United States Department of the Interior

OFFICE OF INSPECTOR GENERAL
Washington, DC 20240

OCT 14 2009

Memorandum

To: Secretary Salazar

From: Mary L. Kendall
Acting Inspector General

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

In accordance with the Reports Consolidation Act of 2000, we are submitting what we have determined to be the most significant management and performance challenges facing the Department of the Interior (Department). The challenges listed are for inclusion in the Department's Performance and Accountability Report for fiscal year 2009. They reflect what the Office of Inspector General considers significant impediments to the Department's efforts to promote economy, efficiency, and effectiveness in its bureaus' management and operations.

The top challenges are:

- Financial Management
- Information Technology Security
- Health, Safety, and Maintenance
- Responsibility to Indians and Insular Areas
- Resource Protection and Restoration
- Revenue Collections
- Acquisition Management

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

Attachment

Attachment

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

1. Financial Management

The Department of the Interior (Department) manages an annual appropriation of $16.7 billion, revenues of $12 to $24 billion annually from onshore and offshore mineral leases, and $3.3 billion in funds held in trust. By contract, the independent public accounting firm KPMG LLP completes the annual financial audit of the Department. KPMG rendered an unqualified opinion on the consolidated financial statements of the Department for fiscal years (FYs) 2007 and 2008, although the Department still had 205 audit findings, 6 of which were classified as significant deficiencies in internal controls over financial reporting. One of the six, an understatement of budgetary resources by over $457 million, was considered a material weakness. In addition, KPMG identified two instances in which the Department did not comply with laws and regulations, specifically the Single Audit Act Amendments of 1996 and the Federal Financial Management Improvement Act of 1996.

The implementation of the Financial and Business Management System (FBMS) continues to be a management challenge for the Department. The number and variety of programs across the Department make budget and performance integration particularly difficult.

The number of audit findings related to FBMS continues to increase. One of the FY 2009 findings relates to the implementation of FBMS at the Bureau of Land Management (BLM), the largest bureau to implement the System. Due to the implementation of FBMS, the transactions entered into BLM's Collection and Billing System were not interfacing with the general ledger for the first six months of the year. In addition, once the systems began to interface, BLM did not perform reconciliation between the two systems. Due to these problems, KPMG's interim testing of revenue was delayed for about a month.

2. Information Technology Security

The Department's annual budget for information technology (IT) is approximately $1 billion, which funds a significant existing infrastructure of networks, hardware, and software programs. The Department's systems and data are used to manage its business processes, provide the public information on national parks, grazing rights permits, and royalty collections, among other things; and to monitor wildland fires, earthquakes, tsunamis, and volcanic activity.

The Department continues to employ a decentralized and fragmented IT governance structure that fails to comply fully with legislation and federal policy.

Bureau and office resistance to Departmental guidance and weak Departmental oversight have left the Department struggling to meet information security and privacy mandates. The inadequate oversight does not result from a lack of technology — oversight is inadequate even when appropriate technology exists. For example, we found that the Department failed to perform adequate information security inspections throughout the entire fiscal year.

Although the Department continues to provide additional resources for information security, mandatory federal guidance goes unimplemented. The Federal Information Security Management Act of 2002 (FISMA) requires the Secretary of the Interior to delegate to the Department Chief Information Officer (CIO) "the authority to ensure compliance with the requirements imposed on the agency under this subchapter." However, we routinely found guidance issued by the Department CIO was not implemented.

- ✓ In May 2005, the Department CIO directed all bureaus and offices to transition their network management to the Department by December 31, 2005. Furthermore, in November 2006, the Department CIO directed that the Department procure all network services and equipment. In FY 2009, however, we found hundreds of network circuits still operating outside the purview of the Department.

- ✓ In August 2006, the Department CIO directed all bureaus and offices to transition to the Department's remote access system by January 31, 2007. However, in FY 2009, we found many bureaus still operating their own, separate, remote access systems.

