



United States Department of the Interior

OFFICE OF INSPECTOR GENERAL
Washington, DC 20240

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Memorandum

To: Dirk Kempthorne
Secretary

From: Earl E. Devaney
Inspector General

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

In accordance with the Reports Consolidation Act of 2000, we are submitting what we have determined to be the most significant management and performance challenges facing the Department of the Interior to be included in the Department's Performance and Accountability Report for fiscal year 2008. The challenges listed reflect what the Office of Inspector General considers to be significant impediments to the Department's efforts to promote economy, efficiency, and effectiveness in its bureaus' management and operations.

The top challenges are as follows:

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

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

Attachment

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

1. Financial Management

Sound financial management is critical to providing accurate financial information, managing for results, and ensuring operational integrity. The independent public accounting firm of KPMG LLP, under contract with the Office of Inspector General (OIG), rendered an unqualified opinion on the consolidated financial statements of the Department of the Interior (Department) for fiscal year 2007. However, KPMG identified seven significant deficiencies in internal controls over financial reporting. In addition, KPMG identified one instance where the Department did not comply with laws and regulations, specifically the Single Audit Act Amendments of 1996.

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

Financial and Business Management System

The implementation of the FBMS continues to be a top priority for the Department. FBMS will replace a variety of outdated, stand-alone, mainframe-based systems that are costly to operate and difficult to secure. The current systems do not provide timely financial and performance information, and they do not fully comply with financial system standards. FBMS will replace 27 acquisition systems/instances, 16 finance systems/instances, 43 vendor databases, and 80 property systems.

The Department began implementing FBMS in fiscal year 2005. The original plan was to have the system fully implemented by the end of fiscal year 2008. However, on September 29, 2005, the Department severed its business relationship with BearingPoint, the original FBMS systems integrator. The Department then re-competed and awarded a new contract to IBM Global Services on February 28, 2006. The Department revised the full implementation date from fiscal year 2008 to fiscal year 2012. Based on funding delays in multiple years, an additional deployment year will be required to complete the full implementation.

The Minerals Management Service (MMS) and the Office of Surface Mining Reclamation and Enforcement (OSM) experienced operational problems with the initial deployment of the FBMS core financials module in 2006. However, the system was stabilized, and both bureaus are in their second year of core financials operations. The FBMS acquisition module was deployed to MMS and OSM in 2007 with few operational problems. The FBMS Program is currently working on this fall's deployment to the Bureau of Land Management (BLM) that will include (1) Financial Assistance, (2) Core Financials, (3) Acquisition, (4) Personal Property and Fleet, (5) eGov Travel, (6) eCommerce modules, and (7) the Enterprise Management Information System.

In prior years, the project had received funds from the Department franchise fund. These funds will not be available during the next fiscal year. However, the 2009 budget includes \$83.4 million for FBMS deployment, an increase of \$33.3 million over the 2008 enacted level. Delays in funding due to the likely continuing resolution in 2009 will delay the next deployment to

the U.S. Geological Survey (USGS), and it may extend the FBMS full deployment date beyond fiscal year 2013. The uncertainty of the 2009 budget is a government-wide challenge. The FBMS Program continues to work closely with the Office of Management and Budget (OMB) and the Department's appropriations staff, and support for FBMS remains strong.

Budget and Performance Integration

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

OMB has assessed 70 Department programs, reflecting approximately \$10 billion in annual budget authority. Of these, only eight programs were rated "Effective," and OMB was unable to determine whether several programs, reflecting approximately one-quarter of the assessed spending, were performing satisfactorily due to the lack of reliable performance information. OMB has designated about one in five Department programs as "Results Not Demonstrated." Progress has been made, as shown in the following table, but the Department needs to continue to focus on developing useful performance measures.

2002 to 2008	Programs	FY'08 (\$M)	% Programs	% Budget
Effective	8	597	11%	6%
Moderately Effective	24	3,560	34%	34%
Adequate	25	3,482	36%	33%
Ineffective	0	0	0%	0%
Results Not Demonstrated	13	2,818	19%	27%
	<u>70</u>	<u>10,457</u>	<u>100%</u>	<u>100%</u>

Department of the Interior Response to Office of Inspector General Major Management Challenges - FY 2008

The Department of the Interior is dedicated to sound financial management and is upgrading its financial management environment through the deployment of the Financial and Business Management System, expansion of internal control review activities and continued advances in the integration of budget and performance.

Financial and Business Management System

Despite the challenges of delays in the schedule and the 2009 continuing resolution, the implementation of FBMS continues to be a top priority for the Department. With deployment of the system to BLM in 2008, the Department will be able to demonstrate the effectiveness of operating an

integrated business system across multiple bureaus of varying sizes, and with lessons learned, facilitate deployment to the remaining bureaus and offices.

Budget and Performance Integration

With the OIG's assistance, the bureaus were successful in moving two previously rated Results Not Demonstrated (RND) PARTs to Adequate and Moderately Effective. A third PART increased its rating this year from Adequate to Moderately Effective. Through collaboration with OMB, 4 PARTs have been consolidated and one has been reassigned, reducing the number of RND's to 10. Of the 10 remaining RND PARTs, many have performance measures under review at OMB.

2. Information Technology Security

As we reported in our 2007 statement summarizing the Department's major management and performance challenges, the Department continues to strive toward a comprehensive Information Technology (IT) Security Program which complies with the Federal Information Security Management Act (FISMA). However, continued non-compliance with several key elements of federal information policy has left the Department struggling to meet information security and privacy mandates. The decentralized and fragmented organizational structure of the IT program has left the Department with limited ability to assure the protection of its sensitive data.

