



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

PROGRAM ASSESSMENT RATING TOOL PROGRESS EVALUATION

BUREAU OF RECLAMATION RURAL WATER SUPPLY PROJECTS



ER-RR-BOR-0002-2008

FEBRUARY 2009



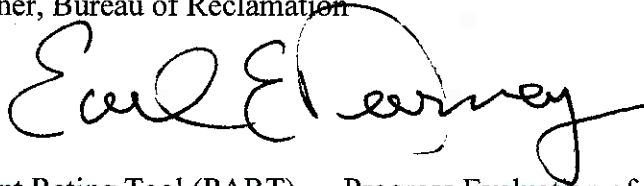
United States Department of the Interior

OFFICE OF INSPECTOR GENERAL
Washington, DC 20240

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Memorandum

To: J. William McDonald
Acting Commissioner, Bureau of Reclamation

From: Earl E. Devaney 
Inspector General

Subject: Program Assessment Rating Tool (PART) — Progress Evaluation of
the Bureau of Reclamation Rural Water Supply Projects
(Report No. ER-RR-BOR-0002-2008)

The Office of Inspector General (OIG) recently had the opportunity to complete an independent assessment of the Bureau of Reclamation (Reclamation or Bureau) Rural Water Supply Projects (Program). This report focuses on the impact these projects have had and will continue to have on the lives and health of residents of arid, sparsely populated, rural areas.

Our team evaluated the progress your staff has made in addressing the Office of Management and Budget's (OMB) recommendations from the 2002 PART review. We spent time with several Reclamation employees to learn about operations of the existing projects and met, together with your staff, with the examiner from the OMB to discuss matters relating to management and performance measurement.

If the Economic Recovery and Reinvestment Act of 2009 passes, the Bureau may receive millions of dollars for rural water infrastructure projects. Because the Act emphasizes accountability and transparency, development of appropriate and adequate performance measures becomes more important than ever. We offer eight suggestions designed to help establish appropriate performance measures and improve management of the rural water projects and the new Rural Water Supply Program.

If you have any comments or questions regarding this report, please feel free to contact me at 202-208-5745. We thank your staff for their time and valuable input.

cc: Assistant Secretary — Policy, Management and Budget (PMB)

BUREAU OF RECLAMATION RURAL WATER SUPPLY PROJECTS

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ON THE COVER

Photos of rural water supply project construction sites managed by the Bureau of Reclamation in the State of South Dakota. The Bureau also manages rural water supply projects in Montana, North Dakota, and New Mexico.

Source: OIG Staff

ABBREVIATIONS

BIA	Bureau of Indian Affairs
CFS	Cubic Feet per Second
DOI	Department of the Interior
EPA	Environmental Protection Agency
FY	Fiscal Year
GAO	Government Accountability Office
GPRA	Government and Performance Results Act of 1993
IHS	Indian Health Services
MR&I	Municipal, Rural, and Industrial
OIG	Office of Inspector General
OMB	Office of Management and Budget
O&M	Operations and Maintenance
OM&R	Operations, Maintenance, and Replacement
PART	Program Assessment Rating Tool
PMB	Office of Policy, Management, and Budget
PPP	Office of Planning and Performance Management
RND	Results Not Demonstrated
RUS	Rural Utility Service
WEB	Walworth, Edmunds, and Brown Counties' Project
WRLJ	West River/Lyman Jones

INTRODUCTION

WHY WE DID THIS PROGRESS EVALUATION

Department officials asked the OIG to evaluate the progress made by projects designated Results Not Demonstrated (RND) by the Office of Management and Budget (OMB). OMB uses the Program Assessment Rating Tool (PART) to make these designations.

In our discussions with officials in DOI's Office of Budget and Office of Planning and Performance Management, we considered each DOI program rated by OMB as RND, as well as a number of other factors, such as each program's budget and how long a given program has been in RND status. Based on this analysis, we selected Reclamation's rural water supply projects for this progress evaluation.

OBJECTIVES AND METHODOLOGY

Our objectives were to determine the progress made by Reclamation toward implementing OMB's recommendations and to provide suggestions to officials to ensure success of the existing projects, as well as that of the new Program.

To meet our objectives, we interviewed Reclamation and DOI officials and the OMB examiner responsible for assessing the existing rural water supply projects. We reviewed and analyzed documentation and reviewed performance measurement and program evaluation literature as well as applicable laws and regulations to include Reclamation's interim final rule (73 FR 67778 (November 17, 2008)) establishing operating criteria for the new program, and planning processes. We visited one location, the Mni Wiconi Rural Water Project in South Dakota. We chose this site because the Project was actively undergoing construction, included the involvement of a variety of sponsors, encompassed a large area, and was allotted funds in fiscal year (FY) 2008.

We conducted our evaluation in accordance with the "Quality Standards for Inspections" established by the President's Council on Integrity and Efficiency. We base our suggestions presented in this report on OMB's 2008 PART guidance.

WHAT IS THE PART?

Federal agencies use the Program Assessment Rating Tool (PART), a standard questionnaire, to submit information on federal programs to the Office of Management and Budget (OMB). OMB examiners assess programs based on responses to YES/NO questions in the areas of program purpose and design, strategic planning, program management, and — most importantly — program results.

OMB uses the information to determine program effectiveness, recommend improvements for rated programs, and follow up on those improvements.

The ExpectMore.gov Web site publishes PART results. See Appendix A for more information on the history and use of the PART.

HOW WE STRUCTURED THIS REPORT

Following an overview that includes Reclamation's rural water supply history and responsibilities, we summarize OMB's 2002 PART assessment. We then address areas of concern that we and OMB have identified in Reclamation's existing rural water supply projects, as well as areas that offer additional opportunities for improvement, and provide suggestions that should help both the existing projects and the new Program succeed.

