



United States Department of the Interior

OFFICE OF INSPECTOR GENERAL
Washington, DC 20240

Memorandum

OCT 03 2007

To: Dirk Kempthorne
Secretary

From: Earl E. Devaney
Inspector General

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

In accordance with the Reports Consolidation Act of 2000, we are submitting the attached summaries of issues we have determined to be the most significant management and performance challenges facing the Department of the Interior (Department), to be included in the Department's Performance and Accountability Report for fiscal year 2007. The challenges listed reflect what the Office of Inspector General considers to be significant impediments to the Department's efforts to promote economy, efficiency, and effectiveness in its agencies' management and operations.

The top challenges are as follows:

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

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

Attachment

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

1. Financial Management

Sound financial management is critical to providing accurate financial information, managing for results, and ensuring operational integrity. The independent public accounting firm of KPMG LLP, under a contract monitored by the Office of Inspector General (OIG), rendered an unqualified opinion on the Department of the Interior's (Department) consolidated financial statements for fiscal year 2006. However, KPMG also identified one material weakness and seven significant deficiencies in internal controls, one deficiency in internal control over Required Supplementary Information, and three instances of noncompliance with laws or regulations.

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

Financial and Business Management System

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

The Department began implementing FBMS in fiscal year 2005 and had planned to have the system fully implemented by the end of fiscal year 2008. However, after the Department removed the original contractor from the project in September 2005 and contracted with a new system integrator in February 2006, the Department revised their implementation date from fiscal year 2008 to fiscal year 2012.

The Minerals Management Service (MMS) and the Office of Surface Mining and Reclamation are currently using the core financial module of the system, however, operational problems plague the system. These problems have already resulted in delays in implementing the core financial module at the National Business Center's (NBC) GovWorks.

Also, funding for the next fiscal year may not be adequate for the next phase of deployment. In prior years, the project received funds from GovWorks. The anticipated



level of funds may not be available during the next fiscal year due to decreased contracting activity for GovWorks on external contracts. (See Procurement, Contracts and Grants section). In addition, Congress has proposed reductions in the amount of funds requested by the Department for the project. Lack of adequate funding could result in a reduction in the scope of work for the next fiscal year and may extend the project completion date beyond fiscal year 2012.

Budget and Performance Integration

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

From 2002 to 2007, the Office of Management and Budget (OMB) assessed 72 of the Department's programs, reflecting almost \$10 billion in annual budget authority. OMB rated only 8 programs (11 percent) of the 72 as "Effective." OMB rated 16 programs (22 percent) as "Results Not Demonstrated" because OMB was unable to determine whether these programs were performing satisfactorily due to the lack of reliable performance information. These 16 programs reflected approximately a quarter of the Department's assessed spending. The Department needs to continue to focus on developing useful performance measures.

2. Information Technology

The Department continues to strive towards a comprehensive Information Technology (IT) Security Program which complies with the Federal Information Security Management Act of 2002. However, weaknesses in information security policies and practices continue to threaten the confidentiality, integrity and availability of information and information systems used to support the Department's missions.

Our 2007 Trusted Insider Threat Evaluations of networks managed by the Bureau of Land Management (BLM), MMS, and NBC all demonstrated the Department remains vulnerable to an inside attacker. Additionally, the evaluations revealed ineffective internal intrusion detection and prevention capabilities.

During the year, we completed both vulnerability assessments and external penetration testing on a sample of the Department information resources. Our technical testing at BLM, Bureau of Reclamation (BOR), Office of the Secretary, and the U.S. Geological Survey (USGS) disclosed vulnerabilities which could potentially be exploited. The Enterprise Services Network infrastructure has improved the Department's perimeter security. However, application security at the bureau level continues to present attackers with targets of opportunity. We determined that the Department has not fully implemented continuous monitoring and system testing, which is an essential part of the federal Certification and Accreditation guidance.



We completed evaluations of a sample of Federal Information Processing Standards Publication 200 baseline controls and selected National Institute of Standards and Technology 800-53 IT Security Controls at BLM and NBC. We determined that the Department is not in full compliance with all of the baseline controls. These IT security control weaknesses hinder the success of a comprehensive and consistent IT Security Program at the Department.

