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United States Department of the Interior

OFFICE OF INSPECTOR GENERAL
Washington, D.C. 20240

Office of Inspector General Update for 2003 of the Top Management Challenges for the Department of the Interior

1. Financial Management

The Department of the Interior's (DOI or the Department) financial management systems do not produce timely, accurate and reliable information throughout the course of the year. As a result, the Department undertakes a massive effort every year to compile, analyze, and correct its financial data in order to prepare accurate financial statements within a reasonable timeframe after the close of the fiscal year.

Good financial management information, especially cost information, is key to good management decision-making and is necessary to address other challenges facing the Department. Hindering DOI progress are longstanding significant control weaknesses over activities such as property, plant, and equipment; financial reporting; Indian trust funds; and transactions between bureaus and offices. Also, Department-wide initiatives to introduce activity based costing across the Department and to better integrate performance, budget, and accounting information place increased burdens on an already over-taxed financial management staff.

DOI has made some progress in correcting financial management weaknesses. For example, significant improvements have been made in addressing weaknesses at the U.S. Geological Survey (GS) which last year prevented GS from producing accurate and timely financial statements. However, DOI must enhance both the depth and breadth of its financial management personnel, and must continue its endeavor to secure funding for an updated, integrated Department-wide financial management system.

2. Information Technology

Shortcomings in policies, procedures, and controls need to be addressed before Information Technology (IT) systems and data at DOI are adequately protected. According to a September 2003 Office of Inspector General (OIG) report (No. 2003-I-0066) DOI's overall security program does not demonstrate that all information systems supporting its operations and assets are adequately protected.

During the past 2 years, DOI has made progress in strengthening IT security in its financial accounting systems, and has established security processes and documentation for its Indian Trust systems that places the trust systems in a better information-security posture than the majority of other DOI information systems. If DOI continues its current

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rate of improvement, it should meet its target date for having all information systems certified and accredited by December 2005. However, until bureaus and offices fully implement security policies and procedures, effectively assess risks, and fully integrate corrective action plans with the capital planning and investment control process, DOI should continue to report to the Congress the lack of an adequate information security program as a material weakness.

3. Health, Safety and Emergency Management

DOI must protect millions of visitors, hundreds of thousands of employees and volunteers, thousands of facilities, and millions of acres of property from both internal and external threats. Risk assessments conducted by the OIG and other entities concluded that:

- Water and power facilities and national icon parks remain vulnerable to outside threats.
- Visitor safety and security remains inadequate at many DOI parks and other facilities.
- Employee safety and security remains inadequate at many DOI facilities.
- The physical isolation of some DOI lands and facilities increases their vulnerability to threats and inhibits DOI's response time.

DOI continues to be slow to change its mission and priorities to reflect its new security responsibilities and commitment. OIG's August 2003 homeland security assessment (No. 2003-I-0063) concentrated on the security management, security staffing, and use of funds designated for security at national icon parks. These icons were chosen because they enjoy prominent historical attention, large numbers of visitors and frequent media attention. We found they continue to be in jeopardy.

While some security measures have been adopted, most security improvements have been delayed, postponed or wholly disregarded, employees continue to remain unconvinced of the necessity for new security measures, and there is little to or no accountability for non-compliance.

Also, the Department reported that wireless telecommunications was inadequate. The current wireless telecommunications program in some bureaus does not effectively support bureau and public safety operations, does not comply with Department management directives, and is not funded to achieve timely compliance. The Department will implement a plan to meet employee and public safety objectives, and restore the program to efficiency by reviewing bureau narrowband capital investment and implementation plans; revise plans to maximize radio system sharing, minimize supporting infrastructure requirements; and ensure maximum use of alternative wireless services by fiscal year 2005.

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4. Maintenance of Facilities

DOI owns, builds, purchases, and contracts services for assets such as visitor centers, schools, office buildings, roads, bridges, dams, irrigation systems, and reservoirs. These assets include some deteriorating facilities for which repair and maintenance have not been adequately funded. According to a GAO report (No. GAO-03-104) issued January 2003, entitled, "Major Management Challenges and Program Risks, Department of the Interior," DOI needs to more aggressively address the deferred maintenance backlog. The report stated that the repair and maintenance on these assets have been postponed for years due to budgetary constraints and that the deterioration of facilities can adversely impact public health and safety, reduce employees' morale and productivity, and increase the need for costly major repairs or early replacement of structures and equipment. In February 2002, the DOI estimated that the deferred maintenance backlog was between $8.1 billion and $11.4 billion. The maintenance needs for the National Park Service (NPS) and the Bureau of Indian Affairs (BIA) facilities alone account for over 85 percent of the DOI-wide deferred maintenance backlog.