In 2007, we made more than 125 recommendations to improve IT security. In 2008, we reviewed progress in implementing those recommendations at BLM, the Bureau of Reclamation (BOR), the Office of the Secretary, the National Business Center (NBC), USGS, and MMS. Our reviews revealed little substantive progress in implementing many corrective actions. Our 2008 Protection of Sensitive Information evaluations conducted at BOR, the U.S. Fish and Wildlife Service (FWS), the National Park Service (NPS), NBC, USGS, and MMS revealed that many areas of the Department remain vulnerable to rudimentary and unsophisticated attacks that result in loss of data, compromise of sensitive information, and theft of equipment.

The Enterprise Services Network infrastructure continues to provide solid perimeter security for the Department's network. However, lack of control within individual applications and systems undermines the Department's efforts to secure its data. For example, the Department recently implemented a new monitoring capability at its Internet gateways. The monitoring, while still immature, routinely detects sensitive information, including personally identifiable information, flowing freely across the network in clear, readable format. As we reported in our 2007 statement summarizing the Department's major management and performance challenges, the Department still has not fully implemented continuous monitoring and system testing, which is an essential part of the federal Certification and Accreditation guidance.

Management of the Department's Information Technology program, in particular its Information Security Program, is fragmented and highly decentralized. As such, there is loss of authority and accountability. For example, FISMA also requires the Department Chief Financial Officer (CIO) "be delegated the authority to ensure compliance with FISMA." At the Department, Secretarial Order 3244 delegated most authority to bureau CIOs. Moreover, authority to oversee the IT program was delegated to an "IT Management Council" by a memorandum issued by the Secretary. The Department CIO does not even have the authority to approve/disapprove of information systems being connected to the network. Bureau and office directors or CIOs routinely authorize systems to operate without the Department CIO's approval. Until the Department fundamentally changes its approach to managing its IT program, it is unlikely to Department will achieve and sustain meaningful improvements in information security.

Interior is committed to IT security and compliance with FISMA. While Interior acknowledges that additional efforts to improve IT security are necessary, Interior did made significant progress in FY 2008 to improve and strengthen its overall security posture, including the following actions:

- ▶ The IT Security Policy Handbook aligning Departmental policies with the National Institute of Standards and Technology Special Publication 800-53 families of controls has been completed.

- ▶ The technical testing of candidate solutions to meet OMB's requirement for the protection of sensitive agency information, including personally identifiable information, to encrypt all mobile/portable/remote computers and devices that process, store, house, or access such information has been completed.
- ▶ The Cyber Security Assessment and Management (CSAM) solution provided by the Department of Justice (DOJ), a Shared Services Center (SSC) provider under the OMB's Information Systems Security Line of Business (ISSLoB), has been implemented. Interior's bureaus/offices began to fully utilize this new FISMA automated reporting solution, significantly improving the agency-wide Plan of Action and Milestones (POA&M) process, which has enabled Interior to more efficiently and effectively track, manage, and prioritize corrective actions for identified weaknesses.
- ▶ A risk assessment utilizing a data loss monitoring solution to better understand the scope of potential risks has been completed.
- ▶ A comprehensive IT Security Defense-in-Depth Strategic Plan that includes approximately 40 recommendations to address risks associated with insider threats to Interior's information and information systems has been completed.
- ▶ A Program Management Office (PMO) has been established to manage the implementation of multiple integrated security initiatives to meet OMB mandates. These initiatives include data encryption, two-factor authentication and Trusted Internet Connections.
- ▶ The Information Technology Security Team composed of the Department's Chief Information Security Officer and senior security officers is establishing both general and specific tenets of Interior's information security program.
- ▶ Intra-departmental working groups are working to address specific information security issues, including IT Security Training, Hardware Acquisition, IT Security Policies, and Encryption.

3. Health, Safety, and Emergency Management

Annually, the Department has over 500 million visits to national parks and monuments, BLM recreational sites, FWS wildlife refuges, and BOR recreational sites. The Department must protect hundreds of millions of visitors, employees, and volunteers, thousands of facilities, and millions of acres of property from both internal and external threats. The physical isolation of some Department lands and facilities increases their vulnerability to threats and inhibits the Department's response time. The Department's Office of Law Enforcement, Security, and Emergency Management continues to struggle with its implementation of centralized policy and effective oversight of bureau law enforcement, security, and emergency management programs. Also, the U.S. Park Police (USPP) continues to struggle with the competing missions of protecting national icons and monuments and functioning as an urban police department at the same time and with the same resources.

We found that, although the Department and its bureaus have made progress in addressing health and safety issues associated with infrastructure, much work remains to be done. For example, the Department does not know if all health and safety issues have been identified because condition assessments and safety inspections of facilities have not been completed. Many health and safety hazards place employees and the public at risk. We found numerous weaknesses in the health and safety program managed at Department headquarters and the individual field office level. For example, we issued two separate flash reports on the following serious health and safety hazards:

- Severe deterioration exists at Bureau of Indian Education's elementary and secondary schools. This deterioration ranged from minor deficiencies such as leaking roofs to major deficiencies, including structural weaknesses, outdated electrical systems, and inadequate fire detection and suppression systems.
- At the Jackson National Fish Hatchery in Wyoming, FWS and USGS employees worked for almost 7 years in two buildings that were previously condemned and closed to the public.

The Secretary of the Interior acted quickly to direct appropriate officials to address the problems after receiving each report. However, three recommendations remain unresolved because agency officials did not submit corrective action plans with target dates for completion. The target dates have passed for the other two recommendations and we have not been informed whether the proposed corrective actions were completed.