3. Health, Safety, and Emergency Management

Annually, the Department has over 500 million visits to national parks, BLM recreational sites, U.S. Fish and Wildlife Service (FWS) wildlife refuges, and BOR recreation sites. The Department must protect hundreds of millions of visitors, employees, and volunteers, thousands of facilities, and millions of acres of property from both internal and external threats. The physical isolation of some Department lands and facilities increases their vulnerability to threats and inhibits the Department's response time. The Department's Office of Law Enforcement, Security, and Emergency Management continues to struggle with its role involving policy and oversight of bureau law enforcement, security, and emergency management programs.

The devastating hurricanes of 2005 had a two-fold impact on the Department. First, the Department assisted with federal relief efforts under the National Response Plan (NRP). Second, bureaus directly experienced the impact of the disasters. The Department sustained significant damage to 12 parks and preserves, 86 refuges, 68 water monitoring gauges, and the MMS Gulf of Mexico Regional Office. As of September 30, 2006, the Department spent approximately \$104 million on hurricane relief and recovery. This included approximately \$61 million for NRP activities and \$43 million to address internal damage. The OIG is pleased to report that overall the bureaus effectively managed their 2005 hurricane related expenditures. Given the magnitude of the damage to the Gulf Coast and the Department's facilities, the issues the OIG identified through expenditure testing proved relatively insignificant. The bureaus performed well.

We found that the Department has an unsafe and unreliable radio communications environment that jeopardizes the health and safety of Department employees and the public. Technical studies have identified over 100 Department radio sites in poor or hazardous conditions. These conditions result in physical safety hazards that pose an immediate risk of injury or death to employees and the public. In addition, severe deterioration at some Indian Affairs (IA) elementary and secondary schools, including boarding schools, may directly affect the health and safety of Indian children. Some of these buildings have been condemned for over 10 years and pose the potential for serious injury or death for students and faculty. Finally, FWS employees and USGS biologists are working in unsafe buildings that were condemned nearly 8 years ago; FWS has made little progress in replacing the condemned facilities.

We issued two flash reports to notify the Department of serious health and safety issues. One report noted a serious system failure at a National Park Service (NPS) facility that is used by visitors and staff, placing users' lives in danger. The second report noted that an



abandoned mine site on BLM land was contaminated with high levels of arsenic. In both instances, bureau officials knew of the health risks but had not taken timely action to mitigate danger to the public and employees. Our reports were intended to prompt immediate action.

4. Maintenance of Facilities

The Department owns, builds, purchases, and contracts services for assets such as roads, bridges, schools, office buildings, dams, irrigation systems, and reservoirs. Repair and maintenance of some of these assets have been postponed until future years due to budgetary constraints. The Department refers to these unfunded repair and maintenance needs as deferred maintenance.

According to the February 2007 Government Accountability Office (GAO) report, “Major Management Challenges, Department of the Interior,” the Department has made progress addressing prior recommendations to improve information on the deferred maintenance needs of NPS facilities and IA schools, however, its maintenance backlog continues to grow substantially.

The deferred maintenance backlog is a continuing challenge for the Department. According to the fiscal year 2006 “Annual Report on Performance and Accountability,” exact estimates of deferred maintenance costs are difficult to determine due to the scope, nature, and variety of assets entrusted to the Department, as well as the nature of deferred maintenance itself. Using the Department’s current approach for estimating the backlog, the amount needed to correct deferred maintenance for property, plant, and equipment ranges from approximately \$9.6 billion to \$17.3 billion.

5. Responsibility to Indians and Insular Areas

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

Tribal entities’ financial compliance with funding agreements should be ensured through the single audit process; however, 36 (42 percent) of the 86 single audit reports reviewed by the OIG for tribal entities (including tribal governments and tribal schools, and tribal associations) submitted delinquent single audit reports during fiscal year 2007.

The OIG found that serious loan portfolio deficiencies, coupled with a significant economic downturn, threaten the viability of the development bank of Commonwealth of the Northern Mariana Islands (CNMI). The bank, operated under the Commonwealth Development Authority (CDA), was established to drive economic growth through loans to new and existing businesses. After 20 years of operation, CDA’s uncorrected loan



portfolio deficiencies have resulted in high delinquency rates and plummeting assets. The deficiencies are long-standing and have been documented both by our office and by a 2002 CNMI Public Auditor's report. Although CDA continues to operate at a reduced level of service, it cannot begin to correct loan deficiencies, build revenues, and meet its mandate to stimulate economic progress without immediate and decisive action.

