



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

INSPECTOR GENERAL'S STATEMENT SUMMARIZING THE MAJOR MANAGEMENT AND PERFORMANCE CHALLENGES FACING THE U.S. DEPARTMENT OF THE INTERIOR



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OCT 15 2012

Memorandum

To: Secretary Salazar

From: Mary L. Kendall
Deputy Inspector General

Subject: Inspector General's Statement Summarizing the Major Management and Performance Challenges Facing the U.S. Department of the Interior
Assignment No. ER-SP-MOI-0002-2012

In accordance with the Reports Consolidation Act of 2000, we are submitting what we determined are the most significant management and performance challenges facing the U.S. Department of the Interior (DOI). The challenges listed are for inclusion in DOI's "Agency Financial Report" for fiscal year 2012. These challenges reflect those that the Office of Inspector General (OIG) considers significant to departmental efforts to promote economy, efficiency, and effectiveness in its bureaus' management and operations.

We identified the top management and performance challenges as—

- energy management;
- climate change;
- water programs;
- responsibility to Indians and Insular Areas;
- *Cobell* and Indian land consolidation; and
- operational efficiencies.

We met with DOI officials to gain their perspective and together agreed on the challenge areas. These areas are important to DOI's mission, involve large expenditures, require continuous management improvements, or involve significant fiduciary relationships. We believe DOI would benefit by developing strategies to identify and address challenges in these areas, especially in those that span bureau and program lines.

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

Energy Management

The U.S. Department of the Interior (DOI) has jurisdiction over 1.76 billion acres of the Outer Continental Shelf (OCS), manages about one-fifth of the land area of the United States, and manages 700 million acres of subsurface minerals throughout the Nation. DOI lands and waters generate almost one-third of the Nation's domestic energy production, resulting in royalties of approximately \$11.2 billion in fiscal year (FY) 2011 and \$9.5 billion in FY 2010.

In an effort to manage this responsibility more effectively, DOI is undergoing major changes in the area of energy management, including the transition of the Bureau of Ocean Energy Management, Regulation and Enforcement (BOEMRE) into the Bureau of Ocean Energy Management (BOEM), managing development of OCS resources; the Bureau of Safety and Environmental Enforcement (BSEE), overseeing safety and environmental compliance; and the Office of Natural Resources Revenue (ONRR), managing the revenue collection function. In addition, the Bureau of Land Management (BLM) is expanding its wind and solar projects. Based on the number of wind-testing projects and wind and solar applications, wind projects may quadruple and solar projects may increase tenfold in the near future.

Offshore Drilling

DOI continues to face challenges with the management of domestically produced offshore oil and gas. To achieve higher levels of oil production in the Gulf of Mexico, the Gulf offshore oil and gas industry has extended farther offshore and deeper undersea. As the drilling environment becomes more complex, it exerts greater demands on equipment and pipelines. As a result, DOI oversight of the Gulf energy resources is more challenging, but some improvements have been made over the last year. BSEE has plans to stay focused on the recruitment, training, retention, and succession planning for crucial job series such as inspectors and engineers, as well as purchasing an improved infrared camera system to allow for additional field inspections and improved data collection.

According to a recent U.S. Government Accountability Office (GAO) audit, DOI has strengthened its oversight of the oil and gas industry's ability to respond to a subsea well blowout, and the industry has responded by improving well-containment capabilities and creating dedicated well-containment organizations. DOI is developing and documenting oversight processes, and, in some cases, has established timeframes for their completion. DOI has also conducted two unannounced spill drills that have included a subsea well-containment scenario and stated that it will incorporate this scenario into future spill drills. GAO noted, however, that DOI has not established a timeframe for incorporating a subsea

well-containment scenario into spill drills, and until it does so, there is limited assurance that operators drilling in the Gulf of Mexico or other areas will be prepared to respond effectively to a subsea well blowout.

Renewable Energy

Secretary Salazar established the production, development, and delivery of renewable energy as one of DOI's highest priorities by signing Secretarial Order 3285, "Renewable Energy Development by the Department of the Interior," on March 11, 2009. The order describes the need for strategic planning and a thoughtful, balanced approach to domestic resource development. It also noted DOI's role in coordinating and ensuring environmentally responsible renewable energy production and development.

Financial accountability and resource protection are integral to the renewable energy program. These include obligations to protect the Government's financial interests by timely and accurately collecting rental revenues and managing the bonding process, and to protect the country's natural resources by monitoring and enforcing grant requirements. Wind and solar projects can cover thousands of acres and therefore have the potential for biological, cultural, historical, paleontological, archaeological, and visual resource degradation.

BLM has taken aggressive action to increase its capacity to process renewable energy grants for rights-of-way (ROWs). One of our recent reviews revealed BLM had 29 of 31 authorized wind projects in operation and 5 of 9 authorized solar projects under construction. BLM's focus on increasing the number of renewable energy projects, however, has exposed some weaknesses in its management of these projects.

In June 2012, we reviewed BLM's renewable energy activities to assess the effectiveness of BLM's development and management of its renewable energy program. We found that BLM has opportunities to improve in developing and implementing renewable energy policies. For example, BLM issued guidance on wind-rental payments and wind-bonding requirements, but it did not establish a process to ensure timely implementation of the guidance, which resulted in a loss of \$1.2 million in rental revenues on 22 wind projects from 2009 through 2011 and insufficient bonding by \$8.5 million on 14 wind projects. In addition, BLM has not developed and implemented Bureauwide guidance on monitoring and inspecting wind and solar projects or for enforcing compliance with ROW requirements. We also found that BLM could potentially generate millions of dollars in additional revenues if it used a competitive bidding process.