We also concluded that BLM and NPS have been putting the public's health and safety at risk by not addressing hazards posed by abandoned mines on their lands. Although NPS has been more effective at protecting the public, there are still many more sites that need to be mitigated. Mines located on BLM and NPS lands, primarily in the western states of California, Arizona, and Nevada, have dangerous physical safety and serious environmental hazards. We identified abandoned mines where members of the public had been killed, injured, or exposed to dangerous environmental contaminants. Growth of the population and use of off-road vehicles in the West will increase the likelihood of additional deaths or injuries.

We found that USPP has failed to establish a comprehensive security program for the protection of national icons and monuments. USPP lacks adequate staffing and formal training for those responsible for protecting national icons. Many USPP officers have not met minimum firearm qualification standards with their duty weapons. Also, USPP did not take immediate action to replace ballistic vests containing Zylon, a material determined to be noncompliant with federal standards. Finally, USPP officers in Washington, D.C. do not have enough vehicles for them to properly patrol and respond to calls for service.

The Department is actively implementing recommendations made by the Inspector General in previous evaluations of law enforcement and the U.S. Park Police and building effective programs to ensure the protection, health, and safety of employees, visitors, residents, and resources. Interior continues to improve on addressing issues raised in the OIG's April 2006 progress report on implementation of 25 Secretarial law enforcement reforms. Enhancements in FY 2008 include:

- ▶ Developing partnerships with external organizations to enhance coordination on border security (environmental and law enforcement), intelligence/information sharing, and secure communications.
- ▶ Collaborating with bureaus to establish reporting requirements on officer safety issues, policy development, incident reporting, and program oversight.
- ▶ Executing a policy compliance program for national critical infrastructure, including National Monuments/Icons and dams.
- ▶ Enhancing emergency management planning, response, and recovery capability through the establishment of the Office of Emergency Management and the initiation of design and construction of an Interior Operations Center with 24/7 capability to maintain situational awareness of activities that could potentially affect Interior

Interior has taken steps to improve management of the U.S. Park Police through establishing a Management Oversight Team and Command Management Team consisting of veteran United States Park Police (USPP), National Park Service, and Interior officials with senior-level experience in law enforcement to assume full responsibility for the day-to-day operations of the USPP. The teams have accomplished key objectives, including:

- ▶ Improving icon protection measures at the National Mall by adding 60 officers (through restructuring), increasing horse-mounted units, adjusting patrol boundaries to increase focus on the Mall, and developing uniform security training curriculum for personnel assigned to icon protection.
- ▶ Establishing administrative protocols to track qualifications and safety equipment and ensuring officers have needed equipment by replacing 60% of their vehicle fleet.

In response to the OIG's flash reports, Interior also took immediate action to vacate or close unsafe buildings being used by NPS, BIA, FWS, and USGS employees. The Department immediately undertook a series of facilities reviews to assess the ability of bureaus to identify deficiencies and report and remediate health and safety issues. The Department requested, received, and reviewed the inventory of health and safety issues in each bureau that met the category 1, 2, and 3 Risk Assessment Code (RAC) criteria. Based on this information, bureaus were asked to address these issues immediately and to incorporate lower priority RAC projects within their five-year plans. The Department will modify its five-year planning guidance to incorporate the RAC criteria and ranking to ensure highest priority health and safety issues are addressed in maintenance and construction programs.

Senior leaders in the Department, including representatives of the Office of Health and Safety, the Office of Acquisition and Property Management, and the Office of Budget, met one-on-one with each bureau to understand the mechanisms and systems in place to evaluate, identify, and track the correction of health and safety problems. In follow-up to these meetings, the Department will be working with bureaus to implement improvements.

The Secretary was briefed and met with Congressional members to discuss the need for a dedicated source of funding for abandoned mine remediation. BLM can assure that active mine sites are operating with the appropriate protections. With an extensive number of projects on public lands that accumulated over the last 100 years, BLM is prioritizing its work to protect local communities and undertake the needed work.

In partnership with bureaus and offices, the Department formed 8 workgroups, led by subject matter experts, to address specific project areas and outputs, including: Abatement, Budget, Organizational Structures, Safety Management Information System (SMIS), Strategic Plan, Training, and Awards. The workgroups are defining actions to be undertaken to improve health and safety management throughout the Department. For example:

- ▶ The SMIS workgroup has sponsored and received a comprehensive review of the SMIS system by PriceWaterhouseCoopers, which will serve as a blueprint for critical system improvements as recommended in the IG report. These improvements will be considered as part of the 2010 budget.

4. Maintenance of Facilities

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

According to the February 2007 Government Accountability Office (GAO) report, “Major Management Challenges, Department of the Interior,” while the Department has made progress addressing prior recommendations to improve information on the deferred maintenance needs of NPS facilities and BIA schools, its maintenance backlog continues to grow substantially. It is not clear how the Department will secure needed funding to reduce this daunting backlog to a manageable level.

The deferred maintenance backlog is a continuing challenge for the Department. According to the fiscal year 2008 “Annual Report on Performance and Accountability,” exact estimates of deferred maintenance costs are difficult to determine due to the scope, nature, and variety of assets entrusted to the Department, as well as the nature of deferred maintenance itself. The methodology used to calculate and report deferred maintenance data has been modified from that used in previous fiscal years. Departmental management, with input from the Office of Management and Budget, directed the methodology revision to ensure deferred maintenance estimating and reporting accuracy and consistency is maintained among the Department’s bureaus. Consequently, the Department’s current approach estimates that the total amount needed to correct deferred maintenance for Property, Plant, and Equipment ranges from approximately \$12.6 billion to \$17.8 billion.

The Department’s inventory of maintenance needs demonstrates the ongoing challenge of managing a large, dispersed collection of assets and keeping them in useable condition within a constrained budget. In light of this challenge, the Department is utilizing tools, including the Federal Real Property Profile, the five-year planning process, and condition assessments to establish priorities among competing needs to ensure that we address the most important maintenance and construction projects. In addition, the Department is working with the bureaus to develop a single, consistent facilities management application that will interface with the Financial and Business Management System.

