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Mr. Chairman, and members of the Committee, thank you for the opportunity to testify this morning about the challenges facing the Department of the Interior (DOI).

The Office of Inspector General (OIG) is a small, but highly motivated organization that provides independent oversight to prevent and detect waste, fraud, and mismanagement and promotes excellence, integrity, and accountability within the programs, operations and management of DOI.

The OIG accomplishes its mission by performing audits, investigations, evaluations, inspections, and other reviews of the Department's programs and operations. We independently and objectively identify risks and vulnerabilities that directly affect, or could impact, DOI's mission and the vast responsibilities of its bureaus and offices. We target our resources by identifying and developing solutions for the Department's most serious management and program challenges.

Our organizational strategies are aimed at ensuring the OIG is relevant and respected for its independent expertise and objective products. We continuously evaluate our efforts to improve the accountability of DOI and our responsiveness to Congress, the Department, and the public. We seek continuous improvement within, and we believe in the limitless potential of our employees to maintain OIG as a leading organization in the Federal government.

Let me summarize the most serious challenges facing the Department:

1. Outer Continental Shelf Energy Oversight

The *Deepwater Horizon* tragedy took 11 lives, caused the destruction of an offshore drilling rig, led to the release of millions of barrels of oil, and significantly disrupted the Gulf of Mexico (GOM) region's economy and environment. Recognizing that oil and gas remain an important part of the Nation's energy economy, the Department is making significant changes in an effort to prevent such catastrophic occurrences in the future. The accident and ensuing spill challenged 40 years of the generally accepted belief that offshore operations could occur safely under existing regulation and oversight.

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 GOM. To achieve such levels of production, the GOM offshore oil and gas industry has, in recent decades, reached farther offshore and deeper undersea. Many of the facilities are larger, more complex, more technologically sophisticated, and more distant than ever. Simultaneously, Government oversight of the prolific energy resources of the GOM has become more complex and challenging.

In the wake of the *Deepwater Horizon* accident, the OIG led a review into the oil and gas operations in the Outer Continental Shelf (OCS). The results of our review were published in the September 1, 2010 OCS Safety Oversight Board report which detailed 59 recommendations to improve operations. The OIG issued its own report on December 7, 2010, which made additional recommendations.

The Department is making significant efforts to improve the management and oversight of oil and gas operations in the OCS. It is now challenged to comply with the recent judicial mandate to resume issuing deepwater drilling permits.

2. Revenue Collections

The Department has jurisdiction over 1.76 billion acres of the Outer Continental Shelf, manages about one-fifth of the land area of the United States, and administers 700 million acres of subsurface minerals throughout the Nation. Almost one-third of the Nation's domestic energy production is generated from Department lands and waters. The Department collects billions of dollars in royalties annually. In October 2010, the responsibilities for royalty collection and oversight were transferred from the Mineral Revenue Management directorate to the new Office of Natural Resources Revenue (ONRR).

Our work, like that of the Government Accountability Office (GAO), has revealed weaknesses in the oversight and collection and management of royalties. The OIG has listed revenue collections as a top management challenge for over 10 years. The Department raises revenue from many sources including extractable minerals such as oil, natural gas, coal, decorative rock and gravel; renewable resources such as timber, grazing, wind and geothermal; and from other land uses such as rights of way, recreation, concessions, and many activities classified as special uses.

3. Financial Management

The Department manages an annual appropriation of about $20 billion, revenues between $9 and $25 billion annually from onshore and offshore mineral leases, and $3.7 billion in funds held in trust.

The Financial and Business Management System (FBMS) was to be the answer to managing DOI funds effectively. Unfortunately, implementation of FBMS continues to be a management challenge for the Department. For several years we have included the implementation of FBMS as one of the top management challenges for DOI. FBMS has been under consideration and implementation for at least 10 years. FBMS was supposed to be fully implemented by 2010, but to date only four bureaus/offices have transitioned. Complete implementation is currently estimated for 2013. The number and variety of programs across the Department make budget and performance integration particularly difficult.

We have recently initiated an audit of the FBMS implementation at the Bureau of Land Management (BLM). Our initial focus is on internal controls. Within FBMS, internal controls are critical and necessary to ensure that transactions are authorized, completely and accurately recorded and that reported balances are correct. Ineffective controls can lead to an increased risk of financial fraud, waste, and mismanagement.

One of the promised benefits of FBMS is improved internal controls. Recent audits by KPMG of the Department's financial statements cast doubt on whether this benefit is being realized. KPMG found deficiencies in internal controls related to FBMS in its audits of the Department's FY 2009 and 2010 financial statements. KPMG reported inadequate financial controls including monitoring and reconciliation.