We made nine recommendations to improve the long-term management of BLM's renewable energy program. Our recommendations represent opportunities for BLM to accurately collect rental revenues, manage the bonding process, monitor and ensure compliance with ROW requirements, and generate additional revenues by using a competitive bidding process for wind and solar ROWs.

Leasing Activities on Federal Lands

Office of Natural Resources Revenue

In January 2012, we evaluated ONRR's process for obtaining timely compliance from lessees and operators that violate lease terms, regulations, or Federal law during the leasing and production of energy and mineral resources on Federal and Indian lands. ONRR manages billions of dollars in royalties and other revenues due the Government from offshore and onshore mineral leasing activities. ONRR's Office of Enforcement ensures that companies comply with ONRR regulations and orders and assesses civil penalties when a person or company fails to correct violations cited in a Notice of Noncompliance by the established deadline. A penalty can be assessed of up to \$500 per violation per day starting 20 days after a Notice of Noncompliance is received. A knowing or willful violation can carry an immediate penalty of up to \$25,000 per violation per day.

We found that the Office of Enforcement obtained compliance with laws and regulations and negotiated reasonable settlements when companies disputed the royalty amounts. ONRR, however, has opportunities to improve its timeliness and efficiency in gaining compliance. For instance, ONRR did not always timely issue Notices of Noncompliance or assess civil penalties as established in its regulations. ONRR also allowed extensions for companies to achieve compliance instead of assessing civil penalties within authorized timeframes. In some cases, it took more than 1 year to obtain a company's compliance. In addition, ONRR did not prepare risk assessment summaries as required by its policies or fully justify and document the assessed civil penalties in its case files.

Improvements are also needed to ensure the Government's financial interests are protected during processing and management of settlements and appeals. We determined the Government lost approximately \$586,000 in interest when processing five settlement agreements. We issued seven recommendations to improve the efficiency of ONRR's enforcement process through focused management and coordination among ONRR divisions during the Notice of Noncompliance process, strengthen procedures to ensure that Notices of Noncompliance are issued promptly and civil penalties are assessed and increased when compliance is not timely, and improve guidance to fully document civil penalty assessments and negotiated settlements that would reduce the risk of lost interest during the settlement and appeal process.

In November 2011, ONRR requested a meeting with us to discuss how to comply with the civil penalty sharing provision of 30 U.S.C. §1736. This provision applies to ONRR's agreements to have States and tribes conduct royalty audits of Federal and Indian oil and gas lessees within their jurisdictions. It calls for ONRR to provide States and tribes 50 percent of any civil penalties that result from this audit work and to reduce by a corresponding amount the funding that ONRR gives the States or tribes to conduct the royalty audits.

Despite this requirement, State and tribal audit organizations have asked ONRR not to share the penalty money with their respective State or tribe because of their concerns that doing so would result in the elimination of the funding for their audit work. ONRR now owes State and tribal governments a total of \$441,000 in penalties dating back to May 2006.

We support ONRR's efforts to comply with § 1736 and understand its concerns about the impact a reduction in obligated funds could have on State and tribal audit programs. We made three recommendations to DOI to help ONRR address these concerns while correctly and effectively implementing the penalty sharing requirement of § 1736.

Bureau of Indian Affairs

The Bureau of Indian Affairs (BIA) reviews and approves oil and gas and other mineral leases on Indian lands, which represent billions of dollars in overall annual economic benefits significant to Indian Country. The Bureau, however, does this without a formal program backed by consistent administrative guidance and protocols. Our September 2012 review found opportunities for BIA to improve its oversight of oil and gas leases on Indian lands.

Insufficient guidance and oversight of oil and gas leases by DOI agencies have frustrated tribal officials and members, BIA employees, and the energy industry in Indian Country. In addition, Federal attempts to support tribal sovereignty through the use of tribal energy resource agreements under the Energy Policy Act of 2005 have been hampered by complex regulations, insufficient funding, and tribal concerns about assuming increased responsibility. Outdated and unofficial BIA guidance documents also increase the likelihood for inconsistent and ineffective decisions at the local level.

These problems contribute to a general preference by the industry to acquire oil and gas leases on non-Indian lands. As a result, oil and gas leasing in Indian Country is not achieving its full economic potential, and frustration with leasing inefficiencies has led Indian landowners to take legal action against BIA.

Although some issues with oil and gas leases on Indian lands do not have an easy solution, many opportunities exist for DOI to improve conditions for leasing. BIA personnel with oil and gas responsibilities comprise a dedicated workforce committed to advancing leases on Indian lands. We did find, however, that these same employees often do not have the necessary resources to provide efficient assistance.

We identified a need for focused, coordinated program management of Indian oil and gas development. As Indian oil and gas leases have doubled to almost 21,000 in the last 5 years, BIA continues to approve leases without formal policies and procedures to ensure consistency and transparency. BIA also inconsistently

applies National Environmental Policy Act requirements and has no long-term planning process.

We made nine recommendations to strengthen BIA's management of Indian oil and gas development and help DOI fulfill the intent of the Energy Policy Act of 2005.