We were troubled to find that the Virgin Islands Lottery has virtually no control over video lottery terminal operations, a condition that raises serious concerns about whether the Virgin Islands Government is receiving all the lottery revenues and taxes to which it is entitled. Our audit revealed that the Lottery received \$8.3 million in total revenues for calendar years 2003 through 2005. The video lottery terminals were expected to generate revenues to the Virgin Islands Government of about \$15 million annually, thereby enabling the Virgin Islands Government to implement or supplement programs to improve the economy and quality of life for the people of the Virgins Islands. Southland Gaming of the Virgin Islands controls every aspect of video gaming on the islands as a result of a flawed contract and master license agreement.

6. Resource Protection and Restoration

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

Annual appropriations to prepare for and respond to wildland fires have increased substantially over the past decade, in recent years totaling about \$3 billion. BLM, IA, NPS, and FWS within the Department, along with the Forest Service within the Department of Agriculture are responsible for responding to wildland fires on federal lands. The GAO found that although the agencies have established a broad goal of suppressing wildland fires at minimum cost — considering firefighter and public safety and resources and structures to be protected — they have no defined criteria by which to weigh the relative importance of these often-competing priorities. As a result, according to agency officials and reports, officials in the field lack a clear understanding of the relative importance the agencies' leadership places on containing costs and therefore are likely to select firefighting strategies without due consideration of the costs of suppression. The agencies also have yet to develop a vision of how the various cost-containment steps they are taking relate to one another or to determine the extent to which these steps will be effective. The agencies are working to develop a better cost-containment performance measure, but the measure may take a number of years to fully refine. Finally, the agencies have taken, or are beginning to take, steps to improve their oversight and increase accountability — such as requiring agency officials to evaluate



firefighting teams according to how well they contained costs — although the extent to which these steps will assist the agencies in containing costs is unknown.

The OIG reviewed the special-use permits issued by NPS and BLM that allow for the private use of public lands. The OIG found that NPS has allowed private individuals or exclusive clubs to monopolize desirable locations near major metropolitan areas for decades to the exclusion of the general public. Some of the clubs charge high membership fees or limit the number of people who can become members. NPS continues to renew the permits for these exclusive clubs and has kept the \$2.6 million in permit fees received over the 4-year period of our review instead of remitting the funds to the United States Treasury. Moreover, both NPS and BLM have allowed permits to be renewed without ensuring their compliance with the requirements of the National Environmental Policy Act.

7. Revenue Collections

In fiscal year 2006, mineral lease revenues collected by the Department on behalf of the federal government exceeded \$12 billion. In addition, the Department's revenue from activities such as grazing, timber, and lands sales was over \$6 billion.

In fiscal year 2006, GAO reported that oil and gas companies received over \$77 billion from the sale of oil and gas produced from federal lands and waters, and MMS reported that these companies paid the federal government about \$10 billion in oil and gas royalties. Based on the results of a number of studies, GAO found that the federal government receives one of the lowest government royalty rates in the world and has consistently ranked low in government royalty rates compared to other governments.

Historically, MMS has relied on audits to verify companies' reported royalties. In the late 1990s, MMS began reengineering its royalty verification processes, which included the establishment of the Compliance Review Process. A compliance review is less intensive than an audit and is designed to determine the reasonableness of reported royalties without obtaining detailed source documentation or conducting site visits. However, compliance reviews do not provide the same level of assurance as an audit and therefore should only be used in conjunction with audits in a coordinated compliance strategy. The OIG found that weaknesses in the compliance review process may prevent MMS from maximizing the benefits of the compliance reviews. These weaknesses related to management information, the compliance review process, and the performance measures used to evaluate the Compliance and Asset Management Program's effectiveness.

On January 23, 2006, the New York Times published an article alleging that oil and gas companies were not paying the correct amount of royalties due to the American taxpayer. The article focused on the fact that the increase in royalty payments made to the federal government in 2005 had not paralleled the increase in profits the oil and gas companies reported to their shareholders. In response to this article, the MMS Director was called to testify before the House of Representatives Committee on Government Reform. The



Director testified that MMS had issued leases in 1998 and 1999 without price thresholds that had previously been included in leases issued after the passage of the Outer Continental Shelf Deep Water Royalty Relief Act in 1995. This was done in error rather than an MMS policy decision; however, the result was that no royalties are due even though prices are high. An OIG investigation determined that the Associate Director for Offshore Minerals Management was informed of the omission in 2000. The MMS Director was not informed of the omission until 2004.