OVERVIEW

History of Rural Water Supply Management

Reclamation has a century of experience in the development and management of water delivery systems in the West and significant experience in developing rural water supply projects. Reclamation manages numerous municipal and industrial water projects that provide irrigation, flood control, power, and recreational opportunities to the 17 western States¹, Indian Tribes, and others to balance the competing needs for limited water resources.

Reclamation is the Nation's largest water wholesaler and second largest producer of hydroelectric power in the western United States. It supplies water to more than 31 million people and provides one out of five western farmers (approximately 140,000) with irrigation water for 10 million acres of farmland. It also runs 58 power plants that produce enough electricity to serve 6 million homes, provides more than 40 billion kilowatt hours annually, and generates nearly a billion dollars in power revenues.

Reclamation Mission Statement

**The Bureau of Reclamation
mission is to manage, develop,
and protect water and related
resources in an environmentally
and economically sound manner
in the interest of the American
public.**

Source: Reclamation

Rural Water Supply Projects and Program

Current data indicate that millions of Americans in rural areas² still live without a safe and reliable water supply. To help provide safe drinking water, a number of Federal agencies, such as the Department of Agriculture's Rural Utility Services and the Department of Commerce's Economic Development Administration, provide funding for large and complex rural water programs³. Because of Reclamation's experience and technical capabilities in the planning, design, and construction of rural water supply projects, the Congress chose

¹ The western States are Arizona, California, Colorado, Idaho, Kansas, Montana, Nebraska, Nevada, New Mexico, North Dakota, Oklahoma, Oregon, South Dakota, Texas, Utah, Washington, and Wyoming.

² Rural areas are defined per Public Law Number 109-451 as a community or group of communities, each of which has a population of not more than 50,000 inhabitants.

³ Other rural water programs include those funded by the U.S. Army Corps of Engineers.

Reclamation to administer projects that do not meet the criteria of other departments or agencies.

From 1980 through 2006, the Congress directed Reclamation on an informal basis to undertake the construction, as well as the operations and maintenance (O&M), of 10 specific and independently funded rural water projects. These “existing projects” are administered by the Great Plains and Upper Colorado regional offices, but oversight responsibility has been transferred to the Bureau’s Policy, Administration and



Construction of rural water lines in South Dakota.

Source: OIG Staff Photo

Budget/Program and Policy Services Office. Because planning and authorization of existing projects has been congressionally directed, Reclamation has not focused its efforts on establishing eligibility criteria for communities or for prioritizing projects to fund. Reclamation thus had no structured program for developing or funding rural water supply projects until passage of the Rural Water Supply Act of 2006 (the Act).

Passage of the Act formally instituted the Rural Water Supply Program, specifying Reclamation to develop a process of selection, construction, and O&M of rural water supply projects. Rather than completing projects itself, Reclamation will now conduct appraisal investigations and feasibility studies (or ensure that such studies are conducted by non-federal entities) and recommend to the Congress proposed projects for funding. Congress must still enact legislation before specific projects are authorized for construction.

**P.L. 109-451
RURAL WATER SUPPLY
ACT OF 2006**

**Enacted December 22, 2006,
the Act authorizes the
Secretary of the Interior to
create a rural water supply
program to address rural
water needs in the 17 western
States.**

Source: Reclamation

Because the requirements and criteria for the Program cannot be applied retroactively, Reclamation has had to continue managing the projects started before the Act, while it concurrently developed and implemented regulations for the new Program. To address the latter responsibility, Reclamation published an interim final rule (73 FR 67778) on November 17, 2008. The rule (43 CFR 404) became effective December 17, 2008; it establishes operating criteria for the Program and defines criteria governing the prioritization, eligibility, and evaluation of appraisal investigations and feasibility studies. Under the new Program, Reclamation is to be directly involved in the planning and prioritizing of rural water supply projects, thereby providing a higher level of assurance that selected

projects are cost-effective and are in the best interest of the U.S. Government.

The process for project selection under the Act is slated to operate much differently than under congressional mandates. See Appendix B for detailed information on Program operations. To summarize, the Act formally charges Reclamation with oversight responsibility and authorizes the Secretary to undertake the following activities in implementing the Program.

- To investigate opportunities to ensure safe and adequate projects for domestic, municipal, and industrial use in small communities and rural areas within the 17 western States.
- To select projects and plan their design and construction through the conduct of appraisal investigations and feasibility studies.
- To oversee, as appropriate, construction of projects that Reclamation selects and recommends for construction and that the Congress authorizes.

Appraisal Investigation

An analysis of domestic, municipal, and industrial water supply problems, needs, and opportunities using existing data. It includes a preliminary assessment of alternatives to determine if at least one warrants further investigation.

Feasibility Study

A detailed investigation and analysis of a reasonable range of alternatives that includes at least one preferred alternative. Technical and economic analyses are also performed.

A study is generally performed following the completion and recommendation of an appraisal investigation.

Source: Reclamation

OMB's 2002 PART ASSESSMENT

OMB initially reviewed Reclamation's rural water supply projects in 2002 prior to the passage of the Rural Water Supply Act of 2006; they have not undergone review since. What was a set of projects at the time has now been formalized into a Program that is not yet fully operational; consequently, no new projects have been submitted or approved for development under the Act.

The 2002 OMB PART assessment indicated that:

- Reclamation had not established measureable goals or adequately documented appraisal and feasibility studies that were prepared and approved prior to the initiation of a project. The OMB examiner noted that "the resulting studies seldom undergo Reclamation and Administration review, and are not prepared in accordance with current Federal planning and engineering standards. As such, these studies provide a poor basis for the project planning, design and construction."