Government Accountability Office's 2011 High-Risk List

DOI remains on GAO's 2011 High-Risk List for management of oil and gas on leased Federal lands and waters. In response to GAO's recommendations, DOI stated it has taken steps to improve consistent and timely updating of measurement regulations and policies, clarify jurisdictional authority over gas plants and pipelines, and provide appropriate and timely training for key measurement staff. BSEE developed DOI-wide guidance on measurement technologies and made a determination on DOI's authority over pipelines. BSEE also determined training needs for offshore staff to effectively carry out their inspection responsibilities and is making steady progress on recommendations concerning access to production data, implementation of mobile computing solutions, and clarification of guidance on standardized measurement methods and comingling.

GAO also recommended that DOI improve its venting and flaring data—information used to report the loss of natural gas during drilling operations—and address limitations in its regulations and guidance to reduce lost gas and greenhouse gas emissions and increase royalties. The recommendations suggest that DOI better use the Oil and Gas Operating Report and the Gulf-wide Offshore Activities Data Systems (GOADS) as well as venting and flaring technologies to more accurately assess opportunities to track and measure lost gas. DOI expects to fully implement these recommendations by 2015.

According to DOI, actions are currently underway to begin addressing these recommendations:

- BOEM has identified and reported to BSEE that 26 operators have not complied (in part or in total) with GOADS and 286 facilities have not submitted the requisite emissions data. In response, BSEE recently issued Incidents of Noncompliance warnings to each of the 26 operators, requiring submission of the data within an established timeframe (2 to 4 weeks) to avoid additional enforcement actions. BSEE and BOEM will then establish necessary querying and reporting tools to pull the Oil and Gas Operating Report information from the Technical Information Management System and identify the differences between the GOADS and Oil and Gas Operating Report data.
- In response to GAO's recommendation to consider the expanded use of infrared cameras where economical to improve reporting of

emission sources and to identify opportunities to minimize lost gas, BOEMRE implemented an infrared camera pilot program in March 2011 that is now overseen by BSEE in the Gulf of Mexico OCS Region. To date, BSEE has conducted 20 field inspections using its infrared camera system to collect relevant offshore production data. BSEE will be evaluating this data to identify areas where infrared detection technology or other work practices can be implemented to minimize lost gas and impacts on air quality. BSEE is in the process of purchasing an improved infrared camera system to allow for additional field inspections and improved data collection. With the new camera system in place, the pilot program may be expanded to capture data on a sample set of Pacific OCS Region structures as well as continued work in the Gulf of Mexico OCS Region.

DOI also stated that it has closed eight GAO high-risk recommendations related to the accuracy of company-reported data including 1) actions requiring companies to report additional data, 2) enhancements to ONRR's Web-based reporting system that prohibits company-reported errors, and 3) implementation of data mining processes enabling ONRR to monitor companies' adjustments to previously reported royalties and compare reported royalty and production volumes. Implementation of data mining processes has resulted in additional collections of approximately \$16 million through April 2012.

In response to the challenge of recruiting professionals to monitor DOI's energy functions, DOI officials stated that BOEM and BSEE have taken significant steps to ensure that they stay focused on the recruitment, training, retention, and succession planning for crucial job series such as inspectors and engineers. The funds provided to both BOEM and BSEE in FYs 2011 and 2012, and requested for FY 2013, are a crucial investment in new inspectors and engineers. Special salary rates for petroleum engineers, geologists, and geophysicists in the Gulf of Mexico Region authorized by the FY 2012 Consolidated Appropriations Act have been supportive in recruiting and retaining highly qualified individuals to fill these essential positions. BOEM and BSEE have implemented special salary-rate authority as of April 22, 2012. In addition, the bureaus have jointly contracted with an outside firm to analyze methods for recruiting, design materials in various media to promote employment, and support current recruitment activities such as career fairs and departmental visits. The BOEM and BSEE Web sites have updated employment opportunities pages designed to attract potential applicants. BOEM is participating in a pilot program to implement DOI's "Strategic Workforce Management Plan," which engages the Bureau in detailed workforce planning using a standardized model.

As of June 30, 2012, over 100 positions needed to be filled to fully support BSEE's safety and environmental enforcement functions. These positions will allow permitting engineers and inspectors to effectively evaluate and keep pace with the risks of offshore drilling and to promote the development of safety

cultures in offshore operators. Special salary rates will enhance the Government's competitiveness with private industry. As of March 31, 2012, BSEE had added 45 new inspector positions since the Deepwater Horizon incident. There has been a total increase of 13 engineers at BOEM and BSEE in the same timeframe.

Climate Change

The sheer scope of climate change, combined with the difficulty of identifying region-specific impacts and the need to develop response strategies, has continued to pose significant management challenges to DOI. The lands and resources managed by DOI face increasingly complex and widespread environmental challenges associated with climate change, such as destruction from invasive species, like the pine bark beetle; coastal erosion; and species moving into habitats they never previously inhabited. Some communities face increasing issues with water availability and drought due to climate-related changes in hydrology patterns, which affect farming and other land uses, while other urban and rural areas face issues with flooding.

DOI continues to face the challenge of developing relevant scientific information for land, water, and wildlife managers on a regional basis. DOI also must work across landscapes and watersheds with other Federal agencies, States, local and tribal governments, and private partners to formulate shared understandings and common strategies for land and resource managers to adapt to the challenges and ensure the resilience of our Nation's resources.