Further, our evaluations showed that the Department has not uniformly implemented security controls to protect its networks and data. Many chief information security officers fail to meet minimum qualifications, as defined by Departmental policy, and many personnel remain under-qualified.

FISMA requires the Department's CIO to "oversee personnel with significant responsibilities for information security." In FY 2008, we warned that "the Department has seemingly delegated performance of significant information security duties to personnel who are likely ill-prepared to perform the task." In FY 2009, we again found numerous examples of unqualified people performing significant information security duties.

During 2009, we reviewed progress in implementing recommendations we made in 2007 to improve information security. Our reviews revealed that bureaus and offices had exaggerated many of the progress updates they provided to the Department. Moreover, we found the Department did not verify the bureau and office claims of progress or resolution. Further, BLM and the United States Geological Survey (USGS) have made little progress, while the National Business Center has made good progress in this regard. In all, nearly one-third of our FY 2007 recommendations remain unresolved. Neither the Department nor bureaus offered an explanation for not addressing the unresolved recommendations.

3. Health, Safety, and Maintenance

Each year, over 500 million people visit the Department's national parks and monuments, wildlife refuges, and recreational sites. The Department is responsible to serve these visitors and to maintain and protect thousands of facilities and millions of acres of property. In some cases, the isolation of some Department lands and facilities presents unique vulnerabilities and makes safety and maintenance challenging. Our work has documented decades of maintenance, health, and safety issues that place the Department's employees and the public at risk.

We issued a flash report this year discussing U.S. Fish and Wildlife Service (FWS) use of eight Department-owned aircraft. For over a decade, the Department has allowed these aircraft to be flown over maximum takeoff gross weight according to Federal Aviation Administration regulations and manufacturer specifications. FWS has acknowledged the risks, and has taken steps to begin to purchase new replacement aircraft.

The Department is responsible for roads, bridges, schools, office buildings, irrigation systems, and reservoirs. Repair and maintenance of some of these have long been postponed due to budgetary constraints. The Department's FY 2009 estimate to correct deferred maintenance, the Department's term for unfunded repair and maintenance needs, ranges from $13.4 billion to $19.7 billion. Deterioration of the assets due to uncorrected deferred maintenance poses health and safety hazards.

In addition, land managed by the Department has posed hazards to the public. Many abandoned mines, primarily in western states, pose dangerous safety and environmental hazards. Growth of the population and use of off-road vehicles in the West require a workable approach to mitigate numerous public threats posed by abandoned mines. Last year, the Office of Inspector General (OIG) reported grave concerns to the Department regarding its failure to act to mitigate the hazards posed by abandoned mines on federal lands. As stated in our July 2008 report, "Mines located primarily in the Western States of California, Arizona, and Nevada have dangerously dilapidated structures, serious environmental hazards, and gaping cavities — some capable of swallowing an entire vehicle." Our recent report on Mining Claimant Administration addressed how BLM might be more effective in working with claim holders or claimants to mitigate the most serious physical safety hazards. BLM is missing opportunities to enhance public safety by neither coordinating with claimants nor actively seeking claimant assistance in mitigating the hazards.

4. Responsibility to Indians and Insular Areas

Management problems persist in programs for Indians and island communities. The Department manages relationships with 562 federally recognized Indian tribes (1.6 million American Indian members), has trust responsibilities for 52.7 million acres of land belonging to Indian tribes and individuals, and provides education services to approximately 46,000 Indian children in 184 schools and dormitories. The Department also has various responsibilities to seven island communities — four territories and three sovereign island nations.

Responsibility to American Indians has consistently been a top management challenge for the Department. Major Indian Country programs managed by the Department include Indian Trust for Lands and Funds; Indian Education; Self-Determination; Energy and Economic Development; Indian Gaming; and Justice Services. Approximately 30 percent of OIG investigations involve Indian Country issues.