- The program purpose is unclear since each project was authorized with its own set of goals and was not organized into a coherent plan or under a common goal.
- The projects overlap with other federally funded rural water supply programs such as the Department of Agriculture's Rural Utility Service.
- Tighter controls are needed on project development, which often proceeds with local sponsors failing to consider the range of alternatives available to meet water supply and water quality challenges.

Further, Reclamation was unable to satisfy OMB requirements for 11 PART questions, most of which were related to the establishment and utilization of appropriate performance measures and rated the program as Results Not Demonstrated. We provide a complete listing in Appendix C of the questions to which Reclamation received a "No" or "Small Extent" answers.

Based on its observations, OMB recommended that Reclamation work to ensure that Administration priorities as defined in the Act are adequately addressed; focus budgetary resources on completing ongoing rural water projects; and include programmatic goals with measurable objectives and outcomes within DOI's Strategic Plan. Our assessment of the Bureau's progress toward addressing this OMB improvement plan follows.

OIG OBSERVATIONS AND SUGGESTIONS

We reviewed the existing projects in 2008 as a follow-up to the 2002 OMB PART review. Although Reclamation's existing projects received a Results Not Demonstrated rating from OMB we observed progress being made toward implementing the actions requested in OMB's improvement plan. In short, Reclamation published an interim final rule (73 FR 67778 November 17, 2008) with an effective date of December 17, 2008, that regulates the Program. Continued effort, however, is needed to develop and implement long-term outcome performance measures designed to quantitatively assess the effectiveness and efficiency of the existing projects. Reclamation will also need to define the new Program. We provide eight suggestions for improvements that we believe can help Reclamation officials guide the existing projects, as well as the new Program, to more effectively support the Bureau's mission.

Progress on OMB's First Program Improvement Plan Action: *Work to ensure that the Administration's priorities for this program are addressed.*

In its 2002 PART review, OMB indicated that the purpose of the existing projects as a whole was not clear. While this observation is accurate, the nature of the existing projects precluded a clear definition of their purpose. To avoid this problem with the new Program and ensure that the Administration's priorities are addressed, Reclamation has worked closely with OMB in creating 43 CFR Part 404 (the interim final rule), which is replete with programmatic criteria that we believe enable Reclamation's early involvement in the planning stages of new rural water projects and better position the Bureau to prioritize the projects that it recommends to the Congress for construction.

The rule encourages competition by allowing an interested entity (to include western States and Tribes) to request either 1) that Reclamation complete an investigation or study or 2) financial assistance in the form of a grant-like or cooperative agreement to conduct an appraisal investigation or feasibility study itself. In addition, an entity that requests financial assistance must demonstrate that its proposal will be more cost-effective than Reclamation completing the investigation or study.

Since the process of awarding funding mimics a grant-like activity, similar competitive grant programs could help the Bureau better assess the impact of the Program's potential workload capacity against current manpower levels and devise strategies to overcome projected deficiencies. Our discussions with Reclamation officials suggest that the Bureau has not adequately looked to other departmental competitive grant programs for such modeling or best practices.

OIG Suggestion 1:

Reclamation officials should assess their grant management capacity and develop strategies to address deficiencies.

Progress on OMB's Second Program Improvement Plan Action: *Focus budgetary resources on completing ongoing rural water projects.*

Reclamation has operated as a pass-through (or middle man) for funding of the existing projects and had no early involvement in development and design of the existing projects. Program managers had no ongoing administrative oversight authority to protect Federal investment or minimize escalating costs. As a result, many of the appraisal and feasibility studies failed to meet Reclamation standards and Reclamation was unable to prioritize projects or effectively plan and budget for ongoing projects.

Currently, seven projects remain in various states of completion. As required by the Act, Reclamation is assessing the status of these projects and was expected to submit its findings to the Congress in December of 2008. That report however, has been delayed and is now expected to be submitted to Congress in early 2009. With this information, the Congress can act to complete the unfinished projects, the delay of which could cause incalculable harm to the lives and health of countless residents.

Ongoing Rural Water Projects

Great Plains Region

***Montana* —**

Fort Peck/Dry Prairie
North Central Montana

***North Dakota* —**

Garrison (unit of Pick-Sloane)

***South Dakota* —**

Mni Wiconi
Lewis and Clark
Perkins County

Upper Colorado Region

***New Mexico*—**

Jicarilla

Source: Reclamation

Our conversations with Reclamation officials suggest that if the existing projects had been fully funded, most, if not all, could have been completed in half the time. In fact, because of the piecemeal authorization of individual rural water supply project development, some residents have waited as much as 20 years or more for access to clean and safe drinking water. We discuss one such project, the Mni Wiconi Rural Water Project, in detail below.

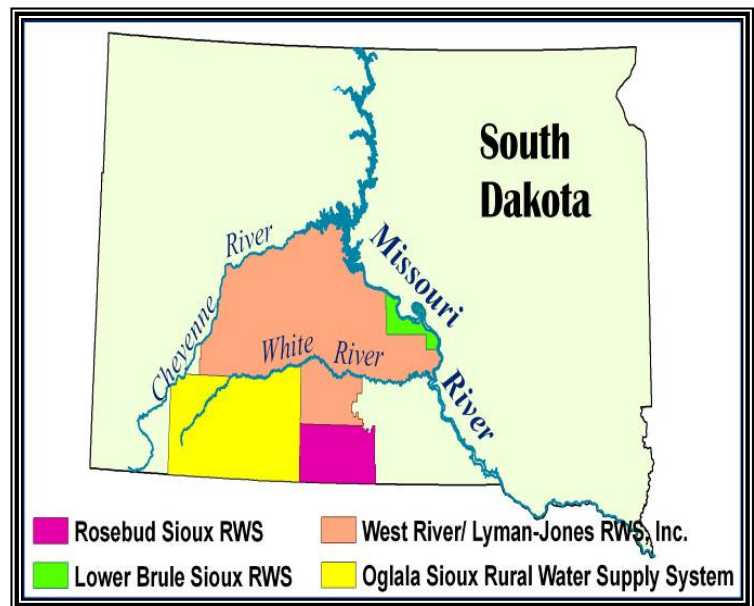
Mni Wiconi and the Impact of the Rural Water Projects