Successful implementation of FBMS is extremely important to the Department because the system impacts virtually all aspects of DOI operations. FBMS is replacing obsolete legacy financial systems and will also interface or replace a number of other systems. The Department has already spent over $300 million developing FBMS. Although FBMS has been deployed at four bureaus, the most difficult deployments are still ahead.

4. Information Technology (IT)

The Department’s budget for IT is nearly $1 billion annually. That budget funds the network infrastructure, IT security, and various IT investments, which are intended to align with Departmental mission objectives. IT security strives to assure the confidentiality, integrity and availability of information assets.

Historically, the Department has employed a decentralized and fragmented IT governance framework, which did not optimally operate or fully comply with legislation and Federal policy. The Department is poised to address its decentralized asset management capability and other factors that have left it struggling to meet information security and privacy mandates. The OIG recommended in 2008 that the Department consolidate its IT functions and governance to comply with the Federal Information Security Management Act.

A December 14, 2010 Secretarial Order outlines the steps the Department will take to align IT resources under a Chief Information Officer (CIO). The DOI IT transformation measures are intended to minimize redundancies, streamline IT, enhance customer service and lower IT costs to the Department. The plan envisions bringing all DOI IT functions under a single Department CIO.

The Department has received recognition from Federal CIO Vivek Kundra and “hailed the move as a model for other agencies.” The changes are expected to be fully implemented within two to four years.

5. Health, Safety, and Maintenance

Each year, more than 500 million people visit the Department’s National parks and monuments, wildlife refuges, and recreational sites. The Department is responsible for serving these visitors and maintaining and protecting thousands of facilities and millions of acres of property. In some cases, the isolation of Department lands and facilities presents vulnerabilities and makes safety and maintenance challenging. Our work has documented decades of maintenance, health, and safety issues that place the Department's employees and the public at risk.

The Department is responsible for roads, bridges, schools, office buildings, irrigation systems, and reservoirs for which repair and maintenance have been postponed because of budgetary constraints. The Department's FY 2010 estimate to correct deferred maintenance, the Department's term for unfunded repair and maintenance needs, ranges from $13.0 billion to $19.2 billion. Deterioration of assets, because of uncorrected deferred maintenance, poses health and safety hazards.

6. Responsibility to Indians and Insular Areas

Management problems persist in programs for Indians and island communities. The Department manages relationships with 564 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 42,000 Indian children in 184 schools and dormitories. The Department also has various responsibilities to seven island communities to include four territories and three sovereign island nations. The Department 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 Department is responsible for administering and overseeing U.S. Federal assistance provided under Compacts of Free Association. In carrying out these responsibilities, the Department is required to coordinate 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 the Department. Indian Country programs managed by the Department include Indian Trust for Lands and Funds, Indian Education, Self-Determination, Energy and Economic Development, Indian Gaming, and Justice Services. Approximately 25 percent of OIG investigations involve Indian Country issues.

The Federal Government has long acknowledged the resulting complexity from land fractionation on Indian Trust operations. Fractionation is the result of dividing Tribal land into parcels and allotting the parcels to individual Indians. The allotments are subsequently divided among heirs through probate. With each generation, the amount of fractionation increases. We are working with the Department as it develops a comprehensive plan that will guide its efforts to significantly reduce fractionation.

The myriad problems we have uncovered portray programs that are sorely understaffed, underfunded, and poorly managed. The OIG has identified gross program inefficiencies at many levels of Indian Affairs and in tribal management of Federal funds.

Insular Areas

The Department 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 Insular Area governments and to increase economic development opportunities through financial and technical assistance. The FY 2010 budget for Insular Areas was roughly $300 million. Overall, OIA annually funds Insular Area government programs focusing on education, health care, infrastructure improvement, public sector capacity building, private sector development, and the environment.

Unfortunately, the people of the Insular Areas are ill-served by their local governments and the OIA. The problems we observed are not new, having been identified and reported on for years. Our reviews have consistently pointed to problems that might have been mitigated had OIA provided better oversight or taken a more active approach in assisting Insular Area governments. Numerous reviews have pointed to ongoing management and financial problems in the Insular Areas and OIA. We identified problems in the areas of grants management, water and wastewater systems, noncompetitive procurements, tax collection, and property accountability and management.