DOI's FY 2012 enacted budget for climate change was \$146 million, and the FY 2013 requested budget is approximately \$165 million. Money will be spent to support the completion of a network of Landscape Conservation Cooperatives and Climate Science Centers, as well as support individual bureau adaptation activities. DOI's priority goal for FYs 2012 and 2013 is to identify resources that are vulnerable to climate change and implement coordinated adaptation strategies to mitigate risks of changing climate for 50 percent of the Nation by September 30, 2013. DOI stated it has prepared a high-level vulnerability analysis that outlines how its mission-related activities might be affected and at risk from climate change and is currently drafting a climate change adaptation plan for FY 2013.

We are currently auditing select Landscape Conservation Cooperatives to look more closely at DOI's climate change initiative. The audit concentrates on the adherence to and appropriate application of internal controls for the grants and cooperative agreements issued through DOI's initiative and focuses on 6 of the 22 Cooperatives (27 percent), ranging from those in the early stages of development to the most mature.

In addition, in August 2011, we completed an evaluation that assessed the National Park Service's (NPS) Climate Friendly Parks Initiative (CFP)—established to provide resources and support for parks to measure and reduce

greenhouse gas emissions, plan ways to adapt to a changing climate, and educate the public about climate change—to determine whether CFP-member parks benefit from participation and whether this initiative helps NPS meet Federal environmental sustainability goals. We found that the initiative has created an environment of climate stewardship among member parks, although deficiencies in accountability and other areas may make it difficult to match CFP accomplishments to the requirements mandated by Executive Order 13514.

We found that accountability for following the initiative ends once a park develops an action plan and becomes a CFP-member park. NPS has no standard mechanism to measure, track, and report a park's progress and outcome or analyze which actions have been most beneficial.

Moreover, we found that the current greenhouse gas inventory tool used to identify activities that produce emissions and the amount of each activity's emissions does not meet Executive Order requirements. We were concerned that data quality was at risk due to the manner in which greenhouse gas inventory data were collected, verified or validated, and updated at CFP-member parks—potentially reducing accurate reporting information required by the newly issued Council on Environmental Quality guidance. We also noted that to achieve sustainability, CFP-member parks should consider the initiative's potential to integrate with other environmental programs and develop a clear long-term integration plan.

We made four recommendations to improve accountability, data quality and assurance, and sustainability of CFP consistent with a changing Federal environment and new mandates.

In response to our recommendations, NPS stated it was working on a data streamlining and consolidation initiative that will improve its ability to track mitigation actions identified by CFP-member parks from conception through implementation. NPS also stated it was preparing a greenhouse gas inventory management plan, which will describe quality assurance, quality control, and verification procedures for the entire NPS greenhouse gas inventory and updating its inventory tool to align with Federal greenhouse gas guidance, as well as to increase its ability to automatically roll data up to the headquarters level. Furthermore, NPS plans to develop a long-term plan for the CFP initiative that will take into consideration its potential to integrate with other environmental programs.

Water Programs

As the largest supplier and manager of water in the 17 western States, DOI delivers irrigation to 31 million people, 1 out of every 5 western farmers, and 10 million acres of farmland. Some of the challenges associated with this responsibility include an aging water infrastructure, rapid population growth, depletion of groundwater resources, impaired water quality associated with

particular land uses, and land covers.¹ Water needed for human and environmental uses, as well as climate variability and change, all play a role in determining the amount of fresh water available at any given place and time.

Prolonged drought continues to increase water challenges across the Nation, particularly in the West and Southeast. Drought, in addition to increased demands, exacerbates the challenges facing traditional water management approaches.

Adding complexity to these challenges is the governance of fresh water, which involves numerous jurisdictions and a complex array of laws and ownership. DOI must balance limited water resources between multiple uses, habitat restoration, and responsibilities under the Endangered Species Act.

Since the start of FY 2010, the Bureau of Reclamation (USBR) has pursued a priority goal for enabling water conservation. USBR has thus far approved water conservation projects with a collective capacity of 480,000 acre-feet of water when completed. According to DOI, USBR has met all of the quarterly milestones identified for the third quarter of FY 2012, leading to tentative selections of WaterSMART Water and Energy Efficiency Grant projects, Title XVI projects, California Bay-Delta Authority projects, and proposals for the Water Conservation Field Services Program. In addition, on April 16, 2012, funding was awarded for the first phase of the Yakima River Basin Water Enhancement Project, completing a second-quarter milestone.

The amount of water conservation that can be reported is heavily dependent on the projects proposed from year to year. The costs and capacities of projects vary depending on several factors, such as site conditions and the size and types of projects and materials required, which results in different amounts of capacity generated for the same amount of funding.

DOI officials stated that in FY 2012 USBR began funding a small number of multiyear WaterSMART grant projects in 1-year phases to determine whether larger, phased projects would result in additional water conservation. USBR has also started requesting more detailed support for applicants' water conservation estimates so that those estimates can be evaluated as effectively as possible. DOI also stated that USBR increased outreach to stakeholders to improve their understanding of the opportunities, requirements, and goals of water conservation programs.

We are currently reviewing DOI's water programs by evaluating the repayment status of USBR's Central Valley Project to determine if the Federal Government will recover its initial investments in the project by the legally established deadline of 2030.

