United States Department of the Interior

OFFICE OF INSPECTOR GENERAL
Washington, DC 20240

Memorandum

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To: Dirk Kempthorne
Secretary

From: Earl E. Devaney
Inspector General

Subject: Inspector General's Statement Summarizing the Major Management and Performance Challenges Facing the Department of the Interior

In accordance with the Reports Consolidation Act of 2000, we are submitting the attached summaries of issues we have determined to be the most significant management and performance challenges facing the Department of the Interior (Department or DOI), to be included in the Department's Performance and Accountability Report for FY2006. The challenges listed reflect what the Office of Inspector General (OIG) considers to be significant impediments to the Department's efforts to promote economy, efficiency, and effectiveness in its agencies' management and operations.

The top challenges are as follows:

- Financial Management
- Information Technology
- Health, Safety, and Emergency Management
- Maintenance of Facilities
- Responsibility to Indians and Insular Areas
- Resource Protection and Restoration
- Revenue Collections
- Procurement, Contracts, and Grants

These issues are important to the Department's mission, involve large expenditures, require significant management improvements, or involve significant fiduciary relationships. We believe the Department could enhance and improve its overall operational effectiveness and efficiency by developing strategies to identify and correct deficiencies, especially in activities that cut across bureau and program lines.

Attachment

Office of Inspector General Update of the Top Management Challenges for the Department of the Interior

1. Financial Management

Sound financial management is critical to providing accurate financial information, managing for results, and ensuring operational integrity. The independent, certified public accounting firm of KPMG LLP, under contract with the OIG, rendered an unqualified opinion on the consolidated financial statements of DOI for fiscal year 2005. However, KPMG also identified 2 material weaknesses and 19 critical but less significant control weaknesses (reportable conditions).

The Department has several initiatives aimed at improving financial management including the Financial and Business Management System (FBMS) and Performance and Budget Integration. Although these initiatives should upgrade financial management in the future, they are placing increased demands on already stretched financial resources.

Financial and Business Management System

The implementation of the FBMS continues to be a major management challenge in DOI. FBMS will replace a variety of outdated, stand-alone, mainframe-based systems that are costly to operate and difficult to secure. The current systems do not provide timely financial and performance information and do not comply with financial system standards. About 160 systems will be affected by this implementation.

The Department began implementing FBMS in FY2005 and planned to have the System fully implemented by the end of FY2008. However, on September 29, 2005, DOI removed BearingPoint, its contractor, from the project. DOI then awarded a new contract to IBM Consulting Services on February 28, 2006, to replace BearingPoint as the system integrator and revised the implementation date from FY2008 to FY2011.

Budget and Performance Integration

Better budget and performance integration is essential to results-oriented management and efficient allocation of scarce resources among competing needs. The variety and number of programs within DOI makes budget and performance integration particularly difficult.

From 2002 to 2005, the Office of Management and Budget (OMB) assessed 63 DOI programs, reflecting over $9 billion dollars in annual budget authority. Of these, only 5 were rated "Effective," and OMB was unable to determine whether 23 of these programs, reflecting nearly half of the assessed spending, were performing satisfactorily due to the lack of reliable performance information. Thirty-eight percent of the DOI program ratings published in 2006 were "Results Not Demonstrated." DOI needs to continue to focus on developing useful performance measures.

2. Information Technology

Although DOI's Information Technology (IT) Security Program has seen increased management awareness, involvement, focus, and funding since the enactment of the Federal Information Security Management Act (FISMA) in 2002, significant weaknesses remain in the DOI IT Security Program.

Our 2006 evaluation of DOI's computer network, the Enterprise Services Network (ESN), found that the foresight and planning devoted to ESN network security demonstrate a solid understanding of security best-practices. However, application security, a bureau responsibility, continues to present attackers with targets of opportunity. The ESN has no control over these applications or the networks that make them accessible to the public. Until this area is addressed, ESN cannot provide the level of security promised by the Chief Information Officer.

We conducted external penetration tests of information systems managed by the Minerals Management Service (MMS), U.S. Fish and Wildlife Service (FWS), National Business Center (NBC), and Office of Surface Mining (OSM). While ESN implementation has improved DOI IT security, we were still able to penetrate ESN networks in 50 percent of our tests. ESN security features appear ineffective, particularly for bureau applications accessible through the Internet.

Our evaluation of DOI's Plan of Action and Milestone (POAM) process — which helps plan, implement, evaluate, and document actions needed to address deficiencies in information security policies, procedures, and practices — found that the POAM process still has a number of areas needing improvement. For example, the Office of the Chief Information Officer has yet to provide an automated POAM solution for DOI.