During FY 2008, in collaboration with the Asset Management Partnership and the Heritage Asset Partnership, Interior significantly revised policies for an enhanced, standard Department-wide methodology for determining deferred maintenance, the current replacement value, and the condition of constructed heritage and non-heritage assets through the application of a Facility Condition Index. This methodology relies on industry standards in estimating the cost of repairing identified deficiencies. The bureaus are now implementing this policy, which will contribute to improved accuracy of Department-wide deferred maintenance data.

5. Responsibility to Indians and Insular Areas

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

Tribal entities’ financial compliance with funding agreements should be ensured through the single audit process; however, 36 (47 percent) of the 77 single audit reports reviewed by the OIG for tribal entities (including tribal governments, tribal schools, and tribal associations) submitted delinquent single audit reports during fiscal year 2008.

Crime on Indian lands continues to be a major issue. The Indian Affairs Office of Justice Services worked with 124 Bureau of Indian Education schools and nine Education Line Offices to complete “Meth Awareness” training to advance the Safe Indian Communities Initiative. Also, approximately 5,000 Indian Affairs employees received Methamphetamine Community Awareness Training.

Considering the amount of school violence reported in the news, we wanted to ensure that the Bureau of Indian Education was taking necessary precautions to protect Indian children at federal education facilities. We found that education facilities are unprotected and underserved. As a result, the Bureau of Indian Education is dangerously unprepared to prevent violence and ensure the safety of students and staff. In addition, OIG investigations in Indian country have resulted in numerous convictions, mostly for crimes against tribes or tribal entities, including the following cases.

- Seven school board members and employees of one school were sentenced in U.S. District Court for their involvement in the theft of approximately \$665,000 in federal funds.
- An office manager was sentenced for embezzlement from an Indian tribal organization. Her sentence included 3 months of imprisonment, 3 months of home confinement via electronic monitoring device, \$36,000 in restitution, and mandatory participation in the Alcohol and Gambling Anonymous Programs.
- A former payroll supervisor was charged and sentenced for embezzlement, as well as aiding and abetting charges. Also, a former tribal finance committee coordinator was convicted of both embezzlement and aiding and abetting charges. Both were sentenced to 60 months of probation and payment of restitution in excess of \$20,000 each.
- A former transitional director for Special Education, a flooring contractor, and an excavation contractor were indicted for mail fraud, money laundering, and bribery in relation to an OIG investigation that initially focused on funds allocated to finance the construction of new dormitory and kitchen facilities. The investigation was expanded to other construction contracts when investigators discovered that these individuals extended payments on the initial contract past the completion of the project. The contractor paid tens of thousands of dollars in bribes and kickbacks and received hundreds of thousands of dollars in overpayments for the work completed for the project.

Located in the Federated States of Micronesia (FSM), Pohnpei State is the largest and most populous of the four islands comprising this region. Supplies and property accountability are critical on an island. Our evaluation identified the absence of an effective property accountability process to ensure that supplies and property are properly used and protected from fraud and mismanagement. Serious deficiencies existed in accounting for medical and educational supplies and also for state-owned equipment. Pohnpei State Hospital, for example, failed to manage its drugs properly, particularly drugs identified as controlled substances under the Controlled Substances Act. Such drugs have a high potential for abuse. Our evaluation found either shortages or overages, ranging from 5 to 4,667 units, for all 14 controlled substances listed in the hospital pharmacy’s logbook. We also found excessive quantities of expired controlled substances, as well as multiple, unorganized drawers of prescription orders with no system to track receipts, issuances, on-hand balances, or reorders. Educational supplies also went untracked.

Principals at six of the seven elementary schools in Pohnpei said their schools had not received requested supplies for the previous or current school years. This necessitated them seeking donations from parents, teachers, and the community, and making do with what they had. We also confirmed that significant deficiencies in accounting for state-owned equipment, which were identified in a 1999 report by Pohnpei's Public Auditor's Office, had not yet been corrected. A September 2006 inventory, conducted at our request, revealed that approximately 45 percent of property items, valued at about \$750,000, could not be found.

Kosrae State, also part of FSM, needs to improve its property accountability process. We found that supplies and equipment purchased with health and education grant funds, totaling 65 percent of the \$6.5 million in financial assistance provided to Kosrae State by the Office of Insular Affairs, were not safeguarded or even used for authorized purposes. For example, the Kosrae State Hospital did not account for, protect, or ensure the proper use of medical supplies and pharmaceuticals, including narcotics identified as controlled substances under the Controlled Substances Act because of their high potential for abuse. We found significant variances in 3 of the 12 controlled substances stocked by the hospital.

Similarly, Kosrae's Department of Education could not confirm that educational supplies, such as textbooks and printers, were received and distributed to schools and used for educational purposes. Equipment and personal property purchased with grant funds were likewise inadequately accounted for and not protected from unauthorized use, theft, or loss. Although Kosrae enacted financial management regulations to improve its recordkeeping, property identification, and inventory, it was not following them. The most recent inventory was completed in 2003. Our sampling of 223 of the 283 items held by the Department of Education in 2006 revealed that 125 items, valued at nearly \$470,000, could not be found.