In a December 2001 report (No. 2002-I-0008), OIG outlined a comprehensive approach to maintenance management within DOI. The report stated that DOI needs to implement a comprehensive maintenance management system to effectively plan, prioritize, conduct, and track the condition and maintenance of facilities within all bureaus, especially the NPS. Also, DOI needs to provide long-term leadership to keep money available to address the long-standing issues of deferred maintenance.

In fiscal year 2003, DOI reported that it lacked consistent, reliable, and complete information to plan for, budget, and account for resources dedicated to maintenance activities. The DOI planned to identify and implement a comprehensive maintenance management system with an appropriate linkage to the accounting system; conduct comprehensive condition assessments; make determinations to repair, replace, or relocate facilities; develop a five-year Deferred Maintenance Plan and Capital improvement Plan; repair, replace, and relocate facilities to "good condition," and reduce deferred maintenance to established goals by fiscal year 2005.

DOI has adopted a computer-based facilities maintenance management system, which it tested at multiple locations during fiscal year 2002, and has been assessing the condition of facilities, developing a 5-year maintenance plan, and establishing goals to reduce the deferred maintenance backlog. Also, DOI has established a Facilities Management Systems Partnership (FMSP) that provides a forum for the Department and its facilities-managing bureaus to coordinate the development and use of facilities management systems. While the FMSP has made demonstrable strides in developing a framework within which to address facilities management issues, maintenance in the Department remains a material weakness and an enormous challenge to be managed.

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5. Responsibility to Indians and Insular Areas

According to GAO report (No. GAO-03-104) issued January 2003, entitled, "Major Management Challenges and Program Risks, Department of the Interior" DOI needs to address persistent management problems in programs for Indians and island communities. DOI is responsible for administering the Federal government's trust responsibilities to Indian tribes and individual Indians, and provides more than $750 million annually for basic tribal services, such as social services, tribal courts, and natural resource management. Over the years, the GAO and OIG have reported on DOI's poor management of Indian trust funds and programs. Despite DOI's efforts, inadequate accounting and information systems and internal controls, as well as other weaknesses prevent DOI from ensuring that the funds are properly managed. In addition, DOI has various responsibilities to seven island communities - four U.S. territories and three sovereign island nations. The Insular Area governments have serious long-standing financial and program management deficiencies.

Indian Affairs

In fiscal 2003, the independent certified public accounting firm of KPMG LLP, under contract with the Office of Special Trustee for American Indians (OST), rendered qualified opinions on OST's fiscal year 2001 financial statements for Tribal and Other Trust Funds and Individual Indian Monies Trust Funds. KPMG qualified its opinions because cash balances in the financial statements were materially greater than balances reported by the U.S. Treasury. In addition, inadequacies in certain DOI accounting systems made it impractical to extend auditing procedures to satisfy auditors regarding the fairness of Trust Fund balances. Finally, certain parties for whom the Office of Trust Funds Management (OTFM) holds monetary assets in trust do not agree with the balances recorded by the OTFM and have filed or are expected to file claims against the U.S. Government.

DOI reported for fiscal year 2003, that OST's conversion to a commercial trust fund accounting system and the implementation of enhanced OST management controls will help ensure that all collected trust funds are properly accounted for. Major efforts remaining to be accomplished include: (1) completing an historical accounting of individual Indian money accounts; and (2) ensuring that BIA ownership and distribution information is correct. Also, DOI reported in fiscal year 2003 that long standing deficiencies in the records management program have made it difficult to ensure the maintenance and preservation of Indian Trust records. An updated work plan with strategies, tasks, timelines and resource requirements has been developed by the Office of Trust Records. According to DOI, the implementation of this work plan will resolve many of the identified deficiencies and establish an active and comprehensive records management program for BIA and OST.