8. Procurement, Contracts, and Grants

Procurement, contracts, and grants have historically been areas subject to fraud and waste government-wide; managing them is a continuing challenge. The Department spends substantial resources each year in contracting for goods and services and in providing federal assistance to states and Indian organizations. The Department provides over \$2 billion each year in funding for grants, cooperative agreements, Indian self-determination contracts, and self-governance compacts to state, local, and insular area governments; Indian tribes; colleges and universities; and other nonprofit organizations.

Procurement and Contracts

Recent audits at the Department and other federal agencies highlighted concerns with interagency procurement services performed through fee-for-service organizations. Interagency contracting is a tool that, when effective, can help agencies to streamline the acquisition process and increase cost efficiency. The Department has two acquisition centers that assist other government agencies. These are GovWorks and the Acquisition Services Division, Southwest Branch (SWB), both of which are under the NBC.

In fiscal year 2005, the Department executed procurements through these centers in excess of \$1.7 billion on behalf of the Department of Defense (DOD). The National Defense Authorization Act for Fiscal Year 2006 required that the DOD Inspector General work with the other Inspectors General to review procurement policies, procedures, and internal controls, as well as administration for all agencies processing more than \$100 million in DOD procurements. To meet this requirement, the DOD OIG and the Department of the Interior OIG jointly audited the two Department contracting centers that provide acquisition services to DOD. The audit objective was to determine whether the Department complied with DOD procurement requirements, including whether the Department and DOD used and tracked funds properly. The DOD OIG also evaluated whether DOD had a legitimate need to use Department contracting services.

Overall, the audit determined that neither GovWorks nor SWB complied in full with legal requirements, with federal acquisition regulations, and with DOD supplemental requirements. In fact, the contracting centers routinely violated rules designed to protect federal interests and the public trust. These actions put the Department at risk for loss of business as well as loss of public confidence and trust and may result in Antideficiency Act violations at DOD.



An OIG audit identified that IA purchased and stored an estimated \$3.6 million in radio equipment it could not use. IA started purchasing equipment in fiscal year 2000 as part of its conversion to mandated narrowband radio technology. Since it lacked a plan to guide its equipment purchase, IA wasted valuable resources buying unusable equipment for which it will continue to incur storage and maintenance costs, as well as extensive costs to upgrade, refurbish, replace, or dispose of the aging equipment. IA also lacked inventory controls over approximately \$6.2 million in purchased equipment, resulting in potential losses due to fraud, theft, or negligence.

The OIG also found that IA maintained inadequate contract documentation to support the \$20 million expended on this technology. Specifically, it failed to locate documentation for two contracts, while documentation for other procurements proved incomplete. Finally, IA improperly awarded at least \$5.5 million in sole source tasks to a contractor by inappropriately modifying an existing task order in violation of the Federal Acquisition Regulation. Overall, the modifications more than quadrupled expenditures for the task order and nearly tripled the performance period.

Grants Management

Audits of FWS grants awarded to sixteen states, the District of Columbia, and the Commonwealth of the Northern Mariana Islands revealed a potential savings of \$7.5 million. The grants are awarded under the Federal Assistance Program for State Wildlife and Sport Fish Restoration (Federal Assistance Program). The grants finance up to 75 percent of state-sponsored projects, such as developing sites for boating access and acquiring and managing natural habitats. Examples of potential savings include \$1.2 million in unsupported personnel costs charged to grants by the District of Columbia, \$678,033 in funds used in Texas on unauthorized locations, and \$269,931 in costs incurred in Arizona that were outside the grant period.

We also identified other conditions that need attention. For example;

- Nine audits identified licensing as a significant issue, including potential improper use of hunting and fishing license revenue and inaccurate counts of license holders;
- Nine audits identified grantees that earned program income using grant funds but did not account for it in an appropriate manner;
- Seven audits found grantees lacked adequate control over personal property, and four of the audits found inadequate control over real property; and
- Five audits identified deficiencies — such as using the incorrect indirect cost rate — in the accounting for indirect costs incurred under the grant.