3. Health, Safety, and Emergency Management

Annually, DOI has over 475 million visits to national parks, Bureau of Land Management (BLM) recreational sites, wildlife refuges, and Bureau of Reclamation (BOR) recreation sites. DOI must protect hundreds of millions of visitors, employees, and volunteers, thousands of facilities, and millions of acres of property from both internal and external threats. The physical isolation of some DOI lands and facilities increases their vulnerability to threats and inhibits DOI's response time. DOI's Office of Law Enforcement, Security, and Emergency Management continues to struggle with its role involving policy and oversight of bureau law enforcement, security, and emergency management programs.

In FY2006, we examined DOI and bureau progress in implementing 25 Secretary Directives issued in 2002 for law enforcement reform, including creating senior-level law enforcement and security positions, implementing a formal budget review process, and developing Department-wide law enforcement, security, and emergency management policies. Our review revealed that after nearly 4 years, the Department and bureaus have

only fully implemented 9 of the 25 directives. In addition, the bureaus have not sufficiently addressed accountability issues stemming from non-law enforcement managers supervising law enforcement positions.

4. Maintenance of Facilities

DOI owns, builds, purchases, and contracts services for assets such as roads, bridges, schools, office buildings, dams, irrigation systems, and reservoirs. Repair and maintenance of some of these assets have been postponed until future years due to budgetary constraints. DOI refers to these unfunded repair and maintenance needs as deferred maintenance. According to the January 2003 Government Accountability Office (GAO) report, "Major Management Challenges and Program Risks, Department of the Interior," DOI needs to more aggressively address the deferred maintenance backlog. The report states that the repair and maintenance on these assets has been postponed for years and that the deterioration of facilities can adversely impact public health and safety, reduce employee morale and productivity, and increase the need for costly major repairs or early replacement of structures and equipment.

The deferred maintenance backlog is a continuing challenge for the Department. According to the FY2005 "Annual Report on Performance and Accountability," exact estimates of deferred maintenance costs are difficult to determine due to the scope, nature, and variety of assets entrusted to the Department, as well as the nature of deferred maintenance itself. Using the Department's current approach for estimating the backlog, the amount needed to correct deferred maintenance for property, plant, and equipment ranges from approximately $10.1 to $18 billion. In FY2004, estimates for DOI's deferred maintenance were between $8.9 and $15.3 billion.

An OIG audit of safety issues related to the deferred maintenance backlog is currently underway.

5. Responsibility to Indians and Insular Areas

Management problems persist in programs for Indians and island communities. DOI provides more than $750 million annually for basic tribal services, including tribal courts, social services, and natural resource management. DOI is responsible for administering the U.S. Government's trust responsibilities to Indian tribes and individual Indians and has various responsibilities to seven island communities — four U.S. territories and three sovereign island nations.

Tribal entities' financial compliance with funding agreements should be ensured through the single audit process; however, 95 tribal entities (including the tribal governments and tribal schools) submitted delinquent single audit reports during FY2006. These delinquent reports comprise over half of the 171 tribal entities reviewed.

Serious problems persist at schools and detention facilities operated and funded by the Bureau of Indian Affairs (BIA). According to the November 2005 Investigative Report on the Chemawa Indian School Detention Facility, the lack of supervision and training on the part of BIA education administrators and Chemawa Indian School staff contributed to the tragic death of a 16-year-old girl at the Chemawa Indian Boarding School. During an October 2005 investigation of a suicide at the Blackfeet jail in Browning, MT, we found a similar lack of supervision, staffing and training. We further found that BIA detention managers had done little, if anything, to alleviate ongoing problems at the site.

The Insular Area governments have serious long-standing financial and program management deficiencies. For example, in FY2006, we confirmed that the Development Bank of American Samoa (Bank) has mismanaged its loan portfolio so significantly that it is in danger of negating the economic goals for which it was established, namely, making economic development loans in the islands available to those who might otherwise be ineligible. The Bank's management deficiencies are long standing, dating back more than 25 years, and have been documented in numerous reports.

A FY2006 inspection of the Federated States of Micronesia's (FSM) Compact Trust Fund (Fund) revealed that oversight from the United States, as well as from FSM Trust Fund Committee members, has failed to ensure that key positions are filled in a timely manner, annual financial and performance reports are prepared, and resources are effectively invested. These conclusions were supported by an FSM Finance and Budget Resolution (November 16, 2005) stating that the Fund had not been fully implemented, realized expected returns, or provided copies of its required financial and performance reports to its national and state governments, even though they had deposited their respective shares into the Fund.

6. Resource Protection and Restoration

DOI resource managers face the challenging task of balancing competing interests for the use of the Nation's natural resources. Federal lands account for approximately 30 percent of energy produced in the United States. DOI 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 mineral estate throughout the Nation. In addition, DOI protects thousands of wetlands, aquatic parcels, and native plant and animal species, including more than 1,300 with special status under the Endangered Species Act.

In 2003, GAO identified ecosystem restoration efforts as major performance and accountability challenges for DOI, specifically in the areas of 1) reducing wildland fire threats to communities and resources; 2) restoring the South Florida ecosystem; and 3) controlling and eradicating invasive species.

