U.S. Department of the Interior
Office of Inspector General

MAJOR MANAGEMENT AND PERFORMANCE CHALLENGES FACING THE DEPARTMENT OF THE INTERIOR, AS IDENTIFIED BY THE OFFICE OF INSPECTOR GENERAL FISCAL YEAR 2004

United States Department of the Interior

Office of Inspector General
Washington, D.C. 20240

October 12, 2004

Memorandum

To: 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, Fiscal Year 2004

In accordance with the Reports Consolidation Act of 2000, we submit the attached summaries of issues we have determined to be the most significant management and performance challenges facing the Department of the Interior (Department or DOI), to be included in the Department's Performance and Accountability Report for fiscal year 2004. The challenges listed reflect what the Office of Inspector General (OIG) considers to be significant impediments to the Department's efforts to promote economy, efficiency, and effectiveness in its agencies' management and operations.

We view these issues as DOI's top challenges because they are important to the Department's mission, involve large expenditures, require significant management improvements, or involve significant fiduciary relationships. The Department conducts a variety of activities that cut across bureau and program lines.

In our opinion, by developing strategies to identify and correct deficiencies, especially in cross-cutting activities, the Department can enhance and improve its overall operational effectiveness and efficiency. Our latest work in these areas is described in our recent Semiannual Reports to Congress.

Attachment

Office of Inspector General Update for 2004 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. Although the Department has made some progress, internal control weaknesses continue to hinder DOI financial management systems. As a result, tests performed by the auditors assigned to conduct the Departmental consolidated audit disclosed instances where the Department's financial management systems did not substantially comply with the Federal Financial Management Improvement Act.

The Department has several initiatives aimed at improving financial management including: the Financial and Business Management System (FBMS), Performance and Budget Integration, and Activity Based Costing (ABC). 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

In 2003, DOI launched a comprehensive plan to transform its financial management functions and create a world-class financial management structure that links planning and budgeting with performance results; performs efficient and reliable transaction processing; recruits, trains, and rewards top financial management talent; and focuses on analysis to improve the business information available to program managers. The cornerstone of the Department's plan to transform financial management is the FBMS. FBMS will replace a variety of outdated, stand-alone, mainframe-based systems that are costly to operate and difficult to secure, cannot provide timely financial and performance information, and do not comply fully with all financial system standards. This system will ultimately host an ABC system Department-wide. Computer Labs have been set up to enable staff to test the new FBMS software. In addition, a capstone business case is being prepared for FBMS that will discuss other systems that will be retired. About 160 systems will be affected by the implementation of the FBMS, and currently, 80 of those systems have been identified for retirement.

FBMS will be phased into implementation over the coming years, starting in fiscal year 2005 and continuing through fiscal year 2008. Successful implementation of FBMS will be key to addressing DOI's financial management challenges.

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 DOI makes budget and performance integration particularly difficult.

DOI's Strategic Plan for Fiscal Years (FY) 2003-2008 made significant changes to DOI's goals and performance measures as part of an effort to aid in budget and performance integration. However, a number of challenges still remain. Of the 29 DOI programs in the FY 2005 budget that received Office of Management and Budget (OMB) Program Assessment Rating Tool evaluations, 12 had ratings of "Results Not Demonstrated" and most did not have efficiency measures. DOI needs to continue to focus on developing useful performance measures, especially measures of cost effectiveness.

Activity Based Costing

Activity Based Costing (ABC) comprises management tools that will help DOI better understand the costs of conducting business because it allows management to examine how program activities consume resources and produce outputs. In addition, ABC work processes are broken down into activities so that the cost and performance effectiveness of the activities and processes can be measured.

Formal Department-wide ABC implementation started in October 2003, when DOI employees began documenting their time, purchases, travel related costs, and training to the work activities they performed. Employees used the time and attendance systems, financial data recording processes, and methodologies specified by their bureaus/offices to capture time and expenses against work activities to record outputs.

Because DOI is so early in the implementation process, it is difficult to assess how effective the implementation of ABC has been. DOI needs to monitor the implementation of ABC and make modifications, as necessary, to ensure that ABC provides useful information.

2. Information Technology

The Department has made information technology (IT) security maintenance a high priority for all bureaus. As a result, DOI has significantly improved its information security program, as demonstrated by the increase in the percentage of systems that were certified and accredited from 6 percent in 2003 to more than 80 percent in 2004. To foster this effort, DOI has invested more than $100 million in its security program over the past 3 years. Based on these efforts, we believe that DOI's information security program generally meets the requirements of the Federal Information Security Management Act (FISMA) and that most of its information systems have levels of security to safeguard DOI information and assets. DOI has made further efforts to (1) improve the IT business cases; (2) prioritize IT investments; and (3) develop a strategy to fund enterprise IT investments. DOI is continuing to make progress in strengthening IT security. For example, DOI has developed an information technology security program that meets the requirements of FISMA. DOI evaluates the perimeter security of its computer systems on monthly basis and currently shows zero vulnerabilities when measured against an industry standard. Also, DOI has established security processes and documentation for its Indian Trust systems.

