

Management Accountability

Managing to Perform Our Mission More Effectively

At Reclamation, management accountability is an ongoing commitment to improve business processes and customer satisfaction. Reclamation is dedicated to achieving management excellence through increased accountability and is improving program management, performance reporting, and financial accountability through increased leadership, expanded technical expertise, efficient operations, and improved customer service.

For FY 2008, all senior executive service (SES) member performance agreements are tied to Interior's strategic goals, Reclamation's GPRA goals, the President's Management Agenda (PMA), and building collaboration and partnerships. SES members are evaluated on accomplishing specific performance targets to clearly measure their contribution to organizational goals and mission accomplishment.

Getting to Green: President's Management Agenda Scorecards

The Office of Management and Budget established an Executive Branch Management Scorecard, updated annually, to monitor Interior's status and progress in attaining PMA goals. The objective of the scorecard is to strengthen agency accountability. Interior adapted this concept and developed their "Getting to Green" scorecard to monitor the PMA progress of each bureau and office. Reclamation made significant strides in attaining PMA goals in FY 2008. For example, Reclamation received a "green" rating for Improving Financial Performance through consistently ensuring financial management data are used to drive results in key program areas throughout Reclamation. Reclamation ratings for the key areas are presented in the following table.

In general, if a rating drops, specific recommendations for improvement are identified by Interior to assist Reclamation in making progress. A number of factors may influence the ratings for both progress and status and may be taken into account in the overall assessment.

Reclamation's Getting to Green Scorecard Ratings	As of September 1, 2007	As of September 1, 2008
Strategic Management of Human Capital	Green 	Yellow 
Expanding E-Government	Green 	Green 
Competitive Sourcing	Yellow 	Green 
Budget and Performance Integration	Yellow 	Yellow 
Improving Financial Performance	Yellow 	Green 
Real Property	Yellow 	Yellow 
Transportation Management	Yellow 	Yellow 
Energy Management	Red 	Green 
Environmental Stewardship	Red 	Red 

Strategic Management of Human Capital

As a world leader in developing and managing water resources, Reclamation requires a world-class workforce. Reclamation's highly competent and skilled staff of about 5,400 employees operate and maintain our vast water and power infrastructure, manage and support our technical programs, and address financial, acquisition, IT, and business management challenges. Under the *Managing for Excellence* Initiative, Reclamation evaluated functional areas related to managing issues and challenges, existing infrastructure, and future construction. The outcome of this initiative and subsequent decisions by Reclamation management is the focal point of future workforce and succession planning efforts. In concert with this effort, a workforce/succession plan (2008–2012) was developed in 2007 along with an action plan to help Reclamation meet future challenges.

To meet these needs, Reclamation continues to utilize the Student Educational Employment Program and the Federal Career Intern Program. Reclamation currently employs 229 students and 101 Federal career interns.

A “New Employee Orientation” video has been developed which highlights the culture and mission of Reclamation and points out that success lies with our employees. The video is also being modified for recruitment purposes.

To address succession planning, the Reclamation Leadership Development Program was redesigned and launched in 2007. Nine employees graduated in September 2008 and four have already been promoted into key leadership positions.

In the performance management arena, Reclamation has assured that its appraisal and awards systems for all SES and managers and approximately 95 percent of the workforce effectively link to agency mission, goals, and outcomes.

In FY 2008, Reclamation began the implementation of a new employee time and attendance system which was developed specifically for Reclamation to meet our work management system needs. The Employee Time and Attendance System (ETAS) was launched in November 2007 and will be implemented by mid-FY 2009.

Expanding Electronic Government to Enhance Mission and Business Performance

The Electronic Government (E-Government) initiative is aimed at improving the delivery IT services and capabilities across Government to improve mission and business operations and practices. In support of these objectives, Interior established an E-Government “Getting to Green” scorecard process to foster improvements in IT programs across the organization.

In FY 2008, Reclamation’s information resources management program received “green” ratings from Interior for supporting E-Government scorecard performance objectives. To improve IT infrastructure capabilities, Reclamation participated in several Government-wide and enterprise-wide initiatives aimed at standardizing network management and communications services within Interior, including the Enterprise Services Network, Enterprise Messaging System (electronic mail or e-mail) and Active Directory. These initiatives, while not always visible to computer users, have led to improvements in wide area network security, created opportunities for information sharing through the employment of common e-mail services, and established a

foundation to deploy encryption and single sign-on or user authentication services in the near future.

Reclamation received recognition in FY 2008 for its enterprise architecture work from Interior and as part of the E-Government scorecard process. This recognition reflected Reclamation's completion of several important steps within the blueprint process and related to the Reduce Dam Safety Risks (RDSR) Blueprint initiative. The RDSR blueprint initiative is one of multiple initiatives under Reclamation's Water Resources Management Framework, which outlines opportunities for improving water resources management programs, functions, and activities. Reclamation, as the lead for the blueprint effort, is collaborating with other Interior bureaus and offices on ways to develop a common approach for identifying and reporting dam safety risks.

Reclamation also received "green" scores from Interior for IT capital planning and investment control, IT security and privacy, emergency management, IT workforce management, records management, and Freedom of Information Act program activities. Reclamation builds on successes within these areas and is always looking for ways to improve customer service and business process efficiencies. More importantly, Reclamation manages IT programs and investments effectively and has consistently kept cost variances for major IT investments below 10 percent—resulting in high marks from the Office of Management and Budget (OMB). As a recognized departmental leader in capital planning and privacy management, Reclamation was asked by Interior to assist the National Park Service in improving its IT capital planning and investment control and privacy programs. This assistance proved beneficial and helped the National Park Service improve its E-Government scorecard performance in FY 2008.

