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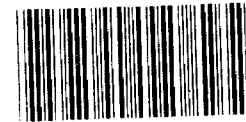
GAO

Report to the Chairman, Subcommittee on  
National Parks and Public Lands,  
Committee on Interior and Insular  
Affairs, House of Representatives

May 1988

# FEDERAL LAND MANAGEMENT

## Use of Nonfederal Funds and Services for Projects on Public Lands



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Resources, Community, and  
Economic Development Division

B-230369

May 17, 1988

The Honorable Bruce F. Vento  
Chairman, Subcommittee on National Parks  
and Public Lands  
Committee on Interior and Insular Affairs  
House of Representatives

Dear Mr. Vento:

Businesses, individuals, and state and local governments that use U.S. public lands must obtain approval and may be required to pay the federal government for permit processing costs and for certain other requirements related to the use of the land. The Department of the Interior's Bureau of Land Management (BLM) collects such payments and in some instances receives voluntary contributions of funds and services for the land-management activities it performs for such users. This report responds to your request of June 23, 1987, that we review BLM's use of nonfederal funds and services for user projects on lands it manages. As agreed, it provides information on (1) the extent to which BLM uses such funds and services, (2) BLM's legal authority for requiring and/or accepting such funds and services, (3) the propriety of BLM's accepting and using such funds and services, (4) BLM's controls over receipts and expenditures of nonfederal funds, and (5) BLM's procedures for monitoring and reviewing both the activities of land-use permittees and the services provided by third-party contractors hired by the applicants. The report also provides information on BLM's use of land appraisals provided by land-exchange proponents.

In summary:

- In fiscal year 1987, BLM spent about \$6.5 million received from nonfederal entities. The largest expenditures were for costs associated with (1) disposing of branches and other discarded materials (timber slash) left by logging permittees—\$1.4 million, (2) processing land-use permit applications and monitoring permits for rights-of-way projects—\$1.3 million, (3) rangeland improvement projects—\$1.1 million, and (4) off-highway-vehicle recreation projects—\$1.0 million.
- BLM has sufficient legislative authority to require and/or accept nonfederal funds and services from public land users.
- BLM can properly accept and use such funds. However, several aspects of BLM's acceptance of funds and services could offer the opportunity

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for conflicts of interest. The salaries of BLM staff responsible for monitoring land-use permits are sometimes paid in whole, or in part, from funds provided to BLM by the permittees. Also, studies provided to BLM as contributed services—the contents of which could affect BLM's approval of a land-use permit application—may be performed by contractors that are hired and paid by the permit applicant. BLM has established procedures to safeguard against potential conflicts of interest in some areas. As agreed, we did not evaluate these procedures or BLM's implementation thereof. As noted above, BLM is specifically authorized by law to require and/or accept such funds and services.

- The Department of the Interior's Office of Inspector General and GAO have reviewed the internal controls of BLM's overall financial management system but not the nonfederal fund accounts specifically. We noted several fund accounts for individual projects that had incorrect and/or negative balances (moneys are supposed to be received before BLM incurs expenses) which we discussed with agency personnel.
- BLM field office personnel said that on-site project monitoring is limited by staff time and availability, and that often it is limited to a desk review of documents submitted by the land-use applicant/permittee, land-exchange proponent or contractor hired by such parties. On-site monitoring is done when a land-use applicant/permittee provides funds to BLM for this purpose.

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## Background

Nonfederal public land uses involve activities such as rights-of-way for pipelines and utilities, the extraction of minerals, and recreation. Legislation requires that BLM issue permits to users and ensure that certain legislative requirements are met, including documenting and mitigating impacts to the environment, cultural resources, and threatened and endangered species. Before a permit is issued, BLM can require field studies that address these requirements. After the permit is issued, BLM is required to monitor the permittee's compliance with the terms of the permit.

In meeting its responsibilities for managing nonfederal land-use projects, BLM has shifted away from using appropriated funds to perform field studies and project monitoring with its own staff, toward having the land-use applicants/permittees bear these costs. Agency officials noted that this shift occurred as a result of the boom in energy exploration in the late 1970s and early 1980s when demand for energy-related land uses exceeded BLM's ability to process applications in a timely manner. Consequently, applicants began providing funds and services in order to expedite the application approval process.

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Several existing statutes authorize BLM's land-use applicants and permittees to provide funds and services for their projects. These funds and services are provided in three ways:

- Cost-recovery funds. BLM may require land-use applicants to pay for costs associated with processing the permit and may require land-use permittees to pay for monitoring their compliance with the terms of the permit.
- Contributed funds. BLM may allow land-use applicants/permittees to voluntarily provide funds needed to carry out BLM's responsibilities associated with processing or monitoring the permit—for example, to pay for BLM staff or contractors hired by BLM.
- Contributed services. BLM also may allow land-use applicants to provide services needed to meet federal requirements—for example, an applicant can hire an archeologist to perform a study required to obtain a cultural resource clearance.

Cost recovery and contributed funds should be received before BLM incurs expenses for land-use projects using such funds.

In addition to the funds and services provided by nonfederal land-use applicants/permittees, BLM accepts contributed services from land-exchange proponents. When federal land parcels desired by other parties are exchanged for nonfederal parcels, both parcels must be appraised so that BLM can determine whether equal value is being achieved. BLM allows nonfederal land owners to hire their own appraisers to appraise both the federal and nonfederal parcels, but both the contracted appraisers and the appraisal reports are subject to BLM's review and approval.

BLM also receives contributed funds and services from parties other than land-use applicants/permittees and land-exchange proponents. For example, states and private parties contribute money and/or volunteer labor to improve recreation facilities and wildlife habitat.

