan guarantee liability before reestimates	$	70,289	$	59,919
Add or subtract subsidy reestimates by component:				
(a) Interest rate reestimate		(7,868)		985
(b) Technical/default reestimate		(20,857)		1,859
Total of the above reestimate components	$	(28,725)	$	2,844
Ending balance of the loan guarantee liability	$	41,564	$	62,763

M. Administrative Expense:					*(dollars in thousands)*
Direct Loans (Credit Reform)			**Guaranteed Loans Programs**		
FY 2011	$	14	**FY 2011**	$	1,740
FY 2010	$	89	**FY 2010**	$	1,982

NOTE 7. INVENTORY AND RELATED PROPERTY, NET

Interior'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 Interior's major activities and the services Interior provides to the Federal Government and the public. There are no restrictions on these inventories. The USGS maintains maps and map products that are located at several Earth Science Information Centers across the United States. 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. 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, 2011 and 2010, consist of the following:

(dollars in thousands)	FY 2011	FY 2010
Inventory		
Published Maps Held for Current Sale	$ 5,301	$ 6,243
Gas and Storage Rights held for Current Sale	856	870
Operating Materials		
Working Capital Fund: Inventory Held for Use	1,518	2,676
Airplane Parts and Fuel Held for Use	812	1,683
Stockpile Materials		
Recoverable Below-Ground Crude Helium Held in Reserve	7,235	7,235
Recoverable Below-Ground Crude Helium Held for Sale*	158,212	192,858
Total Inventory and Related Property	173,934	211,565
Allowance for Obsolescence	(5,040)	(5,891)
Inventory and Related Property, Net	$ 168,894	$ 205,674

* The difference in carrying value and the estimated selling price of recoverable below ground crude helium held for sale is $825,861 ($984,073-$158,212) and $842,769 ($1,035,627 - $192,858) at September 30, 2011 and 2010, 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.

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

PP&E categories with corresponding acquisition cost and accumulated depreciation as of September 30, 2010, are shown in the following table:

(dollars in thousands)	Acquisition Cost	Accumulated Depreciation	Net Book Value
Land and Land Improvements	$ 2,170,080	$ 96,344	$ 2,073,736
Buildings	3,944,444	1,547,688	2,396,756
Structures and Facilities	21,041,025	10,125,537	10,915,488
Leasehold Improvements	42,823	22,039	20,784
Construction in Progress			
Construction in Progress - General	2,591,547	-	2,591,547
Construction in Progress in Abeyance	575,690	-	575,690
Equipment, Vehicles, and Aircraft	2,051,590	1,252,855	798,735
Assets Under Capital Lease	54,287	22,460	31,827
Internal Use Software			
In Use	251,249	161,824	89,425
In Development	197,238	-	197,238
Total Property, Plant, and Equipment	$ 32,919,973	$ 13,228,747	$ 19,691,226

NOTE 9. STEWARDSHIP ASSETS

Interior'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 1996; and Executive Order 13287 "Preserve America."

Through these laws and regulations, Interior 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 Interior policy and guidance, whereby continuous program management evaluations and technical reviews ensure compliance.

Stewardship Lands

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

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

Interior received donated stewardship land with a fair value of $2,000 thousand and $5,108 thousand as of September 30, 2011 and 2010 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

Primary Land Management Categories		As of 10/1/2009	Increase	Decrease	As of 9/30/2010	Increase	Decrease	As of 9/30/2011
IA	Regional Offices	12	-	-	12	-	-	12
BLM	Geographic Management Areas	134	-	-	134	-	1	133
BOR	Federal Water and Related Projects	141	-	1	140	-	2	138
FWS	National Wildlife Refuges	550	2	-	552	3	-	555
FWS	Coordination Areas	49	-	-	49	1	-	50
FWS	Wetland Management Districts	37	-	-	37	1	-	38
FWS	National Fish Hatcheries	66	1	-	67	-	-	67
FWS	Fish Technology Centers	6	-	-	6	-	-	6
FWS	Associated Fish Facilities	19	-	3	16	-	-	16
NPS	Park Units	378	-	-	378	5	-	383
OS	Commissioned Land	1	-	-	1	-	-	1
Total Number of Units		1,393	3	4	1,392	10	3	1,399

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

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 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 12 "administrative" states whose boundaries largely follow one or more political state lines; the administrative states are further divided into 133 administrative management areas. Specific land use plans are developed and implemented for each of these administrative 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, camping, et cetra, may be authorized on these withdrawn lands.

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 is 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

Interior is a steward of a large, varied, and scientifically important body of heritage assets, both non-collectible and collectible in nature. Interior 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 the 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 Areas. 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 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 Interior 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 Interior; 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.

Non-Collectible Heritage Asset Categories	As of 10/1/2009	Increase	Decrease	As of 9/30/2010	Increase	Decrease	As of 9/30/2011
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	-	-	3	1	-	4
National Battlefield Sites	1	-	-	1	-	-	1
National Battlefields	11	-	-	11	-	-	11
National Conservation Areas	17	-	-	17	-	-	17
National Historic Landmarks (NHL)	204	-	-	204	3	-	207
National Historic Sites	77	-	-	77	1	-	78
National Historic Trails	10	1	-	11	-	-	11
National Historical Parks	45	-	-	45	-	-	45
National Lakeshores	4	-	-	4	-	-	4
National Memorials	27	1	-	28	1	-	29
National Military Parks	9	-	-	9	-	-	9
National Monuments	96	-	-	96	-	-	96
National Natural Landmarks (NNL)	107	-	-	107	1	-	108
National Parks	58	-	-	58	-	-	58
National Parkways	4	-	-	4	-	-	4
National Preserves	18	-	-	18	-	-	18
National Recreation Areas	19	1	-	20	-	-	20
National Recreation Trails	97	1	1	97	2	-	99
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	550	2	-	552	3	-	555
Outstanding Natural Area	3	-	-	3	-	-	3
International Historic Sites	1	-	-	1	-	-	1
Wilderness Areas	356	-	1	355	-	-	355
Research Natural Area	-	1	-	1	-	-	1
Archaeological Protection Areas	-	-	-	-	2	-	2
Special Areas	-	-	-	-	4	-	4
Other	11	-	-	11	-	-	11
Total	1,848	7	2	1,853	18	-	1,871

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. 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. Interior received donated heritage assets with a fair value of $120,000 thousand and $2,500 thousand as of September 30, 2011 and 2010, 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 Interior 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 Department of the Interior's museum property is intimately associated with the lands and cultural and natural resources for which Interior bureaus share stewardship responsibilities. Museum collections are held in both Federal and non-Federal facilities. Disciplines represented include art, ethnography, archeology, documents, history, biology, paleontology, and geology.

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

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 our bureaus' employees. Museum collections managed by Interior are important for both the intrinsic value and the usefulness in

Library Collections	As of 10/1/2009	Increase	Decrease	As of 9/30/2010	Increase	Decrease	As of 9/30/2011
Total	7	-	-	7	-	-	7

Museum Collections	As of 10/1/2009	Increase	Decrease	As of 9/30/2010	Increase	Decrease	As of 9/30/2011
Held at Interior Bureau Facilities	589	4	6	587	9	11	585
Held at Non-Interior Bureau Facilities	484	2	4	482	17	21	478
Total	1,073	6	10	1,069	26	32	1,063

supporting Interior'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.

NOTE 10. ASSETS ANALYSIS

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

Non-entity assets, restricted by nature, consist of ONRR custodial royalty activity, 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.

Interior'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

Interior's assets as of September 30, 2010, are summarized into the following categories:

(dollars in thousands)	Entity	Non-Entity	FY 2010
Intragovernmental Assets			
Fund Balance with Treasury	$ 42,060,878	$ 300,868	$ 42,361,746
Investments, Net	7,278,451	11,833	7,290,284
Accounts and Interest Receivable	1,012,554	851,578	1,864,132
Loans and Interest Receivable, Net	3,234,340	-	3,234,340
Advances and Prepayments	2,989	-	2,989
Total Intragovernmental Assets	53,589,212	1,164,279	54,753,491
Cash	457	-	457
Investments, Net	21	-	21
Accounts and Interest Receivable, Net	170,238	1,114,765	1,285,003
Loans and Interest Receivable, Net	101,860	-	101,860
Inventory and Related Property, Net	205,674	-	205,674
General Property, Plant and Equipment, Net	19,691,226	-	19,691,226
Advances and Prepayments	221,116	-	221,116
Net Power Rights	76,234	-	76,234
TOTAL ASSETS	$ 74,056,038	$ 2,279,044	$ 76,335,082

NOTE 11. DEBT

Intragovernmental debt to Treasury activity as of September 30, 2011 and 2010, is summarized as follows:

(dollars in thousands)	FY 2010 Beginning Balance	Borrowing / (Repayments), Net	FY 2010 Ending Balance	Borrowing / (Repayments), Net	FY 2011 Ending Balance
Helium Fund	$ 579,204	$ (145,000)	$ 434,204	$ (210,000)	$ 224,204
Credit Reform Borrowings	64,068	(7,862)	56,206	(3,085)	53,121
Total Debt Due to Treasury	$ 643,272	$ (152,862)	$ 490,410	$ (213,085)	$ 277,325

Debt related to the Helium Fund as of September 30, 2011 and 2010, is summarized as follows:

(dollars in thousands)	FY 2011	FY 2010
Principal		
Balance, Beginning of Year	251,650	251,650
Repayments - principal	(27,446)	-
Balance, End of Year	224,204	251,650
Interest		
Balance, Beginning of Year	182,554	327,554
Repayments - interest	(182,554)	(145,000)
Balance, End of Year	0	182,554
Total Debt Due to Treasury	$ 224,204	$ 434,204

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. However, as funding had not been received to repay the amounts due, the amounts could not be repaid.

Interest on borrowing is compound interest on the principal described above, at rates determined by the Secretary of the Treasury. The rates are determined at the time of each borrowing and are the current average market yields of outstanding marketable obligations of the United States having maturities comparable to investments authorized. With the passage of the Helium Privatization Act of 1996, no further interest is being accrued on this debt.

Until FY 2002, Interior had generally paid $10 million annually on its debt to Treasury. Due to increased revenue in the Helium Fund, as a result of the sale of stockpile crude helium which began in March 2003 and will continue until January 1, 2015, Interior will repay Treasury amounts depending on annual revenues collected. The repayments will continue until the debt is repaid or until the stockpile crude helium sales cease. At that time the repayment plan will be revised.

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% to 7.46%.

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 2012 to 2047. 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% to 7.59%. A single effective rate is used for FY 2001-2002 cohort years and ranges from 5.43% to 5.59%.