Although improvements have been made to information system security controls over financial management systems, more needs to be accomplished to ensure that all DOI entities fully comply with all Federal financial management systems requirements specified in Appendix III to OMB Circular A-130, "Management of Federal Information Resources." In its audit report on the Department's consolidated financial statements for fiscal year 2003, the independent certified public accounting firm of KPMG LLP identified a reportable conditions, which did not represent a material weakness, pertaining to the application and general controls over financial management systems. Therefore, as a whole, the Department does not fully comply with, or meet the objectives of, Section 4 of the Federal Financial Management Improvement Act and OMB Circular A- 127, "Financial Systems." The Department has implemented a remediation plan to resolve these weaknesses and expects to complete corrective actions in fiscal year 2005.

Our review, "Improvements Needed in Managing IT System Security, National Park Service (NPS)," dated March 29, 2004, stated that NPS's information technology systems were vulnerable despite improvements at the time. NPS lacked the complete foundation for an effective IT security program, which is necessary to ensure that issued IT security directives are consistently followed. Although NPS had previously established an agency Chief Information Officer and implemented an IT asset management system, NPS agreed the report's 18 recommendations would further improve its IT system security.

3. Health, Safety and Emergency Management

Annually, DOI has nearly 260 million visits to national parks, 68 million visits to public lands, and 39 million visits to national wildlife refuges. In addition, there are 90 million visitor days of use at 308 Bureau of Reclamation (BOR) recreation sites. Accordingly, DOI must protect these visitors, hundreds of thousands of employees and volunteers, thousands of facilities, and millions of acres of property from both internal and external threats. 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. Specifically, enhancements are needed in DOI's radio communications and NPS's structural fire program, hazardous material program, and security surrounding national icons.

Radio Communications

DOI reported that effective radio communications are critical to employee and public safety and the efficient management of the parks and public lands. The current wireless telecommunications program in some bureaus does not effectively support bureau and public safety operations, does not comply with Departmental management directives, and is not funded to achieve timely compliance. The Department will develop and implement a plan to meet employee and public safety objectives; restore program 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 FY 2005.

NPS's Structural Fire Program

DOI also reported that NPS's Structural Fire Program does not provide adequate protection of employees and visitors, structures, and resources from the effects of fire as required by Director's Order No. 58. NPS will develop and implement a comprehensive structural fire program plan as directed by Congress. The plan will include specific milestones to address the operational, organizational, technical, and staffing deficiencies.

NPS's Hazardous Material Program

In fiscal year 2003, DOI reported that the lack of an adequate oil and hazardous material incident preparedness and response program seriously endangers the safety of the public, employees, and park resources. NPS will develop and implement a comprehensive corrective action plan to ensure full and complete compliance with applicable laws, regulations, executive orders, and policies to ensure the safety of the public, employees, concessionaires, and park resources.

Security Surrounding National Icons

Recently, we reported on several significant Department-wide issues that garnered extensive Congressional, media, and public attention. Of particular note, was our report on security surrounding national icons, which was our third in a series of assessments of the Department's Homeland Security efforts. This assessment focused on the status of security at the National Park Service's Icon Parks, which have been designated as key assets by the Department. Based on our report, the Office of Law Enforcement and Security (OLES) installed a security professional and has been involved with the implementation of homeland security and related Departmental policies. However, NPS has yet to put in place a security professional or embrace many of the recommendations presented by OLES to enhance security. We continue to find NPS officials somewhat nonchalant and lackadaisical in their approach to security and unconvinced of the necessity of security measures. Specifically, NPS delayed, postponed, or ignored steps to protect national icons because funding for enhanced security competes with other park projects.

DOI Law Enforcement
In response to our observation in 2001, that DOI's law enforcement activities were in a "disquieting state of disorder," OLES and the bureaus have been working towards implementing 25 Secretarial directives to improve law enforcement. There has been some progress in improving the oversight and coordination of the law enforcement programs. Each bureau now has senior-level law enforcement managers in place and an internal affairs office to address integrity-related issues. Also, a Department-wide policy to provide guidance on internal affairs will soon be issued. However, we continue to be disappointed with the overall pace of progress, especially in the area of officer safety.

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 that lack adequate funding for repair and maintenance. According to the January 2003 Government Accountability Office (GAO) report titled, "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 has been postponed for years due to budgetary constraints and that the deterioration of facilities can adversely impact public health and safety, reduce employee morale and productivity, and increase the need for costly major repairs or early replacement of structures and equipment. In February 2002, DOI estimated that the deferred maintenance backlog was between $8.1 billion and $11.4 billion. The maintenance needs for the National Park Service 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 NPS. Also, DOI needs to provide long-term leadership to keep money available to address the long-standing issues of deferred maintenance. For example, 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.