Using Competitive Sourcing to Obtain the Best Value

Competitive sourcing is a tool to ensure that the public receives the best value from the Government. It involves conducting public-private competitions that compare the performance of a Government organization (also referred to as a business unit) with that of a private sector or other non-Federal organization. Conducting a public-private competition (A-76 competition) is a highly structured process to ensure that both the private and public sectors compete on a level playing field.

OMB's Memorandum to the President's Management Council dated May 22, 2008, encourages alternatives to A-76 competition. These include nominating business units by function, while considering all workload and introducing business process reengineering and high performing organizations studies. Considering inherently governmental and commercial workload during the preliminary planning process removes artificial barriers to innovation. Further, embracing the alternatives to A-76 competition does not require competing with the private sector, which allows for greater flexibility in determining an optimum performing organization.

Competitive reviews and business process reengineering provide a disciplined, periodic way to review and compare our current operations with alternatives: Are we the best we can be? Might a restructuring generate a more efficient organization? Might contracting with a provider free up resources that can be reallocated to other priorities? The ultimate goals are to streamline existing government organizations for most efficient performance, reduce fiscal obligations if a contractor can perform tasks more cost effectively, and enhance productivity through developing measurable job standards. Reclamation completed Preliminary Planning for the Printing and Duplicating function in June 2008 and is assessing whether to proceed with a competition or business process reengineering. Preliminary Planning for the Printing and Duplicating function was accomplished through the leadership of the Competitive Sourcing Program Office, under the Denver Acquisition and Assistance Management Division.

Integrating Budget and Performance

In FY 2007, Reclamation revised its "costing" capability to align with key performance measure based on Interior's *GPRA Strategic Plan FY 2007-2012*. Reclamation now is able to associate program and project costs to its key measures. In FY 2008, Reclamation continued its work to identify the full cost and to estimate the marginal cost of accomplishing activities aligned with its measures.

In Interior's FY 2008 Performance and Accountability Report, Reclamation provided an expanded discussion of its Representative Performance Measure (RPM) for Facility Reliability. The purpose for identifying the RPM is to illustrate that a significant portion of costs are aligned and represent key portions of Reclamation's core mission, associated operations, and performance progress.

In addition to the progress in providing cost data, Reclamation actively participates in the quarterly review process with Interior, wherein its budget and performance integration progress is discussed. During the quarterly review, Reclamation's senior leadership provides up-to-date forecasts on the likelihood of meeting the published annual performance targets. The annual funding level against each end outcome goal is discussed to determine potential fund transfers that may be necessary to meet established targets. Reclamation's budget submissions increasingly show the integration of budget and performance for selected measures and related discussions for specific programs. Reclamation uses information compiled during baseline analysis of several new measures to further develop and support the budget requests.

Performance Improvement

Reclamation identified the Director Program and Budget as the Performance Improvement Officer who facilitated the completion of Reclamation's Budget and Performance Integration/Performance Improvement Policy and the delivery of an enhanced Performance Management Intranet Web site. The new policy and access to current tools and topics help Reclamation employees participate in the performance arena with more confidence, efficiency, and effectiveness.

Improved Financial Management

Reclamation maintained a close working relationship with Interior to improve financial processes and reporting. To achieve the President's and Interior's objectives for increased accountability, Reclamation further refined existing internal control policies and procedures to meet the requirements of OMB Circular A-123, *Management's Responsibility for Internal Control*.

Reclamation's Internal Control Program (ICP) reinforced the principals of the Commissioner's Efficiency, Transparency, and Accountability initiative to provide a general framework for high quality management of Government programs and operations. Reclamation's ICP emphasized an ongoing commitment to integrity and ethical values that address customer service and stakeholder demands for Government programs and operations that work better, cost less, and produce quality performance results. During FY 2008, Reclamation continued our efforts to improve the

efficiency, effectiveness, and business practices of our internal control program. Reclamation has:

- Collaborated and shared knowledge with Interior and other bureaus on risk management concepts/strategies to promote a uniform and consistent departmental approach for implementing Internal Control Guidance and Criteria.
- Developed an Integrated Risk Management Framework for Interior that leverages existing business functions and Reclamation program risk processes.
- Developed an Integrated Risk Management Tool and Risk Management Reports for Reclamation managers to use to ensure program and operational risks are appropriately addressed. This Integrated Risk Management approach will be valuable to Reclamation programs and financial managers alike to help determine the frequency of Internal Control Reviews and to identify risk/reward and cost/benefit opportunities for improving management and promoting positive change.
- Developed draft Directives and Standards (D&S) for Reclamation's ICP. Implementing the policy and the D&S, will help to ensure that effective internal and management controls are in place and operating as intended and will promote awareness of standard business practices and procedures to help managers ensure they achieve organizational goals.
- Developed an *Internal Control Review Handbook* and tools and templates for the ICP to enhance the review process and to promote consistency and comparability.
- Provided Reclamation-wide training for the ICP. The focus of the training was to increase awareness to all levels of personnel on the significance of the program and the importance of leveraging and taking credit for successful program accomplishments that were already being performed.

Real Property Asset Management

Reclamation has made significant progress in implementing its Asset Inventory and Financial Records Verification and Validation

Project. The project is designed to collect asset information from various sources into one inventory database that will be tied to Reclamation's Property, Plant and Equipment (PP&E) accounts. Reclamation identifies assets that have an original PP&E acquisition cost of \$21.3 billion. The majority of these assets are capital-intensive water and power generating facilities. At the conclusion of the Asset Inventory and Financial Records Verification and Validation Project (by the end of the calendar year 2008), there will be a complete, auditable, high-level asset inventory tied directly to Reclamation's financial system.