Continuing a decades-long practice of administrative nonfeasance, the Bureau of Internal Revenue and the Department of Finance, the two primary agencies responsible for collecting tax revenues in the U.S. Virgin Islands, ignored their charge to collect delinquent taxes and focused instead on accounting for receipts. Specifically, the bureau did not assess taxpayers in a timely manner, meet its collection timelines, identify non-filers, or effectively use its collection officers. In fact, collection officers said their efforts could be characterized more as "correcting" errors than as "collecting" delinquent taxes. At the Department of Finance, antiquated recordkeeping practices, combined with minimal collection efforts, allowed property owners to forego paying property taxes without consequence. The result of these practices was a systematic breakdown in the collection of delinquent taxes and a cumulative total of uncollected tax revenues for the past 10 years of more than \$250 million. Of this amount, \$128 million may never be recovered because of the age of the debt. Also contributing to the breakdown in delinquent tax collection were two other issues of grave concern. The first issue involved practices that circumvented legislation enacted to prevent tax evasion by ensuring that business licenses were not issued to applicants with delinquent taxes. However, the Department of Licensing and Consumer Affairs issued business licenses to applicants who did not have clearance letters. Also, the Bureau of Internal Revenue issued clearance letters when delinquent taxes were owed, thereby rendering the tax evasion legislation ineffective. The second issue was the flagrant abuse of position by a former director of the bureau who issued favorable tax clearance letters to taxpayers, falsely stating that they were current in filing and paying their taxes. For example, we found 31 favorable tax clearance letters issued to a businessperson who had evaded filing and paying taxes for 7 years, eventually accumulating a balance of \$1.75 million in taxes owed.

The Department continues to demonstrate its longstanding commitment to fulfilling its responsibilities to American Indians and island communities, demonstrating effective management processes and instituting reforms and controls. The Department acknowledges that continued focus and improvements are necessary.

Issues in Indian Country

IA has continued the policy, consistent with the Indian Self-Determination and Educational Assistance Act, of placing tribal entities (to include tribally controlled schools) on sanctions when single audit reports are not submitted in a timely manner. The Bureau of Indian Affairs, Office of Indian Services, Division of Self-Determination was established in FY 2008 to assist regional and agency awarding officials in monitoring grants and contracts, to provide technical assistance, and reduce the backlog of contract close-outs.

IA has taken strong action to reduce crime on Indian lands with an increase of \$23.7 million for the Secretary's Safe Indian Communities Initiative. Community policing initiatives are underway to actively work with community and tribal leaders to sponsor community events, develop crime fighting strategies, establish community watch practices, conduct outreach on drug education and prevention, increase patrol in high crime areas, and foster safe community practices.

Operation Pine Ridge Peacekeeper was initiated in August 2008 to respond to the violence that erupted between public safety officials and tribal leaders on the Pine Ridge Indian Reservation in South Dakota. Interior deployed agents and police to the Pine Ridge Reservation. This operation received positive feedback from community members and continues while an assessment is made on the capacity of the tribal police operation to reassume full policing responsibilities on the reservation. Similar operations were conducted in North Dakota and are planned in the southwest.

Indian Affairs has also remediated the specific problems identified by the OIG in reports on education and detention facilities.

Responsibility to Insular Communities

The Department's Office of Insular Affairs (OIA) is assisting the island governments to improve financial management and accountability over the use of public funds and the administration of all Federal grant programs. OIA's partnership with multi-agency groups such as the Region IX Federal Regional Council's Outer Pacific Committee and the Interagency Group on Insular Areas is helping to achieve goals.

OIA continues to provide oversight and monitoring to help bring the island governments and grant recipients into compliance with the Single Audit Act. Although delinquent audits were a problem in the past, as of FY 2006, each of the island areas has been in compliance with the requirement for annual audits. Moreover, both Pohnpei and Kosrae received unqualified audit opinions for FY 2007. For Pohnpei, this marks the third consecutive year of receipt of an unqualified opinion.

With processes in place to help ensure the timely completion of annual audits, island areas are now able to concentrate on resolving long-standing systemic problems such as accounting for property. Corrective actions undertaken by the island areas include the implementation of procedures to properly account for property. Resolving these challenges is made more complex as different Federal criteria are applicable to territories and freely associated states. For example, the Controlled Substances Act does not apply to the Federated States of Micronesia (FSM).

OIA also takes action to help the government overcome challenges, providing technical expertise and funding for equipment and infrastructure. OIA closely monitors reports/reviews completed by both the OIG and the Government Accountability Office (GAO), including those that are specific to the island governments. These reports are used by OIA to initiate work with island officials and to target its limited discretionary grant funds.

Regarding the OIG report on the operations of the U.S. Virgin Islands Bureau of Internal Revenue, the Governor concurred with the OIG recommendations, developed and implemented a

corrective action plan, and requested assistance from the IRS. OIA is involved with the corrective actions undertaken and funded the travel of the

IRS staff to the U.S. Virgin Islands to assist the Governor. OIA will, as resources are available, continue to assist in the Governor's efforts.

6. Resource Protection and Restoration

The Department's resource managers face the challenging task of balancing competing interests for the use of the nation's natural resources. Federal lands account for approximately 30 percent of energy produced in the United States. The Department has jurisdiction over 1.76 billion acres of the Outer Continental Shelf, manages about one-fifth of the land area of the United States, and administers 700 million acres of subsurface mineral estate throughout the nation. In addition, the Department protects thousands of wetlands, aquatic parcels, and native plant and animal species, including more than 1,300 with special status under the Endangered Species Act.

Experts generally view collaborative resource management that involves public and private stakeholders in natural resource decisions as an effective approach for managing natural resources. Several benefits can result from using collaborative resource management, including reduced conflict and litigation and improved natural resource conditions, according to the experts. The GAO reported that federal land and resource management agencies – BLM, FWS, NPS, and the Department of Agriculture's Forest Service – face key challenges to participating in collaborative resource management efforts. For example, the agencies face challenges in determining whether to participate in a collaborative effort, measuring participation and monitoring results, and sharing agency and group experiences. As a part of the interagency Cooperative Conservation initiative led by the Council on Environmental Quality, the federal government has made progress in addressing these challenges. Yet, additional opportunities exist to develop and disseminate tools, examples, and guidance that further address the challenges, as well as to better structure and direct the initiative to achieve the vision of Cooperative Conservation, which involves a number of actions by multiple agencies over the long term. Failure to pursue such opportunities and to create a long-term plan to achieve the vision may limit the effectiveness of the federal government's initiative and collaborative efforts.