The existing projects have, over time, improved water quality and availability. As a direct result, thousands of rural residents now have safe drinking water and are destined to live longer and healthier lives. One case in point is the Mni Wiconi Project. Its name means “water is life,” and it has surpassed Environmental Protection Agency (EPA) standards for drinking water quality.

Authorized by the Mni Wiconi Project Act of 1988, the Project includes some 4,400 miles of pipeline in newly constructed systems and appurtenant facilities in 40 existing community systems. At full development, it is projected to serve about 52,000 people. The Project area extends from the central part of South Dakota to the southwest corner of the State, spans approximately 12,500 square miles, and includes the Pine Ridge Indian Reservation.

Prior to the Project’s construction, many of the residents in southern South Dakota suffered serious health problems related to drinking contaminated water. A 1999 U.S. Geological Survey Report on water quality from selected springs located on the Pine Ridge Reservation documented high levels of ground water contaminants. Some of the spring water contained arsenic, naturally occurring radioactive materials, bacteria, and viruses. Consequently, residents exposed to the contaminants suffered higher rates of illness and death than the rest of the national population. In response to these health-related issues, Reclamation worked with the Bureau of Indian Affairs (BIA) and Indian Health Service (IHS) to install pipelines, drill new wells, and equip homes with proper water filtration systems.

Although originally scheduled for completion by 2003, this Project is currently in its 15th year of construction because insufficient funding has resulted in repeated delays. In 2002, the Congress amended the Mni Wiconi Project Act to extend its sunset date to 2008 and to authorize an additional \$58.8



The Mni Wiconi Rural Water Supply Project
Source: Reclamation

million to cover costs not considered in the original authorization. The Congress also authorized administrative costs for a 5-year period. Since the Project was not completed by the amended date of 2008, its sunset date has been extended again, this time to 2013.

The current Federal cost ceiling for the project is \$457.9 million with a corresponding non-Federal cost-share of \$17.5 million. As of September 30, 2008, the Mni Wiconi Project has spent 81 percent of its total funding. With indexing at 5 percent per year, Reclamation estimates the Mni Wiconi Project will actually require approximately \$23 million each year from 2008 until 2013 if it is to reach completion. Reclamation requested \$16.2 million for FY 2009, or \$6.8 million less than the projected amount required to complete the project on time. Table 2 below shows Federal funds appropriated and requested for the Mni Wiconi Project.

Table 1. Funding in thousands of dollars for the Mni Wiconi Rural Water Project

	FY 2007	FY 2008	FY 2009 Request
Construction	28,704	28,197	16,240
OM&R Program ⁴	9,262	9,374	10,000
Total	37,966	37,571	26,240

OIG Suggestion 2:

Reclamation officials should continue to work with the Department to ensure it includes adequate funding in its future budget requests so that all existing projects are completed in a timely manner.

Progress on OMB's Third Program Improvement Plan Action: *Include programmatic goals with measurable objectives and outcomes within DOI's Strategic Plan for the Rural Water Supply Program.*

The disjointed nature of existing projects, authorized and developed as individual projects rather than as part of a coherent program, contributed directly to Reclamation's hesitance in developing adequate performance measures. While Program officials are of the opinion that Reclamation acts only as a pass-through for funding, the Bureau does actively enter into cooperative agreements with project partners for the purpose of providing funds for the planning, designing, constructing, operating, maintaining, and replacing, or upgrading of existing rural water projects. Such agreements delineate the responsibilities for Reclamation, as well as the partners. Therefore, we believe that oversight responsibility, as well as good

⁴ Per statute, the Secretary of the Interior (Reclamation) is responsible for operation, maintenance, and replacement (OM&R) of the Tribal rural water system facilities. Facilities include those built under the construction project and those transferred into the OM&R Program. The WR/LJ system OM&R is a non-Federal cost.

stewardship of public funds, resides with Reclamation. As such, accountability ultimately rests with the Program managers, who should monitor the work of project partners.

OIG Suggestion 3:

Reclamation officials should establish performance standards for each of its Program partners.

We also noted a lack of effective coordination between Reclamation and OMB in the development of acceptable performance measures. A few years ago, Reclamation proposed performance measures to OMB, but did not follow up by providing baseline data for OMB's review.

To address this issue, we held discussions with the OMB examiner, DOI's Office of Planning and Performance Management (PPP) personnel, and Bureau Program personnel with the expectation of developing mutually acceptable long-term outcome, output, and efficiency performance measures. The OMB examiner indicated that the Program's long-term and intermediate performance measures should reflect Program outcomes, not just outputs, and be broad enough to encompass both the existing projects and the new Projects. The examiner also indicated that acceptable measures should demonstrate the effectiveness of the Program's selection criteria, as outlined in 73 FR 67778. We believe that the measures can do this by capturing the influence of the appraisal investigation and feasibility studies on the planning process and budget development.