Reclamation has made significant progress in meeting requirements of Reclamation's Real Property Scorecard. Reclamation inventory data for reserved and transferred works, in accordance with Federal Real Property Council reporting requirements, were uploaded into the Federal Real Property Profile (FRPP) at the end of calendar year 2007 (24 data elements per asset). The data included Utilization, Mission Dependency, Annual Operation and Maintenance Costs, and Condition Index for reserved and reported transferred works assets (performance measures).

In December 2007, Reclamation updated its Asset Management Plan, a comprehensive documentation of Reclamation's extensive asset management policies, practices, and processes. Reclamation works to improve the performance of its varied and complex water and power infrastructure and to partner with other Federal agencies that have similar assets. Reclamation also works with OMB to implement a rule for the Loan Guarantee Program.

Additional work will be performed in the near future to document energy, transportation, space management, and disposal of assets using various performance assessment tools within Reclamation and Interior.

Transportation Management

To meet the objectives of the Transportation Management Initiative and to efficiently support Reclamation's mission, Reclamation strives to right size its fleet. Reclamation is looking at opportunities to share vehicles with other Interior bureaus, as well as other Government agencies.

Reclamation has established a set of procedures and guidelines to acquire vehicles owned by Interior and leased by General Services Administration (GSA). All motor vehicles that are purchased or

leased must achieve maximum fuel efficiency and be limited in body size, engine size, and optional equipment necessary to meet Reclamation's mission requirements. Reclamation promotes the use of alternative fuel vehicles where practicable. Reclamation requires justification for any vehicle replacement or acquisition of any additional vehicles. With the implementation of the new Energy Independence and Security Act 2007, Reclamation is re-evaluating its Fleet Initiative to make changes where needed to meet the new requirements. Through the development of new reports, Reclamation will be able to analyze its fleet program, make the required adjustment to its Fleet Initiative, and work toward the benchmarks set in this new Act.

Reclamation created a Fleet Management Investment Review Board (FMIRB) that developed performance indicators, set utilization standards, developed business practices, standardized data collection, and benchmarked areas needing improvement. The FMIRB reviews Reclamation's existing fleet portfolio and approves all requests for replacement and additional vehicles required for Reclamation's mission.

Managing Energy

Reclamation complies with Executive Order 13123, Greening the Government through Efficient Energy Management, Energy Policy Act of 2005 (EPA05), and the new Energy Independence and Security Act 2007 (EISA07) and has established an agency energy team consisting of one person from each regional office.

The EISA07 goal is to reduce energy use by 3 percent a year from FY 2008 through FY 2015. Reclamation is looking for ways to reduce energy use through water conservation and will use more cost-effective renewable energy technologies, including solar, wind, geothermal, and biomass energy systems. Reclamation is working with local utility providers to perform energy audits at our owned buildings. As these audits are completed, improvements that are life cycle cost effective will be implemented within 2 years. These projects will be accomplished with internal funding or through Energy Savings Performances Contracts.

Environmental Stewardship

During FY 2008, Reclamation made progress in Environmental Stewardship and "Getting to Green" on the OMB Environmental Scorecard:

- **Environmental Management Systems (EMS).** During the first quarter of FY 2008, Reclamation identified organizations required to implement EMS at both the regional and area office level. Through EMS, these organizations identified their environmental aspects and impacts, developed plans, and documented their internal processes and controls for environmental improvement. Reclamation held an internal EMS workshop in April 2007, for over 30 EMS practitioners to increase Reclamation staffs' competency and knowledge of Executive Order 13423, Strengthening Federal Environmental, Energy, and Transportation Management, and EMS requirements, share lessons learned, and make recommendations to management on ways to make further progress in EMS. Reclamation revised its environmental stewardship policy and EMS D&S to incorporate changes in Executive Order 13423 and Interior's final draft Departmental Manual (DM) 515 DM 4. The EMS D&S communicates Reclamation's policies, requirements, and roles and responsibilities for EMS implementation. During FY 2009, Reclamation will make progress toward implementing EMS to meet Interior's 2011 deadline.
- **Environmental Compliance.** Reclamation's lead environmental compliance officer completed oversight audits of regional environmental audit programs. The audits consist of onsite inspections of a major water project, often consisting of numerous facilities. These audits ensure that Reclamation's environmental compliance programs function properly, identify compliance deficiencies that need to be corrected, and reduce the risk of potential environmental impacts. The audits also function as an opportunity for regional and area office auditors, as well as facility operators, to learn about Federal environmental requirements and best practices. Reclamation will implement its environmental compliance program to ensure compliance with Federal environmental requirements.
- **Sustainable Buildings.** Reclamation participated in the Interior's Sustainable Buildings Work Group and supported development of Interior's Sustainable Buildings Implementation Plan. Reclamation initiated internal efforts to address sustainable building requirements by implementing the requirement that building leases between

10,000 and 19,999 square feet, respectively, use the GSA model for sustainable lease language. Reclamation formed a Reclamation Sustainable Buildings Work Group, which will develop internal guidance to implement Interior's Sustainable Buildings Implementation Plan to design, locate, construct, maintain, and operate facilities in an energy efficient and sustainable manner, including maximizing the use of recycled and reusable materials.