In recent years, GAO has recommended a number of actions federal wildland fire agencies should take to better diagnose the extent of the nation's wildland fire problems and develop a strategic approach for addressing them. Currently, federal agencies lack key long- and short-term management strategies for using program funds effectively. The agencies have taken some steps to respond to GAO's recommendations but have not completed other needed steps. Specifically, the agencies should do the following:

- ***Recommit to developing a cohesive strategy that identifies options and associated funding to reduce fuels and address wildland fire problems.*** Such a strategy would assist Congress and the agencies in making informed decisions about effective and affordable long-term approaches to addressing the nation's wildland fire problems. As of January 2008, the agencies had not developed such a strategy and, in fact, had retreated from earlier commitments to do so.
- ***Establish clear goals and a strategy to help contain wildland fire costs.*** Although the agencies have continued to implement individual cost-containment steps, they still have not developed clear goals or a strategy for achieving them.

- Continue to improve their processes for allocating fuel reduction funds and selecting fuel reduction projects.* Specifically, GAO recommended that the agencies use a more systematic allocation process, improve the information they use to make allocation decisions, and clarify the relative importance of the various factors they consider when allocating funds. The agencies are currently taking steps to implement these improvements, although none have yet been completed.

The Department of the Interior recognizes the value of collaborative resource management and continues to promote cooperative conservation as affirmed through the President's 2004 Executive Order. A 2008 GAO Report affirmed the value of collaborative approaches to conservation and resource management and acknowledged progress of DOI in implementing policies to build partnership and collaboration capacity.

The Department is joining the Departments of Agriculture, Commerce, Defense, and the Environmental Protection Agency along with the Council on Environmental Quality in signing a Memorandum of Understanding (MOU) to create a more permanent structure for interagency cooperation. The MOU creates the Partnership for Cooperative Conservation, which will develop a long-term plan, coordinate priorities and actions, conduct periodic conferences, and disseminate guidance and tools to support collaborative efforts, as recommended by GAO.

The Department is committed to improving the Wildland Fire program in partnership with the Forest Service, States, and local communities.

We continue to work closely with the Office of Management and Budget and Congress to resolve funding issues related to the significant growth in suppression expenditures and this was a focus for the activities of the Fire Policy Council this year. The Department is implementing decision support tools (LANDFIRE and FPA) needed to develop a cohesive strategy. In 2008, LANDFIRE will be implemented for the lower 48 states, and in 2009 FPA will be used for interagency fire budget development. Interior has also: established goals to help contain wildland fire suppression costs employing a risk-based suppression approach that matches suppression effort with the potential threat to human values; worked to deploy the Wildland Fire Decision Support System; and continued to accountability through large fire cost containment reviews. Finally, the Department is increasingly using a decision support program to provide the allocation of hazardous fuels reduction, after piloting this approach in 2007. Interior is also working jointly with the U.S. Forest Service to develop and implement risk informed hazardous fuels allocation processes that not only address consistent criteria, but that also recognize the different legislated missions of each agency

7. Revenue Collections

Mineral lease revenues collected by the Department on behalf of the U.S. Government were approximately \$10.9 billion in fiscal year 2007; through June 30, 2008, the Department has collected \$19.2 billion. The increase is largely due to the market increase in oil and gas, but in January 2007, the Department raised the royalty rate for new leases in deep water to 16.7 percent to increase the revenues that the federal government collects from oil and gas companies on behalf of American taxpayers. In selecting the 16.7 percent royalty rate for deep-water leases, the Administration attempted to balance competing goals of providing an appropriate return to the Treasury and taxpayers while ensuring sustained Outer Continental Shelf energy development. The new rate represents a meaningful increase (33 percent) from the previous standard deepwater royalty rate of 12.5 percent, which had been one of the lowest government royalty rates in the world.

GAO reported that the Department lacks adequate assurance that it is receiving full compensation for oil and gas produced from federal lands and waters because BLM and MMS' Offshore Minerals Management (OMM) are not fully conducting production inspections as required by law and agency policies – and because MMS' financial management systems are inadequate and lack key internal controls. Officials at BLM told GAO that only 8 of the 23 field offices in five key states completed their required production inspections in fiscal year 2007. Similarly, officials at OMM told GAO that they completed about half of the required production inspections in calendar year 2007 in the Gulf of Mexico. In addition, MMS' financial management system lacks an automated process for routinely and systematically reconciling production data with royalty payments. MMS' compliance efforts do not consistently examine third-party source documents to verify whether self-reported industry royalty-in-value payment data are complete and accurate, putting full collection of royalties at risk.

Over the past 2 years, the OIG has been profoundly involved in numerous MMS royalty issues. Given the amount of work we have been doing in the royalties arena, it might be reasonable to conclude that we drew on a corps of subject-matter experts familiar with the intricacies and nuances of royalty management. Rather, we grew our so-called “experts” from scratch and on the run. We recognized almost immediately that the OIG would need to develop a royalty oversight unit and build an expertise for the long term. In December, the Congress passed the Omnibus Spending Bill for Fiscal Year 2008. Accompanying the bill was report language that instructed the OIG to develop a permanent capability to oversee the MMS royalty function. The OIG is in the process of doing just that. In the near term, we created the Denver-based Royalty Initiatives Group. In the longer term, we intend to develop the capacity to oversee all minerals-related activities managed by the Department from initial leasing of federal and Indian lands to the final termination of those leases, which includes the management of those leases and the collection of royalty payments. Ultimately, we would like to expand our oversight coverage beyond MMS to the energy and minerals programs at the BLM and BIA, including oil, gas, and solid minerals.