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

Responsibility to Indians and Insular Areas

Indian Affairs

Responsibility to American Indians is consistently a top management challenge for DOI. DOI works with 566 Federally recognized Indian tribes, has trust responsibilities for 112 million surface and subsurface acres of land belonging to Indian tribes and individuals, and provides education services to approximately 41,000 Indian children in 183 schools and dormitories. Some of the Indian Country programs managed by DOI include Indian Trust for Lands and Funds, Indian Education, Self-Determination, Energy and Economic Development, Indian Gaming, and Justice Services.

Recent OIG reviews identified needed improvements in bridge safety programs, accountability efforts over its contracting program with the National Native American Law Enforcement Association (NNALEA), and internal controls in the Office of Trust Fund Investments.

Bridge Safety Programs

In our April 2012 review of the accuracy of data submitted to the Federal Highway Administration (FHWA) for the National Bridge Inventory, we found that BIA complied with requirements to submit its data to the FHWA for inclusion in the Inventory. BIA, however, demonstrated issues with the completeness and accuracy of the submitted data. Record-keeping errors in BIA's current database caused structures not to be scheduled for inspection and thus not meet the FHWA's 2-year inspection requirement. We also identified contracting issues needing resolution for BIA to comply with Federal requirements and to ensure the validity of its bridge inspections. Compliance with the requirements provides the greatest assurance that BIA's bridges are as safe as possible for public use.

NNALEA Contract

In 2009, we evaluated staffing needs for BIA's detention facilities. At that time, we learned that BIA awarded a \$1 million contract to NNALEA—a 501 (c) nonprofit organization—to recruit needed law enforcement officers. Our review identified deficiencies in both the award process and contract terms. We issued a management advisory recommending that BIA terminate the contract.

Based on that advisory and advice from the Office of the Solicitor, BIA terminated the contract on February 25, 2010. At the time of termination, the contract had been in place for 8 months, and BIA paid NNALEA nearly the entire contract value of \$1 million. We conducted this evaluation to determine if the Office of Justice Services received the intended benefit.

Our May 2012 evaluation determined that the Office of Justice Services received no benefit from the award of a recruitment services contract to NNALEA. We found that BIA awarded a defective contract, disenfranchised potential job applicants, and wasted nearly \$1 million of Federal funds. This occurred because

BIA violated the Federal Acquisition Regulation and DOI policy and failed to use its Office of Human Capital Management to develop required contract terms, resulting in a poorly written contract—developed in conjunction with NNALEA—that contained significant contract defects and allowed NNALEA to take advantage of the Office of Justice Services to produce unusable contract deliverables.

Office of Trust Fund Investments

In October 2011, at DOI's request, we evaluated six internal control weaknesses asserted to exist in the Office of Trust Fund Investments (OTFI), a component of the Office of Special Trustee for American Indians (OST). The principal deputy special trustee (PDST) alleged these weaknesses in a draft memorandum titled "FY 2011 Annual Assurance Statement on Internal Controls." The PDST's assertion that internal controls over OTFI were insufficient was based on two investment errors that occurred during FY 2011. Although both mistakes were caught, the PDST qualified the draft assurance statement due to his concerns about the controls. When we examined the related internal controls, however, we were unable to validate the PDST's assertions.

BIA Investigations

Approximately 30 percent of OIG investigations involve Indian Country. In July 2009, we initiated an investigation into allegations of improper disbursements by Federal and tribal employees of the Fort Peck Credit Program. We determined that these employees approved and received excessive loans and direct payments from the Credit Program without authorization or proper documentation. The investigation revealed that all six employees of the Credit Program routinely issued to themselves and to their family members disbursements they were not entitled to receive from Credit Program bank accounts. The employees also confessed to intentionally altering Credit Program records in September 2007 to conceal the fraud scheme from a Federal review team.

In January 2010, a Federal grand jury in Billings, MT, issued the first of a series of criminal indictments alleging a 10-year criminal conspiracy operating between 1999 and 2009 to embezzle more than \$1 million from the Credit Program by its six employees. All six employees pleaded guilty to various felony charges, including conspiracy and obstruction of justice, and received prison terms ranging from 24 to 45 months. We expanded our investigation to identify other individuals who assisted in the fraud scheme. To date, four more people have been convicted for their roles in stealing tribal funds from the Credit Program. Overall, 10 people have been convicted for their roles in the fraud scheme. The U.S. District Court for the District of Montana has ordered prison sentences totaling 278 months and restitution in the amount of \$832,303.

Insular Areas

DOI also has responsibilities to seven Insular Areas, including four territories and three sovereign island nations. DOI has administrative responsibility for

coordinating Federal policy in the territories of American Samoa, the Commonwealth of the Northern Mariana Islands, Guam, and the U.S. Virgin Islands. For the three sovereign nations—the Federated States of Micronesia, the Republic of the Marshall Islands, and the Republic of Palau—DOI administers and oversees Federal assistance provided under the Compacts of Free Association. DOI coordinates with the State Department and other Federal agencies to promote economic development and budgetary self-reliance in these island territories.

DOI manages its responsibility to the insular areas primarily through the Office of Insular Affairs (OIA). OIA works to improve the financial management practices of the Insular Area governments and to increase economic development opportunities through financial and technical assistance. The FY 2012 budget for the Insular Areas includes \$87.9 million for capital improvements, operation, and technical assistance to the four U.S. territories; \$234.6 million for the programs of the three nations under the Compacts of Free Association; and \$248 million in tax-related payments to the U.S. Virgin Islands and Guam. OIA annually funds the Insular Area government programs that focus on education, health care, infrastructure improvement, public sector capacity building, private sector development, and the environment.