- **IT Stewardship.** Reclamation ensured that electronic products purchased meet requirements set forth in Executive Order 13423 and Energy Star features are enabled on computers and monitors where ever possible. Reclamation also initiated work on a D&S to extend the life cycle of electronic equipment to 4 years when ever possible and to ensure environmentally sound practices are followed with respect to the disposition of electronic equipment. Reclamation will implement Interior's Electronics Stewardship Implementation Plan released July 2008 to improve the quality, performance, and environmental management of Federal electronic assets throughout their life cycle.
- **Green Purchasing.** Reclamation supported Interior's effort to update its Green Purchasing Plan. Reclamation will update its internal acquisition regulations to achieve a comprehensive approach to green purchasing and comply with Interior's Green Purchasing Plan and other related statutory and Executive order requirements.

Reclamation works with Interior on these efforts to ensure environmental compliance and reduce the environmental impacts from activities and operations on Reclamation lands and facilities. The combination of these efforts will contribute to Federal achievements in energy reduction, hazardous and solid waste management, recycling and reuse, environmentally friendly purchasing, and greener technology, construction, and operations.

Using the Program Assessment Rating Tool

OMB's Program Assessment Rating Tool (PART) is a systematic process to develop program performance ratings and use that information to inform the budget process and initiate program improvements. PART is comprised of assessment criteria on program performance and management. Each year, programs

comprising approximately 20 percent of an agency's budget must be reviewed using PART with the goal of reviewing all programs within 5 years. Programs receive a score of up to 100.

Rating	Range
Effective	85-100
Moderately Effective	70-84
Adequate	50-69
Ineffective	0-49

The answers to specific questions in the PART translate into section scores which are weighted to generate the following overall score:

- Program purpose/design – 20 percent
- Planning – 10 percent
- Management – 20 percent
- Results accountability – 50 percent

PART scores are translated into qualitative ratings based on the ranges above. Because overall scores could suggest a false degree of precision, only the overall ratings are made available to the public.

Regardless of the overall score, a rating of Results Not Demonstrated is given when programs do not have acceptable long-term and annual performance measures. A program also receives a rating of Results Not Demonstrated when it lacks baselines and performance data that communicate current and past achievements.

Ninety-two percent of Reclamation's programs have been rated adequate or better through PART. At this time, Rural Water is the only outstanding program set to be reevaluated through PART.

The program was initially evaluated through PART in 2002. Because the program lacked authorizing legislation, it was rated "Results Not Demonstrated." In December 2007, the program obtained authorization to operate a formal Rural Water program. It is in the process of preparing for a PART reevaluation sometime in the future.

The Office of the Inspector General (OIG) is also conducting an independent evaluation of the Rural Water program. The primary

objective of the evaluation is to assess the progress made in implementing followup actions from OMB's initial review of the program. When complete, the OIG will issue a report on its observations and suggestions, which will focus on enhancing the quality of future PART reviews.

During the PART spring and fall updates, Reclamations programs that were previously assessed through PART were reviewed. The objective of the reviews is to monitor progress made in implementing OMB's recommendations. In FY 2008, Reclamation achieved a completion rate of 93 percent for its PART followup improvement actions in FY 2008. In the future, attention will be focused on refining performance measures and identifying additional program efficiencies.

FY 2008 Performance Measure Highlights

The Government Performance and Results Act was enacted in 1993, the purposes of which are to:

- Improve the confidence of the American people in the capability of the Federal Government by systematically holding Federal agencies accountable for achieving program results
- Initiate program performance reform with a series of pilot projects in setting program goals, measuring program performance against those goals, and reporting publicly on their progress
- Improve Federal program effectiveness and public accountability by promoting a new focus on results, service quality, and customer satisfaction
- Initiate program performance reform with a series of pilot projects in setting program goals, measuring program performance against those goals, and reporting publicly on their progress
- Help Federal managers improve service delivery by requiring that they plan for meeting program objectives and by providing them with information about program results and service quality
- Improve Federal program effectiveness and public accountability by promoting a new focus on results, service quality, and customer satisfaction
- Improve internal management of the Federal Government

The performance measures below embody GPRA's purposes. Reclamation's success in fulfilling Interior's mission "to manage or influence resource use to enhance public benefit, responsible development, and economic value" are reflected in these measures.

Facilities Reliability

Reclamation's Water Infrastructure is in fair to good condition as measured by the Facilities Reliability Rating (FRR) measure. The measure was established in 2003 to score and provide a general indication of Reclamation's ability to maintain the reliability of its facilities. Reclamation's FRR-related inventory consists of approximately 346 water storage and delivery facilities, including all high- and significant-hazard dams as well as associated reserved works water facilities. The FRR score is derived from a set of weighted criteria that covers maintenance, operations, and management factors. The FRR is not a direct indicator of potential facility failure or service interruption. However, the FRR and included factors are used to alert Reclamation to activities or areas needing attention.

Reclamation has achieved its accomplishment target for water infrastructure and related facilities since the year of its inception. This reflects that Reclamation and the operating entities are very successful in extending design and service lives of the aging facilities and avoiding many expensive breakdowns and rehabilitation requirements. Currently, with the indications provided by the FRR, Reclamation can place stronger emphasis on funding of priority work as opposed to simply preventing crises and/or reacting to issues as they present themselves.

To better integrate facility performance with budget requests, Reclamation is in the process of evaluating an alternative performance indicator; the Comprehensive Condition Index (CComp) to assist in tracking the reliability of its infrastructure. The CComp is a metric identified within the FRPP. It is used within Interior to measure the condition of assets before a major repair is undertaken and, then, to assess the improvement in the asset's condition following a corrective action. Further analysis is underway to determine whether or not the CComp will prove to be a better metric for linking performance/condition of assets to changes in budget resources.