The Royalty Initiatives Group completed its first evaluation in May 2008 on MMS' Royalty-in-Kind (RIK) oil sales program and then initiated an audit of MMS' process for verifying oil volumes delivered as RIK, including, most importantly, oil destined for the Strategic Petroleum Reserve. The Royalty Initiatives Group is currently responding to a congressional request to determine why oil and gas leases are not always in production. Eventually, this unit will also verify that the recommendations we have made, and those issued by the Royalty Policy Committee, have been appropriately implemented.

In the RIK oil sales report, we reported that RIK modified oil sale contracts without clear criteria and that the integrity of the RIK oil sales process was undermined by poor business practices, resulting in RIK's business operations falling short in two critical areas – fairness and effectiveness. Specifically, the RIK program allowed bids to be revised, even on award day. RIK was inconsistent in awarding bids using factors such as spreading bids to more companies rather than awarding to the highest bidder, and RIK personnel had inappropriate relationships with oil industry representatives that could compromise their objectivity.

Finally, three OIG investigative reports were recently released that reported on the inappropriate relationships between RIK and the oil industry representatives. In summary, the reports stated the following:

Our investigation revealed a relatively small group of individuals wholly lacking in acceptance of or adherence to government ethical standards; management that through passive neglect, at best, or purposeful ignorance, at worst, was blind to easily discernible

misconduct; and a program that had aggressive goals and admirable ideals, but was launched without the necessary internal controls in place to ensure conformity with one of its most important principles: 'Maintain the highest ethical and professional standards.'

Secretary Kempthorne, Assistant Secretary Steve Allred and MMS Director Randal Luthi have been both receptive and responsive to the findings and recommendations contained in these reports and, in particular, took swift action in response to the misconduct exposed in these most recent reports.

The Department is committed to being an effective steward of mineral leasing programs, ensuring that revenues are effectively collected and accounted for, to ensuring adequate risk management, and to an ethical culture. The Department will continue to work with GAO, OIG and others to identify and implement improvements in these areas.

In its final report regarding data accuracy, GAO noted that MMS's royalty information technology system and processes continue to improve and that MMS also continues to strengthen its compliance efforts. MMS and BLM are implementing GAO recommendations regarding production. For example:

- ▶ BLM has increased Inspection and Enforcement staff to meet the increasing inspections required on Federal and Indian fluid mineral leases. Before a Petroleum Engineering Technician (PET) is allowed to independently conduct inspections, the PET must complete and pass an 18-month classroom instruction program and on-the-job training.
- ▶ The Department established a Production Coordination Committee to ensure ongoing coordination and collaboration of MMS, BLM, and Assistant Secretary for Indian Affairs Office regarding mineral production and royalty issues.
- ▶ MMS and BLM are updating policy documents and internal monitoring procedures to ensure that the thousands of meter inspections conducted each year are completely and accurately entered into the inspection database. Data entry procedures have been established to facilitate retrieval of meter inspection data

and verification of compliance with laws and policies. MMS is revising policy guidance to link inspection frequency policies with production thresholds and past inspection results.

MMS has implemented a risk-based compliance strategy as recommended by the OIG and currently performs a comparison of production and sales reports. MMS assesses interest when the Government is underpaid royalties. MMS also reviews third-party documentation for Outer Continental Shelf leases. When production and royalty reports are not submitted by the same company, MMS uses third-party documentation to verify the volume. MMS has also developed a risk-based tool to identify higher risk properties and operators.

MMS is working closely with the OIG and the Department of Justice in identifying potential false claims in the mineral industry. In addition to the annual financial statement audit and other external reviews, MMS undergoes an independent peer review of its audit function every three years, as required by GAO's Generally Accepted Government Auditing Standards. In September 2008, the MMS audit function received a "clean opinion" for the period January 1, 2005, through May 31, 2008. The MMS Minerals Revenue Management (MRM) program augments external reviews with an aggressive internal review function. During FY 2008, MMS performed three Alternative Internal Control Reviews of MRM business processes and seven Internal Quality Control Reviews of MRM, State, and Tribal audits. These reviews resulted in 88 recommendations, of which 34 have been implemented.

MMS agrees that for RIK oil sale contracts issued between 2001 and 2006—the period reviewed by the OIG—some of the documentation was not complete. New internal control procedures for the RIK oil sale process have been implemented. In September 2008, the OIG informed MMS that they had examined a number of contract modifications issued since 2007 and found that this situation "... appears to have been corrected, as the current files contained adequate supporting documentation."

A total of 27 recommendations made by the Royalty Policy Committee have been implemented and an additional 70 are in the process of being implemented; 88 percent were either done or underway. Actions have been taken to respond to the issues identified in the most recent OIG report on the RIK. The Department has enhanced its ethics program and oversight capacity by establishing an Attorney Advisor position in Denver where the RIK Program operates.

8. Procurement, Contracts, and Grants

Procurement, contracts, and grants have historically been areas subject to fraud and waste government-wide; managing them is a continuing challenge. The Department spends substantial resources each year in contracting for goods and services and in providing federal assistance to states and tribal organizations. The Department awards approximately \$4.5 billion in contracts and awards over \$2 billion each year in funding for grants, cooperative agreements, Indian self-determination contracts, and self-governance compacts to state, local, and insular area governments; Indian tribes; colleges and universities; and other nonprofit organizations.

Procurement and Contracts

Recent audits at the Department and other federal agencies highlighted concerns with interagency procurement services performed through fee-for-service organizations.

