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**DEPARTMENT OF THE
INTERIOR**

**Major Management
Challenges**

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Natural Resources and Environment





Highlights of [GAO-07-502T](#), testimony before the Committee on Natural Resources, House of Representatives

Why GAO Did This Study

The Department of the Interior is responsible for managing much of the nation's vast natural resources. Its agencies implement an array of programs intended to protect these precious resources for future generations while also allowing certain uses of them, such as oil and gas development and recreation. In some cases, Interior is authorized to collect royalties and fees for these uses. Over the years, GAO has reported on challenges facing Interior as it implements its programs. In addition to basic program management issues, the department faces difficult choices in balancing its many responsibilities, and in improving the condition of the nation's natural resources and the department's infrastructure, in light of the federal deficit and long-term fiscal challenges facing the nation.

This testimony highlights some of the major management challenges facing Interior today.

What GAO Recommends

GAO has made a number of recommendations intended to improve Interior's programs by enhancing the information it uses to manage its programs, strengthening internal controls, and providing clearer guidance. Interior has agreed with most of the recommendations and taken some steps to implement them. However, the department has been slow to implement other recommendations.

www.gao.gov/cgi-bin/getrpt?GAO-07-502T.

To view the full product, including the scope and methodology, click on the link above. For more information, contact Robin Nazzaro at (202) 512-3841 or nazzaror@gao.gov.

DEPARTMENT OF THE INTERIOR

Major Management Challenges

What GAO Found

The Department of the Interior has made progress in addressing challenges that GAO has identified in such areas as developing and maintaining better data to manage the department's programs and strengthening internal controls. However, numerous important problems remain, as discussed below.

- **Management of resource protection efforts needs to be strengthened.** Interior has undertaken steps to improve some of its resource protection efforts, but it has yet to develop a cohesive national strategy to address wildland fire issues, as GAO has recommended. In addition, Interior agencies that manage hardrock mining and oil and gas production on their lands have not effectively carried out their environmental protection responsibilities.
- **Management problems in Indian and island community programs persist.** While Interior has implemented major reforms to address weaknesses in managing Indian trust funds and other assets, concerns remain about finalizing organizational changes and delays in decisions about land that the department will take into trust status. In addition, island community programs continue to lack accountability measures.
- **Land appraisals continue to fall short of standards.** While Interior has consolidated the land appraisal function into a departmental office to address serious problems with the quality of its appraisals and the millions of dollars that had been lost as a result, a large portion of appraisals that GAO reviewed still did not comply with recognized appraisal standards.
- **Deferred maintenance backlog needs to be addressed.** Interior has implemented improved inventory and asset management systems for some programs, but it is not clear how it will address the estimated \$17 billion in deferred maintenance. Other programs continue to lack information required to accurately estimate needs.
- **Revenue collection needs more management attention.** Interior may not be collecting billions of dollars of revenue from oil and gas royalties; geothermal royalties; and fees from individual recreational uses, air tour operations in and around national parks, and commercial filming and still photography in national parks.
- **Contract and grant management lack needed controls.** Because it lacks adequate controls over management of grants and contracts, Interior cannot ensure that millions of dollars in grant and contract funding were used appropriately.

Mr. Chairman and Members of the Committee:

I am pleased to be here today to discuss our work at the Department of the Interior. As the stewards for more than 500 million acres of federal land and 1.8 billion acres of the Outer Continental Shelf, Interior agencies are responsible for a wide array of programs to ensure that our nation's natural resources are adequately protected and that access to and use of those resources is appropriately managed. Difficult choices face this Congress and administration in fulfilling the federal government's responsibilities as a steward of these resources under increasing budgetary constraints. My testimony today includes findings from a number of reports we have issued over the past few years on some of Interior's natural resource management programs. Specifically, I will discuss management challenges in six key areas: (1) resource protection, (2) Indian and insular affairs, (3) land appraisals, (4) deferred maintenance, (5) revenue collection, and (6) contracts and grants.