After consultation with Reclamation's Program officials, the OMB examiners, and PPP personnel, five draft measures have been developed for the Bureau's consideration (see Appendix E). Although the measures are a significant step in linking the planning and oversight functions with the achievement of Reclamation's long-term outcome goal of delivering safe drinking water in an environmentally responsible and cost-effective manner, the measures have not been finalized. In the opinions of the OMB examiner and the PPP representative, the measures need fine-tuning before OMB concurrence can be obtained.

Once finalized, we believe the proposed measures will capture the progress made toward development of regional office-level implementation strategies; maintenance and ongoing evaluation of cooperative agreements; and continuing and effective consultation with project sponsors and stakeholders. If the Bureau chooses to accept or modify these proposed measures and OMB concurs, the next step would be gathering of baseline data, and tier the measures down to manager's performance plans.

Other measures Reclamation may wish to consider as appropriate and necessary include:

■ **Number of water connections per million dollars** - quantifies the costs of the services provided to a given community and provides a measure of the overall efficiency of delivery.

■ **Quantity of potable water delivered per million dollars** – quantifies both gross and net costs for projects with a cost-share component.

■ **Quantity of water treated to EPA drinking water quality standards per million dollars** - similar to the water delivery measure, this also quantifies both gross and net costs.

■ **Cubic Feet per Second (CFS) of conveyance constructed, or completed** - quantifies the pipeline constructed or completed for systematic flow or transfer of water from one point to another.

Because it is not a formal program but rather a collection of individually authorized projects, Reclamation has not established measurable program goals or a strategic plan for rural water.

Source: ExpectMore.gov

OIG Suggestion 4:

Reclamation officials should make establishing performance measures and baseline data a priority for old and new projects; establish ambitious targets; link these targets to managers' performance plans; and document data collection and verification.

ADDITIONAL OPPORTUNITIES FOR IMPROVEMENT

Our review recognizes that organizations can and do take on a variety of structures with varying degrees of success. We believe that the organizational structure of Reclamation is appropriate for its customer-driven mission to deliver safe and reliable drinking water. Nevertheless, we also believe that, as with all organizations, opportunities exist to improve.

Although the lack of acceptable performance measures ultimately triggered OMB's designation of the Program as RND, several areas exist that Program officials could explore to improve existing project and Program operations. We identified partnership efforts, independent evaluation, budget development, and benchmarking as areas that offer the opportunities for improvement. We briefly address each below.

PARTNERSHIP EFFORTS

Partnership and stakeholder relationships have proven beneficial in creating a more informed constituency, assisting with the O&M of existing projects, planning future projects, and, most importantly, enabling the Bureau to pool resources while developing and improving the

working relationships among project partners. For example, from our interviews with the Mni Wiconi Rural Water Project partners (West River/Lyman Jones Rural Water Systems and Lower Brule, Rosebud, and Oglala Sioux Indian Reservations) all agree that Reclamation's leadership has been instrumental in moving the Project forward and, thereby, ensuring that the long-term goal of providing safe, clean drinking water to the residents of rural South Dakota becomes a reality.

One way to ensure the success of partnerships entails making information readily available regarding processes and practices, both in general and for specific projects and related activities. Reclamation is actively taking the initiative of notifying its stakeholders, as well as the general public, of 43 CFR Part 404 requirements — as evidenced on its Web site. The site includes a link to the new Rural Water Supply Program and provides information on the rule, the Act, public meeting dates and locations, and Program points of contact. The Bureau is also developing a formal, systematic outreach effort. Until recently, however, it had been relying on opportunities such as regional meetings or national conferences to convey information.

We applaud the Bureau's efforts and believe that a systematic and formalized effort of notification to increase public awareness and reduce confusion is necessary and vital to:

- enhance communication and collaboration with interested groups;
- foster a sense of stewardship in the management of rural water projects; and
- support local communities in rural water development initiatives.

OIG Suggestion 5:

Reclamation officials should continue to develop and implement effective outreach strategies with regard to 43 CFR 404 requirements for the 17 western States that may be involved in future water projects.

INDEPENDENT EVALUATIONS

Our review indicated that independent evaluations have primarily consisted of Single Audit⁵, Government Accountability Office (GAO)⁶, and OIG⁷ reports. These reports have proven useful in identifying shortfalls and discrepancies in funding. We believe, however, that they

⁵ Joseph Eve (CPA), Billings, MT: *Rosebud Sioux Tribe, Financial and Compliance Audit Report, Year Ended September 30, 2006*.

⁶ GAO: *Four Federal Agencies Provide Funding for Rural Water Supply and Wastewater Projects*, GAO-07-1094 (Washington, D.C.: Sep. 2007).

⁷ Department of the Interior Inspector General Report: *Audit Report on the Lower Brule Sioux Rural Water System, Mni Wiconi Rural Water Supply Project, BOR*, (No. 99-I-588).

fall short of identifying whether the program is performing in an effective and efficient manner. Further, we believe that the scopes of single audits are insufficient to satisfy the specific PART requirements, especially in light of the absence of any performance measures.

Third party evaluations can validate monitoring efforts, capture information about impact on targeted outcomes, and provide officials with information needed to improve operational efficiencies. Ideally, these evaluations should be performed at the program level and focus on more than process indicators, such as the number of grants provided or the number of hits on a Web site. For example, a significant aspect of the Rural Water Supply Program's effectiveness would be its overall impact on the health and welfare of the end user.

PART QUESTION 4.5

Do independent evaluations of this program indicate that the program is effective and achieving results?

Source: ExpectMore.gov

OIG Suggestion 6:

Reclamation should implement a policy that would allow an independent evaluation of the Program on a regular, recurring basis. Such evaluations should be of sufficient quality, scope, and frequency so as to provide sufficient information on the effectiveness of the entire Program, rather than just certain aspects or select sites. Funding for such evaluations should also be budgeted for when they are due.