NOTE 12. FEDERAL EMPLOYEE AND VETERAN BENEFITS

Federal Employee and Veteran Benefits as of September 30, 2011, and 2010, consisted of the following:

(dollars in thousands)	FY 2011	FY 2010
Federal Employee and Veteran Benefits		
U.S. Park Police Pension Actuarial Liability	$ 701,984	$ 706,344
U.S. Park Police Pension Current Liability	39,516	39,556
Federal Employees Compensation Actuarial Liability	741,740	717,723
Total Federal Employee and Veteran Benefits	$ 1,483,240	$ 1,463,623

U.S. Park Police Pension Plan. In estimating the U.S. Park Police (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, morbidity, 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 4.60% in FY 2011 matched the discount rate used by OPM for the CSRS plan, but differed from the 4.90% discount rate used for the FERS plan. Additionally, the USPP Pension Plan inflationary rate of 3.10% in FY 2011 differed from the 2.40% inflationary rate 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 2011	FY 2010
Interest Rate	4.60	4.90
Inflationary Rate	3.10	2.00
Projected Salary Increase	3.10	3.50

USPP Pension Plan Liability *(dollars in thousands)*	FY 2011	FY 2010
Beginning Balance	$ 745,900	$ 707,800
Pension Expenses		
Normal Costs	100	100
Interest on liability	35,500	43,000
Actuarial (gains) or losses from experience	(22,484)	(13,844)
Actuarial (gains) or losses from assumption changes	22,000	48,400
Total Pension Expenses	35,116	77,656
Less Benefit Payments	(39,516)	(39,556)
Ending Balance	$ 741,500	$ 745,900

NOTE 13. CONTINGENT LIABILITIES AND ENVIRONMENTAL AND DISPOSAL LIABILITIES

Interior 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, 2011, and 2010, are summarized in the categories below.

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

FY 2010 (dollars in thousands)	Accrued Liabilities	Estimated Range of Loss	
		Lower End of Range	Upper End of Range
Contingent Liabilities			
Probable	$ 333,297	$ 333,297	$ 719,028
Reasonably Possible	-	3,685,064	4,812,650
Environmental and Disposal Liabilities			
Probable	162,395	162,395	1,163,782
Reasonably Possible	-	65,705	185,248

General Contingent Liabilities

General Contingent Liabilities consist of numerous lawsuits and claims filed against Interior 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 Interior. In suits brought through the Contract Disputes Act of 1978 and awards under Federal Antidiscrimination and Whistleblower Protection Acts, Interior 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 Interior 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 Interior-managed land, general management activities on Interior 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 Interior's financial position or results of operations.

In Fiscal Year 2011, Interior's contingent liabilities increased substantially as a result of the $3.4 billion Cobell Settlement under the Claims Resolution Act of 2010, which President Obama signed into law on

December 8, 2010. The Cobell settlement 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 plaintiffs had until October 3, 2011 to appeal. Six appeals were filed.

Environmental and Disposal Liability

Interior is subject to environmental laws and regulations regarding air, water, and land use, the storage and disposal of hazardous materials, and the operations and closure of facilities at which environmental contamination may be present. The major Federal laws covering environmental response, cleanup, and monitoring are the: Comprehensive Environmental Response, Compensation, and Liability Act; 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 Fiscal Year 2013, however, Interior 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 $286,116 thousand and $278,868 thousand for fiscal years 2011 and 2010 respectively, of liability for capital transfers due to the Western Area Power Authority.

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

	Covered by Budgetary Resources		Not Covered by Budgetary Resources		FY 2011
(dollars in thousands)	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
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

Interior's liabilities covered and not covered by budgetary resources as of September 30, 2010, are as follows:

	Covered by Budgetary Resources		Not Covered by Budgetary Resources		FY 2010
(dollars in thousands)	Current	Non-Current	Current	Non-Current	
Intragovernmental Liabilities:					
Accounts Payable	$ 68,916	$ -	$ -	$ 548,042	$ 616,958
Debt	50,000	440,410	-	-	490,410
Other					
Liability for Capital Transfers to the General Fund of the Treasury	-	-	38,298	1,782,235	1,820,533
Advances and Deferred Revenue	485,418	-	478	(17)	485,879
Custodial Liability	-	-	582,550	56,168	638,718
Other Liabilities					
Accrued Employee Benefits	63,543	-	19,503	14,771	97,817
Judgment Fund	-	-	-	198,400	198,400
Unfunded FECA Liability	-	-	58,164	78,284	136,448
Other Miscellaneous Liabilities	6,069	-	158,007	284,483	448,559
Total Other Liabilities	69,612	-	235,674	575,938	881,224
Total Other Intragovernmental Liabilities	555,030	-	857,000	2,414,324	3,826,354
Total Intragovernmental Liabilities	673,946	440,410	857,000	2,962,366	4,933,722
Public Liabilities:					
Accounts Payable	921,804	66,454	-	-	988,258
Loan Guarantee Liability	-	62,763	-	-	62,763
Federal Employee and Veteran Benefits					
U.S. Park Police Pension Actuarial Liability	-	-	-	706,344	706,344
U.S. Park Police Pension Current Liability	39,556	-	-	-	39,556
FECA Actuarial Liability	-	-	-	717,723	717,723
Total Federal Employee and Veteran Benefits	39,556	-	-	1,424,067	1,463,623
Environmental and Disposal Liabilities	-	-	-	162,395	162,395
Other					
Refunds Payable	-	-	10,008	-	10,008
Contingent Liabilities	-	-	-	333,297	333,297
Advances and Deferred Revenue	298,679	-	156,221	237,981	692,881
Payments Due to States	-	-	377,128	53,966	431,094
Grants Payable	326,640	-	-	-	326,640
Other Liabilities					
Accrued Payroll and Benefits	292,637	-	-	(777)	291,860
Unfunded Annual Leave	-	-	50,770	365,413	416,183
Capital Leases	10,442	10,107	-	19,680	40,229
Custodial Liability	-	-	51	-	51
Secure Rural Schools Act Payable	-	-	79,576	-	79,576
Storm Damage	20,778	38,587	-	-	59,365
Other Miscellaneous Liabilities	2,592	511	64,196	113,314	180,613
Total Other Liabilities	326,449	49,205	194,593	497,630	1,067,877
Total Other Public Liabilities	951,768	49,205	737,950	1,122,874	2,861,797
Total Public Liabilities	1,913,128	178,422	737,950	2,709,336	5,538,836
Total Liabilities	$ 2,587,074	$ 618,832	$ 1,594,950	$ 5,671,702	$ 10,472,558

NOTE 15. LEASES

Capital Leases

Interior's capital lease is with the public and consists of NPS' 20-year lease for the Western Archeological and Conservation Center in Tucson, Arizona. The aggregate of Interior's future minimum lease payments for the capital lease are presented in the table below.

Capital leases as of September 30, 2011 and 2010, consist of the following:

Summary of Assets Under Capital Leases *(dollars in thousands)*	FY 2011	FY 2010
Real Property	$ 28,000	$ 28,000
Personal Property	-	26,287
Accumulated Amortization	(11,899)	(22,460)

Future Capital Lease Payments *(dollars in thousands)*	Real Property	Personal Property	Total
FY 2012	$ 2,172	$ -	$ 2,172
FY 2013	2,253	-	2,253
FY 2014	2,333	-	2,333
FY 2015	2,333	-	2,333
FY 2016	2,333	-	2,333
Thereafter	16,031	-	16,031
Total Future Capital Lease Payments	27,455	-	27,455
Less: Imputed Interest	6,717	-	6,717
Less: Executory Costs	-	-	-
FY 2011 Net Capital Lease Liability	20,738	-	20,738
FY 2010 Net Capital Lease Liability	$ 21,852	$ 18,377	$ 40,229

Operating Leases

Most of Interior's facilities are obtained through the General Services Administration (GSA), which charges an amount that approximates commercial rental rates. The terms of Interior'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, Interior either periodically executes an agreement with GSA or enters into cancelable agreements, some of which do not have a formal expiration date. Interior can vacate these properties after giving 120 to 180 days notice of the intent to vacate. However, Interior normally occupies these properties for an extended period of time with little variation from year to year.

Interior also leases personal property from GSA and other entities. The terms for GSA personal property 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 if the agreement is silent, an annual inflationary factor is applied; 1.4% for FY 2012 and 1.7% for FY 2013 and beyond. The inflationary factors are applied against the actual 2011 rental expense. For agreements that have an indefinite period of performance, future payments are calculated only for five years.

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

Operating leases as of September 30, 2011, consist of the following:

Future Operating Leases (dollars in thousands)	Real Property		Personal Property		Total
	Federal	Public	Federal	Public	
FY 2012	$ 278,940	$ 48,441	$ 68,913	$ 2,869	$ 399,163
FY 2013	243,359	42,984	70,084	2,867	359,294
FY 2014	222,171	33,986	71,276	2,802	330,235
FY 2015	200,775	30,020	72,488	2,823	306,106
FY 2016	188,840	27,304	73,721	2,853	292,718
Thereafter	84,686	351,231	-	-	435,917
Total Future Operating Lease Payments	$ 1,218,771	$ 533,966	$ 356,482	$ 14,214	$ 2,123,433

NOTE 16. COSTS

By law, Interior, as an agency of the Federal government, is dependent upon other government agencies for centralized services. Some of these services, such as tax collection and management of the public debt, are not directly identifiable to Interior and are not reflected in Interior's financial condition and results. However, in certain cases, other Federal agencies incur costs that are directly identifiable to Interior operations, including payment of claims and litigation by Treasury's Judgment Fund, and the partial funding of retirement benefits by OPM. In accordance with SFFAS No. 30, *Inter-Entity Cost Implementation Amending SFFAS 4, Managerial Cost Accounting Standards and Concepts*, Interior recognizes identified costs paid for Interior by other agencies as expenses of Interior. The funding for these costs is reflected as imputed financing sources on the Statement of Changes in Net Position. Costs paid by other agencies on behalf of Interior were $577,886 thousand and $668,878 thousand during FY 2011 and FY 2010, respectively. Interior's imputed costs that were recognized on the Statement of Net Cost but eliminated for consolidation purposes were $79,450 thousand and $90,884 thousand during FY 2011 and FY 2010, respectively.

During FY 2011 and FY 2010, the costs associated with acquiring, constructing, and renovating heritage assets were $313,730 thousand and $254,868 thousand, respectively. The costs associated with acquiring and improving stewardship lands were $193,077 thousand and $157,445 thousand during FY 2011 and FY 2010, respectively.

NOTE 17. COSTS AND EXCHANGE REVENUE BY RESPONSIBILITY SEGMENT

The following tables present Interior'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, Interior is presenting the FY 2011 earned revenue and gross costs by Mission Goals from Interior's FY 2011- 2016 Strategic Plan. Fiscal Year 2010 earned revenue and costs are presented in alignment with the FY 2007-2012 Strategic Plan.

For FY 2011, the 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 Interior's core mission are presented as Reimbursable Activity and Other. Interior'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 goals.

The primary Mission Goals for FY 2010 were: Resource Protection, Resource Use, Recreation, and Serving Communities. Reimbursable costs are comprised of services provided to other Federal agencies not part of Interior's core mission. Due to presentation based on two different Strategic Plans, balances presented in the Statements of Net Cost for FY 2011 and FY 2010 are not directly comparable.