Infrastructure Upgrades and Service Capacity

The transfer of thousands of U.S. military personnel and their dependents from Okinawa, Japan to Guam will require significant resources and infrastructure upgrades to support the increased population and impact to island residents. The U.S. Department of Defense recently announced that the number of troops to be relocated will be reduced from 8,500 to about 4,700. The timeline for the relocation has been pushed back from the planned 2014 target date to an undetermined date. In addition, Guam needs to prepare for the temporary hosting of significant numbers of contractor personnel who will work on the infrastructure upgrades. The uncertainties of the target relocation date and the temporary nature of hosting the contractor workers present additional challenges to the already difficult plans to prepare for the increased military population, but they also present an economic opportunity.

To assist in evaluating the island's preparation for the military buildup, we examined two functions that serve the citizens of Guam—Guam Power Authority (GPA) and Guam public safety. We reviewed GPA's ability to account properly for the maintenance and condition of key infrastructure components and assessed efforts to expand service capacity, increase reliability, assure continuity of service for critical facilities, prepare for contingencies, and incorporate alternative energy sources. Prior to the review, GPA issued bonds to fund a variety of generation, transmission, and distribution improvement projects to address existing concerns and also identified military-related improvement projects to help increase capacity and improve reliability. We found, however, that improvements are still needed to increase reliability, maintain key infrastructure components, and incorporate

renewable energy into the system. In addition, uncertainties about the relocation date and funding sources could place additional strain on GPA and its rate-paying customers.

We also reviewed the ability of Guam's Police Department, Fire Department, and Homeland Security to meet the safety and response needs of Guam's citizens and prepare for the increase in population. We found that the police and fire departments cannot meet current public safety needs and are ill prepared to meet the even greater needs of a larger population. Both departments must address shortcomings in staffing, infrastructure, vehicles, maintenance, and training. While Guam's Homeland Security is currently 100 percent Federally funded and meets Guam's current needs, it is anticipated that Federal funding will decrease, and unless supplemented by local funding, the level of service will diminish.

Detecting Fraud, Waste, and Mismanagement in the Insular Areas

Our findings in the Insular Area governments have not changed significantly from previous years. We continue to find that many of the Insular Area governments lack the resources necessary to adequately prevent and detect fraud, waste, and mismanagement involving Federally funded programs. The Offices of the Public Auditor (OPAs) and local OIGs for these governments continue to operate under insufficient budgets; they therefore have difficulty competing for qualified audit staff and are often unable to provide required training.

A number of our investigations revealed that weak Insular Area government procurement systems coupled with the OPAs' insufficient resources contributed to the vulnerabilities of procurement fraud. These vulnerabilities were exacerbated by a number of instances of integrity weakness in local government personnel. We observed that OIA has increased its oversight of the programs it supports, but a significant need remains for closer monitoring of these programs.

We continue to expand both the capacity of the OPAs and local OIGs, as well as their efforts toward strong financial and program accountability in the Insular Areas. Supported by OIA, we offer a training program to OPAs by offering OPA staff opportunities to work in our various regional offices for on-the-job training experience. This training program is designed to provide greater self-sufficiency and to increase capacity for OPAs, enabling them to monitor the expenditures of Federal and local funds to the mutual benefit of all parties.

New this year, we expanded our capacity-building initiatives by providing classroom training to the Republic of the Marshall Islands Office of the Auditor-General on accounting and auditing. Furthermore, we complemented the classroom training with technical assistance on an audit being conducted by the Office of the Auditor-General. We seek to offer this program to other Insular Area governments and hope that our capacity-building and resource-leveraging efforts help provide the skills necessary to oversee the financial and program resources and activities of the Insular Area governments.

Insular Area Resources

Recent reviews have also focused on ongoing challenges in the management of Insular Area resources. We evaluated the U.S. Virgin Islands' retirement system; the administrative functions of the U.S. Virgin Islands' Legislature; and Juan F. Luis Hospital and Medical Center, the Virgin Islands' only hospital on the island of St. Croix.

Our September 2011 evaluation of the Government of the Virgin Islands Retirement System identified several factors contributing to an unfunded liability of over \$1.4 billion. This liability, which has been growing for years, represents a gap between the amount of retirees' future annuities and the projected value of Retirement System assets.

The contributing factors include employee/employer contribution levels, the ratio of active to retired members, and early-retirement legislative mandates. As a result, the long-term sustainability of the Retirement System, which comprises just over 18,000 members, is critically at risk. At the time of our review, the most recent actuarial Retirement System evaluation, completed in 2006, projected the default of the Retirement System in just 14 to 19 years and a corresponding cessation of benefits payments.

We also found that the Retirement System does not always maintain accurate member information, which could lead to employees retiring earlier or later than authorized. The Retirement System could also find itself paying incorrect annuities.

We offered four recommendations, and although the Governor of the Virgin Islands responded to our concerns with equal awareness of the situation and an apparent plan to rectify it, the severity of the situation is such that we are seeking additional support from OIA to monitor actions taken in response to our recommendations.