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## Extent of Nonfederal Funds and Services

BLM's financial management system maintains two types of accounts to record receipts and expenditures of nonfederal funds—cost recovery fund accounts and contributed fund accounts. In fiscal year 1987, expenditures from cost recovery accounts totaled \$3.4 million and expenditures from contributed fund accounts totaled \$3.1 million. However, most of these expenditures did not involve costs associated with processing and monitoring individual land-use permits. For example, the

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largest amount of cost recovery fund expenditures—\$1.4 million—involved BLM costs for disposing of timber slash, and the second largest application of contributed funds—\$1.0 million—involved expenditures on off-highway-vehicle program projects funded by the state of California.

The largest amount of expenditures associated with processing and monitoring individual land-use permits was \$1.3 million for rights-of-way projects. These projects include petroleum pipelines, utility transmission lines, and water delivery systems. (See app. I for a more detailed explanation of cost recovery and contributed fund activities Bureau-wide and by BLM's California and Oregon state offices.)

BLM does not account for the cost of contributed services associated with land-use permits, such as archeological surveys, wildlife studies, and appraisals related to land exchanges. The Chief of BLM's Financial Management Services Branch said that such services probably make up a relatively small portion of BLM's overall outside funding program now but that they were considerably more during the energy exploration boom in the late 1970s and early 1980s.

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## Legal Authority for Accepting Funds and Services

BLM's legal authority to require and/or accept funds and services from land-use applicants and permittees is found in a number of statutes. In the area of cost recovery, two acts provide BLM with sufficient legal authority to require land users to pay for its costs to process or monitor their land-use applications. First, section 9701 of Title 31 of the U.S. Code enables agencies to charge for services they provide which confer a special benefit directly on the recipient, rather than on the public at large. Second, section 304 of the Federal Land Policy and Management Act of 1976 (43 U.S.C. 1734) gives specific authority to the Secretary of the Interior (delegated to BLM) to charge land users for services BLM provides and to require monetary deposits to reimburse the federal government for reasonable costs of applications and other documents relating to the public lands. The statute defines "reasonable costs" as including, but not limited to, "the costs of special studies; environmental impact statements; monitoring construction, operation, maintenance, and termination of any authorized facility; or other special activities."

According to BLM, section 307(c) of the Federal Land Policy and Management Act (43 U.S.C. 1737(c)) allows it to accept voluntary contributions

of money or services from land-use applicants/permittees “for the management, protection, development, acquisition, and conveying of the public lands . . . .” We agree that the law authorizes this practice.

## Propriety of Accepting Nonfederal Funds and Services

Several areas involving BLM’s acceptance of funds and services from land-use applicants/permittees and land-exchange proponents offer the opportunity for conflicts of interest. For example, the salaries of some BLM employees responsible for monitoring land-use permits are paid either in whole or part with funds provided by the land-use permittee they are monitoring, and contractors that perform studies required by federal law before a land-use permit can be issued or land exchange can be completed are often hired and paid by the land-use applicant or land-exchange proponent. As stated above, however, BLM is specifically authorized by law to accept such funds and services.

BLM’s Acting Deputy Ethics Officer did not believe that BLM has ever examined the potential conflicts of interest involved in the agency’s acceptance of funds or services from land-use applicants, and he was unaware of any departmental guidelines addressing such concerns.

BLM field office staff we interviewed did not report any incidents in which conflicts of interest had actually occurred, and they generally believed that BLM has adequate safeguards to protect against conflicts of interest. For example, federal regulations allow Environmental Impact Statements (EISS) to be prepared by contractors, provided the contractor is chosen solely by the lead agency to avoid any conflict of interest. These regulations also require the contractor to execute a disclosure statement prepared by the lead agency, specifying that the contractor has no financial or other interest in the outcome of the project. As agreed, we did not attempt to determine the adequacy of the safeguards established by BLM.

## Controls Over Nonfederal Funds

During this review, we noted that some of the accounts BLM maintains for individual cost recovery and contributed fund projects contained incorrect or negative balances. BLM personnel said that such situations usually result from charging an expenditure to a wrong project account, failing to adjust an account when an expenditure differs from the amount obligated, and incurring expenses on a project before the funds are received. In an April 1986 report, Federal Land Management: Permits for Film-making and Wind Studies in Southern California (GAO/RCED-86-135BR), we reported that BLM had not charged land users for

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certain costs related to permit processing and monitoring, or environmental studies, as required under the cost recovery provisions of existing regulations.

The Department of the Interior's Office of Inspector General and GAO have both reviewed the internal controls of BLM's overall financial accounting system. However, neither the Inspector General nor GAO has reviewed the internal controls over cost recovery funds and contributed funds specifically. (See app. II for a further discussion of BLM's controls over nonfederal funds.)

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## Review and Monitoring Procedures

BLM has two types of review and monitoring responsibilities with regard to land-use projects and land exchanges. First, it reviews and monitors contributed services performed by third-party contractors, such as archeologists and land appraisers. According to BLM field office staff, they evaluate the qualifications and experience of the contractor selected by the land-use applicant or land-exchange proponent. Monitoring of a contractor's work is usually limited to a review of the report submitted by the contractor, which may be rejected if it is deemed to be inadequate. The field staff said that the content of these reviews usually is not documented and that generally they do not have time to go to the project site to check the contractor's work. (See app. III for a further discussion of BLM's review and monitoring procedures for contributed services.)

The second type of review and monitoring involves determining whether a permittee is complying with the terms of the land-use permit and other federal requirements for the public land the project crosses. Once a permit is approved for a land-use project, BLM assigns a project manager who coordinates and monitors the project. For major rights-of-way projects, the project manager maintains a log book containing information on what the BLM staff did on the project (e.g., met with project representatives, reviewed proposals, and visited the project site), how much time they spent doing it, and any other costs incurred (e.g., travel).