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 of Operations	$ -	$ 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 of Operations	-	-	(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	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

Costs and exchange revenue by responsibility segment for the year ended September 30, 2010, 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
Resource Protection					
Intragovernmental Costs	$ 187	$ 86,444	$ 17,082	$ 15,056	$ 498
Public Costs	774	474,507	33,802	(148,618)	118,285
Total Costs	$ 961	$ 560,951	$ 50,884	$ (133,562)	$ 118,783
Intragovernmental Earned Revenue	-	39,966	1,808	12,500	-
Public Earned Revenue	-	38,203	16,092	7,457	-
Total Earned Revenue	-	78,169	17,900	19,957	-
Net Costs	$ 961	$ 482,782	$ 32,984	$ (153,519)	$ 118,783
Resource Use					
Intragovernmental Costs	$ -	$ 43,926	$ 774,172	$ 1,410	$ 185,606
Public Costs	-	332,233	1,309,830	14,845	1,898,357
Total Costs	$ -	$ 376,159	$ 2,084,002	$ 16,255	$ 2,083,963
Intragovernmental Earned Revenue	-	(2,052)	268,365	-	-
Public Earned Revenue	-	340,234	811,206	-	187,086
Total Earned Revenue	-	338,182	1,079,571	-	187,086
Net Costs	$ -	$ 37,977	$ 1,004,431	$ 16,255	$ 1,896,877
Recreation					
Intragovernmental Costs	$ -	$ 20,484	$ 19,689	$ -	$ -
Public Costs	-	234,646	26,828	-	-
Total Costs	$ -	$ 255,130	$ 46,517	$ -	$ -
Intragovernmental Earned Revenue	-	279	2,786	-	-
Public Earned Revenue	$ -	25,571	18,024	$ -	$ -
Total Earned Revenue	-	25,850	20,810	-	-
Net Costs	$ -	$ 229,280	$ 25,707	$ -	$ -
Serving Communities					
Intragovernmental Costs	$ 398,631	$ 220,408	$ 2,673	$ 99,222	$ -
Public Costs	3,249,027	980,491	6,738	946,959	-
Total Costs	$ 3,647,658	$ 1,200,899	$ 9,411	$ 1,046,181	$ -
Intragovernmental Earned Revenue	300,063	67,343	52	21,119	-
Public Earned Revenue	127,499	58,726	7,326	16,255	-
Total Earned Revenue	427,562	126,069	7,378	37,374	-
Net Costs	$ 3,220,096	$ 1,074,830	$ 2,033	$ 1,008,807	$ -
Reimbursable Activity and Other					
Intragovernmental Costs	$ -	$ 198,483	$ 244,693	$ 690,001	$ 1,186
Public Costs	-	(198,483)	294,716	2,105,452	7,326
Total Costs	$ -	$ -	$ 539,409	$ 2,795,453	$ 8,512
Intragovernmental Earned Revenue	-	-	427,187	2,446,071	8,349
Public Earned Revenue	-	-	87,206	3,203	527
Total Earned Revenue	-	-	514,393	2,449,274	8,876
Net Costs of Operations	$ -	$ -	$ 25,016	$ 346,179	$ (364)
Total					
Intragovernmental Costs	$ 398,818	$ 569,745	$ 1,058,309	$ 805,689	$ 187,290
Public Costs	3,249,801	1,823,394	1,671,914	2,918,638	2,023,968
Total Costs	$ 3,648,619	$ 2,393,139	$ 2,730,223	$ 3,724,327	$ 2,211,258
Intragovernmental Earned Revenue	300,063	105,536	700,198	2,479,690	8,349
Public Earned Revenue	127,499	462,734	939,854	26,915	187,613
Total Earned Revenue	427,562	568,270	1,640,052	2,506,605	195,962
Net Cost of Operations	$ 3,221,057	$ 1,824,869	$ 1,090,171	$ 1,217,722	$ 2,015,296

National Park Service	Office of Surface Mining	U.S. Fish and Wildlife Service	U.S. Geological Survey	Elimination of Intra-Department Activity	FY 2010
$ 295,860	$ 9,290	$ 346,823	$ 379,769	$ (268,111)	$ 882,898
986,957	191,749	1,461,023	1,044,259	-	4,162,738
$ 1,282,817	$ 201,039	$ 1,807,846	$ 1,424,028	$ (268,111)	$ 5,045,636
20,963	-	118,806	300,640	(213,454)	281,229
119,032	-	79,726	200,826	-	461,336
139,995	-	198,532	501,466	(213,454)	742,565
$ 1,142,822	$ 201,039	$ 1,609,314	$ 922,562	$ (54,657)	$ 4,303,071
$ -	$ 19,567	$ 6,269	$ 43,496	$ (344,547)	$ 729,899
-	103,328	16,991	88,795	-	3,764,379
$ -	$ 122,895	$ 23,260	$ 132,291	$ (344,547)	$ 4,494,278
-	5	1,308	18,348	(10,858)	275,116
-	108	496	1,453	-	1,340,583
-	113	1,804	19,801	(10,858)	1,615,699
$ -	$ 122,782	$ 21,456	$ 112,490	$ (333,689)	$ 2,878,579
$ 585,716	$ -	$ 35,445	$ -	$ (134,434)	$ 526,900
1,897,139	-	906,907	-	-	3,065,520
$ 2,482,855	$ -	$ 942,352	$ -	$ (134,434)	$ 3,592,420
41,494	-	10,535	-	(15,529)	39,565
235,609	-	6,380	-	-	285,584
277,103	-	16,915	-	(15,529)	325,149
$ 2,205,752	$ -	$ 925,437	$ -	$ (118,905)	$ 3,267,271
$ -	$ 382	$ 42,416	$ 35,069	$ (350,873)	$ 447,928
-	11,224	135,277	132,800	-	5,462,516
$ -	$ 11,606	$ 177,693	$ 167,869	$ (350,873)	$ 5,910,444
-	-	3,733	11,759	(73,368)	330,701
-	-	8,081	2,231	-	220,118
-	-	11,814	13,990	(73,368)	550,819
$ -	$ 11,606	$ 165,879	$ 153,879	$ (277,505)	$ 5,359,625
$ -	$ 49	$ -	$ -	$ (665,955)	$ 468,457
-	273,390	-	-	-	2,482,401
$ -	$ 273,439	$ -	$ -	$ (665,955)	$ 2,950,858
-	618	-	-	(1,359,827)	1,522,398
-	4	-	-	-	90,940
-	622	-	-	(1,359,827)	1,613,338
$ -	$ 272,817	$ -	$ -	$ 693,872	$ 1,337,520
$ 881,576	$ 29,288	$ 430,953	$ 458,334	$ (1,763,920)	$ 3,056,082
2,884,096	579,691	2,520,198	1,265,854	-	18,937,554
$ 3,765,672	$ 608,979	$ 2,951,151	$ 1,724,188	$ (1,763,920)	$ 21,993,636
62,457	623	134,382	330,747	(1,673,036)	2,449,009
354,641	112	94,683	204,510	-	2,398,561
417,098	735	229,065	535,257	(1,673,036)	4,847,570
$ 3,348,574	$ 608,244	$ 2,722,086	$ 1,188,931	$ (90,884)	$ 17,146,066

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. Interior's undelivered orders as of September 30, 2011, and 2010, were $9,401,088 thousand and $10,395,777 thousand, respectively.

Apportionment of Obligations Incurred

The following table contains only Category B apportionments since Interior does not receive Category A. Category B apportionments typically distribute budgetary resources by activities, projects, objects, or a combination of these categories. Interior's obligations incurred for the year ended September 30, 2011, and 2010, are as follows:

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

FY 2010 *(dollars in thousands)*	Apportioned	Exempt from Apportionment	Total
Obligations Incurred:			
Direct	$ 19,975,034	$ 82,801	$ 20,057,835
Reimbursable	5,911,052	-	5,911,052
Total Obligations Incurred	$ 25,886,086	$ 82,801	$ 25,968,887

Repayment Requirements, Financing Sources for Repayment, and other Terms of Borrowing Authority Used. Interior 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 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, 2011, and September 30, 2010. 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 Interior 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 Interior bureaus use one or more permanent no-year appropriations to finance operating costs and purchase Property, Plant, and Equipment (PPE). Interior 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. Interior's unobligated unavailable balances as of September 30, 2011, and 2010, are disclosed in the table below.

Available Borrowing/Contract Authority, End of the Period. Interior did not have any available budgetary borrowing or contract authority for the years ended September 30, 2011 and 2010. Interior 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 $18,802 thousand and $7,620 thousand for the periods ending September 30, 2011 and 2010, 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 2011 has not been published at the time these financial statements were prepared. The FY 2012 Budget of the United States Government with the actual FY 2010 amounts was released in February 2011. The FY 2013 Budget of the United States Government will include the FY 2011 actual amounts, and is estimated to be released in February 2012. 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 2010 differences are explained in the table below.

Legal Arrangements Affecting Use of Unobligated Balances

(dollars in thousands)	FY 2011	FY 2010
Unapportioned amounts unavailable for future apportionments	$ 3,623	$ 14,824
Expired Authority	153,413	170,065
Total Budgetary Accounts	157,036	184,889
Non-Budgetary Credit Program Financing Accounts	-	3,732
Unobligated Balance Unavailable	$ 157,036	$ 188,621

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 2010 Combined Statement of Budgetary Resources	**$ 33,813**	**$ 25,969**	**$ (5,007)**	**$ 13,116**
Expired balances reported in the SBR, but not in the Budget of the US Government	(189)	-	-	48
Office of the Special Trustee fiduciary activity included in the Budget of the US Government that is excluded from the SBR	586	457	(479)	(23)
National Park Service Concessionaire activity included in the Budget of the US Government that is excluded from the SBR	59	28	-	28
Subtotal	456	485	(479)	53
Budget of the U.S. Government	**$ 34,269**	**$ 26,454**	**$ (5,486)**	**$ 13,169**

NOTE 19. RECONCILIATION OF NET COST OF OPERATIONS TO BUDGET

As required by SFFAS No. 7, *Accounting for Revenue and Other Financial Sources*, Interior 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 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 Interior in another tribal case in FY 2011.