Goal: Facilities Reliability	Annual Target	Actual Accomplishment
Percent of dams and associated facilities with a good to fair reliability rating	92%	99%

Reclamation has achieved its accomplishment target for water infrastructure and related facilities since 2004, the year of this goal's inception. The target for FY 2008 is 92 percent; the accomplishment is 99 percent.

Deliver Water

The *Deliver Water* performance goal measures the amount of water releases or diversions for contracted purposes. Contracted releases are made for agriculture and municipal and industrial uses. Water releases are also beneficial in generating hydroelectric power and are available for fish and wildlife uses. This goal does not include water delivered from district-operated works or facilities where Reclamation does not have substantial operational control.

In FY 2008, Reclamation delivered more than 28 million acre-feet (MAF) of water to meet contract obligations and other water resource needs.

Goal: Deliver Water	Annual Target	Actual Accomplishment
Acre-feet of water delivered in MAF	28	30

Control Colorado River Salt

The *Control Colorado River Salt* performance goal measures the tons of salt prevented from loading into the Colorado River each year. The Colorado River Salinity Control Program seeks to maintain salinity by adhering to the water quality standards set for the Colorado River Basin and to reduce the economic damages of more than \$300 million that occur each year in the Lower Basin. This year, additional salinity control measures funded by Reclamation will prevent about 18,500 tons of salt from entering the Colorado River. Reducing the amount of water applied to saline soils is the single most cost-effective salinity control measure. Reclamation has been able to reduce Colorado River salt removal project costs from an average of \$70 per ton removed in the 1980s to an average of \$30 per ton for the past 4 years. However, because the more cost-effective projects have been completed and the cost of materials is increasing, the average cost per ton of salt removed will be about \$45 per ton for the next 2 years.

Goal: Control Colorado River Salt	Annual Target	Actual Accomplishment
Tons of salt loading eliminated	18,500	18,500

Increase Water Availability

The *Increase Water Availability* performance goal measures the amount of water made available by Reclamation-funded projects with cost share. Reclamation increased the amount of water available for use in FY 2008 by 150,597 acre-feet by completing major phases of rural water distribution projects, water reuse and recycling, and aquifer ground water investigations. Projects with cost share were funded through grants, reimbursable agreements, direct-pay contracts, and other financial arrangements.

This goal does not measure the actual acre-feet of water delivered by the project each year. It measures the potential acre-feet of water that could be delivered by the project based on estimated averages found in modeling and project construction agreements. The actual amount of water delivered is dependent upon the customer's needs and the availability of water stored by the project.

Goal: Increase Water Availability	Annual Target	Actual Accomplishment
Increase in acre-feet of water availability	133,329	150,597

Generating Hydropower

Reclamation has three key hydropower goals and specific accomplishment activities this year: Cost-Effective Power Production, Forced Outage, and Facility Reliability Rating – Power.

Percent of Base O&M Cost for Power Compared to the 5-year Rolling Average Cost

We estimate the accomplishment for this year to be 6.21 percent or below. Reclamation also has performed all of our scheduled comprehensive facility reviews and completed an equipment condition assessment for major power train components at each of our hydropower facilities. Power costs for this goal are defined by the Federal Energy Regulatory Commission.

Goal: Power Production Cost	Annual Target	Actual Accomplishment
Cost-effective power production	6.21%	5.73%

Percent of Time in Forced Outage

Reclamation generally compares its forced outage factor with industry performance; however, this year, largely due to equipment aging, the target is based on its current and recent performances.

Reclamation's accomplishment is 1.13 percent, which is below both the current industry average of 1.9 percent and this year's target of 2.2 percent. Accomplishments for cost-effective power production and forced outage factor are positive if they are below the annual target.

Hydropower Facilities Are in Fair to Good Condition as Measured by the FRR

The FRR also assesses major power facility equipment. This is one way managers and staff become aware of present and future maintenance and replacement needs.

In 2003, the Hydropower Program established a baseline to determine what percent of Reclamation facilities ranked in fair to good condition. In FY 2008, the accomplishment is 96 percent.

Goal: Forced Outage	Annual Target	Actual Accomplishment
Forced outage factor less than or equal to industry average	2.2%	1.13%

Goal: Facility Reliability Rating – Power	Annual Target	Actual Accomplishment
Percent of hydropower facilities in fair to good condition	91%	96%

Reclamation's performance information is incorporated into Interior's FY 2007-2012 GPRA Strategic Plan and related documents.

FISCAL YEAR 2008 ANNUAL ASSURANCE STATEMENT ON INTERNAL CONTROL

The Bureau of Reclamation's management teams are responsible for establishing and maintaining effective internal control and financial management systems that meet the objectives of the Federal Managers' Financial Integrity Act (FMFIA). Reclamation 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 Office of Management and Budget (OMB) Circular A-123, *Management's Responsibility for Internal Control*, dated December 21, 2004. The objectives of this assessment were to ensure that:

- Programs achieve their intended results.
- Resources are used consistent with agency mission.
- Resources are protected from waste, fraud, and mismanagement.
- Laws and regulations are followed.
- Reliable and timely information is maintained, reported, and used for decisionmaking.

In performing this assessment, Reclamation relied on the knowledge and experience management has gained from the daily operation of its programs and systems of accounting and administrative controls, and information obtained from sources such as internal control assessments, Office of Inspector General and Government Accountability Office audits, program evaluations and studies, audits of financial statements, and performance plans and reports.