The majority of funds provided for tribal services are administered by Indian tribes under Indian Self-Determination Act contracts, grants, and compacts from BIA. According to the Act, the principal reporting requirement for tribes and the major monitoring tool for

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BIA is the single audit report. The single audits present information on tribes' compliance with funding agreements and controls over Federal funds. OIG quality control reviews of single audit reports revealed that about 70 tribes were delinquent in submitting their reports for fiscal year 2001.

Insular Affairs

Insular Area governments generally lack the standard business practices essential to financial accountability. Most of our audits have identified serious administrative and accounting deficiencies, including property management practices that were not sufficient to satisfactorily account for and safeguard equipment purchased with grant funds; improper procurement practices that allowed purchases without competition; poor records management; inadequate accounting practices that resulted in questioned costs, incorrect grant balances, and unreconciled records; and poor reporting practices to OIA that unnecessarily delayed projects. A February OIG audit (No. 2003-I-0011) on the status of prior audit findings and recommendations pertaining to Insular Areas underscores a fundamental dilemma faced by DOI in correcting serious deficiencies. While the OIG is authorized to audit all revenues and expenditures of Insular Area governments, the DOI does not have authority to enforce audit findings and recommendations for funds provided by other Federal departments or for funds provided by the DOI that have Federally imposed entitlement conditions. While, the Office of Insular Affairs (OIA) has taken steps to strengthen controls over its grants, OIG's follow-up audit highlighted the necessity of continuing to urge other Federal agencies providing funds to the Insular Areas to become more involved in monitoring these funds and ensuring their proper use.

As with Indian programs, one of the major tools available for monitoring the use of Federal funding by Insular Areas is the single audit report. OIG has noted, however, that many Insular areas are delinquent in submitting reports and the reports which have been submitted disclosed serious financial management deficiencies. For example, the single audit report on the U.S. Virgin Islands for fiscal year 2001, the most recent completed report, documented 61 reportable conditions pertaining to Federal programs of which 39 were classified as material weaknesses.

On the positive side, OIG's Insular Area field liaison for the Pacific, appointed in July 2002, reported progress in several areas: (1) building the capacity of local Offices of Public Auditor in Pacific areas to audit local funds, (2) working with OIA to look at the adequacy of Insular Area government systems and controls that account for grant monies, and (3) closing out unresolved audit recommendations. We hope that this concerted effort will help remedy the general lack of meaningful action by Pacific Insular Area governments to address past audit recommendations.

6. Resource Protection and Restoration

DOI resource managers face the challenge of balancing the competing interests for use of the nation's natural resources. Major contributors to the challenge of effective resource management include increased population, environmental issues, shortages of resources such as water, oil and gas, and demands for more recreational areas. DOI faces challenges in implementing policy goals for repairing and maintaining ecosystems within budget limitations. Of special concern are wildfires, water allocations, a changing land and recreation base, and invasive (non-native) species. Federal lands account for 30 to 35 percent of energy produced in the United States. The primary challenge is developing energy resources while protecting natural resources, including endangered plant and animal species.

A GAO report (No. GAO-03-104) issued January 2003, entitled, "Major Management Challenges and Program Risks, Department of the Interior," stated that over the years, the OIG and GAO have determined that the land exchanges completed by the Bureau of Land Management (BLM) to date have not ensured that the lands being exchanged were appropriately valued or protected the public interest. In exchanging lands, Federal agencies are required under the Federal Land Policy and Management Act of 1976 to determine that the exchange serves the public interest. In addition, the law requires that the lands exchanged be of equal value, or equalized by a payment of money

To address long-standing concerns about the valuation of exchanged lands and the management of appraisal functions, as documented for several decades in reports issued by OIG, GAO and, most recently, by the Appraisal Foundation, the Secretary announced that the appraisal function performed by BLM, the Fish and Wildlife Service (FWS), NPS, and the Bureau of Reclamation will be consolidated within a newly-formed Departmental office. DOI's new appraisal organization is intended to ensure greater appraiser independence, thereby enabling DOI to provide unbiased valuation services that meet recognized professional standards.

According to a GAO report (No. GAO-03-104) issued in January 2003, entitled, "Major Management Challenges and Program Risks, Department of the Interior," DOI needs to Improve Management of Ecosystem Restoration Efforts. To achieve its Departmentwide mandate for protecting and preserving the natural resources under its management, DOI has developed long-term goals of restoring the health of public lands and maintaining ecosystems. To accomplish these goals, the Department will need to restore significant national ecosystems to health by addressing the growing wildland fire threat to communities and resources caused by the excessive buildup of fuels in forested ecosystems, such as those located in the interior Western states; restoring the South Florida ecosystem, which includes the Everglades; and controlling and eradicating invasive nonnative species.