The reconciliation of net cost of operations to budgetary accounts for the years ended September 30, 2011 and 2010, is as follows:

(dollars in thousands)	FY 2011	FY 2010
Resources Used to Finance Activities		
Current Year Gross Obligations	$ 23,976,432	$ 25,968,887
Budgetary Resources from Offsetting Collections		
Spending Authority from Offsetting Collections		
Earned		
Collected	(5,683,991)	(5,362,530)
Change in Receivable from Federal Sources	(26,299)	(30,775)
Change in Unfilled Customer Orders	207,448	(537,721)
Recoveries of Prior Year Unpaid Obligations	(508,895)	(459,239)
Offsetting Receipts	(5,379,787)	(5,007,103)
Other Financing Resources		
Transfers In (Out) without Reimbursement	7,940	15,520
Donations (Forfeitures) of Property	12,733	18,176
Imputed Financing Sources	577,886	666,878
Other	(212,068)	(145,717)
Total Resources Used to Finance Activity	$ 12,971,399	$ 15,126,376
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	$ (211,696)	$ 537,721
Change in Undelivered Orders	994,689	(2,108,789)
Current Year Capitalized Purchases	(1,281,413)	(1,270,429)
Capital Lease Obligations	13,572	13,528
Change in Expended Authority in Loan Funds	(25,996)	(14,435)
Change in Budgetary Collections in Loan Funds	54,294	65,583
Offsetting Receipts that do not Affect Net Cost of Operations	5,379,787	5,007,103
Imputed Financing Sources	(577,886)	(666,878)
Revenues, Gains, and Losses that do not affect Net Cost Operations	(1,203,835)	(1,137,075)
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	(4,985)	(4,015)
Costs without Current Year Budgetary Effect		
Depreciation and Amortization	515,072	563,615
Disposition of Assets	76,762	35,690
Re-evaluation of liabilities	4,387,314	256,372
Imputed costs	582,191	649,635
Bad Debt Expense	2,183	164,013
Change in Other Expenses Not Requiring Budgetary Resources	(121,556)	(71,949)
Net Cost of Operations	$ 21,549,896	$ 17,146,066

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.

Interior'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 Interior 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 Interior 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. 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 Interior 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 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, Interior 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 Service for use in the fiscal year following collection. Funds not used by the states after two years revert to the Service 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). Interior's component of the SFRBTF (previously referred to as ARTF) 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 Interior unless appropriated by Congress. The funds are considered inflows of resources to the government.

Other Earmarked Funds. Interior is responsible for the management of numerous earmarked funds with a variety of purposes. Funds presented on an individual basis represent the majority of Interior'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. Interior 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
- Federal Land Transaction Facilitation Act
- 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
- Deschutes County Land Transaction
- 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, MLA 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 Ocean Energy Management, Regulation and Enforcement

- Oil Spill Research
- Coastal Impact Assistance Program

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

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
- Southern Nevada Public Land Management Fund

Interior'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

Interior's earmarked funds as of and for the year ended September 30, 2010, 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	$ 17,092,075	$ 2,918,841	$ 8,525,587	$ 988,950	$ 1,849	$ 167,455
Investments, Net	-	-	-	-	460,338	-
Accounts Receivable, Net	-	-	338,259	15,147	11,754	162
Loans Receivable, Net	-	-	3,234,340	-	-	-
General Property, Plant, and Equipment, Net	-	-	-	7,647,344	2,915,461	2,442,316
Other Assets	-	1,321	-	96,738	118,163	3,333
TOTAL ASSETS	$ 17,092,075	$ 2,920,162	$ 12,098,186	$ 8,748,179	$ 3,507,565	$ 2,613,266
LIABILITIES						
Accounts Payable	-	28	-	77,083	15,145	71,080
Debt	-	-	-	-	-	-
Other Liabilities	-	-	41	2,226,585	1,754	194,093
TOTAL LIABILITIES	$ -	$ 28	$ 41	$ 2,303,668	$ 16,899	$ 265,173
NET POSITION						
Unexpended Appropriations	-	-	-	206,762	19,239	46,307
Cumulative Results of Operations	17,092,075	2,920,134	12,098,145	6,237,749	3,471,427	2,301,786
TOTAL NET POSITION	17,092,075	2,920,134	12,098,145	6,444,511	3,490,666	2,348,093
TOTAL LIABILITIES AND NET POSITION	$ 17,092,075	$ 2,920,162	$ 12,098,186	$ 8,748,179	$ 3,507,565	$ 2,613,266
COST/REVENUE						
Gross Costs	-	71,556	306,832	1,230,108	284,722	107,283
Earned Revenue	(4)	-	(485,797)	(286,746)	(204,565)	(87,493)
NET COST OF OPERATIONS	$ (4)	$ 71,556	$ (178,965)	$ 943,362	$ 80,157	$ 19,790
NET POSITION						
Net Position, Beginning Balance	16,641,200	2,844,083	11,481,734	6,366,096	3,555,774	2,308,621
Appropriations Received/Transferred	-	-	-	97,763	16,046	45,351
Royalties Retained	901,869	152,453	1,327,695	-	-	-
Non-Exchange Revenue and donation and forfeitures	289	-	5,341	18	-	55
Other Financing sources						
Transfers In/(Out) without Reimbursement	(451,287)	(4,846)	(881,260)	818,163	(997)	(7,021)
Imputed Financing from Costs Absorbed by Others	-	-	53	105,833	-	20,877
Other	-	-	(14,383)	-	-	-
Net Cost of Operations	4	(71,556)	178,965	(943,362)	(80,157)	(19,790)
Change in Net Position	450,875	76,051	616,411	78,415	(65,108)	39,472
NET POSITION, ENDING BALANCE	$ 17,092,075	$ 2,920,134	$ 12,098,145	$ 6,444,511	$ 3,490,666	$ 2,348,093

Water and Related Resources Recovery Act	Abandoned Mine Land Fund	Southern Nevada Public Land Mgmt Fund	Federal Aid / Wildlife Restoration	Sport Fish Restoration and Boating Trust Fund	Environmental Improvement & Restoration Fund	Other Earmarked Funds	FY 2010
$ 678,422	$ 11,292	$ 162,388	$ 80,686	$ 11,589	$ 1	$ 3,054,785	$ 33,693,920
-	2,630,837	1,373,179	860,505	-	1,213,642	739,970	7,278,471
-	708	39	1	1,280,737	-	457,776	2,104,583
-	-	-	-	-	-	-	3,234,340
65,055	3,671	76,850	-	-	-	793,860	13,944,557
33,490	-	-	23	-	-	206,340	459,408
$ 776,967	$ 2,646,508	$ 1,612,456	$ 941,215	$ 1,292,326	$ 1,213,643	$ 5,252,731	$ 60,715,279
15,295	381	49,531	-	548,046	-	23,305	799,894
-	-	-	-	-	-	434,204	434,204
26,000	58,631	36,544	32,498	36,555	-	808,749	3,421,450
$ 41,295	$ 59,012	$ 86,075	$ 32,498	$ 584,601	-	$ 1,266,258	$ 4,655,548
73,794	-	-	-	-	-	39,001	385,103
661,878	2,587,496	1,526,381	388,549	707,725	1,213,643	3,947,472	55,674,628
735,672	2,587,496	1,526,381	908,717	707,725	1,213,643	3,986,473	56,059,731
$ 776,967	$ 2,646,508	$ 1,612,456	$ 941,215	$ 1,292,326	$ 1,213,643	$ 5,252,731	$ 60,715,279
185,446	241,561	235,558	388,549	436,428	-	2,978,920	6,466,963
(21)	(468)	(13,377)	-	-	-	(868,630)	(1,947,101)
$ 185,425	$ 241,093	$ 222,181	$ 388,549	$ 436,428	-	$ 2,110,290	$ 4,519,862
920,959	2,521,307	1,774,476	886,886	666,916	1,174,093	3,431,624	54,573,769
(12,128)	-	-	-	-	-	151,688	298,720
-	-	-	-	-	-	2,015,235	4,397,252
-	307,186	-	408,796	-	39,550	179,122	940,357
12,128	96	(26,083)	(1,092)	476,771	-	315,639	250,211
138	-	169	2,676	466	-	3,455	133,667
-	-	-	-	-	-	-	(14,383)
(185,425)	(241,093)	(222,181)	(388,549)	(436,428)	-	(2,110,290)	(4,519,862)
(185,287)	66,189	(248,095)	21,831	40,809	39,550	554,849	1,485,962
$ 735,672	$ 2,587,496	$ 1,526,381	$ 908,717	$ 707,725	$ 1,213,643	$ 3,986,473	$ 56,059,731

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

Interior records an intragovernmental liability for appropriations determined to be recoverable from project beneficiaries when funds are received and meet the requirement for repayment. Interior decreases the liability when payments are received from these beneficiaries and, subsequently, transferred to Treasury's General Fund. Interest is accumulated on this liability pursuant to authorizing project legislation or administrative policy. Interest rates used during FY 2011 ranged from 2.63% to 9.84% and in FY 2010 ranged from 2.59% to 9.84%. 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.

Starting in FY 2011 Treasury issued new guidance regarding the treatment of capital transfers. Balances existing in the liability account for capital transfers transferred to the General Fund of the Treasury are to be eliminated against new SGL accounts created for capital transfers receivables and contingent receivables for capital transfers. The changes between beginning and ending balances for the liability account have been disclosed on the "adjustments" line of the note. Changes for IA and BOR are $6 million and $41 million respectively.

(dollars in thousands)	FY 2011	FY 2010
Beginning Balance	$ 1,820,533	$ 1,769,571
Costs Incurred	101,779	112,578
Collections	(37,813)	(42,288)
Repayments to Treasury	(9,159)	(19,328)
Adjustments	(46,975)	-
Ending Balance	$ 1,828,365	$ 1,820,533

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.

Separately Issued Financial Statements

Interior 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, 2011, and 2010. 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 Interior holds assets in trust do not agree with balances recorded by Interior 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 Interior 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.

Schedule of Fiduciary Activity	Fiduciary Funds	
(dollars in thousands)	FY 2011	FY 2010
Fiduciary Net Assets, Beginning	$ 3,674,413	$ 3,615,216
Contributions	956,205	811,892
Investment Earnings	124,143	131,664
Gain (Loss) on Disposition of Investments, Net	0	1,834
Administrative and Other Expenses	4,693	0
Disbursements to and on Behalf of Beneficiaries	($959,564)	(886,193)
Increases/(Decrease) Net Assets	125,477	59,197
Fiduciary Net Assets, End	$ 3,799,890	$ 3,674,413

Fiduciary Net Assets	Fiduciary Funds	
(dollars in thousands)	FY 2011	FY 2010
Cash and Cash Equivalents	$ 976,238	$ 611,155
Investments	2,756,065	2,995,074
Accrued Interest Receivable	22,541	$24,351
Other Income Receivable	45,117	$43,834
Less: Accounts Payable	(71)	(1)
Total Fiduciary Net Assets	$ 3,799,890	$ 3,674,413

Schedule of Changes in Non-Valued Fiduciary Assets	Fiduciary Assets	
Regions	FY 2011	FY 2010
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. Interior manages its land held in trust through 12 administrative regions.

A copy of the financial statements and auditors' report is available at ***www.doi.gov/ost/documents***.

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, and heritage asset and stewardship land condition information.