The BLM field office staff said that on-site project monitoring is limited by staff time and availability and that often it is limited to desk reviews of documents submitted by the permittee. However, on some land-use projects, the permittee provides funds to cover BLM's project-monitoring costs. In the California Desert District Office, for example, funds for



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compliance monitoring had been received from a mining company and wind-energy farm operators.

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## Scope and Methodology

Your office asked that we supply the requested information in time for the Subcommittee to prepare for its oversight hearings on BLM's appropriation for fiscal year 1989. In recognition of this time constraint, it was agreed that we would limit our field office coverage to BLM's state offices in California and Oregon and one district office in each of those states. It was also agreed that we would not determine the adequacy of either (1) BLM's controls over nonfederal funds or (2) its review and monitoring procedures.

We interviewed BLM staff responsible for administering land-use permits and land exchanges and reviewed summary accounting reports and selected project records at BLM's headquarters offices in Washington, D.C.; the financial management office at its Denver Service Center; its state offices in California and Oregon; and its California Desert District Office and Indio Resource Area Office in California. We also reviewed applicable statutes, regulations, and court decisions to determine whether BLM has legal authority to require and/or accept nonfederal funds and services and whether the acceptance of such funds and services raises ethical questions. Our audit work covered the period from October 1, 1987, through January 14, 1988.

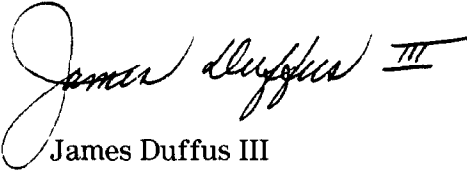
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We discussed the information in this report with BLM officials and incorporated their comments where appropriate. At your request, we did not obtain official agency comments on a draft of this report. Unless you publicly announce its contents earlier, we plan no further distribution of this report until 10 days from the date of this letter. At that time, copies will be sent to the Director, Office of Management and Budget; the Secretary of the Interior; other House and Senate committees and subcommittees having oversight and appropriation responsibilities for BLM land-use programs; and other interested parties.

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Major contributors to the report are listed in appendix IV.

Sincerely yours,

A handwritten signature in cursive script that reads "James Duffus III". The signature is written in black ink and is positioned above the printed name and title.

James Duffus III  
Associate Director



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**Abbreviations**

BLM	Bureau of Land Management
EIS	environmental impact statement
FMFIA	Federal Managers' Financial Integrity Act
FMS	Financial Management System
GAO	General Accounting Office
OHV	off-highway-vehicle

# Extent of Nonfederal Funds and Services

In recent years, BLM has emphasized the use of cost recovery funds and contributions of both moneys and services in an attempt to mitigate the effect of tight budgets and increased fixed and administrative costs. The use of cost recovery funding for accomplishing land-use project requirements was specifically authorized by the Trans-Alaska Pipeline Authorization Act of 1973 (30 U.S.C. 185(1)) and the Federal Land Policy and Management Act of 1976. BLM instructions and policy statements have encouraged the use of contributions, volunteers, and state and private investments in BLM programs since 1983.

In 1986, a BLM task group report, Investing in the Public Lands, Opportunities to Increase Contributions in the Bureau of Land Management, studied the strategies of increasing contributions. The task group found that (1) up to 50 percent of some BLM wildlife and fishery programs is made possible by contributions, with many on-the-ground wildlife projects having a 30- to 50-percent contributed-fund base and (2) BLM wildlife and fishery programs receive an estimated \$1.5 million annually from contributors, about two-thirds in the form of volunteer labor. The report recommended expansion of the use of contributions to all BLM programs and the assignment of a management priority to the contribution program.

The task group also recommended that BLM state offices develop gift lists and catalogs describing contribution opportunities. The California State Office recently published a gift catalog that lists numerous recreation and wildlife projects that would welcome contributions. This catalog is circulated to potential contributors, such as environmental organizations. The California State Office has also developed a Wildlife Habitat Acquisition Needs book that identifies private land parcels which, if placed under public ownership, would solidify critical habitat and significantly enhance management capabilities. The book is circulated among private and public entities who might wish to acquire these habitat improvement parcels and donate them to the federal government.

In fiscal years 1985 through 1988, BLM's wildlife management program funds were also supplemented by funds contributed by states and private sources under BLM's Challenge Grant Program.<sup>1</sup> For fiscal year

<sup>1</sup>BLM's challenge grant program was initiated by the Congress in 1985, when it added \$450,000 to BLM's wildlife management program budget for BLM's use in obtaining state and private matching funds for desert bighorn sheep projects.

1988, the Congress appropriated \$900,000 for the Challenge Grant Program. According to a staff member in BLM's budget office, BLM expects to receive matching contributions from state or private sources valued at approximately \$1.4 million. These contributions may include cash, materials, or labor. BLM's budget justification for fiscal year 1989 proposes that the Challenge Grant Program be eliminated, but it states that BLM can continue to use regularly appropriated funds in conjunction with contributed funds and labor to achieve wildlife program accomplishments.

## Cost Recovery and Contributed Funds

Two types of accounts are maintained in BLM's Financial Management System (FMS) to record receipts and expenditures of nonfederal funds—cost recovery fund accounts and contributed fund accounts. Cost recovery accounts are used when BLM requires the land-use applicants/permittees to pay BLM for the services provided. The applicants/permittees are billed and the funds are received before BLM performs the required service. BLM uses either a one-time billing for small jobs or quarterly billings for larger jobs. Contributed fund accounts are used when BLM accepts voluntary contributions of funds for a specified purpose. Contributed funds must also be received before BLM begins to make expenditures against the project. Work usually ceases when the donation is exhausted. However, if project costs exceed the contribution, the deficit can be charged to appropriated funds. In both types of fund accounts, unexpended funds are returned to the provider at the end of the project.