In addition, our November 2011 joint audit (with the Office of the Virgin Islands Inspector General) of the administrative functions of the Virgin Islands' Legislature (Legislature), we found that the Legislature is not using sound business practices in its stewardship of public funds and resources, resulting in fraud, waste, and mismanagement. The audit identified several weaknesses that led to improper use of allotted funds for such things as cash advances, employee bonuses, procurement of goods and services, and security of sensitive equipment.

We identified many highly questionable practices and deficiencies during the audit, resulting from an absence of formal policy and procedures as well as weak internal controls. The unregulated administration of public funds has led to a culture with almost no accountability or transparency.

Finally, our September 2012 evaluation of the Juan F. Luis Hospital and Medical Center revealed that the hospital's historical financial management issues have reached a critical juncture. Significant changes need to occur if the hospital is to continue to operate for the benefit of Virgin Island citizens and visitors. The hospital needs to make some immediate decisions regarding how best to balance its debt load with its revenue streams to preserve its future as St. Croix's source of health care.

OIA Economic and Financial Data

OIA is working to integrate territorial gross domestic products (GDPs) into the National GDP accounts and assist the territories in upgrading their capacities to collect, analyze, and disseminate economic and financial data. According to DOI, OIA engaged the Bureau of Economic Analysis, the Federal agency that produces GDP data for the United States, to produce GDP statistics for the territories in the same manner it does for the United States. Tracking GDP data also enables policy makers at all levels of government to look at the economic situations of the territories objectively and take appropriate actions. OIA has assisted the territories in developing additional measures of economic performance:

- GDP by industry statistics show how much each industry contributed to the overall inflation rate for the economy.
- Compensation of employees by industry measures track wage and salary trends for key industries, or sectors, within the territorial economies.
- Detailed consumer spending measures show how household spending patterns have changed over time and how the composition of products, or commodities, purchased by households has changed.

GDP statistics are not specifically produced for tracking Federal assistance. They make it possible, though, to measure the overall economic health of the territories and help territorial leaders focus on policies that would improve their economies. In addition, the statistics will help OIA track the impact of its assistance on economic conditions.

OIG will review these programs as necessary to ensure improvement, but the need remains to address the historical issues relating to preventing and detecting fraud, waste, and mismanagement involving Government-funded programs.

Cobell and Indian Land Consolidation

In December 2009, Secretary Salazar announced the settlement of the long-running and highly contentious *Cobell* class-action lawsuit regarding the U.S. Government's trust management and account of over 300,000 individual American Indian trust accounts. Congress approved the \$3.4 billion *Cobell* settlement on November 30, 2010 (Claims Resolution Act of 2010). President Obama signed the settlement on December 8, 2010, and the U.S. District Court approved the final settlement following a fairness hearing on June 20, 2011. The

settlement decision was subsequently appealed. On May 22, 2012, the U.S. Court of Appeals affirmed the U.S. District Court's decision to approve the settlement. In August 2012, the U.S. District Court's decision was appealed to the U.S. Supreme Court.

To address land fractionation, which has been an ongoing challenge for DOI, the settlement established a \$1.9 billion fund for the voluntary buyback and consolidation of fractionated land interests. Because wills were not widely used by American Indian landowners, smaller and smaller land interests descended to successive generations, thereby fractionating the land. Land fractionation limits tribes' productive use of land and creates jurisdictional issues. It also requires that BIA and OST devote a significant portion of their budgets to administer the fractionated land interests. The land consolidation program will provide individual American Indians with an opportunity to obtain cash payments for the sale of their undivided land interests and provide tribal communities with the economic benefit resulting from better use of the land.

We have issued one evaluation and three advisories since we began monitoring DOI's planning efforts in FY 2010. These reviews disclosed the need for better communication and coordination among the many DOI offices and Indian tribes that will be involved in land-consolidation efforts. Two of the advisories focused on appraisal tools needed to help the land-consolidation program succeed, such as a mass appraisal system and a centralized tracking system at the Office of Appraisal Services within OST. The most recent advisory highlighted the need for DOI and tribes to work together to solve the long-standing problem of Indian land fractionation.

As part of its planning for Indian land consolidation, DOI is using input from Indian Country to develop a comprehensive plan to reduce fractionation. The many DOI offices that will be involved in land consolidation efforts have also done significant work to prepare for the planning and implementation of the eventual Indian land-consolidation project. During this time, we continue to monitor DOI's planning efforts and evaluate the accountability of funding that will be provided to DOI in the settlement.

Operational Efficiencies

DOI, like other Federal agencies, faces considerable economic challenges in anticipation of flat budgets or budget cuts. Ceilings on total discretionary spending and calls for deficit reduction increase the pressure on DOI to manage fiscal resources effectively. In addition, the Accountable Government Initiative has called for significant change in the way Government does business. We deploy our resources to promote accountability in the management of DOI's fiscal resources, and to examine DOI's contracting and grant practices to avoid waste and improper payments.

In FY 2012, our audit, evaluation, and investigation work supported the—

- identification of more than \$1 million in questioned or unsupported costs claimed by DOI contractors. The largest portions of these costs involve work that was performed and billed without prior authorization, charges related to subcontract costs that were not properly negotiated, and work that was not within the scope of the contract to which the costs are applied. To date, DOI has taken action on these findings and avoided payment of \$310,000;
- identification of deficiencies in contract administration that, if corrected, could prevent or reduce the amount of questioned costs in future audits;
- identification of revenue enhancement opportunities on the order of \$100 million annually through improved management of the rights-of-way that cross public lands; and
- conviction of a former DOI employee for embezzlement of \$731,000 and subsequent evaluation of check-writing controls to promote accountability throughout DOI.