Combining Statement of Budgetary Resources for the Fiscal Year ended September 30, 2011 *(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, Adjusted	**$ 163,313**	**$ 174,189**	**$ 407,498**	**$ 112,846**	**$ 164,658**
Recoveries of prior year unpaid obligations	-	40,732	18,106	13,548	35,557
Budget Authority					
Appropriation	-	85,823	1,189,221	2,254,559	977,979
Spending authority from offsetting collections					
Earned					
Collected	1,027,526	1,508,663	361,999	23,807	114,176
Change in receivables from Federal sources	(2,951)	(5,438)	8,632	25	(3,142)
Change in unfilled customer orders					
Advance received	(64,217)	33,281	(6,794)	-	(36)
Without advance from Federal sources	(72,615)	(40,932)	(13,819)	-	(12,833)
Total Budget Authority	**887,743**	**1,581,397**	**1,539,239**	**2,278,391**	**1,076,144**
Nonexpenditure transfers, net, anticipated and actual	-	-	(23,393)	277	(22)
Temporarily not available pursuant to Public Law	-	-	(1,562)	-	-
Permanently not available	-	(172)	(203)	(18,380)	(1,927)
Total Budgetary Resources	**$ 1,051,056**	**$ 1,796,146**	**$ 1,939,685**	**$ 2,386,682**	**$ 1,274,410**
Status of Budgetary Resources:					
Obligations incurred:					
Direct	-	86,515	1,038,449	2,270,081	984,477
Reimbursable	930,638	1,424,098	388,546	23,493	125,563
Total Obligations incurred	**$ 930,638**	**$ 1,510,613**	**$ 1,426,995**	**$ 2,293,574**	**$ 1,110,040**
Unobligated balance available:					
Apportioned	120,418	285,533	512,690	44,967	164,370
Exempt from apportionment	-	-	-	-	-
Total Unobligated balance available	**120,418**	**285,533**	**512,690**	**44,967**	**164,370**
Unobligated balance not available	-	-	-	48,141	-
Total Status of Budgetary Resources	**$ 1,051,056**	**$ 1,796,146**	**$ 1,939,685**	**$ 2,386,682**	**$ 1,274,410**
Obligated Balance:					
Obligated balance, net					
Unpaid obligations, brought forward, beginning of Fiscal Year	969,271	752,500	734,967	540,782	350,998
Less: Uncollected customer payments from Federal sources, brought forward, beginning of Fiscal Year	(715,122)	(608,361)	(152,712)	(278)	(119,703)
Total unpaid obligated balances, net, beginning of Fiscal Year, Adjusted	**254,149**	**144,139**	**582,255**	**540,504**	**231,295**
Obligations incurred, net	930,638	1,510,613	1,426,995	2,293,574	1,110,040
Less: Gross outlays	(1,068,220)	(1,530,023)	(1,137,545)	(2,288,102)	(1,036,460)
Less: Recoveries of prior year unpaid obligations, actual	-	(40,732)	(18,106)	(13,548)	(35,557)
Change in uncollected customer payments from Federal sources	75,566	46,370	5,187	(25)	15,975
Total unpaid obligated balance, net, end of period	**192,133**	**130,367**	**858,786**	**532,403**	**285,293**
Obligated balance, net, end of period - by component:					
Unpaid obligations	831,689	692,359	1,006,311	532,706	389,020
Less: Uncollected customer payments from Federal sources,	(639,556)	(561,992)	(147,525)	(303)	(103,727)
Total unpaid obligated balance, net, end of period	**$ 192,133**	**$ 130,367**	**$ 858,786**	**$ 532,403**	**$ 285,293**
Net Outlays:					
Net Outlays					
Gross outlays	1,068,220	1,530,023	1,137,545	2,288,102	1,036,460
Less: Offsetting collections	(963,309)	(1,541,944)	(355,205)	(23,807)	(114,140)
Less: Distributed Offsetting receipts	-	-	(638)	-	-
Net Outlays (Receipts)	**$ 104,911**	**$ (11,921)**	**$ 781,702**	**$ 2,264,295**	**$ 922,320**

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
$ 409,356	**$ 706,941**	**$ 254,873**	**-**	**$ 529,346**	**$ 410,461**	**$ 91,760**	**$ 4,350,137**	**$ 7,775,378**
18,795	20,757	44,747	-	27,040	10,457	25,011	254,145	508,895
919,897	59,430	1,247,818	1,916,209	2,334,515	1,085,844	244	6,235,628	18,307,167
29,219	-	233,445	-	314,597	426,047	73,590	1,514,164	5,627,233
(2,633)	-	14,988	-	6,197	19,056	765	(9,200)	26,299
(399)	-	(3,178)	-	(29,629)	3,507	(41,518)	5,506	(103,477)
290	-	53,622	-	22,157	10,693	(36,610)	(13,924)	(103,971)
946,374	**59,430**	**1,546,695**	**1,916,209**	**2,647,837**	**1,545,147**	**(3,529)**	**7,732,174**	**23,753,251**
38,914	(34,739)	1,000	-	(197)	150	(290)	(200,853)	(219,153)
-	-	-	-	-	-	-	(3,496)	(5,058)
(201,840)	(2,293)	(2,598)	-	(4,669)	(6,084)	-	(108,671)	(346,837)
1,211,599	**750,096**	**1,844,717**	**1,916,209**	**3,199,357**	**1,960,131**	**112,952**	**12,023,436**	**31,466,476**
835,968	123,370	1,363,855	1,916,209	2,396,003	1,113,927	50,632	6,290,879	18,470,365
17,097	-	259,189	-	320,676	445,841	19,403	1,520,874	5,475,418
853,065	**123,370**	**1,623,044**	**1,916,209**	**2,716,679**	**1,559,768**	**70,035**	**7,811,753**	**23,945,783**
358,534	626,726	206,175	-	446,286	393,866	32,186	3,997,627	7,189,378
-	-	-	-	-	-	-	174,279	174,279
358,534	**626,726**	**206,175**	**-**	**446,286**	**393,866**	**32,186**	**4,171,906**	**7,363,657**
-	-	15,498	-	36,392	6,497	10,731	39,777	157,036
1,211,599	**750,096**	**1,844,717**	**1,916,209**	**3,199,357**	**1,960,131**	**112,952**	**12,023,436**	**31,466,476**
222,964	899,436	512,811	-	367,499	336,203	1,829,168	4,492,958	12,009,557
(12,194)	-	(250,719)	-	(97,807)	(445,340)	(53,150)	(276,964)	(2,732,350)
210,770	**899,436**	**262,092**	**-**	**269,692**	**(109,137)**	**1,776,018**	**4,215,994**	**9,277,207**
853,065	123,370	1,623,044	1,916,209	2,716,679	1,559,768	70,035	7,811,753	23,945,783
(826,898)	(270,319)	(1,511,982)	(1,916,209)	(2,688,133)	(1,511,477)	(1,323,699)	(7,362,125)	(24,471,192)
(18,795)	(20,757)	(44,747)	-	(27,040)	(10,457)	(25,011)	(254,145)	(508,895)
2,343	-	(68,610)	-	(28,354)	(29,749)	35,845	23,124	77,672
220,485	**731,730**	**259,797**	**-**	**242,844**	**(101,052)**	**533,188**	**4,434,601**	**8,320,575**
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**
826,898	270,319	1,511,982	1,916,209	2,688,133	1,511,477	1,323,699	7,362,125	24,471,192
(28,820)	-	(230,267)	-	(284,968)	(429,554)	(32,072)	(1,519,670)	(5,523,756)
-	(59,430)	(462)	(1,916,209)	-	-	-	(3,403,048)	(5,379,787)
798,078	**210,889**	**1,281,253**	**-**	**2,403,165**	**1,081,923**	**1,291,627**	**2,439,407**	**13,567,649**

Deferred Maintenance

Interior 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 Interior's mission and the missions of its bureaus. When maintenance is not completed on assets as needed or scheduled and is delayed into the future, it is defined as deferred maintenance.

Deferred maintenance can have an adverse affect on Interior'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 Interior's facilities. In addition, since one mission of Interior 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

Interior has a 5-year planning process that provides a framework for improved planning and management of maintenance and construction programs. Interior's 5-year plan is updated annually to reflect a 5-year picture of the Interior's deferred maintenance and capital improvement needs. The annual update presents the opportunity for Interior 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, Interior 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 Interior Asset Management Plan, bureau asset management plans, and site-specific asset business plans.

Condition Assessment Surveys

Interior uses performance measures to help managers improve the condition of assets. The maintenance needs of Interior's real property assets are identified primarily through the annual and comprehensive condition assessment processes required of all bureaus. Interior maintains a cyclic/recurring condition assessment process to monitor the condition of buildings and other facilities at least once every 5 years.

Interior 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 are usually performed under contract; the contract includes 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.

Interior estimates real property deferred maintenance 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 Interior, 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 2011 Deferred Maintenance as of September 30, 2011						
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	$ 5,594,177	$ 8,243,213	$ 1,128,096	$ 1,599,514	$ 6,722,273	$ 9,842,727
Irrigation, Dams, and Other Water Structures	1,152,203	1,772,376	772,969	1,160,538	1,925,172	2,932,914
Buildings (e.g. Administration, Education, Housing, Historic Buildings, etc.)	1,749,814	2,562,234	1,181,777	1,737,907	2,931,591	4,300,141
Other Structures (e.g. Recreation sites, Hatcheries, etc.)	1,512,863	2,214,894	469,199	689,998	1,982,062	2,904,892
Total	$ 10,009,057	$ 14,792,717	$ 3,552,041	$ 5,187,957	$ 13,561,098	$ 19,980,674

Statement of Custodial Activity, Compliance Assessments and Pre-assessment Work in Process:

Management's best estimate of additional revenues that may potentially be collected from compliance assessments and pre-assessment work in process as of September 30, 2011, is $37.2 million. This estimate is comprised of approximately $10.1 million in Royalty In Kind (RIK) imbalance pre-assessment work in process, approximately $4.8 million in Audit and Compliance Management (ACM) and approximately $22.3 million in state and tribal audit 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.

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 9/30/2011	Condition	
		Acceptable	Needs Intervention
IA - Regional Offices	12	100%	
BLM - Geographic Management Areas	133	100%	
BOR - Federal Water and Related Projects	138	98%	2%
FWS - National Wildlife Refuges	555	99%	1%
FWS - Coordination Areas	50	100%	
FWS - Wetland Management Districts	38	100%	
FWS - National Fish Hatcheries	67	100%	
FWS - Fish Technology Centers	6	100%	
FWS - Associated Fish Facilities	16	100%	
NPS - Park Units	383	100%	
OS - Commision Land	1	100%	
Total Number of Units	1,399	99%	1%

Condition of Heritage Assets

Non-Collectible Heritage Assets

The condition of land based noncollectible heritage assets is based on the condition of the land, as described above. The condition of structure based noncollectible heritage assets is based on the requirements described in the deferred maintenance section. The condition of Interior's noncollectible heritage assets are shown in the following table.

Primary Non-Collectible Heritage Asset Categories	As of 9/30/11	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%		86%	9%	5%
National Historic Sites	78	100%				
National Historic Trails	11	100%				
National Historical Parks	45	100%				
National Lakeshores	4	100%				
National Memorials	29	100%				
National Military Parks	9	100%				
National Monuments	96	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	99	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	555	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	1,871	100%	0%	94%	4%	2%

Collectible Heritage Assets

Interior Library Collections	As of 9/30/2011	Condition of Library Collections		
		Good	Fair	Poor
Library Collections	7	14%	57%	29%

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 conservation treatment, storage, and exhibit space standards, as described in Chapter 3 of Departmental Manual Section 411. 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.