In fiscal year 1987, Bureau-wide expenditures of cost recovery and contributed funds totaled \$3.4 million and \$3.1 million, respectively. The amounts of Bureau-wide expenditures from each of 10 cost recovery and 6 contributed funds accounts are shown in tables I.1 and I.2, respectively. The sources and applications of the funds in these accounts are discussed following the tables.

**Appendix I**  
**Extent of Nonfederal Funds and Services**

**Table I.1: Bureau-Wide Expenditures  
 From Cost Recovery Fund Accounts**

<b>Account number</b>	<b>Account name</b>	<b>Expenditures</b>
5101	Rights-of-Way (over \$5,000)	\$1,166,467.68
5102	Rights-of-Way (under \$5,000)	157,920.00 <sup>a</sup>
5200	Adopt-a-Horse Program	203,675.17
5310	Repair of Damaged Lands (Oregon & California lands)	221,795.44
5320	Repair of Damaged Lands (public lands)	133,972.69
5410	Expenses, Conveyances of Federally Owned Mineral Interests	25,495.60
5420	Expenses, Recordable Disclaimers of Interest	1,554.84
5440	Expenses, Leases, Permits, Easements, and Conveyances	29,981.58
5500	Slash Disposal	1,386,134.65
5600	Timber Extension Expenses	73,985.67
<b>Total</b>		<b>\$3,400,983.32</b>

<sup>a</sup>This figure was obtained from a Budget Division staff member in BLM headquarters. The financial management system records showed a negative amount for expenditures of \$324,080, which the staff member said was caused by an incorrect journal entry.

**Table I.2: Bureau-Wide Expenditures  
 From Contributed Fund Accounts**

<b>Account number</b>	<b>Account name</b>	<b>Expenditures</b>
7121	Resource Development, Protection and Management (rangeland projects)	\$1,119,337.43
7122	Resource Development, Protection and Management (other projects)	450,465.70
7123	Resource Development, Protection and Management (California off-highway-vehicle projects)	1,029,241.37
7130	Public Survey	506,772.48
7150	Rights-of-Way	12,657.93
7300	Trustee Funds, Alaskan Townsites	6,607.50
<b>Total</b>		<b>\$3,125,082.41</b>

**Cost Recovery Fund  
 Activities**

Four activities accounted for \$3.3 million, or 96 percent, of the cost recovery funds expended by BLM in fiscal year 1987. (See table I.1.) These activities were rights-of-way projects (\$1.3 million), slash disposal (\$1.4 million), repairs to damaged lands (\$0.4 million), and the adopt-a-horse program (\$0.2 million).



- Rights-of-way project funds are received from land-use applicants and permittees and are used to process permit applications and to review and/or monitor permittee compliance with federal requirements.
- Slash disposal involves the disposal of branches and other unusable materials from a logged area. Oregon is the only BLM state office with a large timber sales program and the only one making expenditures under this account. Timber slash disposal is usually accomplished by burning in preparation for reforestation and may be performed by the company that harvested the timber, or the company may provide the funds for BLM to do it. BLM has performed timber slash disposal on about 50 percent of recent timber sales in Oregon.
- BLM uses the repair of damaged lands accounts to account for and recover costs it incurs to repair public lands that have been damaged. The damage may have been caused either by unauthorized activities or by the failure of land users to fulfill contractual requirements.
- The adopt-a-horse funds are derived from fees paid by individuals to adopt a wild horse or burro; the funds are then apportioned back to the field offices to pay for certain costs associated with this program.

Table I.3 shows expenditures made from the cost recovery fund accounts by the California and Oregon state offices during fiscal year 1987. The Oregon State Office accounted for over 49 percent of the Bureau-wide expenditures from cost recovery funds in fiscal year 1987, while the California State Office's expenditures accounted for over 10 percent.

**Appendix I**  
**Extent of Nonfederal Funds and Services**

**Table I.3: Cost Recovery Fund Account Expenditures by the California and Oregon State Offices**

Account number	Account name	Expenditures <sup>a</sup>	
		California	Oregon
5101	Rights-of-Way (over \$5,000)	\$315,585.88	\$8,848.55
5102	Rights-of-Way (under \$5,000)	•	•
5200	Adopt-a-Horse Program	232.27	•
5310	Repair of Damaged Lands (Oregon & California lands)	•	21,338.66
5320	Repair of Damaged Lands (public lands)	13,182.10	14,146.62
5410	Expenses, Conveyances of Federally Owned Mineral Interests	12,636.34	408.25
5420	Expenses, Recordable Disclaimers of Interest	1,216.34	•
5440	Expenses, Leases, Permits, Easements, and Conveyances	3,232.21	464.12
5500	Slash Disposal	•	1,386,128.82
5600	Timber Extension Expenses	7,188.50	66,797.17
<b>Total</b>		<b>\$353,273.64</b>	<b>\$1,698,132.19</b>

<sup>a</sup>These expenditure figures are approximate and may understate actual expenditures by California and Oregon because of the accounting system BLM uses. Under this accounting system, expenditures for BLM state offices are accounted for at different levels: e.g., state, Denver Service Center, and Washington headquarters. This table does not include any California or Oregon expenditures included in the Denver Service Center or Washington headquarters accounts.

**Contributed Fund Activities**

Bureau-wide expenditures of contributed funds totaled \$3.1 million in fiscal year 1987. About \$2.6 million, or 83 percent, was expended for various types of resource development, protection, and management projects—about \$1.1 million for rangeland improvement projects such as fencing, water development, and prescribed burns; about \$1.0 million for projects to develop off-highway-vehicle (OHV) recreation opportunities on public lands in California; and the remaining \$0.5 million for wildlife and other conservation projects, such as habitat improvement and threatened and endangered species studies and protection.