Based on the results of the FY 2008 assessments, reviews, audits, and evaluations, Reclamation provides reasonable assurance that the internal control, over the effectiveness and efficiency of operations and compliance with applicable laws and regulations (to include FMFIA), as of September 30, 2008, was operating effectively and no material weaknesses were found in the design or operation of the internal controls.

In addition, Reclamation conducted its assessment of the effectiveness of internal control over financial reporting, which includes safeguarding of assets and compliance with applicable laws and regulations, in accordance with the requirements of Appendix A of OMB Circular A-123 and the Chief Financial Officer's Council's Implementation Guide dated July 31, 2005, as implemented by the Department of Interior. The assessment focused on the specific financial reports and the related financial statement line items identified by Interior as material to Interior's consolidated financial reports. Based on the results of this assessment, Reclamation provides reasonable assurance that its internal control over the financial reports and related line items identified by Interior as material to Interior's consolidated financial reports were suitably designed and operating effectively as of June 30, 2008, and no material weaknesses were found in the design or operation of the internal control over financial reporting. Further, subsequent testing through September 30, 2008, did not identify any reportable changes in key financial reporting internal controls.

I also conclude that Reclamation's information technology systems generally comply with the requirements of the Federal Information Security Management Act, and Appendix III of OMB Circular A-130, *Management of Federal Information Resources*.

Further, I conclude that Reclamation substantially complies with the three components of the Federal Financial Management Improvement Act: Financial system requirements, Federal accounting standards, and the United States Standard General Ledger at the transaction level.



Financial Analysis

This section provides additional information about the Financial Statements and Notes, including how we have improved financial accountability.

Financial Statements

Reclamation's management is responsible for ensuring the integrity and objectivity of financial information in our financial statements. The financial statements and supplemental schedules in this year's annual report reflect the financial position and results of operations pursuant to the requirements of the Chief Financial Officers Act of 1990, Government Management Reform Act of 1994, and 31 United States Code 3515(b). While the statements have been prepared from Reclamation's books and records in accordance with generally accepted accounting principles (GAAP) for Federal entities and the formats prescribed by OMB, Reclamation uses these statements not only for financial reporting but also to monitor and control budgetary resources. These statements should be read with the realization that they are for a component of the United States Government, a sovereign entity.

The integrity of these statements is supported by our audit results, which an independent, certified public accounting firm conducted under contract with the Interior's Office of the Inspector General (OIG). Reclamation achieved an unqualified audit opinion again this year. Unqualified means financial statements are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States. To ensure that future financial statements achieve unqualified audit opinions, we use internal control efforts that comply with Federal Financial Management Improvement Act requirements. We continually improve these efforts. Moreover, we have the discipline and staffing to produce these audited financial statements, demonstrating that management is dedicated to improving financial management and complying with applicable laws and regulations. These financial statements allow the Congress, external partners, and the general public to monitor how Reclamation uses the resources that the Congress and our partners provide.

Consolidated Balance Sheet

Net Position

The Consolidated Balance Sheet displays Assets, Liabilities, and Net Position. Our Net Position increased by \$1.7 billion in FY 2008. This increase is the result of increased Minerals Management Service royalty collections.

Total Assets FY 2008

Total Asset balance is \$26.7 billion, an increase of \$1.8 billion over the FY 2007 Total Asset balance. The table below shows the change by asset type:

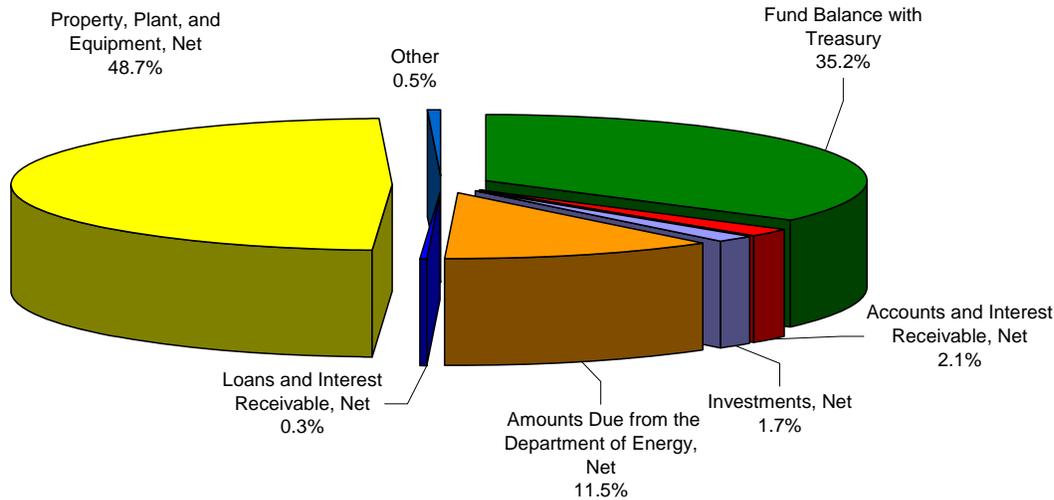
Net Change in Assets (in Thousands)

Type of Asset	FY 2008	FY 2007	Net Change
Fund Balance with Treasury	9,389,053	7,813,695	1,575,358
Accounts and Interest Receivable, Net	551,346	565,401	(14,055)
Investments, Net	450,369	401,459	48,910
Amounts Due from the Department of Energy, Net	3,063,916	2,827,301	236,615
Loans and Interest Receivable, Net	93,295	102,929	(9,634)
Property, Plant, and Equipment, Net	12,969,921	13,012,013	(42,092)
Other	135,090	138,464	(3,374)
Total	26,652,990	24,861,262	1,791,728