The primary focus within museum collections 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 and to manage the condition in accordance with the intended use and not to unduly hasten their deterioration.

Interior Museum Collections	As of 9/30/2011	Condition of Museum Collections			
		Good	Fair	Poor	Unknown
Held at Interior Bureau Facilities	585	53%	27%	15%	5%
Held at Non-Interior Bureau Facilities	478	51%	42%	2%	5%
Total	1,063	52%	35%	8%	5%

Unaudited, see accompanying Auditors' Report

Investment in Research and Development (dollars in thousands)						
Category	**FY 2007**	**FY 2008**	**FY 2009**	**FY2010**	**FY2011**	**Total**
Basic Research	$ 63,000	$ 65,000	$ 69,000	$ 73,000	$ 60,000	$ 330,000
Applied Research	728,000	746,000	755,000	967,000	796,000	3,992,000
Developmental Research	76,000	74,000	77,000	83,000	83,000	393,000
TOTAL	**$ 867,000**	**$ 885,000**	**$ 901,000**	**$ 1,123,000**	**$ 939,000**	**$ 4,715,000**

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.

Interior'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.

For the Technical Assessment and Research (TA&R) Program, in 2011, a series of studies was initiated by the Operational Safety and Engineering Research (OSER) program towards improving deepwater and ultra-deepwater operations with specific focus on subsea well control. The Transocean Deepwater (DW) Horizon – British Petroleum (BP) Macondo well incident of April 20, 2010, led to the loss of 11 crewmen, injury of 17 others, and the spillage of an estimated 4.9 million barrels of crude oil over the nearly three months that followed. To better understand and safeguard human life and the environment, the TA&R program initiated a series of studies of well control equipment and practices used in deepwater drilling operations.

The USGS provided timely and adaptive information that emergency managers needed to respond to a significant number of natural hazards in 2011. For example, the USGS quickly responded with Landsat images and maps that were necessary to track impacts of tornados across the Northeast and help firefighters manage the progression of raging wildland fires in Arizona. The USGS also played a critical role in the emergency response to flooding on the Mississippi River, a quickly changing hazard event. Emergency managers needed information to understand how the flow of the river would change when a levee was breached – whether intentionally or due to flooding. The USGS provided the necessary data, maps and models to improve understanding of how the river flow would change under different conditions. Due to the quality of USGS science, the data collected during the flooding will also help reduce loss of life and property in the future as it is applied to support improved flood forecasts in the future.

Earthquake and tsunami hazards were also a focus in 2011, as the USGS aided the response to the disaster in Japan and invested in the science necessary to reduce loss of life and property when future events occur. Seismic information from the USGS was provided to the science community and emergency managers to improve their understanding of the nature and impact of the earthquake and tsunami that struck Japan on March 11. In addition to seismic information, the USGS provided products to improve understanding of economic impacts. The USGS Minerals Information

Team produced maps showing the mining and mineral processing facilities and infrastructure that could be impacted by the earthquake and tsunami. Domestically, the USGS is building on the upcoming 200th anniversary of the New Madrid earthquakes as an opportune time to engage the central United States on earthquake preparedness and to increase knowledge about the region's earthquake history. The USGS was a lead organizer in the Great Central U.S. ShakeOut event. Modeled on previous ShakeOut events in California and elsewhere, this event was an invaluable opportunity to get people and organizations better prepared for major earthquakes by practicing how to respond when earthquakes happen.

In 2011, mapping and monitoring of pelagic bird concentrations on Lake Michigan included validation of models created in 2010 in multiple areas including the Platte River in Nebraska and other midwestern roosting areas. In addition, the USGS completed species distribution modeling efforts for ten desert species and genetic landscape analyses, delivered a report of these results to BLM, and associated digital data layers are served on ***mojavedata.gov***. The USGS completed peer reviewed publications that were published in scientific journals. In 2012, the USGS will complete model validation for cranes and begin adjusting models for waterfowl. The products will help in siting wind power facilities so as to reduce potential impacts to cranes. In addition, the USGS will complete species distribution modeling for additional species and will complete genetic data collection and analysis for at least one additional species. One to three peer reviewed publications in scientific journals related to this work are also planned in 2012.

Investment in Human Capital

Investment in human capital refers to education and training programs financed by the Federal Government for the benefit of the public; investment in human capital does not include education and training expenses for Federal employees. The Department plays a vital role in providing quality educational opportunities from early childhood throughout life, with consideration given to the mental, physical, emotional, spiritual and cultural aspects of the people served.

Investment in Human Capital *(dollars in thousands)*

Category	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	Total
Educational Programs	$ 565,000	$ 589,000	$ 615,000	$ 688,000	$ 727,000	$ 3,184,000
TOTAL	$ 565,000	$ 589,000	$ 615,000	$ 688,000	$ 727,000	$ 3,184,000

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 Non-Federal Physical Property

The Department of the Interior provides a long term benefit to the public by maintaining its commitment to investing in non-Federal physical property. Non-Federal physical property refers to expenses incurred by the Federal government for the purchase, construction, or major renovation of physical property owned by State and local governments and Insular Areas, including major additions, alterations, and replacements; the purchase of major equipment; and the purchase or improvement of other physical assets.

Interior's investment in non-Federal physical property is 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 2007	FY 2008	FY 2009	FY 2010	FY2011	Total
Dams and Other Water Structures	$ 281,000	$ 446,000	$ 329,000	$ 399,000	$ 416,000	$ 1,871,000
Land	165,000	128,000	170,000	191,000	197,000	851,000
Road and Bridges	4,000	2,000	2,000	2,000	1,000	11,000
Schools and Public Buildings	114,000	66,000	106,000	125,000	174,000	585,000
Ranges	2,000	2,000	2,000	1,000	2,000	9,000
Not Classified	10,000	23,000	14,000	47,000	27,000	121,000
TOTAL	**$ 576,000**	**$ 667,000**	**$ 623,000**	**$ 765,000**	**$ 817,000**	**$ 3,448,000**

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

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

OCT 14 2011

Memorandum

To: Secretary Salazar

From: Mary L. Kendall
Acting 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-0008-2011

In accordance with the Reports Consolidation Act of 2000, we are submitting what we determined to be 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 Performance and Accountability Report for fiscal year 2011. 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 took a new approach to identifying DOI's management and performance challenges this year. 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 substantial management improvements, or involve significant fiduciary relationships. We believe DOI could benefit by developing strategies to identify and address challenges in these areas, especially in those activities that span bureau and program lines.

Office of Inspector General Update Regarding the Top Management Challenges for the U.S. Department of the Interior

1. 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 $9.5 billion in fiscal year (FY) 2010 and $9.9 billion in FY2009. In an effort to manage this responsibility more effectively, DOI is undergoing major changes in the area of energy management. The magnitude of these changes poses significant challenges within DOI's energy responsibility.

In the wake of the Deepwater Horizon tragedy, in May 2010 DOI reorganized the Minerals Management Service (MMS) into the Bureau of Ocean Energy Management, Regulation and Enforcement (BOEMRE). Subsequent reorganizations have divided MMS into three independent entities:

- As of October 1, 2010, the Office of Natural Resources Revenue (ONRR), reporting to the Assistant Secretary for Policy, Management and Budget, has managed the revenue collection function.
- As of October 1, 2011, the Bureau of Ocean Energy Management (BOEM) will manage development of OCS resources.
- As of October 1, 2011, the Bureau of Safety and Environmental Enforcement (BSEE) will oversee safety and environmental compliance.

DOI faces increased challenges with the development of domestically produced offshore oil and gas. Offshore oil and gas development constitutes approximately 30 percent of domestically produced oil and 11 percent of the domestic natural gas supply. The vast majority of this production occurs in the central and western Gulf of Mexico (GOM). In achieving such levels of production, the GOM offshore oil and gas industry has reached farther offshore and deeper undersea with an outdated infrastructure. As the environment in which drilling becomes more complex, it exerts greater demands on equipment and pipelines. Many of the facilities are larger, more complex, more technologically sophisticated, and more distant from shore. As a result, DOI oversight of the energy resources of GOM has become equally more complex and challenging.

Another challenge DOI faces results from the outdated regulations governing its energy responsibility. An enormous gap exists between technological advancements and Departmental rule making. This gap often results in more departures and more applications for permits to modify. As a result, this increases the burden on BOEMRE staff.

Recent OIG reports have focused on challenges within BOEMRE's and the Bureau of Land Management's (BLM) enforcement program and BLM's onshore inspections and enforcement program. The Government Accountability Office (GAO) has also designated DOI's management of oil and gas on leased Federal lands and waters as high-risk. Furthermore, the transfer of the Coastal Impact Assistance Program (CIAP) from BOEMRE to the U.S. Fish and Wildlife Service (FWS) presents additional challenges to DOI.

Issues facing BOEMRE and BLM

OIG conducted a comprehensive evaluation of BOEMRE's OCS activities during the beginning phases of the reorganization, and identified problems in BOEMRE's policies and practices. OIG found that although the span of Federal control extends to industry chiefly through regulations, permitting, and inspections, BOEMRE could benefit from internal analysis of the appropriate role of industry in its operations. Improvements could result from professionalizing the inspector series, standardizing training, hiring more inspectors, and strengthening enforcement to ensure safety compliance. In addition, performing unannounced inspections, conducting inspections in two-person teams, witnessing high-risk operations, and modernizing the inspections process could help improve the effectiveness of inspections.

In response to OIG's findings, BOEMRE has worked for more than a year on program improvements. BOEMRE enhanced the standards for equipment, safety, and environmental safeguards in the drilling and production stages of offshore operations by issuing new requirements for safety equipment, drilling procedures, and workplace safety. To address conflicts of interest involving BOEMRE personnel, BOEMRE issued a recusal policy that requires inspections and permitting personnel in field offices to notify their supervisors of any conflicts. Personnel must request a recusal from performing any official duty in which a conflict of interest might exist. As a result, inspectors must not perform inspections of facilities of former employers and must report any attempt by industry or by other BOEMRE personnel to inappropriately influence or interfere with their official duties.

BOEMRE conducted a workload analysis and succession planning in order to identify and request additional staffing resources. OIG learned that BOEMRE plans to conduct a Nationwide search to identify talented personnel to fill many of the key senior positions in the newly created BOEM and BSEE. BOEMRE will engage in an aggressive recruitment campaign to hire new engineers, inspectors, scientists, and other experts into the new bureaus.

BOEMRE has also created eleven implementation teams to analyze critical aspects of BOEMRE's structures, functions, and processes in conjunction with considering the various recommendations for improvements received from several sources, including OIG, the President's Commission, the National Academy of Engineering, and the OCS Safety Oversight Board commissioned by Secretary Salazar.