The California State Office accounted for over 48 percent of the contributed funds expended by BLM in fiscal year 1987, whereas the Oregon State Office accounted for over 5 percent. Table I.4 shows a breakout of the contributed funds expended by the California and Oregon state offices in fiscal year 1987.

**Appendix I  
Extent of Nonfederal Funds and Services**

**Table I.4: Contributed Fund Account Expenditures by the California and Oregon State Offices**

Account number	Account name	Expenditures <sup>a</sup>	
		California	Oregon
7121	Resource Development, Protection and Management (rangeland projects)	\$202,899.06	\$170,341.47
7122	Resource Development, Protection and Management (other projects)	274,597.81	2,400.00 <sup>b</sup>
7123	Resource Development, Protection and Management (California OHV projects)	1,027,509.23	.
7130	Public Survey	19,342.81	2,172.35
<b>Total</b>		<b>\$1,524,348.91</b>	<b>\$174,913.82</b>

<sup>a</sup>These expenditure figures are approximate and may understate actual expenditures by California and Oregon because of the accounting system BLM uses. Under this accounting system, expenditures for BLM state offices are accounted for at one of three different levels: state, Denver Service Center, and Washington headquarters. This table does not include any California or Oregon expenditures included in the Denver Service Center or Washington headquarters accounts.

<sup>b</sup>This figure was obtained from a program analyst in BLM's Oregon State Office. BLM's financial management system records showed a negative expenditure amount of \$18,904.78, which the program analyst said was caused by an adjustment to a prior-year expenditure.

Much of the funds spent on resource development, protection, and management projects are contributed by state and county government agencies. For example, all of the OHV funds are provided by the state of California from receipts of state-leveled OHV user fees and gas taxes. BLM provides matching contributions in the form of labor, overhead, and the use of its land. From the program's inception in 1980 through 1987, BLM and the state of California had approved over 70 separate OHV program projects valued at about \$12 million. These projects included the construction and maintenance of roads, trails, and other facilities associated with the use of OHVs. Most of the funds for rangeland improvement projects are received from counties. These funds are derived from federal agency grazing fees that are distributed to the counties where the grazing took place. The counties then return some of these funds to BLM for rangeland improvement projects. Funds for wildlife and other conservation projects are provided by various entities, including state and local governments. For example, the state of California provides funds obtained from that state's environmental license plate fund and the state's income tax check-off program.

The contributed fund account entitled "Public Survey" is used mainly for surveys of mining claims wherein the owners have applied for patents. It also includes surveys for land purchases, land exchanges, and timber sales. BLM expended over \$500,000 from this account in fiscal year 1987.

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## Contributed Services

BLM does not obtain information on the cost of services contributed by land-use applicants/permittees and land-exchange proponents. However, the BLM state offices submit annual reports that include estimates of the value of one such service—archeological work completed by contractors hired by land-use and land-exchange proponents. These estimates are made by BLM for inclusion in an annual report to the Congress on federal agencies' archeological and historic preservation programs, as required by the Archeological Resources Protection Act of 1979 (Public Law 96-95). BLM state offices estimated that in fiscal year 1986, the proponents spent more than \$574,000 for field studies to identify and evaluate archeological sites.

BLM does, however, monitor the amount of time provided by volunteers and estimates the value of their services, along with the associated costs to BLM for supervision and support materials. For fiscal year 1987, BLM had 8,994 volunteers who contributed 515,258 hours of work having an estimated value of \$4.9 million. Services contributed included maintaining and constructing trails and campgrounds, improving wildlife habitat, and inventorying cultural resources.

The following is information on the services most commonly provided by land-use and land-exchange proponents: archeological surveys, environmental impact and threatened and endangered species studies, and land appraisals.

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## Archeological Surveys

Archeological surveys are generally required for every surface-disturbing activity on BLM land. While BLM employs archeologists, it also allows land-use proponents to hire third-party archeological contractors to complete required surveys. In these instances, the contractor must receive a BLM permit before beginning field work. Before issuing the permit, BLM reviews the contractor's experience and qualifications; after the field work is complete, BLM reviews and approves or rejects the contractor's report.

BLM state offices report annually on the amount of archeological survey work completed by their own staffs and by contractors. The most recent report indicates that almost one-half of the acres surveyed during fiscal year 1986 were surveyed by contractors, as shown in table I.5. About 45 percent of the acres surveyed in California and about 15 percent of the acres surveyed in Oregon were surveyed by contractors.

Appendix I  
Extent of Nonfederal Funds and Services

**Table I.5: Acres Surveyed for Archeological Sites by BLM Staff and Contractors**

	Number of acres	Percent
<b>Nationwide</b>		
Surveyed by BLM	289,078	51
Surveyed by contractors	277,722	49
<b>Total</b>	<b>566,850</b>	<b>100</b>
<b>California</b>		
Surveyed by BLM	25,836	55
Surveyed by contractors	21,297	45
<b>Total</b>	<b>47,133</b>	<b>100</b>
<b>Oregon</b>		
Surveyed by BLM	32,214	85
Surveyed by contractors	5,756	15
<b>Total</b>	<b>37,970</b>	<b>100</b>

Note: Surveys were performed at a Class III level, which involves on-ground surveys of 100 percent of an area.

BLM does not have access to actual data on the cost of third-party contracts issued by land-use and land-exchange proponents for archeological work. However, BLM's state offices estimated, in their annual reports for fiscal year 1986, that third-party contractors were paid more than \$574,000 for field studies to identify and evaluate archeological sites.

According to the State Archeologist in BLM's California State Office, land-use proponents frequently hire third-party contractors to conduct archeological surveys, rather than wait for BLM to conduct the surveys, in order to expedite the land-use application process. He said that proponents rarely contribute funds to BLM to conduct archeological surveys because this does not expedite the process very much—i.e., BLM's workload is so heavy that BLM would generally contract out the work even if proponents did contribute funding. He also told us that the use of contributed funds or services in completing archeological clearances is specifically allowed under the rights-of-way program and that this practice has developed over time in other programs because BLM staff archeologists cannot keep up with developers' demands. He estimated that between 85 percent and 90 percent of BLM's archeological surveys in California are conducted as a result of specific land-development projects.