BUDGET DEVELOPMENT

During the 2002 PART review, Reclamation was critiqued for not adequately demonstrating that it was budgeting for the full costs associated with operating the existing projects in a way that allowed performance changes to be identified with changes in the level of funding. Considering that, at that time, the existing projects were funded through congressional mandates, this assessment is not surprising.

We found that Program officials recognize the importance of tying funding for these new

PART QUESTION 3.5

Does the agency estimate and budget for the full annual costs of operating the Program (including all administrative costs and allocated overhead) so that Program performance changes are identified with changes in funding levels?

Source: ExpectMore.gov

projects to policies and procedures, especially with regard to appraisal investigations and feasibility studies. In addition, our discussions with Program officials suggest that they have a clear understanding of the importance of considering priorities established by the Congress, DOI, and Reclamation management, as well as workload estimates during their budget development and allocation process.

With publication of the interim final rule, we believe that Reclamation officials now have greater control over new project funding and should be able to refine their development of long-range budget and workload projections; prioritize project needs through development of credible cost benefit analyses; shift resources, as appropriate, to achieve critical milestones; adjust deadlines or other objectives; and postpone project starts until resources become available. The new process should also allow Reclamation and Program officials to prioritize the work to be performed and to determine when it will be performed, what the consequences are of the choices being made, where backlogs are likely to occur, and what issues might arise.

Furthermore, we believe that the interim final rule provides a foundation for a structured project review process that Reclamation can use to institute effective Program oversight. The depth of the process can be tailored to be consistent with the associated costs and inherent risks of any given project. This should allow Program officials to better demonstrate cost effectiveness in achieving their programmatic goals.

PART QUESTION 3.CAP3

Has the program conducted a recent, credible, cost benefit analysis that shows a net benefit?

PART QUESTION 4.3

Does the program demonstrate improved efficiencies or cost effectiveness in achieving program goals each year?

Source: ExpectMore.gov

OIG Suggestion 7:

Reclamation should establish a structured review process that ensures effective cost oversight mechanisms are in place from project inception through construction.

BENCHMARKING

In 2002, OMB scored Reclamation's comparison with managed rural water supply projects that have a similar purpose and goals as 'small extent.' The examiner evaluated the projects using two primary measures: water connections per million dollars and populations served per million dollars. The OMB examiner noted that Reclamation's existing projects serve a large number of customers at a higher cost than the other Federal rural water supply programs such as the Department of Agriculture's Rural Utility Services (RUS), which makes accurate Program performance comparisons difficult.

In our discussions with Reclamation officials, the issue of benchmarking and comparisons with projects and programs of similar size and purpose was downplayed as being non-consequential. Reclamation officials deemed the rural water supply projects to be unique, which would make comparisons impossible. In support of their argument, officials directed us to a September 2007 report titled "Action Item 31, Benchmarking Operation and

Maintenance of Water Storage Facilities” that identified Reclamation’s progress in implementing benchmark measures for its water O&M programs. Although this report does not specifically address rural water supply programs, it suggests that Reclamation should not pursue water benchmarking of O&M with outside entities or of water conveyance and distribution facilities due primarily to the “lack of standardized cost accounting procedures.”

PART QUESTION 4.4

Does the performance of this program compare favorably to other programs with similar purpose and goals?

Source: ExpectMore.gov

We disagree with the report’s assumptions and believe Reclamation can conduct effective benchmarking, albeit on a narrow basis, by focusing on discrete segments of rural water supply operations. Generally, the broader the scope of the measure, the more difficult it becomes to align specific measures for comparability. In this case, national, regional, and local water works associations and organizations provide a number of potentially useful benchmarks that Reclamation could consider. Key areas at the program level include customer relations, organizational development, business operations, and water operations. Key areas at the project level may include:

- **Disruption of Water Service Rate per 1,000 Customers Planned/Unplanned** — quantifies the number of customers experiencing service disruptions.
- **Debt Ratio** — a measure of the utility’s indebtedness.
- **Employee Health and Safety Severity Rate** — quantifies the rate of employee days lost from work to illness or injury.
- **Planned Maintenance Ratio (Water)** — measures how effectively utilities are investing in planned maintenance. Two ratios for consideration are cost invested in maintenance activities and hours invested in maintenance activities.
- **Water Distribution System Integrity** — quantifies the condition of the water distribution system with the number of breaks and leaks requiring repair per 100 miles of distribution piping.
- **Drinking Water Compliance Rate (% days)** — reports the percentage of time each year that a water utility meets all of the health-related drinking water standards in the U.S. National Primary Drinking Water Regulations.

Obtaining comparable benchmarks could help Reclamation produce tangible, quantifiable targets and goals that could be measured in a consistent fashion over recurring time periods. In turn, Reclamation management could determine where the Program and individual

projects are positioned today and measure performance against future goals so that actions can be modified accordingly.

OIG Suggestion 8:

Reclamation should become familiar with other rural water supply programs of similar size, purpose, and goals, either public or private, to measure, understand, and adopt the industries' best practices.

SUMMARY

Our review resulted from a departmental request to determine the progress Reclamation has made in implementing OMB's 2002 PART recommendations. We have noted that the primary reason for Reclamation's poor performance during the 2002 review was directly attributable to its lack of sufficient performance measures and the lack of a defined program.