Program Planning

We conducted an evaluation of five DOI programs to examine program planning processes and determine which program planning models lead to success. We asked bureaus to identify successful programs and expand on their planning processes. By identifying successful planning processes, we provided useful information to DOI and its bureaus in developing new programs or revising existing programs. We evaluated programs from the Office of Surface Mining, U.S. Fish and Wildlife Service (FWS), U.S. Geological Survey, BIA, and USBR.

While effective planning does not guarantee a program's success, an effective planning process helps justify program budgets, determines program priorities, defines program goals, and provides a means for evaluating program accomplishments.

Coastal Impact Assistance Program

On October 1, 2011, FWS assumed responsibility from BOEMRE for the \$1 billion Coastal Impact Assistance Program (CIAP). CIAP distributes funds to the OCS oil and gas producing States and coastal political subdivisions for the conservation, protection, and preservation of coastal areas, including wetlands.

BOEMRE implemented and oversaw this program until FY 2012, when FWS assumed responsibility. To ensure minimal impact on recipients, DOI had to provide a seamless transfer of approximately \$730 million in undistributed funds and approximately 350 open grants from BOEMRE to FWS. FWS's migration to DOI's Financial and Business Management System and the U.S. Department of the Treasury's Automatic Standard Application for Payments also further complicated the transfer. FWS, however, was successful in the transfer of grant files and grant balances. New challenges FWS faces include—

- monitoring grantees new to receiving grant monies directly from FWS; and
- properly analyzing grantee risk while minimizing delay in issuing grants.

Administrative Functions and Cost Savings

According to the FY 2013 budget submission, DOI will achieve additional administrative efficiencies that result in cumulative savings of \$207 million from 2010 to 2013. These reductions are being implemented throughout DOI and result from changes in how DOI manages travel, employee relocation, acquisition of supplies and printing services, and the use of advisory services. The proposed savings in administrative functions will not have an impact on programmatic performance, and to the greatest extent possible, savings will be redirected into priority programmatic areas.

DOI's 2013 budget reflects a freeze on Federal salaries for 2012 and a 0.5 percent pay increase in 2013. The budget fully funds fixed costs for the civilian pay increase, anticipated changes in Federal contributions to health benefits, rent increases, changes in workers' and unemployment compensation costs, programs financed through the Working Capital Fund, and specific contract requirements for section 638 agreements—which allow Indian tribes and tribal organizations to acquire increased control over the management of Federal programs that impact their members, resources, and governments.

To meet the objectives of the Office of Management and Budget's "Campaign to Cut Waste," DOI stated that it has taken steps to cut its real property portfolio; buy smarter through strategic sourcing; and realize information technology (IT) savings by closely managing commodity IT purchases, performing TechStats—evidence-based accountability review of an IT investment—to identify underperforming IT projects, and consolidating data centers. DOI also stated that it is taking critical steps to eliminate unnecessary spending by cutting administrative spending and reducing travel and conference-related costs. In addition, DOI said that efforts are currently underway to eliminate duplicative programs and ensure that functions are optimally structured.

DOI can realize cost savings by using alternatives to travel for long-distance meetings such as teleconferencing; video teleconferencing (VTC); and shared Web sites or Web conferencing, which enable real-time communication and document sharing. Our December 2011 report found that by increasing the use of VTC, DOI could experience significant savings in travel costs. Using DOI's FY 2009 travel expenditures, we calculated that with only a 10 percent increase in VTC use, DOI could potentially save \$4.2 million on travel. An increase of 20 percent could save as much as \$8.5 million.

In addition to savings in travel costs, increased use of VTC could advance DOI's goal of reducing greenhouse gas emissions. Reducing travel between 10 and 20

percent will contribute to DOI's goals under its "Strategic Sustainability Performance Plan" by eliminating an estimated 298 to 596 tons of carbon dioxide emissions, equivalent to the emissions from 31,000 to 62,000 gallons of gasoline.

Many opportunities also exist for improvement in operational efficiencies. We recognize DOI's active approach to address the Accountable Government Initiative, yet challenges remain. We will continue to focus staff resources where they will have the most impact on preventing and detecting fraud, waste, and mismanagement, as well as identifying additional opportunities to enhance program revenues where appropriate.

Conclusion

Working with DOI officials, we identified energy management, climate change, water programs, responsibility to Indians and Insular Areas, *Cobell* and Indian land consolidation, and operational efficiencies as the most significant management and performance challenges facing DOI. We are committed to focus our resources on the issues related to these challenges to ensure greater accountability, promote efficiency and economy in operations, and provide effective oversight of the activities that comprise DOI's mission. This report should assist DOI to identify and develop strategies and implement policies and procedures necessary to sustain improvements in an environment of increasing complexity and limited resources.

Report Fraud, Waste, and Mismanagement



Fraud, waste, and mismanagement in government concern everyone: Office of Inspector General staff, Departmental employees, and the general public. We actively solicit allegations of any inefficient and wasteful practices, fraud, and mismanagement related to Departmental or Insular Area programs and operations. You can report allegations to us in several ways.



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