Fund Balance with Treasury

The Fund Balance with Treasury represents all undisbursed balances in Reclamation's accounts, including funds awaiting disbursement for goods and services received. The Reclamation Fund (\$7.8 billion), Fund Balance, and other unavailable (restricted) receipt fund balances are included in this asset category. The Congress allocates most of our annual appropriations out of the Reclamation Fund, and many of the revenues received from our beneficiaries are returned to the Reclamation Fund. In contrast to most other Federal public works programs, beneficiaries, including irrigation districts, municipalities, and power customers, repay most of Reclamation's project costs.

NET TOTAL ASSETS FOR FY 2008

***Changes in Balances***

The change in Fund Balance with Treasury is primarily the result of increased royalties received and deposited into the Reclamation Fund in FY 2008.

The increase to the Receivable Due from the Department of Energy is attributed to an increase in Western Area Power Administration's commitment of appropriated funds, from the Reclamation Fund, for the construction of capital assets that are not repaid in the current year.

The change in Investments is due to the growth of the Lower Colorado River Basin Fund and San Gabriel Restoration Fund. The Investments consist of nonmarketable, market-based securities issued by the Federal Investment Branch of the Bureau of Public Debt. These securities are not traded on any security exchange but mirror the prices of marketable securities with similar terms. Interest on Investments is accrued as it is earned.

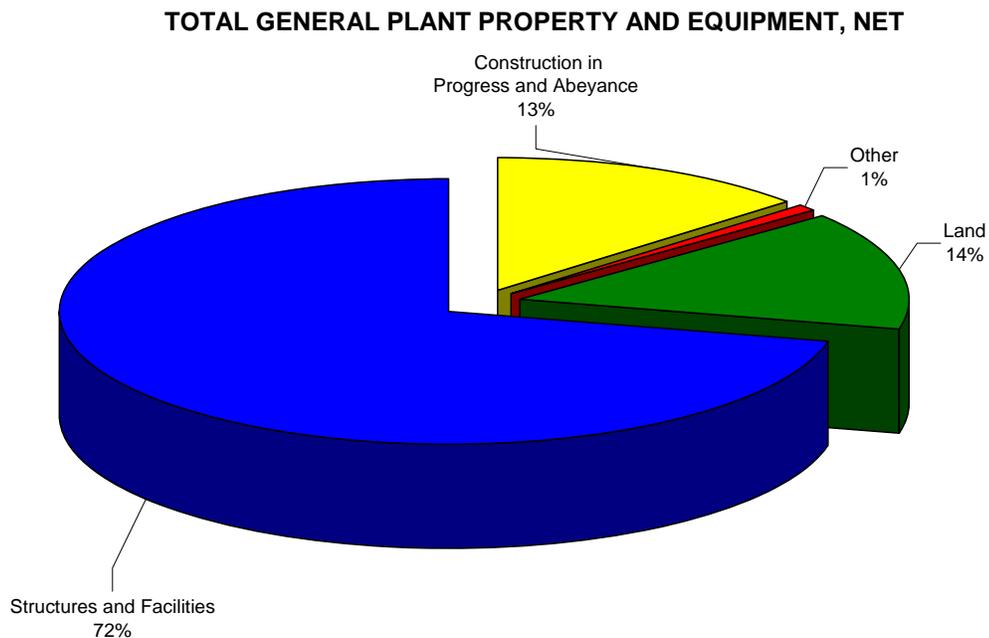
In FY 2008, loan repayments resulted in a decrease to the Loans and Interest Receivable balance.

General Property, Plant, and Equipment

Reclamation's PP&E consists of an extensive infrastructure of dams, powerplants, pumping stations, canals, and other water delivery systems used in Reclamation's day-to-day operations.

These assets are reported as General PP&E in accordance with Federal GAAP. Our major PP&E asset categories are: Structures and Facilities, Land, Construction in Progress and Abeyance, and Other (i.e., equipment, vehicles, buildings, and internal use software).

Reclamation's \$13 billion PP&E balance accounts for approximately 71 percent of Interior's PP&E total reported in its annual report.



Total Liabilities

FY 2008 Total Liabilities are 2.9 billion, a \$119 million increase from FY 2007. As a bureau of the executive branch of the United States Government, Reclamation is a sovereign entity. Federal agencies, by law, cannot make any payments unless the Congress has appropriated funds. Accordingly, unfunded liabilities reported in the statements cannot be liquidated until the Congress enacts an appropriation; and ongoing operations are subject to the availability of appropriations. Reclamation's funded liabilities are paid out of funds currently available to Reclamation. Unfunded liabilities consist primarily of environmental and legal liabilities to be paid out of funds made available to Reclamation in future years. Funded and unfunded liabilities are discussed in "Notes to the Financial Statements."

The increase in Advances, Deferred Revenue, and Deposit Funds is due to the collection of an advance from the customers for water storage unit construction on the Colorado River Front Work and Levee System project.