We evaluated the OIA program management to determine if OIA is able to effectively assist the Insular Area governments in gaining economic self-sufficiency and improve the quality of life for their people. We concluded that OIA's ability to accomplish major policy objectives in the Insular Areas is hindered by a lack of technical expertise and authority to directly assist the Insular Areas. OIA can improve fulfilling its responsibilities in three areas: grants management, advocacy, and performance management. The OIG is concerned that OIA, as it is currently structured, may not be able to successfully assist the Insular Areas to improve services in critical areas such as education, health care, and utilities. OIA has developed a corrective action plan that, if implemented, should address our report's three recommendations. OIA received a $200,000 program increase in 2010 to hire additional personnel to address audit concerns and expand technical assistance, training, and oversight activities.

7. Financial Assistance Awards

Financial Assistance (grants, cooperative agreements, and loans) awards at the Department are estimated to be about $3 to $4 billion each year. In spite of representing such a substantial financial value, the Department does not have a consistent method for recording and reporting these transactions. The Department points to a variety of reasons why it does not have reliable visibility over financial assistance spending, but generally, there is simply not the same level of emphasis in policy, or practice, for overseeing financial assistance awards in the Department as there is for procurement awards. Recent Department efforts to improve in grant management have yielded some positive results.

The Department has not reported problems in executing financial assistance awards. The absence of a formal protest procedure for financial assistance recipients may contribute to the reason complaints regarding unfair selection and award criteria are not common. Post-award monitoring procedures are where the problems are known to prevail. All financial assistance awards require some degree of Government monitoring. At a minimum, the Government must receive reports on the use of funding from the recipient. In the most stringent circumstance, Government site visits may be made to ensure the funding was applied to the intended purpose. OIG reviews have repeatedly found that financial assistance monitoring activity within the Department is weak. Recently, the Department provided new guidance to bureau offices on the expectation for monitoring activity. We are hopeful that bureaus will adhere to this guidance to improve monitoring and reduce the potential for financial assistance funding to be used for other than intended purposes.

8. Resource Protection and Restoration

The Department's resource managers face the challenging task of balancing competing interests for the use and protection of the Nation's natural resources. This is a perennial challenge for the Department. The Department manages one-fifth of U.S. land, including 391 National park units and 548 wildlife refuges. BLM is the Nation's largest land manager with responsibility for 258 million acres of land across the West, as well as a 700 million acre onshore, subsurface mineral estate.

Our recent report detailing the history of the Wild Horse and Burro program in BLM highlights the difficulty of this balancing effort.

9. Acquisition Management

Procurement, contracts, and grants historically have been areas subject to fraud and waste Government-wide; managing them continues to pose a challenge. The Department procurement and financial assistance awards in FY 2010 exceeded $5 billion, which represented over one-third of the Department's total budget. These awards included $4.7 billion in contracts with over 70,000 transactions, and more than $1.7 billion in Federal assistance to over 2,300 recipients.

The American Reinvestment and Recovery Act (ARRA) provided nearly $3 billion to the Department. The Department faced a significant challenge to properly award and oversee the expenditure of these funds.

The Department's acquisition workforce obligated the vast majority of ARRA funds in accordance with the schedule established in the Recovery Act. This significant effort, in addition to executing actions to obligate appropriated funds, placed a severe burden on the acquisition workforce.

The Department now faces new ARRA challenges and must focus on the administration of the contracts, grants and cooperative agreement to ensure that the awarded funds are used for their intended purposes with minimal waste, fraud, or mismanagement. The acquisition workforce must continue to monitor whether applicable recipients of funds are properly reporting, and take aggressive action against those who fail to report. Such actions may include termination of contracts or withholding of payments, as well as suspension and debarment proceedings.

The Department continues to make significant progress in building a strong suspension and debarment program to protect against contractors or recipients with a demonstrated lack of responsibility. In response to our recommendations, the Department committed necessary resources to fund, establish, and staff an effective suspension and debarment program.

OMB directed that each Department and agency cut contracting costs by 3.5 percent in FY 2010 and another 3.5 percent in 2011. In the Department, a 7 percent reduction in contracting costs for 2011 and beyond equals an average of $186 million dollars a year. One initiative proposed for achieving this cost reduction is strategic sourcing – an institutional procurement process that continuously improves and re-evaluates the purchasing activities of the Department. Simply stated, the Department can achieve better pricing by leveraging the total buying power of the Department rather than individual offices and bureaus doing separate purchases of like commodities. In FY 2011, the Department estimates it will realize savings of $30 million through strategic sourcing.

Thank you, Mr. Chairman, for the opportunity to share this information with you. I will be happy to answer any questions you or other members of the Committee may have.