7. Revenue Collections

DOI is a large, decentralized agency with over 70,000 employees and 200,000 volunteers located at approximately 2,400 operating locations across the United States, Puerto Rico, U.S. territories, and freely associated states. DOI raises more than $8.3 billion in revenues collected from oil and gas and mineral leasing, grazing, timber sales, recreation fees, land sales, and mining fees.

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The highest revenue collector in DOI is by far the Minerals Management Service (MMS) which annually collects more than $6 billion in mineral revenues from more than 84,260 onshore and offshore Federal leases. Since 1982, the MMS' Minerals Revenue Management Program (MRMP) has collected and distributed approximately $127 billion to Federal, state and Indian accounts.

The MMS also conducts a comprehensive compliance effort to ensure that royalty payments from lessees are on time and accurate. Historically, both OIG and MMS have identified significant mineral revenue underpayments from lessees. Between 1982 and 2002, MMS compliance activities have resulted in $2.5 billion of additional collections. During fiscal year 2002, MRMP continued the implementation and refinement of a new system infrastructure to support its comprehensive reengineered business process to meet the challenge of accomplishing its responsibilities and to maintain a high level of efficiency.

A March 2003 OIG report (No. 2003-I-0023) concluded that MMS' systems and safeguards over its audit procedures are insufficient, and that some of its audit work did not meet Government Auditing Standards. MMS audits represent a significant portion of its efforts to detect and deter royalty underpayments. Also, investigations conducted by OIG with MMS assistance continue to uncover multi-million dollar royalty underpayments. One investigation resulted in a $49 million settlement agreement in 2003 with a major oil company for failure to pay royalties on natural gas production from offshore leases. Another investigation uncovered a scheme in which a lessee conspired with another company to underpay royalties on natural gas produced from Federal leases. In this case, the lessee accepted substantially less than it was entitled to for gas sales resulting in underpayments to MMS of about $7 million. Because of the amount of collections and the significant potential for underpayments, OIG believes that revenue collections should continue as a management challenge for the Department.

8. Procurement, Contracts and Grants

DOI spends substantial resources each year in contracting for goods and services and in providing Federal assistance to states and Indian organizations. Procurement has historically been an area subject to fraud and waste government-wide, and managing procurement activities is an unending challenge requiring constant attention. DOI has reported on the material inadequacy of BIA's acquisition management organization, policies, procedures, and guidelines since fiscal year 1991. OIG has also reported (No. 2002-I-0011) on a lack of management supervision by the bureaus and offices of the Department over purchases made with credit cards. More recently, OIG reported (No. 2003-I-0009) on poor business decisions by the former park superintendent and contracting officer in the administration of a contract for construction at the Bryce Canyon Visitor Center led to excessive costs, as follows: (1) NPS selected a fixed unit-price contract that did not provide incentive to the contractor for cost control or labor efficiency; (2) NPS did not sufficiently monitor the contract (3) NPS used rough estimates of quantities and materials to prepare the bid schedule. As a result, contract specifications were inaccurate, and, after contract award, NPS had to increase 60 line items and add 45 new line items for changes and additions to the project. Consequently, project costs increased almost a million dollars, from $3.9 to $4.8 million (24 percent). The excessive contract costs contributed to deficit balances in the park's recreation fee demonstration account in fiscal years 2000 and 2001.

Furthermore, OIG reviews of FWS Sportfish and Wildlife Restoration program grants, totaling about $504 million for 14 states and two territories, identified questioned costs and other significant issues, as follows: (1) ten states and the two territories claimed $4.9 million that was ineligible for reimbursement, (2) five states did not offset grant costs of $823,000 with revenues earned from commercial activities on lands purchased or managed with grant funds, (3) five states did not return a total of $2.6 million of interest earned on hunting and fishing license revenues to their fish and wildlife programs, (4) five states diverted over $5 million of revenue from the sale of state hunting and fishing licenses for purposes other than administering their fish and wildlife programs. Based on our reports, FWS is working with the states and territories to resolve these matters.