The myriad problems we have uncovered portray programs that are sorely understaffed, underfunded, and poorly managed. OIG has identified gross program inefficiencies along with criminal conduct at many levels of Indian Affairs. The greatest obstacle to reform, however, is the leadership vacuum that has existed for almost a decade. Assistant Secretaries have typically served for only 6 to 18 months, which has resulted in constantly shifting priorities and messages to Bureau employees and the American Indians they serve.

In terms of the Insular Areas, the Department seeks to increase federal responsiveness to their unique needs through the Office of Insular Affairs (OIA). OIA works to improve the financial management practices of Insular Area governments and to increase economic development opportunities through financial and technical assistance. The budget for Insular Areas includes over $300 million in payments to the Republic of Palau, the Federated States of Micronesia, and the Republic of the Marshall Islands, as well as an additional $113 million in payments to the Territories of Guam and the U.S. Virgin Islands. Overall, OIA annually funds Insular Area government programs focusing on education, health care, infrastructure improvement, public sector capacity building, private sector development, and the environment.

Unfortunately, the people of the Insular Areas are ill-served by their local governments and the OIA. Over a number of years, our reviews have consistently pointed to problems that might have been mitigated had OIA provided adequate oversight or taken a more active approach in assisting Insular Area governments. Numerous reviews have pointed to ongoing management and financial problems in the Insular Areas and OIA. We identified problems in the areas of grants management, water and wastewater systems, noncompetitive procurements, tax collection, and property accountability and management. In fact, in FY 2008, our review of island-wide health care concluded that health care issues were at the crossroads of a total breakdown.

As a result, we are currently evaluating OIA program management to determine if OIA is able to effectively assist the Insular Area governments in gaining economic self-sufficiency and improving quality of life for their people. Initial results suggest that OIA has been ineffective in achieving positive outcomes from federal grants provided to the Insular Areas; a lack of mission clarity has hampered OIA performance.

5. Resource Protection and Restoration

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

Experts generally view collaborative resource management that involves public and private stakeholders in natural resource decisions as an effective approach for managing natural resources. Several benefits can result from using collaborative resource management, including reduced conflict and litigation and improved natural resource conditions, according to the experts. The Government Accountability Office (GAO) reported that federal land and resource management agencies – BLM, FWS, National Park Service, and the Department of Agriculture's

U. S. Forest Service – face key challenges to participating in collaborative resource management efforts. For example, the agencies face challenges in determining whether to participate in a collaborative effort, measuring participation and monitoring results, and sharing agency and group experiences. As a part of the interagency Cooperative Conservation initiative led by the Council on Environmental Quality, the federal government has made progress in addressing these challenges. Yet, additional opportunities exist to develop and disseminate tools, examples, and guidance that further address the challenges, as well as to better structure and direct the initiative to achieve the vision of Cooperative Conservation, which involves a number of actions by multiple agencies over the long term. Failure to pursue such opportunities and to create a long-term plan to achieve the vision may limit the effectiveness of the federal government's initiative and collaborative efforts.

Interior's ability to mitigate the threat of wildfire and its associated costs is of concern. The Department recently transferred the management of wildland fires from BLM to the Department Office of Wildland Fire Coordination in an effort to focus attention on controlling the threat of wildland fires and its escalating costs; congressional interest is at an all time high. As recently as March 2009, the GAO stated that wildfire problems facing the Nation continue to grow. GAO repeated its recommendations addressed to the Department and other fire management agencies to 1) develop a cohesive strategy identifying options and associated funding to reduce potentially hazardous vegetation and address wildland fire problems; 2) establish clear goals and a strategy to help contain wildland fire costs; 3) continue to improve their processes for allocation fuel reduction funds and selection fuel reduction projects; and 4) take steps to improve its use of a new interagency budgeting and planning tool.