By fiscal year 2005, DOI plans 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 5-year Deferred Maintenance Plan and Capital improvement Plan;
- Repair, replace, and relocate facilities to good condition, and reduce deferred maintenance to established goals.

Currently, DOI has adopted a computer-based facilities maintenance management system, which it tested at multiple locations during fiscal year 2002. The Department 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.

The 2005 budget request of $724.7 million for park facilities continues the President's commitment to address the deferred maintenance backlog in national parks. Increases include $10.0 million for the park base operations to address facility maintenance, and $13.2 million for repair and rehabilitation priorities identified through the facility condition index performance measure. In addition, the President's budget assumes $310.0 million for park roads funding in the surface transportation reauthorization proposal and $77.5 million in recreation fee receipts obligated for maintenance. The 2005 budget will bring total investment in park facilities to $3.9 billion over the past four years, staying on track to meet the funding commitment of $4.9 billion over five years.

5. Responsibility to Indians and Insular Areas

According to the GAO report, "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 it provides more than $750 million annually for basic tribal services, such as social services, tribal courts, and natural resource management. Over the years, GAO and OIG have reported on DOI's poor management of Indian trust assets. Despite DOI's efforts, inadequate information systems and internal controls, as well as other weaknesses, prevent DOI from completely ensuring that trust assets 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

Indian Trust Assets - Managing Indian fiduciary trust assets encompasses four overall activities: (1) accounting for trust fund collections, disbursements, and investments by the Office of Special Trustee for American Indians (OST), (2) managing trust land by the BIA, (3) processing probates and maintaining reliable and current ownership records by BIA and the Office of Hearing and Appeals, and (4) maintaining and preserving adequate trust records by DOI offices.

In its "Compliance with Legal and Regulatory Requirements," for FY 2002 and 2003, DOI reported that OST's conversion to a commercial trust fund accounting system and the implementation of enhanced OST management controls will help ensure that trust funds are properly accounted for. The most recent audit of the trust funds financial statements did not identify any significant deficiencies in the accounting for funds after they were deposited into trust fund accounts.

However, the independent certified public accounting firm of KPMG LLP, under contract with the OST, rendered qualified opinions on the fiscal year 2003 financial statements for the Tribal and other trust funds and Individual Indian Monies trust funds managed by OST. KPMG qualified its opinions because of inadequacies in certain DOI trust-related systems and processes. OST is dependent on BIA for timely and accurate billing and collection of trust funds derived for leasing trust land and for accurate land ownership information for the distribution of trust funds. KPMG also qualified its opinion because certain parties for whom OST holds monetary assets in trust do not agree with the balances recorded by OST, and have filed or are expected to file claims against the U.S. Government.

We believe that the remaining items to correct the material weakness in trust asset management at this time are to resolve historical accounting concerns, to improve internal controls over the billing and collection of lease revenue, to eliminate the backlog of unprocessed probates, to update land ownership records, and to complete a comprehensive records management program for BIA and OST. The Department plans to continue to improve its trust policies, procedures, systems, and internal controls and provide training to achieve the goals of the Comprehensive Trust Management Plan by FY 2006. The Comprehensive Trust Management Plan was developed to guide the design and implementation of integrated trust reform efforts. The OHTA plans to continue its reconciliation efforts for individual Indian money accounts during FY 2005-2006.

Indian Country Detention Facilities - Our assessment of Indian Detention Facilities (Interim Report No. X-EV-BIA-0114-2003, issued in April 2004, and Report No. 2004-I-0056, issued in September 2004) informed the Department of the deplorable conditions existing at some of the detention facilities that may lead to life-threatening situations. We found multiple deaths, suicides, attempted suicides, and prisoner escapes that were either undocumented or not reported to BIA Office of Law Enforcement Services detention program. We believe it is imperative that BIA takes immediate action to alleviate potentially life-threatening situations at its detention facilities.

Native American Schools - The Bureau of Indian Affairs funds or operates schools in 23 states, providing education services to nearly 48,000 students attending 183 elementary and secondary schools and dormitories, and supports 29 tribally controlled community colleges, universities, and post-secondary schools. Many of the schools, however, were built in the 1940s and 1950s and have been poorly maintained, with inadequate roofing and floors, plumbing, heating, and lighting. They are also obsolete and lack critical capabilities such as science and computer labs.

To address the problem of inadequate facilities, Congress increased funding to replace and repair Native American schools. This increased funding provides for about 6 replacement projects and 10 major repair projects each year. BIA's school construction program has proven beneficial to Native American communities and students. Six of the seven replacement projects funded from fiscal years 1998 through 2000 have been completed.