OIG found that BLM faces problems similar to BOEMRE. In a recent review of BLM's oil and gas inspection and enforcement program, OIG found many opportunities for improving inspection strategy, performance of inspections, enforcement actions, training and retention of inspectors, and reliability of the program's electronic database. BLM also has a history of not completing its required number of production inspections. OIG found that inspection efforts are hampered because of provisions in the bureau's regulations that have not kept pace with modern technology.

Government Accountability Office's 2011 High-Risk List

GAO designated DOI's management of oil and gas on leased Federal lands and waters as high-risk because DOI:

- does not have a reasonable assurance that it is collecting its share of revenue from oil and gas produced on Federal lands;
- continues to experience problems in hiring, training, and retaining sufficient staff to provide oversight and management of oil and gas operations on Federal lands and waters; and
- is currently engaged in a broad reorganization of both its offshore oil and gas management and revenue collection functions.

With regard to this organizational effort, there are many questions about whether DOI has the capacity to undertake such reorganization while ensuring proper assessment and collection of billions of dollars of revenue owed the public and effectively managing oil and gas exploration and production on Federal lands and waters.

According to GAO, DOI faces ongoing challenges in two additional areas:

- *Revenue collection.* In 2008, GAO reported that DOI collected lower levels of revenues for oil and gas production than all but 11 of 104 oil and gas resource owners. GAO recommended that DOI reassess its revenue collection policies and processes. In response to GAO's September 2008 report, DOI commissioned a study with a target completion date in 2011. This study may reveal the potential for greater revenues to the Federal Government.

- *Human capital.* GAO reported that BLM and MMS encountered persistent problems in hiring, training, and retaining sufficient staff to meet its oversight and management of oil and gas operations on Federal lands and waters. For example, in 2010, GAO found that BLM and MMS experienced high turnover rates in key oil and gas inspection and engineering positions. As a result, DOI faces challenges meeting its responsibilities to oversee oil and gas development on Federal leases, potentially placing both the environment and royalties at risk.

DOI reported that it has set a new priority goal focused on completing reforms and improvements to increase the safety, environmental protection, and accountability associated with receiving adequate compensation for extraction of oil and gas from Federal lands. DOI increased budget resources beginning in FY2011 to support reforms and strengthen these programs. DOI expects these actions will help reduce risk, implement reforms, and effectively implement reorganization. GAO and OIG will continue to monitor DOI's progress related to revenue collection and enforcement.

Coastal Impact Assistance Program

Beginning October 1, 2011, FWS will assume 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 (CPS) for the conservation, protection, and preservation of coastal areas, including wetlands.

BOEMRE implemented and oversaw this program from its inception. In FY2012, however, FWS will assume responsibility for CIAP. To ensure minimal impact on recipients, DOI faces the challenge of providing a seamless transfer of approximately $730 million in undistributed funds from BOEMRE to FWS and transferring approximately 350 open grants. FWS's migration to DOI's Financial and Business Management System (FBMS) and the Treasury's Automatic Standard Application for Payments (ASAP) will further complicate the transfer. To be successful the Department must ensure that:

- FWS obtains expertise in the program's regulations, to include knowledge of allowable grant projects;
- foundational program knowledge is communicated from BOEMRE to FWS to avoid disruption of the grant award process;
- BOEMRE properly transfers open grant balances from BOEMRE to FWS without limiting the recipient's access to grant monies;
- FWS is fully operational on the FBMS and ASAP systems upon transfer completion; and
- grant recipients are fully apprised of the transfer and any impacts on the recipients.

DOI has taken steps that are critical in meeting the challenges of the transfer, such as establishing ongoing meetings to develop a comprehensive plan and timeline and developing a communication and outreach program. OIG will conduct verification reviews as necessary to ensure DOI achieves its intended results.

2. Climate Change

The sheer scope of climate change, combined with the difficulty of identifying region-specific impacts and the need to develop response strategies, poses a significant management challenge to DOI. DOI manages one-fifth of the Nation's lands, about 500 million acres within its 394 national park units, 553 wildlife refuges, 71 fish hatcheries, and 248 million acres of public land that include 21 national conservation areas and 16 national monuments. DOI is also the largest supplier and manager of water in the 17 western states. 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 affects farming and other land uses, while other urban and rural areas face issues with flooding.

DOI faces the challenge of developing relevant scientific information for land, water, and wildlife managers on a regional basis. DOI also faces the challenge of working 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 consider taking to adapt to the challenges and ensure the resilience of our Nation's resources.

DOI has created the Climate Change Adaptation Initiative in an effort to gain effective and broad collaboration to determine causes, formulate solutions, and implement changes to reduce or reverse climate impacts to land, water, natural, and cultural resources. The Initiative supports the development of scientific information and tools needed by land and resource managers as they make decisions and share information across DOI's bureaus and interested Governmental and non-Governmental partners.

DOI is establishing eight Climate Science Centers (CSC) to develop and deliver region-specific climate-related research, information, and tools. DOI is also developing landscape-specific scientific evaluations of climate impacts through a Nationwide network of 22 Landscape Conservation Cooperatives (LCC) that will work collaboratively across jurisdictions and political boundaries to leverage resources and share science capacity. DOI's FY2012 goal for the Initiative is to identify the areas and species ranges in the United States that are most vulnerable to climate change and implement comprehensive response strategies in these areas.

DOI's FY2012 budget request for climate change of $175 million supports completion of the network of LCCs and CSCs, as well as supporting individual bureau adaptation activities. To ensure maximum coordination in this effort across DOI bureaus, oversight of the Initiative rests with DOI's highest leadership. DOI's Energy and Climate Change Task Force, co-chaired by the Deputy Secretary and the Counselor to the Secretary, sets the policy direction for the Initiative. A Climate Change Working Group comprised of deputy-level officials from each bureau meets regularly to ensure cross-bureau collaboration.

3. 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 has increased 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 and insufficient knowledge about water quantity and quality. DOI faces the challenge of balancing limited water resources between multiple uses, habitat restoration, and responsibilities to the Endangered Species Act.

[1] Land cover is the physical material at the surface of the earth, such as grass, trees, or asphalt.

With such complex responsibilities comes the challenge of preventing and detecting fraud and waste to ensure tax dollars are well spent.

DOI's water sustainability goal, established in 2010, commits DOI to annual targets of increasing the available water supply for agricultural, municipal, industrial, and environmental uses in the western United States through the Bureau of Reclamation's (USBR) conservation-related programs, such as water reuse and recycling and water-related grants. USBR has budgeted and implemented programs, including WaterSMART grants and basin studies, to increase conservation and increase the reliability of water supplies for people while balancing water needs to advance species and habitat conservation.

In addition, DOI is working toward negotiation, settlement, and implementation of American Indian water rights settlement claims; pursuing workable solutions to regional issues, like the California Bay-Delta; and identifying other water conservation efforts across the country.

4. Responsibility to Indians and Insular Areas

Management problems persist in programs for American Indians and island communities. DOI works with 565 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.

DOI also has responsibilities to seven island communities, including four territories and three sovereign island nations. DOI provides general administrative supervision of the relations between the U.S. Government and 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 U.S. 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 countries.

Indian Affairs

Responsibility to American Indians has consistently been a top management challenge for DOI. Approximately 28 percent of OIG investigations involve Indian Country issues, and recent OIG reviews disclosed needed improvements in controls over wildland fire suppression funds and managing detention facilities' funding, staffing, and maintenance.

Our July 2011 review of the Bureau of Indian Affairs' (BIA) use of wildland fire suppression funds found deficiencies in BIA's control of these funds that increase the risk of fraud, waste, and abuse. The most serious deficiencies relate to tribal agreements, cost monitoring, recording of obligations/expenses, and paying of expenses. Our review revealed that these BIA control deficiencies jeopardize DOI's wildland fire suppression effectiveness because fire suppression funds are shared throughout DOI. The deficiencies have also contributed to the large number of wildland fire-related cases investigated by OIG and affected the wildland firefighting activities of states, Indian tribes, and other entities because they share fire suppression responsibilities. Insufficient bureau-level guidance and monitoring are the major contributors to the deficiencies identified, particularly concerning those associated with tribal agreements.

Our March 2011 review to evaluate how BIA spent a 48 percent funding increase that it received for staffing its detention facilities revealed that BIA does not have a budget allocation for staffing its detention facilities. It also revealed that BIA lacks a financial management system that identifies, accumulates, and reports on how BIA spends funds agency-wide.

BIA did not address staffing shortages reported in a 2004 OIG report, and detention facilities remain understaffed. BIA attempted to address the staffing shortage by entering into a $1 million, 1-year contract with the National Native American Law Enforcement Association (NNALEA) for recruitment services. Because of flaws in the award process and price negotiations, a vague statement of work, and unspecific contract performance requirements that our office identified in the contract, BIA terminated the contract after 8 months for convenience. Since the contractor claimed to have performed most of the work necessary under the terms of the contract, BIA paid $967,000 for recruitment efforts, which bore little, if any, benefit.

OIG also found that the facilities themselves were in poor condition. As part of the FY2011 goals, DOI is focusing on safety in Indian communities. BIA has been working to address overall detention operational deficiencies, which includes the recruitment and retention of correctional officers and improving the overall physical conditions of detention facilities. According to bureau officials, BIA has developed and begun implementing a recruitment model to hire correctional officers that has already shown promising practices to help alleviate staffing shortages. This model includes salary upgrades, open and continuous job vacancies for correctional officer positions Nationwide, recruitment and retention bonuses, and duty-station travel allowances. BIA is also working on establishing a system to track the number of various law enforcement positions agency-wide and account for the allocation and expenditure of law enforcement funds.

Indian Affairs and its bureaus continue to experience challenges regarding administrative backlogs from our Office of Investigations. It has had an historical backlog of responses to OIG for corrective administrative action resulting from allegations investigated. When OIG investigates an allegation and determines it is administrative in nature, OIG refers the misconduct to the responsible office. That office then has 90 days to respond on actions taken. To address the issue of its backlogged responses, Indian Affairs elevated the responsibility for timely action to Bureau Directors and other individuals at the Senior Executive Service level. Indian Affairs also mandated training to all managers and supervisors to help clear the backlog, and is working to ensure that no further backlogs develop. Recent initiatives have resulted in promising progress, but, based on historical backlogs, we are not convinced that these changes are sustainable long-term without continuous OIG oversight.

Insular Areas

DOI seeks to increase Federal responsiveness to the needs of the Insular Areas 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 FY2011 budget for the Insular Areas includes $85 million for capital improvements, operation, and technical assistance to the four U.S. territories; $220 million for the programs of the three nations under the Compacts of Free Association; and $145 million in tax-related payments to the U.S. Virgin Islands and Guam. Overall, 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. In addition, the Department of Defense FY2011 budget includes a proposal to transfer $10.1 million to OIA for costs related to the military build-up on Guam.