BLM's State Archeologist in Oregon told us that most of Oregon's archeological surveys occur in the western part of the state under the timber

sales program. He said that BLM archeologists conduct most archeological work in Oregon because the timber program is BLM-initiated,<sup>2</sup> and the workload is such that they can do it themselves. He knew of only one project in which the proponent hired a third-party contractor to complete the archeological survey, and he was not aware of any proponents having contributed funds to have BLM conduct archeological studies.

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### Environmental Impact Statements and Threatened and Endangered Species Studies

BLM has no Bureau-wide data on the number and/or value of environmental impact statements (EISS) and threatened and endangered species studies contributed by land-use and land-exchange proponents. However, we did obtain some information at the BLM field offices we visited. At BLM's California State Office, an environmental specialist told us that land-use activities on BLM lands in California during fiscal year 1987 required less than 10 EISS and that most of those were performed by third-party contractors. Several of the EISS were for proposed mining operations and a couple were for pipeline rights-of-way. The state of California has its own requirements for EISS, but BLM often cooperates with the state and requires land-use applicants to prepare only one EIS to meet both state and federal requirements. At the California Desert District Office, a planning and environmental specialist told us that about 60 percent of the EIS work performed by contractors was for EISS done for, and contracted by, the state of California (and accepted by BLM). The other 40 percent was contracted for by the land-use applicant.

In BLM's Oregon State Office, the only contracted EIS work the BLM staff could recall involved power transmission lines. The last contracted EIS, done about 5 years ago, was done jointly for BLM, the Department of Energy, and the state of Oregon.

A wildlife biologist in BLM's California Desert District Office told us that when threatened and endangered species studies are required, they are included in the contract for environmental impact work.

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### Land Appraisals

According to BLM's Chief Appraiser, the demand for appraisals related to exchanges now far exceeds the BLM staff's ability to do them, and it has become standard practice within the agency for land-exchange proponents to obtain appraisals from private appraisers the proponents

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<sup>2</sup>BLM solicits bids for timber on specified tracts of land, and any prerequisite studies must be completed before the request for bids is sent out.

select and pay. Proponents also provide funds to BLM to select appraisers and pay for appraisals, but this is done less frequently.

BLM's rationale for using appraisals contracted for by the land-exchange proponent is based on the current administration's policy of using cost-sharing as much as possible. BLM's policy, as it applies to land exchanges, was reiterated in its fiscal year 1988 Proposed Annual Work Plan Directives, which state in part that:

"Cost sharing with State and private exchange proponents is essential and is to be decided before processing begins. Such may take the form of cost reimbursement or services in kind, e.g., appraisals . . . ."

According to the senior appraiser in BLM's California State Office, the greatest number of land appraisals has involved determining the value of mountaintop sites leased for communication facilities; however, appraisals for land exchanges are the second most frequent type of appraisal done. In fiscal year 1986, 122 appraisals were conducted for BLM lands in California for various reasons, as shown in table I.6.

Table I.6: Summary of Appraisals in California

Reason for appraisal	Appraisals		Acres	
	Number	Percent	Number	Percent
Communication site leases	35	29	n/a <sup>a</sup>	n/a <sup>a</sup>
Land exchanges	31	25	71,549	63
Road easements	21	17	63	0 <sup>b</sup>
Land sales	12	10	1,187	1
Land acquisitions	11	9	41,221	36
Other purposes	12	10	402	0 <sup>b</sup>
<b>Total</b>	<b>122</b>	<b>100</b>	<b>114,422</b>	<b>100</b>

<sup>a</sup>Acres of communication site leases were not recorded, but these sites are generally less than an acre in size.

<sup>b</sup>Actual figure is less than 1 percent.

Contractors were involved only in appraisals for land exchanges and acquisitions. However, as table I.7 shows, these appraisals accounted for 95 percent of the acreage recorded for appraisals conducted in 1986.

**Appendix I**  
**Extent of Nonfederal Funds and Services**

**Table I.7: Appraisals Completed by BLM and Contractors**

	Appraisals		Acres	
	Number	Percent	Number	Percent
<b>Land exchanges</b>				
Appraisal by BLM	14	45	3,429	5
Appraisal by contractors	17	55	68,121	95
<b>Total</b>	<b>31</b>	<b>100</b>	<b>71,550</b>	<b>100</b>
<b>Land acquisitions</b>				
Appraisal by BLM	8	73	523	1
Appraisal by contractors	3	27	40,698	99
<b>Total</b>	<b>11</b>	<b>100</b>	<b>41,221</b>	<b>100</b>
<b>All appraisals</b>				
Appraisal by BLM	102	84	5,603	5
Appraisal by contractors	20	16	108,819	95
<b>Total</b>	<b>122</b>	<b>100</b>	<b>114,422</b>	<b>100</b>

BLM's Oregon State Office completed 43 land exchanges during the 7 calendar years 1981 through 1987, accounting for about 361,000 acres. A realty specialist in BLM's Oregon State Office estimated that one-half of the appraisals for these exchanges had been done by contractors hired by exchange proponents.

Since February 1986, BLM's Oregon State Office policy has required that cost-sharing arrangements be made with land-exchange proponents prior to case processing. Costs that are subject to cost-sharing include land appraisals, newspaper publication charges and, in some cases, timber appraisals. Contributed services have been the predominant choice of proponents to meet the cost-sharing requirement.