Summary

In summary, our reports indicate that while Interior agencies have improved the management of some of the programs we have reported on over the years, some issues remain problematic. Moreover, more recent work has identified new problems that need to be addressed. In many cases, Interior agencies have work underway or planned to address our recommendations, but we have not evaluated these efforts.

- **Management of resource protection efforts needs to be strengthened.** Our work on the challenges that Interior, working with the U.S. Department of Agriculture (USDA), faces in protecting the nation against the threat of wildland fires has revealed a continued need for several improvements. Despite concurrence with our previous recommendations, Interior and USDA have yet to complete a cohesive national strategy that identifies long-term options and associated funding needs for responding to wildland fire issues. Nor have the departments developed a tactical plan to inform the Congress about the steps and time frames needed to develop such a strategy. And while they have undertaken steps to improve upon the information they use to assess and allocate resources for addressing wildland fire threats, it remains unclear whether the agencies will successfully complete these efforts. In addition, the Bureau of Land Management (BLM) and the Fish and Wildlife Service (FWS) have not been effectively carrying out their important responsibilities for ensuring that hardrock mining, oil, and gas operations occurring on their lands do not cause unnecessary environmental harm. Specifically, we found that BLM was not ensuring that hardrock mining

operations had sufficient financial assurances to provide for proper reclamation of disturbed lands and was not effectively carrying out its environmental mitigation responsibilities for oil and gas operations. Similarly, we reported that FWS was not consistently inspecting oil and gas operations in national wildlife refuges to ensure that environmental standards were being met.

- **Management problems in Indian and island community programs persist.** While Interior has taken significant steps in the last 10 years to address weaknesses in certain Indian programs, it is still in the process of implementing key trust fund reforms, and several concerns exist about the completion of these reforms. We have also reported on serious delays in the Bureau of Indian Affairs' (BIA) program for determining whether the department will accept land in trust: over 1,000 land in trust applications from tribes and individual Indians are currently pending. In addition, the department could be doing more to assist seven island communities—four U.S. territories and three sovereign island nations—with long-standing financial and program management deficiencies.
- **Land appraisals continue to fall short of standards.** Over the years, we and Interior's Inspector General (IG) have reported on the difficulties BLM and other federal land management agencies have had in managing land appraisals and the loss of millions of federal dollars resulting from inadequate appraisals. While major program changes have been made, significant problems continue. Specifically, we found that appraisals still do not adhere to appraisal standards and, thus, the federal government risks losing millions of dollars more if land is undervalued. In addition, Interior does not have a process for setting and meeting realistic deadlines for completing appraisals, which can be particularly important for transactions in areas with changing land values.
- **Deferred maintenance backlog needs to be addressed.** While Interior has made progress addressing prior recommendations to improve information on the deferred maintenance needs of National Park Service facilities and BIA schools, its maintenance backlog continues to grow substantially—the department's estimate increased from between \$8.1 billion and \$11.4 billion in 2003, to between \$9.6 billion and \$17.3 billion in 2006. It is not clear how the department will secure needed funding to reduce this daunting backlog to a manageable level. In addition, we recently reported that better information was needed on 16 BIA irrigation projects with an estimated \$850 million in deferred maintenance. Specifically, we found that some of the irrigation projects classified items as deferred maintenance when they were actually new construction, and some had incomplete information on their deferred maintenance needs.