Interagency contracting is a tool that, when effective, can help agencies to streamline the acquisition process and increase cost efficiency. The Department has two acquisition centers that assist other government agencies. These are GovWorks and the Acquisition Services Division, Southwest Branch, both of which are under the NBC. We performed a second audit of these two centers to determine whether the purchases made on behalf of the Department of Defense conformed to applicable laws and regulations and complied with Department of Defense procurement requirements. Overall, we found that the Southwest Branch has made significant improvements since our first audit issued in January 2007. However, GovWorks did not comply in full with legal requirements, the Federal Acquisition Regulations, or Department of Defense supplemental policies.

A culture within the Department values expediency in contracting over and above protecting both the best interest of the public and the accountability, integrity, and transparency necessary for Department acquisition practices. Although federal procurement policy envisions a very limited use of sole-source contracting, the Department's preference toward this practice circumvents competition and raises questions as to whether procurement dollars are being used appropriately. We noted examples in which material modifications to competed contracts were, in effect, de-facto sole-source contracts; written justifications for sole-source contracts were inadequate or nonexistent; fair-value pricing for sole-source awards was not established; and small businesses were not given opportunities to compete.

Grants Management

Audits of FWS grants awarded to 15 state agencies, the U.S. Virgin Islands, and Guam revealed a potential savings of \$2,067,847. The grants are awarded under the Wildlife and Sport Fish Restoration Program. The grants finance up to 75 percent of state-sponsored projects, such as developing sites for boating access and acquiring and managing natural habitats. Examples of potential savings include \$1,381,957 in unsupported costs, unauthorized costs, and inappropriately charged payments for employee leave in California; \$293,377 in unsupported in-kind contributions in Iowa; and \$60,000 in unallowable payments in the U.S. Virgin Islands.

We also identified other conditions that need attention, including the following:

- Nine audits identified grantees that earned program income using grant funds but did not account for it in an appropriate manner, including \$846,283 in unreported program income in Tennessee.
- Nine audits found grantees lacked adequate control over personal property, and seven of the audits found inadequate control over real property.
- Four of the audits identified deficiencies in the accounting for indirect costs incurred under the grants.
- Four of the audits identified deficiencies in the reporting of in-kind contributions.

FWS is working with the audited entities to resolve the questioned costs and other matters identified in the audits.

We issued two management letters to FWS with suggestions on improving its overall management of the program. We suggested that they clarify the rules on which hunting and fishing licenses states may count in their annual license certifications. In response, FWS revised the Code of Federal Regulations provisions pertaining to license certification. We also suggested that FWS provide additional clarification on how states should report barter transactions that they enter into under the grants. We have not yet heard from FWS on how it will address this matter.

The Department is challenged by a geographically dispersed and complex set of programs that rely on procurement and financial assistance, including cooperative agreements and grants. Interior is striving to improve the transparency, accountability and integrity of these programs and processes. This includes the implementation of improvements recommended by the OIG. Also, Interior requested funding to reestablish a suspension and debarment program to protect the government from contractors and grantees who engage in fraud or other improper business practices, and are awaiting the outcome of the appropriations process.

Procurement and Contracts

The National Business Center's Acquisition Division, AQD, (formerly GovWorks) has made considerable progress toward compliant contracting. As noted above, AQD-Sierra Vista has been granted a "green" rating by the Department of Defense due to their significant improvements. AQD-Herndon has a robust corrective action plan that includes implementation of new policies, clearly defined work instructions, and layered management oversight. While many improvements have been identified by the OIG, a few deficiencies remain. Nonetheless, the Department of Defense has lifted the restrictions

previously imposed on AQD-Herndon in recognition of their progress.

Competition has long been, and remains, a vital tool by which contracting officers can maximize the return on purchases. The Department's percentage of competed actions has decreased in recent years as companies merged together, the mix of supplies and services swung in favor of services, appropriations have been delayed late into the fiscal year, and other management initiatives took precedence. Interior has started to revitalize its focus on competition by instituting tighter controls on contract modifications, increasing the role of the Bureau competition advocates, and re-establishing an annual competition goal.

Increasing the professionalism of the acquisition workforce has been a focus across the government, with expanded requirements for education and training. Within the Department, over 600 employees have been certified as meeting the stringent requirements of the Federal Acquisition Certification – Contracting program. Certification is a pre-requisite for being appointed as a Contracting Officer at Interior. This more knowledgeable workforce will return benefits to the Department and the taxpayer through better quality goods and services, better pricing and greater process transparency.

The Department has strongly emphasized the importance of data accuracy and transparency for reporting both procurement and financial assistance transactions. Although there will continue to be room for improvement, the Department has

strengthened the procedures that bureaus must follow for validating and verifying the accuracy and completeness of their procurement and financial assistance data.

Grants Management

The Department consistently stresses the importance of regulatory compliance, controls over the management of these essential business processes, and collaboration within and outside the Department to ensure accomplishment of Interior's mission. Policies in the areas of contracting and financial assistance contribute to this by addressing the many challenges involved in the prevention of fraud and waste. The Department has focused on improving communication and collaboration with the bureau financial assistance community. Working with DOI University, the Department began delivering formal financial assistance training to bureau staff in FY 2008. Improving the skills of the financial assistance workforce will yield improvements in better return for assistance agreements and greater process transparency to taxpayers. Interior is also continuing to standardize business processes, including greater use of Grants.gov, and expanding use of the financial assistance module of the Financial and Business Management System.

The Wildlife and Sport Fish Restoration program is in the process of modifying 50 CFR to include barter transactions in the Regulation. Completion is expected in July 2009. Additionally, FWS has revised its appropriate manual chapter to reflect recommended changes in the items mentioned by the OIG.