# Controls Over Funds Provided by Land-Use Applicants and Permittees

At the time of our review, some of the accounts BLM maintains for individual cost recovery and contributed fund projects contained incorrect or negative balances. BLM personnel said that such situations usually result from charging an expenditure to a wrong project, not adjusting an account when an expenditure differs from the amount obligated, and incurring expenses on a project before the funds are received.

The Department of the Interior's Office of Inspector General and GAO have reviewed the internal controls over BLM's overall financial accounting system but not specific controls over the cost recovery and contributed funds. In 1986, however, we did review some temporary-use permits issued by BLM in Southern California. As a result of that review, we concluded that, among other things, BLM had not charged the land-users for certain costs related to permit processing and monitoring, or environmental studies, as required under the cost recovery provisions of existing regulations.

## Apparent Errors in Project Accounts

BLM instructions state that funds will not be expended on a cost recovery or contributed fund project until the funds needed to cover BLM's project-related costs are received. However, we noted that cost recovery and contributed fund project accounts contained negative balances as of September 30, 1987.

Negative project account balances may be caused by field office staff coding errors or the field office staff may expend project funds before BLM has received them. For example:

- A special funding analyst in BLM's California State Office said that although contributed and cost recovery fund deposits and expenditures are identified with specific project account numbers, the BLM field office staff sometimes charge a wrong project account number. He said that, as a result, project account balances are not always accurate.
- The project account for an oil pipeline rights-of-way (cost recovery) project in the California Desert District had a negative balance of \$11,906.70 as of September 30, 1987. The project manager contacted the pipeline company in mid-November to determine why BLM had not received payment on its quarterly billing and was told that the bill had been misaddressed by BLM, which in turn caused routing delays in the company's office; consequently, the appropriate staff person had not received the bill. The BLM project manager was also told that the bill had just been located and that the company would pay it promptly. In the

interim weeks, BLM staff had continued expending funds from this project account.

The Chief, Financial Management Systems Branch, at BLM headquarters said that incorrect account balances most often occur because field office staff do not adjust their records when an expenditure differs from the amount that had been obligated based on an estimated cost. Project officers at the state, district, or resource area office level are responsible for (1) reviewing the monthly FMS funds status reports prepared by the Denver Service Center and for identifying and correcting any errors and (2) closing accounts for completed projects. However, the Chief noted that not all project officers do this regularly; consequently, the FMS reports will continue to carry an incorrect account balance until the field office initiates a corrective action. For example, to clear a positive account balance for a completed project, the field office must either return the remaining funds to the contributor or applicant or transfer the funds to another project account (with the permission of the contributor or applicant). To clear a negative account balance for a completed project, the field office must either collect more money from the provider or use appropriated funds to cover the difference.

Field office staff in California told us that they reconciled their project records with FMS reports monthly. In the California Desert District, a program analyst prepared monthly summaries of project balances shown in the monthly FMS report. If negative balances were shown, the analyst would wait a couple of months to see if the problem was corrected—for example, it may have occurred because of a delay in the billing or receipt of a payment. If the negative balance persisted, the analyst would contact the project manager to determine the reason and take any corrective action.

A program analyst in BLM's Oregon State Office said the office did not generally track or reconcile discrepancies in contributed funds accounts because this is a district office responsibility, and because of the small amounts of dollars involved. However, in February 1987, the Oregon State Office did send a memorandum to district offices that had negative balances in FMS accounts, asking them to review the accounts and either obtain additional contributions or charge the applicable appropriated fund account. The program analyst told us that the negative account balances were generally caused when expenses were charged to the wrong account but that sometimes expenditures were made from an account with insufficient funds to cover the expenditures. The analyst

added, however, that the district offices generally did correct these accounts by the end of the fiscal year.

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## Internal Control Reviews

The Department of the Interior reports on BLM's financial accounting system in its annual reports to the Congress required by the Federal Managers' Financial Integrity Act (FMFIA). Both the Department of the Interior's Office of Inspector General and GAO have reviewed BLM's internal controls over FMS as an accounting system but not over contributed or cost recovery funds specifically. In addition, in 1986 we reviewed the issuance of temporary-use permits by four BLM resource area offices.

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## Federal Managers' Financial Integrity Act

The Congress enacted FMFIA in 1982 to require agency heads to establish a program for evaluating, improving, and reporting on the status of their agencies' internal controls and accounting systems. The act requires federal agencies to establish controls in accordance with standards prescribed by the Comptroller General. These standards provide, in part, that revenues and expenditures are to be properly recorded and accounted for. Agency heads must report annually to the President and the Congress on whether their internal control systems fully comply with the act's requirements. To the extent that systems do not comply, each report is to include a description of any material weaknesses in the controls, along with plans to correct such weaknesses.

According to the Chief of BLM's Financial Management Systems Branch, FMS was implemented in 1985. He said that the FMS has been reviewed in a general sense, primarily with regard to its accuracy, and that the Department's FMFIA reviews evaluated overall administrative controls and procedures. These evaluations, he said, would have included the FMS accounts for contributed and cost recovery funds. He also told us that his perception is that internal controls over the accounts for contributed and cost recovery funds are adequate, and he believes that the FMS accurately records the amounts deposited into and disbursed from these accounts.

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## GAO Reviews

For fiscal year 1984, the Department of the Interior reported to the Congress that BLM's accounting system was in conformance with FMFIA requirements. However, our review of Interior's second-year efforts to implement the act found that BLM, along with six other Interior bureaus

and services, did not include the processing of valid and invalid transactions through the agencies' accounting systems as part of their evaluations.<sup>1</sup> The dominant form of testing consisted of verifying the accuracy of transactions in the accounting records, rather than also ensuring that the system rejects invalid transactions—those that are illegal, improper, inaccurate, or incomplete.