Net Change in Liabilities (in Thousands)

Type of Liability	FY 2008	FY 2007	Net Change
Accounts Payable	187,770	196,055	(8,285)
Debt	51,628	73,259	(21,631)
Accrued Employee Benefits and Payroll	74,427	67,597	6,830
Advances, Deferred Revenue, and Deposit Funds	628,643	482,404	146,239
Judgment Fund Liability to Treasury	47,990	47,950	40
Liability for Capital Transfers to the General Fund of the Treasury	1,784,273	1,778,687	5,586
Federal Employee Benefits, Actuarial	87,223	85,990	1,233
Environmental and Disposal Liabilities	53,565	51,597	1,968
Contingent Liabilities	962	962	–
Grants Payable	19,456	26,991	(7,535)
Other	11,919	17,647	(5,728)
Total	2,947,856	2,829,139	118,717

Consolidated Statement of Net Costs

Net Cost of Operations

Reporting segments in the Consolidated Statements of Net Cost align to Interior's Strategic Plan Mission Goals/End Outcome Goals. Reclamation reports expenses and revenues in three of the four Interior mission goals: Resource Use, Resource Protection, and Recreation; Reclamation does not report on the fourth goal, Serving Communities.

In FY 2008, Reclamation reported \$1.5 billion of Cost and \$844 million of Earned Revenues under the Resource Use mission goal. Our key mission activities are reported under this mission goal. This goal includes the costs for providing water and hydropower to our customers. It also includes hydropower and water sales revenue, which recover the Government's costs to produce and deliver water and hydropower to our customers.

Centralized Program Support and Other costs and revenues reflect administrative costs, working capital, and other incurred costs and revenues earned to support Reclamation's mission goals.

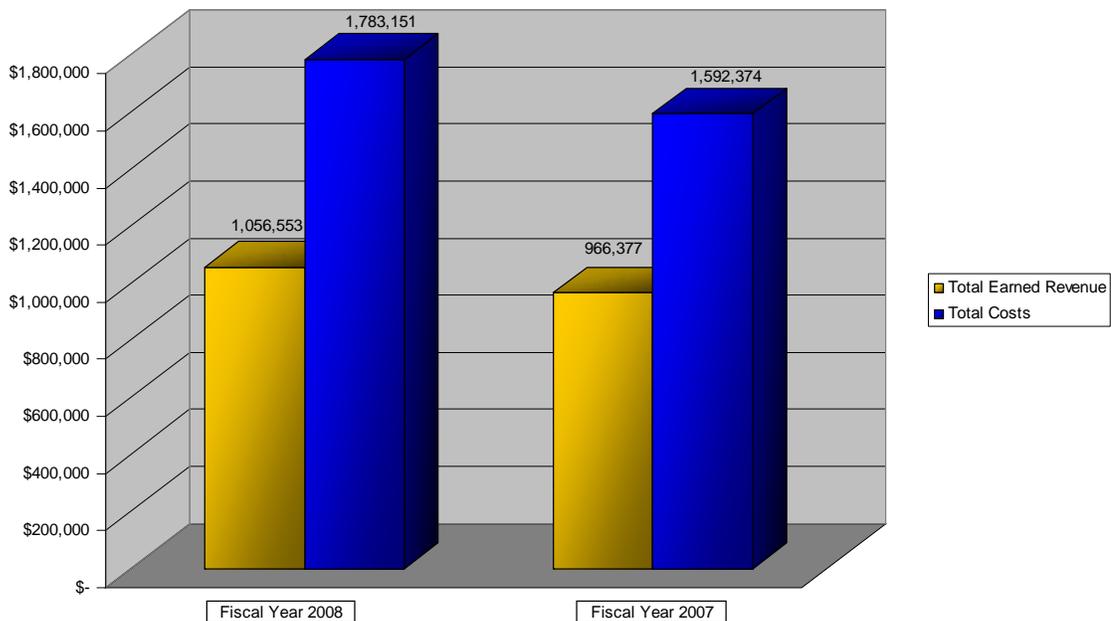
The Consolidated Statement of Net Cost displays the Net Cost of Operations, which is the difference between revenues and expenses. Reclamation's total FY 2008 Net Cost of Operations was \$727 million, an increase of \$101 million from the FY 2007 Net Cost of Operations. This change is primarily due to a one time adjustment to historical power revenue recorded in FY 2007. A more detailed report, the Consolidating Statement of Net Cost, is in the "Notes to the Financial Statements."

Revenues and Costs

Reclamation's Earned Revenues from providing goods or services are reported in the Consolidated Statement of Net Cost.

Total FY 2008 Earned Revenue was \$1.1 billion, which is \$90 million or 9 percent more than was reported in FY 2007. Costs were \$1.8 billion and \$1.6 billion in FY 2008 and FY 2007, respectively.

TOTAL COSTS AND EARNED REVENUE BY YEAR (In Thousands)



Combined Statement of Budgetary Resources

Budgetary Resources

The Combined Statement of Budgetary Resources and related disclosures provide information about budgetary resources and their end-of-the-year status. Reclamation's Total Budgetary Resources were \$3.2 billion and \$2.7 billion in FY 2008 and FY 2007, respectively. Reclamation's major budget accounts are broken down into five categories. Our funding is derived predominantly from three of the five categories: Total Budgetary Authority, Unobligated Balances (i.e., prior year carryforward balances), and Offsetting Collections. Refer to the Combined Statement of Budgetary Resources and the detailed budgetary information in the "Supplemental Section" for more information.

Improper Payments

Interior has been conducting annual risk assessments of programs exceeding \$100 million in annual outlays. These risk assessments have shown that Interior is at low risk for improper payments. Therefore, Interior's annual risk assessment requirement has been converted to a 3-year risk assessment. The next risk assessment will be for FY 2009 and every 3 years following. Reclamation will complete a risk assessment in FY 2009 for this program as prescribed by Interior.