The imminent relocation of thousands of U.S. military personnel and their dependents from Okinawa, Japan to Guam is a huge challenge on many fronts, including the creation of a Federal Government-wide funding strategy for needed civilian infrastructure upgrades. OIG is currently examining Guam Power Authority's (GPA) ability to account properly for the maintenance and condition of key infrastructure components and assessing their efforts to expand service capacity, increase reliability, assure continuity of service for critical facilities, prepare for contingencies, and incorporate alternative energy sources. OIG sees improvements needed in increasing reliability, maintaining key infrastructure components, and incorporating renewable energy. While GPA has established plans for the impact of the build-up on Guam, uncertainties over the actual relocation date and funding sources and amounts have prevented GPA from executing its plans. The relocation, however, presents a significant economic opportunity for the island.

Our reviews have found that many of the Insular Area governments lack the resources necessary to adequately prevent and detect fraud, waste, and abuse involving Government-funded programs. Although the Insular Areas have made some improvements in this area, OIA must provide greater oversight and implement a more active approach to assisting the Insular Area governments.

Reviews have also identified ongoing management and financial problems in the Insular Areas. For example, internal control weaknesses previously reported by OIG and GAO continue to exist, according to a recent GAO report. The report states that about 40 percent of grant projects funded through OIA have weaknesses, to include insufficient reporting and record-keeping discrepancies in grant recipient activities; joint activity between grant recipients and OIA; and OIA's grant management, which may increase susceptibility to mismanagement. OIG has found that some Insular Area governments do not have sufficient resources to investigate and pursue prosecution of those involved in theft of Government funds.

Over the past 6 to 8 years, OIG's initiative in Hawaii and the Pacific Insular Areas has focused on capacity building through leveraging OIG resources with those of the Insular Areas Public Auditors to capitalize on efficiencies gained by a more effective use of workforces. OIG has worked to expand both the capacity of the local Offices of the Public Auditors (OPA) as well as their efforts toward strong financial and program accountability in the Insular Areas.

OIG has also worked with OIA to implement an OPA training program rotating OPA staff to various OIG mainland regional offices for on-the-job training opportunities. This training program is designed for a greater self-sufficiency and a significantly increased capacity for OPAs, thereby enabling them to monitor the expenditures of Federal and local funds to the mutual benefit of all parties. OIG has looked to involve other Federal OIGs and program officials that provide Federal funds to the Insular Area governments to help strengthen controls over grant monies and bring the governments in line with standard business practices.

Building on past successful efforts, OIG will concentrate its efforts on providing increased technical assistance, training, fraud awareness, and outreach support to OPAs and the Insular Area governments. OIG is hopeful that this emphasis continues to strengthen the OIG's capacity-building and resource-leveraging effort with OPAs and their challenge in overseeing the financial and program resources and activities of the Insular Area governments.

Recent reviews have also focused on ongoing energy issues and challenges in the management of the Insular Areas' capital improvement projects. OIG is currently evaluating the areas of health care, the viability of the U.S. Virgin Islands' retirement system, and the administrative functions of the U.S. Virgin Islands' legislature.

DOI stated that OIA has developed goals and strategies to help identify areas of greatest need, including implementation of a new 2012-2016 Strategic Plan goal to Empower Insular Communities and development of associated performance measures. According to DOI, OIA is demonstrating leadership in developing partnerships to gather Gross Domestic Product statistics, development of energy assessments and sustainable and renewable energy plans, safety assessments of schools, economic opportunities for small businesses, and planning for diversification of island economies. DOI also stated that OIA supports the efforts of associations of senior Insular Area officials to improve financial management, revenue and collections, audits, and workforce development. OIG will review these programs as necessary to ensure improvement.

5. *Cobell* and Indian Land Consolidation

In December 2009, the Secretary 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). The President signed the settlement on December 8, 2010, and the U.S. District Court approved the final settlement on August 4, 2011.

Indian land fractionation is a large part of the settlement and has been a major challenge for many years. The *Cobell* settlement presents new challenges to DOI. As far back as1960, the Chairman of the House Committee on Interior and Insular Affairs stated:

> For many years we have recognized that one of the most serious problems facing our American Indian population is that of [inherited] land. With each passing generation the

> difficulties of solving this problem multiply and if some solution is not forthcoming it will be so acute by the turn of the century that the Federal Government will be unable to bear the burden of handling the administration of the land and the Indians will find their estate so fractionated that their utilization will be nearly impossible.

The General Allotment Act of 1887 divided Tribal land into parcels and allotted them to individual Indians. Because wills were not widely used, smaller and smaller land interests descended to successive generations thereby fractionating the land. Land fractionation limits the tribes' productive use of the land and creates jurisdictional issues. It also requires that BIA and the Office of the Special Trustee for American Indians devote a significant portion of their budgets to administer the fractionated land interests.

To address land fractionation, the settlement established a $1.9 billion fund for the voluntary buy-back and consolidation of 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.

Recent OIG reviews disclosed the need for better communication and coordination among the many offices throughout DOI that are involved in Indian land consolidation efforts. Our January 2011 evaluation report focused on opportunities designed to improve communication, coordination, and identification of needed resources. Subsequent OIG advisory reports have 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 the Office of the Special Trustee for American Indians.

As part of its planning for Indian land consolidation, DOI is conducting tribal consultation meetings throughout the Nation. These meetings are an important step in Departmental efforts 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, OIG continues its effort to monitor and evaluate the accountability of funding provided to DOI in the settlement. The Department is working with the OIG to provide updates on planning for the *Cobell* land consolidation efforts.

6. Operational Efficiencies

DOI, like other Government agencies, faces new economic challenges in anticipation of significant budgetary cuts. The recently enacted Budget Control Act of 2011 set ceilings on total discretionary spending and calls for significant deficit reduction over the next decade. In addition, the Accountable Government Initiative has called for significant change in the way Government does business and has outlined strategies for cutting waste, reforming contracting, closing the information technology gap, and promoting accountability and innovation through open Government. In response to these mandates, management must identify waste, identify

overlapping programs and functions, and reorder priorities to operate with limited discretionary spending.
According to the FY2012 DOI budget submission, the budget includes $99.4 million in reductions reflecting administrative cost savings as part of the Accountable Government Initiative. DOI will implement these reductions by changing how it manages travel, employee relocation, acquisition of supplies and printing services, and the use of advisory services. These reductions complement $62 million in travel, information technology, and strategic sourcing savings identified as part of DOI's FY2011budget request, along with bureau-specific efficiencies. DOI does not expect the proposed savings in administrative functions to have an impact on programmatic performance.

DOI's ability to achieve administrative cost savings will be critical to its success in limiting overall discretionary spending. DOI has embarked on an aggressive effort to curb non-essential administrative spending, but leveraging these initiatives to realize savings with minimal programmatic impact will be a continuous challenge in the years ahead.

Keeping in line with DOI's strategic plan mission area of building a 21st century DOI, Departmental Chief Information Officers (CIO) have worked together to evaluate options to reduce duplication and parallel investment in information technology (IT) infrastructure with the objective of identifying immediate and long-term solutions for realizing efficiencies and cost savings across DOI's IT environment. The CIOs identified five focus areas for efficiency and cost savings, which include:

- risk-based information security services;
- infrastructure consolidation;
- unified messaging;
- workstation ratio reduction; and
- radio site consolidation.

The Department issued an IT Transformation Strategic Plan in July 2011 to guide these efforts and the CIOs are developing strategies within each of the focus areas to identify the potential for short- and long-term savings.

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. DOI plans to leverage its current inventory of VTC facilities by making them available to all bureaus and offices to maximize use. OIG has cataloged all DOI VTC sites and equipment and identified potential cost efficiencies VTC might provide. In addition to leveraging VTC technology, DOI also plans to issue travel targets against which managers can track travel spending throughout the year and reinforce smarter travel practices that emphasize highest priority mission travel.

Many opportunities exist for improvement in operational efficiencies. OIG recognizes DOI's active approach to address the Accountable Government Initiative, yet challenges remain. OIG will continue to monitor DOI's progress in these areas and conduct reviews as appropriate.

Conclusion

Working with DOI officials, OIG 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. While DOI has started to address some of the issues related to these challenges, much more work is needed to ensure greater accountability, promote efficiency and economy in operations, and establish effective oversight in the activities that comprise DOI's mission. This report will assist DOI in identifying the steps needed to develop strategies and implement policies and processes necessary to sustain improvements in an environment of increasing complexity and limited resources.

Results of Financial Statement Audit

As required by the GMRA, Interior 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 Interior's centralized process to ensure the integrity of financial information.

The results of the FY 2011 financial statement audit are summarized in Figure 3-1. As shown in the table, Interior again achieved an unqualified audit opinion, the 15th consecutive one, for Interior's consolidated financial statements.

FIGURE 3-1

Summary of Financial Statement Audit					
FY 2011					
Audit Opinion	Unqualified				
Restatement	No				
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Ending Balance
Contingent Liabilities	0	1	0	0	1
Total Material Weaknesses	0	1	0	0	1

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) 2011, 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.

FIGURE 3-2

Summary of Management Assurances						
Effectiveness of Internal Control over Financial Reporting (FMFIA § 2)						
Statement of Assurance	Qualified					
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Contingent Liabilities	0	1	0	0	0	1
Total Material Weaknesses	0	1	0	0	0	1

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	No	No
1. System Requirements	Yes	
2. Accounting Standards	No	
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 OMB Circular No. A-123 Appendix C, *Requirements for Effective Management and Remediation of Improper Payments*, as improper payments exceeding both 2.5% of annual program or activity payments and $10 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." Interior conducts its own risk assessments utilizing a four step process 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.

Based upon its risk assessment process, Interior determined that 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, Interior also considered the results of audits under the Single Audit Act Amendments of 1996, the CFO Act of 1990, GAO reviews, and reviews by Interior's OIG when making its assessment.

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.

Interior 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, Interior has not had a payment recapture audit contract since 2009. For FY 2011, Interior 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

FIGURE 3-3

FY 2011 Recovery Auditing Report
(dollars in thousands)

Interior	Amount Subject to Review for FY 2011 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 2011 **PYs** Prior Fiscal Years 2005 - 2010

audit efforts prior to FY 2011. In addition, Interior transmitted reports on the Department's payment recapture audit plan to Congress, the Interior Inspector General and the OMB Controller.

Other Efforts

As noted below Interior conducts other efforts to identify and recover improper payments. As a result of Interior'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 - Interior 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 Interior's bureaus to ensure that all freight bills receive prepayment audits.

Invoice Payment Reviews – Interior 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 – Interior conducts a number of pre and post travel voucher audits. The audits are designed to identify incorrect payment amounts, unauthorized claims, and fraudulent activity.

Going Forward

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, Interior will take 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 in FY 2011 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.

To recover those improper payments that are made the Department will:

- Develop an action plan that will describe how the Department is prioritizing its payment recapture activities and establish a framework for establishing recapture goals.
- Re-establish the Department's payment recapture audit program by awarding a contract to a recovery audit firm.
- Pilot payment recapture audits in the Departmental Offices and three large bureaus; which include the Bureau of Land Management, the Bureau of Indian Affairs, and the Bureau of Reclamation; 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.

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You can send written comments to:

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Office of Financial Management
MS 2557-MIB
1849 C Street, NW
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