6. Revenue Collections

The Department has jurisdiction over 1.76 billion acres of the Outer Continental Shelf, manages about one-fifth of the land area of the United States, and administers 700 million acres of subsurface minerals throughout the Nation. Almost one-third of the Nation's domestic energy production is generated from Department managed lands and waters. The Minerals Management Service (MMS) is responsible for administering leases and managing the majority of royalties, collecting approximately $10.9 billion in 2007 and $23.4 billion in 2008. Royalties include monetary (Royalty-in-Value - RIV) and product (Royalty-in-Kind - RIK) payments. Our work has revealed weaknesses in the oversight and collection and management of royalties.

In regard to the management of the Royalty Program, MMS has begun to correct their weaknesses; however, more needs to be done. For example:

- ✓ A system needs to be established allowing MMS, BLM, and the Bureau of Indian Affairs to communicate efficiently and effectively regarding oil and gas leases and royalty collections.

- ✓ Attention should continue to be placed on royalty collection methods and procedures. Transparency and standardization should become the norm. Decision making authority on exceptions to payments and interest should have credible oversight independent of the royalty collection staff.

During the summer of 2008, crude oil prices were at an all time high and industry was requesting additional leasing be available on Federal lands. Yet, the Department reported most existing leases were non-producing. Congress was considering legislation requiring companies to bring their Federal leases into production before acquiring new leases. We performed an evaluation of non-producing Federal leases and reported that the Department could do more to track the status of non-producing leases and coordinate the reporting of reliable lease data between the bureaus. We concluded that successful development of a lease was uncertain due to various factors, such as geological uncertainties, regulatory restrictions, and public opposition. Both industry and bureau officials cautioned that a mandate to drill on all Federal leases would not necessarily enhance production but might actually reduce industry interest in Federal leases.

The Department faces, and must identify, growth opportunities as it manages the public's vast royalty and energy resources. The vision behind the Recovery Act is to double this Nation's supply of renewable energy over the next three years, and make an enormous investment in basic research funding for new discoveries in energy. As the Department moves forward, it must anticipate a shift from the oil and gas focus to these energy alternatives. If the Department is to commit to explore and execute a myriad of projects such as wind energy and offshore wave energy through MMS, as well as geothermal, solar, oil shale, and wind energy projects onshore through BLM, it must plan for and shift limited resources to meet this demand.

7. Acquisition Management

Procurement, contracts, and grants have historically been areas subject to fraud and waste government-wide; managing them is a continuing challenge. The Department procurement and financial assistance awards in fiscal year 2008 exceeded $5 billion, which represents over one-fourth of the Department's total budget. These awards were made by 10 different bureaus and offices and included $3.5 billion in contracts to over 19,000 contractors, and more than $1.7 billion in Federal assistance to over 2,300 recipients. In February 2009, Congress passed a $787 billion spending bill, the American Recovery and Reinvestment Act (Recovery Act or ARRA), to stimulate the economy by providing jobs and investing in the Nation's infrastructure, among other means. The Recovery Act provides nearly $3 billion to the Department. The funds, received by six bureaus, will be awarded under contracts and financial assistance agreements and will be spent on habitat restoration, facilities and roads improvements and construction, scientific equipment, water infrastructure in western states, and improving conditions in Indian country.

We dedicate significant resources to reviewing the adequacy of Departmental and bureau policies and procedures for acquisitions. Recent reports and advisories have identified numerous deficiencies. The four areas of repeated observations involve a lack of pre-solicitation planning, a lack of competition, selection of inappropriate contracting method and poor administration of contracts and grants.

To improve the procurement and financial assistance programs, Departmental leadership must emphasize compliance with Federal procurement and financial assistance policies. Training for contracting officers and grant managers is critical in developing the skills necessary to effectively manage pre-solicitation planning, competition, proper selection of the contracting method, and administration. There is also an urgent need to improve the suspension and debarment program, which excludes irresponsible contractors from receiving future awards. The Department has begun to make improvements in the program. They have established two positions and, based on OIG referrals, have taken suspension or debarment action on 8 separate referrals.