In 1986, the Chairman, Environment, Energy, and Natural Resources Subcommittee, House Committee on Government Operations, asked us to review temporary land-use permits issued during fiscal years 1982-85 for wind anemometers and movie and television filming at four BLM resource area offices in Southern California. Among other things, we reported that the records indicate that BLM did not charge for (1) monitoring the shooting or cleanup for any of 30 movies and (2) all permit processing and monitoring, or environmental study costs, as required under the cost recovery provisions of existing regulations.<sup>2</sup> We have not, however, specifically reviewed BLM's internal controls over cost recovery or contributed funds.

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## Office of Inspector General Reviews

Interior's Office of Inspector General has reviewed the Department's implementation of the internal control evaluation program required by FMFIA and has issued internal reports and made recommendations for strengthening and improving the program. However, the Inspector General has not specifically reviewed BLM's internal controls over contributed or cost recovery funds.

The Inspector General's office is currently conducting a nationwide review of user fee assessments and collections (including cost recovery funds) in BLM and two other Interior agencies. The objectives of that review include (1) identifying whether agencies are using the correct methods of assessing charges and (2) determining whether there are situations in which agencies should be charging fees but are not. Field work at BLM is scheduled for January through March 1988, and the final report is expected to be issued in the summer of 1988.

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<sup>1</sup>See *Interior's Implementation of the Federal Managers' Financial Integrity Act* (GAO/RCED-86-25, Oct. 31, 1985).

<sup>2</sup>See *Federal Land Management: Permits for Filmmaking and Wind Studies in Southern California* (GAO/RCED-86-135BR, Apr. 4, 1986).

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## Applicant Reviews

The Financial Management Systems Branch Chief said that BLM also relies on the providers of the funds to take an interest in how their funds are being used and to complain if they believe that there is a problem. He called this a "built-in audit factor." Moreover, an applicant, permittee, or contributor can have its own auditors review expenditures BLM charged against its project account. For example, the state of California is authorized to audit BLM records for projects receiving state off-highway-vehicle funds.

When we visited BLM's California Desert District Office in November 1987, BLM staff told us that the district office was awaiting such audits on about five completed projects and that the permittee for a major oil pipeline rights-of-way project administered by the California Desert District Office staff had completed two audits of BLM's project records. According to the BLM project manager, these two audits disclosed no problems. BLM staff in the Oregon State Office did not remember any instance when a provider of contributed or cost recovery funds audited the state office's project records.

# BLM's Monitoring and Review of Contributed Services

Prior to the approval of a land-use permit application or land-exchange proposal, BLM must ensure that requirements contained in various laws, such as the National Environmental Policy Act of 1969 (Public Law 91-190), as amended; the National Historic Preservation Act of 1966 (Public Law 89-665), as amended; and the Endangered Species Act of 1973 (Public Law 93-205), as amended; will be met. This may require one or more special studies (e.g., EISS or environmental assessments, archeological surveys, mineral evaluations, and wildlife studies). BLM instructions state that, when these studies are provided by the land-use applicants or land-exchange proponents as contributed services, BLM's field office is to monitor the third-party contractor's performance and review the contractor's final report to ensure that the study was adequate.

A planning and environmental specialist in the California Desert District Office told us that when an environmental impact study is to be done by a contractor, on a project that does not have to comply with California's environmental requirements, BLM sets up the criteria for selecting the contractor and the contractor reports directly to BLM. BLM also enters into a memorandum of understanding with the contractor setting up the roles, conditions, and procedures to be followed in preparing the EIS or assessment. However, when BLM works with state agencies on a project that must also comply with California's environmental requirements, the state rather than the land-use applicant hires the contractor.

According to the Environmental Analysis Handbook, a handbook issued by BLM's California State Office, allowing contractors to provide EISS does expedite land-use application processing. However, a contractor may be less responsive to BLM direction since it is under contract to the applicant rather than to BLM. The handbook further notes that "some California State agencies view this contractor . . . [/] applicant relationship as too close, and will reject it . . . as a conflict of interest."

BLM procedures for monitoring and reviewing archeological surveys and threatened and endangered species studies consist principally of reviewing the contractor's qualifications and experience and the reviewing and approving (or rejecting) the contractor's report. Field office staff in BLM's California Desert District Office told us that for the most part, these reviews were conducted at their desks and that they did very little on-the-ground monitoring of the contractor's field work because of the lack of time to do so.

In June 1987, BLM issued guidance on the preparation, documentation, and review of real estate appraisals. This guidance addresses the

appraisers' qualifications, the content of the appraisal report, and the extent of the appraisal review. BLM state office reviews of contracted land-exchange appraisals usually consist of a check of the qualifications and experience of the appraiser and a review of the completed appraisal report. These reviews are to ensure that the appraisals have been prepared according to BLM appraisal standards, comply with accepted appraisal principles and techniques, and document and substantiate the appraised value. A written statement which includes a determination that the appraiser has been impartial and had no interest in the appraised property is also required.

BLM's Chief Appraiser said that although BLM guidelines require state office approval of the appraiser, some state offices do not require exchange proponents to obtain their approval before hiring an appraiser. He also believed that in some cases, proponents "shop around" for appraisers who will provide higher appraisals.

Appraisal officials in California and Oregon said they were not aware of any problems that involved third-party contract appraisals in those states. The senior appraiser in BLM's California State office told us that he conducts desk reviews of all appraisals and field checks some. In reviewing appraisals, he said that he looks primarily at the appraisers' experience and professional certifications. In the Oregon State Office, we were told that all appraisals are reviewed by the office's State Appraiser to determine that they meet BLM standards.

In June 1987, the BLM Oregon State Office's appraisal function was the subject of a management control review led by BLM's Chief Appraiser. The review report concluded that the appraisal function was being managed in a generally satisfactory manner and in compliance with BLM regulations and policies. However, it noted various procedural flaws that reflected a weakness in some internal controls, flaws that were primarily administrative and did not result in measurable loss to the government.

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