DOI reported that the fiscal year 2005 budget request includes $229.1 million for school construction to fund the remaining five replacement schools on the current priority list, as well as several major improvement and repair projects. BIA is making significant progress in addressing the Indian school maintenance backlog. Together with previous appropriations, the funds sought for 2005 will improve the facility condition index for BIA schools. Approximately 60 percent of schools will be in fair or good condition, as compared with 35 percent in 2001. The budget request also includes $522.4 million for elementary and secondary school operations and continues the President's commitment to "Leave No Child Behind."

Funds Provided For Tribal Services - 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 BIA is the single audit reporting package to the Federal Audit Clearinghouse. The single audit presents information on tribes' financial compliance with funding agreements and controls over Federal funds. During fiscal year 2003, OIG quality control reviews of single audit reporting packages revealed that about 70 tribes were delinquent in submitting their packages to the Federal Audit Clearinghouse during 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 poor reporting practices to the Office of Insular Affairs (OIA) that unnecessarily delayed projects.

A February 2003 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. Although OIG is authorized to audit all revenues and expenditures of Insular Area governments, DOI does not have the authority to enforce audit findings and recommendations for funds provided by other Federal agencies or for funds provided by DOI that have Federally imposed entitlement conditions. While, 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.

We also examined the process used by the Office of Insular Affairs to award and monitor grants to Insular Areas. OIA awards over $50 million in grants each year that provide Insular Areas with technical and financial assistance to develop more dynamic economies and improve the quality of life for the citizens. While OIA properly processed grants, we found that weaknesses in monitoring grants resulted in public projects that were not completed on time, essential services that were delayed or not provided at all, and Federal monies that were wasted.

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 that have been submitted disclosed serious financial management deficiencies. For example, the single audit report on the U.S. Virgin Islands for fiscal year 2001 documented 61 reportable conditions pertaining to Federal programs, of which 39 were classified as material weaknesses.

Currently, OIG is planning to determine whether the Republic of the Marshall Islands is able to comply with the new Compact provisions for procurement management. Also, OIG will continue to explore the potential for corruption in the U.S. Virgin Islands, American Samoa and Guam and continue our outreach program through training ventures to the Offices of the Public Auditor in the Insular Areas.

6. Resource Protection and Restoration

DOI resource managers face the challenge of balancing the competing interests for use of the nation's natural resources. DOI manages 507 million acres, or about one-fifth, of the land area of the United States and 700 million acres of subsurface minerals. Federal lands account for 30 to 35 percent of energy produced in the United States. DOI has jurisdiction over an additional 1.76 billion acres of the Outer Continental Shelf. In addition, DOI manages 542 national wildlife refuges, 388 units of the national park system, 70 national fish hatcheries, 15 national monuments in the national landscape conservation system, and 13 national conservation areas.

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.

According to the GAO report, “Major Management Challenges and Program Risks, Department of the Interior,” DOI needs to improve management of ecosystem restoration efforts. To achieve its Department-wide 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 (1) addressing the growing wild-land 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; (2) restoring the South Florida ecosystem, which includes the Everglades; and (3) controlling and eradicating invasive nonnative species.

7. Revenue Collections

Revenues collected annually vary from $6 to $11 billion, including revenues from energy, minerals, grazing, timber, lands sales, and other revenue producing activities. 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 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.

A March 2003 OIG report entitled “Audit of the Minerals Management Service Audit Offices” (Report No. 2003-I-0023) concluded that MMS’s systems and safeguards over its audit procedures needed improvement and that some of its audit work did not meet Government Auditing Standards. MMS audits represent a significant control over 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. 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 that led to excessive costs. Consequently, project costs increased almost a million dollars, from $3.9 to $4.8 million (23 percent). The excessive contract costs contributed to deficit balances in the park's recreation fee demonstration account in fiscal years 2000 and 2001.

In July 2004, OIG issued a report (No. W-EV-OSS-0075-2004) covering 12 procurements for interrogation, intelligence, logistics, and security services valued at $81 million. The procurements were placed by the Southwestern Branch of the National Business Center's Acquisition Services Division (NBC) and were made under General Services Administration (GSA) schedules for Information Technology and Professional Engineering Services. We concluded that 11 of the 12 procurements were outside the scope of GSA orders and should be terminated. In addition, our report noted that NBC was working with GSA and the Department of Defense to address this situation.

More recently, OIG reported (No. C-IN-BOR-0067-2002) that the Bureau of Reclamation, Contract Administration, Denver Office, did not fully comply with the Federal Acquisition Regulation and other guidance in each of the 15 contract actions audited. As a result of these deficiencies, the Government lacked assurance that it was acquiring goods and services at the most economical prices and that payments made to contractors were accurate.