During our review we worked closely with Reclamation officials, the department's Office of Planning and Performance Management (PPP), and the OMB examiner to develop new mutually acceptable measures. Although the measures are not yet finalized, we believe that the necessary communication among PPP, Reclamation, and OMB has been established and that progress has been made in defining a set of measures that will help the Bureau to effectively demonstrate the link from planning to implementation and then to results. Once agreement has been reached on the measures, Program officials can establish performance baselines and targets. We also identified areas that Program officials are currently addressing, such as working with partners, achieving cost efficiencies, and developing a monitoring strategy through independent evaluations and benchmarking.

Publication of 73 FR 67778 (November 17, 2008), which clearly identifies oversight responsibilities for the Program, is a good first step. Central oversight of the development, approval, and evaluation of the Program's performance should ultimately provide a greater level of accountability and improve management of both the existing projects and the Program. We encourage you to discuss our suggestions and implement those you agree will improve Reclamation's capacity to further its mission.

APPENDIX A: HISTORY AND USE OF THE PART

<p>Planning and performance monitoring are required by law</p>	<p>In 1993, the Congress found federal managers to be “disadvantaged in their efforts to improve program efficiency and effectiveness, because of insufficient articulation of program goals and inadequate information on program performance.” The Government Performance and Results Act (Public Law 103-62), or GPRA, was passed to promote a focus on results by requiring federal agencies to engage in strategic planning and performance reporting.</p> <p>The “President’s Management Agenda,” which includes a U.S. Government-wide initiative to improve budget and performance integration, was published in 2001. The Agenda calls for agencies to monitor program performance and to incorporate performance review into budgetary decision-making.</p>
<p>Objectives and results of federal programs are assessed during budget formulation</p>	<p>To support this initiative, the Office of Management and Budget (OMB) instituted a new activity within the context of budget formulation. OMB uses a standard questionnaire called the Program Assessment Rating Tool (PART) to engage federal programs in a review of program design, strategic planning, program management, and the achievement of results that demonstrate value for the taxpayer. Through the PART process, OMB rates programs as Effective, Moderately Effective, Adequate, or Ineffective. Alternatively, OMB deems programs that are unable to provide reliable performance information (thus precluding assignment of a program rating) Results Not Demonstrated and recommends establishment or improvement of mechanisms for performance measurement.</p>
<p>OMB has found that many DOI programs lack performance information</p>	<p>Of the 72 DOI programs assessed between 2002 and 2007, OMB rated only 8 programs (11 percent) Effective and placed 16 programs (22 percent) in the category Results Not Demonstrated. DOI programs assessed through the PART process reflect over \$9 billion dollars in annual budget authority. Approximately one quarter of this spending is associated with programs that lack reliable performance information.</p>

PART Ratings, 2002-2007	Number of Programs	Percent of Programs
Effective	8	11
Moderately Effective	23	33
Adequate	25	34
Ineffective	0	0
Results Not Demonstrated	16	22
TOTAL NUMBER OF PROGRAMS	72	100

PART findings can be used to 1) justify termination or substantial curtailment of federal programs, 2) support legislative or fiscal enhancements, or 3) promote management improvements. OMB publishes PART results on its ExpectMore.gov Web site, together with recommended improvement actions for every program it has assessed. Agency officials and program managers are expected to follow up on these recommendations and to keep OMB, and ultimately the public, apprised of progress through updates of the information posted to ExpectMore.gov and through internal communications. OMB then reassesses programs on schedules developed in consultation with responsible agencies.

APPENDIX B: RURAL WATER SUPPLY PROGRAM OPERATIONS

Title I of the Rural Water Supply Program Act is codified in 43 CFR Part 404, which provides that the Secretary of the Interior develop three sets of criteria within specified timeframes. Section 103 of the Act requires the promulgation of programmatic eligibility and prioritization criteria within 1 year of the date of enactment; section 105 requires criteria for the evaluation of appraisal investigations to be developed within 1 year of the date of enactment; and section 106 requires the promulgation of criteria for the evaluation of feasibility studies within 18 months of the date of enactment.

The Act also requires Reclamation to establish comprehensive programmatic criteria, including prioritization and eligibility criteria, as well as criteria to evaluate both appraisal and feasibility studies. Part 404 of title 43 specifically defines these criteria and describes who is eligible to participate in the Program, as well as the types of projects that are eligible for consideration.

Under the Program, three groups may seek financial and technical assistance to undertake appraisal investigations and feasibility studies to explore potable water needs and options for addressing those needs. Applicants may be States or political subdivisions of States, Indian Tribes, and entities created under State law that have water management authority.

According to 43 CFR Part 404, the types of direct assistance available from Reclamation under the Program include 1) technical assistance to conduct an appraisal investigation or feasibility study; 2) financial assistance to enable a non-Federal entity to conduct an appraisal or feasibility study itself, with Reclamation oversight; and 3) review and approval of a completed appraisal or feasibility study.

In reviewing an appraisal investigation, Reclamation applies specific criteria to determine whether a reasonable range of alternatives has been formulated and evaluated. The Bureau also determines whether any recommendation for further study of one or more alternatives is clearly supported by the analysis in the appraisal investigation.

Similarly, in reviewing a feasibility study, Reclamation assures that the proposed project is consistent with the policies and programs of the President. The Bureau applies the following criteria to evaluate and determine whether to recommend authorization for construction.

- Degree to which the project meets the prioritization criteria.
- Outcome of the environmental analysis.
- Federal interest in the project exists.
- Feasibility study support of the recommended project.

Utilization of these criteria enables Reclamation to ensure that all appraisal and feasibility studies completed under the Program meet standards — whether the studies are completed by Reclamation or by a non-Federal entity.