Approximately 100,000 wildfires occur yearly on federal and state lands. Some are catastrophic, such as the 2003 Southern California fires that burned about 750,000 acres,

destroyed over 3,600 homes, and killed at least 20 people. In recent years, the need to reduce the risk of catastrophic wildfires has taken on new urgency, as growing numbers of people choose to live in wildland urban interface areas adjacent to rangelands and forests. As identified in our April 2006 report, "Hazardous Fuels Reduction Program, Department of the Interior," DOI has made progress in implementing its Hazardous Fuels Reduction (HFR) Program to help reduce the risk of catastrophic wildfires. DOI's land management bureaus have established the broad framework and partnerships essential to address wildland fires, including implementation of HFR projects, which has also been reported by GAO in recent reports. However, DOI could make improvements in three key performance areas — measuring risk reduction, contracting for hazardous fuels reduction projects, and coordinating with the U.S. Forest Service — to advance the effectiveness of the Program.

While some progress in restoring the South Florida ecosystem has been made, DOI has not participated effectively in the Modified Water Deliveries Project to Everglades National Park. Our March 2006 report, "Modified Water Deliveries to Everglades National Park," found that DOI's ineffective participation contributed to project delays and cost increases. The project is currently 8 years behind schedule and has a projected price tag approaching $400 million — nearly 5 times its original estimate.

7. Revenue Collections

In FY2005, mineral lease revenues collected by DOI on behalf of the U.S. Government exceeded $12 billion. In addition, DOI's earned revenue from activities such as grazing, timber, and lands sales was over $6 billion.

The highest revenue collector in DOI is, by far, the MMS. Since its inception in 1982, MMS has collected and distributed, on average, over $9.9 billion annually from federal offshore leases and from onshore federal and Indian leases. Historically, both OIG and MMS have identified significant mineral revenue underpayments from lessees. Due to the amount of revenue collected by MMS and the complexity of royalty payments from lessees, we believe that there is a continuing significant potential for underpayments. In addition, MMS has received major news coverage over the past year due to the lack of price thresholds in the 1998 and 1998 leases, which could result in billions of dollars of lost revenue. The results of an OIG audit of MMS's Compliance Review Process have been provided to the Department for comment.

8. Procurement, Contracts, and Grants

Procurement, contracts, and grants have historically been areas subject to fraud and waste government-wide, and managing them is a continuing challenge. DOI spends substantial resources each year in contracting for goods and services and in providing federal assistance to states and Indian organizations. Recent audits at DOI and other federal

agencies highlighted concerns with interagency procurement services performed through fee-for-service organizations.

Procurement

Four DOI entities operate self-sustaining, business-like, fee-for-service operations. They are GovWorks, NBC, BOR (Technical Service Center), and the U.S. Geological Survey (USGS) (working capital fund). These organizations provide administrative and technical services to DOI, as well as to other federal agencies. They reported combined transactions of approximately $3 billion in FY2005.

Our March 2006 evaluation, "Fee-For-Service Organizations, U.S. Department of the Interior," found that the benefits of these fee-for-service activities may not outweigh risks. OIG auditors attempted to identify and quantify the benefits related to GovWorks and NBC, DOI's two major fee-for-service organizations. Managers of these organizations claimed monetary and nonmonetary benefits, including 1) use of approximately $22 million in GovWorks income to fund DOI initiatives; 2) reduction in DOI's administrative costs due to lower indirect costs and achievement of economies of scale; and 3) development of expertise to assist DOI with its procurements.

Except for the $22 million transferred from GovWorks to DOI to fund its initiatives, management provided no documentation that allowed auditors to quantify and substantiate the monetary benefits of fee-for-service operations. Further, auditors were unable to determine that the nonmonetary benefits cited by GovWorks significantly affected DOI operations. In the absence of significant, quantifiable benefits, it is questionable whether the overall advantages of these activities outweigh the risks brought to management's attention through previous and ongoing audits.

Grants Management

Audits of grants that the FWS awarded to eight states revealed a potential savings of $1.6 million. The grants finance up to 75 percent of state-sponsored projects, such as developing sites for boating access and acquiring and managing natural habitats. Examples of potential savings include at least $495,770 that West Virginia did not report as proceeds from the disposal of real property acquired with federal assistance funds; $553,977 of questionable costs that Illinois claimed for unauthorized activities and unsupported charges for labor and inkind services; and $325,445 of unreported user fees collected by Michigan at shooting ranges.

There have been several immediate and positive results from our audit report *Framework Needed to Promote Accountability in Interior's Grants Management*. DOI acted to improve grants management oversight by implementing policies requiring functional reviews of the award and administration of grants at all bureaus. DOI has also made significant progress in requiring the bureaus to use Grants.gov, which has streamlined the application process, to list all grant opportunities for the American public.