An important part of Reclamation's role in evaluating a feasibility study under the Program is to consider the non-Federal entity's capability to pay at least 25 percent of the cost of constructing a rural water supply project. Part 404 of Title 43 has also defined cost-sharing requirements related to the Program that include non-Federal cost-sharing in completing appraisal investigations and feasibility studies and in constructing rural water projects once the Congress authorizes construction. While the Act provides Reclamation the authority to undertake the appraisal and feasibility studies, it does not provide authority to undertake construction of water delivery facilities recommended for development under the Program. Those require a specific act of Congress.

APPENDIX C: PART QUESTIONS THAT ELICITED A “NO” OR “SMALL EXTENT” ANSWER IN 2002

STRATEGIC PLANNING AND PROGRAM DESIGN

PART Question 1.1: Is the program purpose clear?

PART Question 1.5: Is the program optimally designed to address the interest, problem or need?

PERFORMANCE MEASURES

PART Question 2.1: Does the program have a limited number of specific long-term performance measures that focus on outcomes and meaningfully reflect the purpose of the program?

PART Question 2.3: Does the program have a limited number of specific annual performance measures that can demonstrate progress toward achieving the program’s long-term goals?

PART Question 2.4: Does the program have baselines and ambitious targets for its annual measures?

PART Question 4.1: Has the program demonstrated adequate progress in achieving its long-term outcome goal(s)?

BENCHMARKING

PART Question 4.4: Does the performance of this program compare favorably to other programs with similar purpose and goals?

EFFICIENCY MEASURES

PART Question 3.CAP3: Has the program conducted a recent, credible, cost benefit analysis that shows a net benefit?

PART Question 4.3: Does the program demonstrate improved efficiencies or cost effectiveness in achieving program goals each year?

INDEPENDENT EVALUATIONS

PART Question 4.5: Do independent evaluations of sufficient scope and quality indicate that the program is effective and achieving results?

BUDGET DEVELOPMENT

PART Question 3.5: Does the agency estimate and budget for the full annual costs of operating the program (including all administrative costs and allocated overhead) so that program performance changes are identified with changes in funding levels?

APPENDIX D: STATUS OF RURAL WATER SUPPLY PROJECTS

	Project Name	Date Project Authorized	Project Completed
1.a	Garrison Diversion Unit – State	5/12/1986	NO
1.b	Garrison Diversion Unit – Tribal	10/20/1992	NO
2	Mni Wiconi Rural Water Systems	10/24/1988	NO
3	Lewis and Clark Rural Water System	7/13/2000	NO
4	Perkins Rural Water System	12/7/1999	NO
5	Ft. Peck Reservation – Dry Prairie	10/27/2000	NO
6	North Central/Rocky Boys	12/13/2002	NO
7	Jicarilla (Upper Colorado Region)	7/10/2000	NO
8	Mid-Dakota	10/30/1992	YES
9	Ft. Peck County	10/11/1996	YES
10	WEB Project (Walworth, Edmunds, and Brown counties)	9/24/1980	YES

APPENDIX E: PROPOSED RURAL WATER SUPPLY PERFORMANCE MEASURES

	Type	Performance Measures ⁸
1	Output	Percent of applications evaluated by Reclamation within the time frames contained in Reclamation's Directives and Standards.
2	Output	Percent of appraisal studies conducted by Reclamation or non-Federal project sponsors with cost and schedule variance of less than 10% from the approved annual project plan.
3	Output	Percent of feasibility studies conducted by Reclamation or non-Federal project sponsors with cost and schedule variance of less than 10% from the approved annual project plan.
4	Outcome	Percent of targeted populations served with reliable, safe drinking water from the rural water projects under construction by project sponsors.
5	Outcome	Percent of non-Federal project sponsor-managed rural water construction projects with cost and schedule variance of less than 10% from the approved annual master plan.

⁸ Based on the feedback received from PPP and OMB, the performance measures will need to more closely track costs in order to demonstrate efficiency and show improvements. With minor revisions PPP feels the first measure will work. Furthermore, PPP and OMB indicated that 2, 3, and 4 as written are amalgams of measures needing to be broken out and ideally should cover the entire program. The percentage of targeted population served with reliable, safe drinking water from rural water projects (measure 5) can stand alone.

APPENDIX F: FY 2009 BUDGET REQUEST

For FY 2009, Reclamation's budget request includes \$39 million in funding for two existing and ongoing authorized rural water supply projects within the Great Plains Region — the Garrison Diversion Unit in North Dakota and the Mni Wiconi Project in South Dakota. Of the \$39 million, \$24 million is requested to complete construction of these systems. The remaining \$15 million is slated for O&M functions. For the construction component, Reclamation is allocating funding based on objective criteria, giving priority to projects nearest to completion and projects that serve Tribal needs.

For the Mni Wiconi Project, funds have been requested for design and construction activities on the Oglala Sioux and Rosebud Sioux Indian Reservations and the West River and Lyman-Jones (WRLJ) Rural Water Systems, as well as for the O&M of new and existing facilities on the Indian Reservations. For the Garrison Diversion Unit, funds have been requested for 1) grants to the State of North Dakota for municipal, rural, and industrial (MR&I) water projects; 2) development of Indian MR&I water and irrigation facilities; and 3) O&M of completed project facilities. We summarize the budget requests for these rural water supply projects in the table below.

Rural Water Supply Projects Budget Summary (\$ in thousands)

FY 2007 Actual	FY 2008 Enacted	FY 2009 Budget Request	Change from FY 2008 (+/-)
80,776	140,558	39,015	-101,543

To implement the Program, the Administration has also requested \$1 million to help non-Federal entities conduct appraisal investigations. The assistance is to be provided on a competitive basis, in accordance with the programmatic criteria defined in 43 CFR 404. At this funding level, Reclamation anticipates that it would be able to support the funding for up to five appraisal investigations at a maximum of \$200,000 each.

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