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- **Revenue collection needs more management attention.** Recent work indicates that the federal government may not be collecting all the revenue that it could be and that some programs that receive revenue do not have needed controls. For example, we reported that billions of dollars in oil and gas royalties may be forgone because of a failure to include important price limitations in leases during 1998 and 1999. We also reported that while the department is required by law to continue to collect a certain level of revenue from geothermal leases, it is not collecting the necessary information to do so. Furthermore, the National Park Service is authorized to collect fees from a number of different types of uses of its lands, but has not done so in all cases. Finally, should the Congress choose to authorize it to do so, BLM could be collecting more in grazing revenue, thereby bringing its fees more in line with the fees charged by other federal agencies.
 - **Contract and grant management lack needed controls.** Interior's management of contracts and grants has been identified as a management challenge by Interior's IG for a number of years. Recent work we have conducted echoes some of the IG's concerns, in particular with regard to a lack of management controls. Specifically, we reported on weaknesses in (1) management of two Interior interagency contracting mechanisms that the Department of Defense (DOD) has used to obtain services and (2) a program that provides grants to nonfederal entities for activities related to the Chesapeake Bay.

Background

The Department of the Interior has jurisdiction over more than 500 million acres of land—about one-fifth of the total U.S. landmass—and over 1.8 billion acres of the Outer Continental Shelf. As the guardian of these resources, the department is entrusted to preserve the nation's most awe-inspiring landscapes, such as the wild beauty of the Grand Canyon, Yosemite, and Denali national parks; our most historic places, like Independence Hall and the Gettysburg battlefield; and such revered national icons as the Statue of Liberty and the Washington Monument. At the same time, Interior is to provide for the environmentally sound production of oil, gas, minerals, and other resources found on the nation's public lands; honor the nation's obligations to American Indians and Alaskan Natives; protect habitat to sustain fish and wildlife; help manage water resources in western states; and provide scientific and technical information to allow for sound decision-making about resources. In recent years, the Congress has appropriated about \$10 billion annually to meet these responsibilities. With these resources, Interior employs about 73,000

people in eight major agencies and bureaus at over 2,400 locations around the country to carry out its mission.

Interior's management of this vast federal estate is largely characterized by the struggle to balance the demand for greater use of its resources with the need to conserve and protect them for the benefit of future generations. GAO, among others, have identified management problems facing the department and have made many recommendations to improve its agencies and programs. In some cases, Interior has made significant improvements; in others, progress has been slow. As a result, several major management challenges remain.

Management of Resource Protection Efforts Needs to Be Improved

Although Interior, working with USDA's Forest Service, has taken steps to help manage perhaps the most daunting challenge to its resource protection mission—protecting lives, private property, and federal resources from the threats of wildland fire—concerns remain. In addition, Interior's programs for managing hardrock mining, oil, and gas operations have not adequately protected federal resources from the environmental effects of these activities.

Wildland Fire Management Challenges Persist

The wildland fire problems facing our nation continue to grow. The average number of acres burned by wildland fires annually from 2000 to 2005 was 70 percent greater than the average number burned annually during the 1990s, and appropriations for the federal government's wildland fire management activities tripled from about \$1 billion in fiscal year 1999 to nearly \$3 billion in fiscal year 2005. Experts believe that catastrophic damage from wildland fire will continue to increase until an adequate long-term federal response is implemented and has had time to take effect. While USDA's Forest Service receives the majority of fire management resources, Interior agencies—the National Park Service, BIA, FWS, and, particularly, BLM—are key partners in responding to the threats of wildland fire. Consequently, most of our work and recommendations on wildland fire management address both departments.

The Interior agencies and the Forest Service have not yet developed a cohesive strategy that identifies long-term options and associated funding estimates for addressing wildland fire threats, as we first recommended in

1999;¹ nor have they developed a tactical plan that outlines the critical steps and time frames needed to complete such a strategy, as we recommended in 2005.² While the agencies together issued a document in February 2006 titled *Protecting People and Natural Resources: A Cohesive Fuels Treatment Strategy*, it does not identify long-term options or associated funding estimates.³ Also, although the agencies have undertaken some tasks over the past 7 years that they stated are important to developing the cohesive strategy that we recommended, we have concerns about when and whether such tasks will be completed as planned.⁴ For example, the agencies began developing two modeling systems to help them (1) allocate resources to respond to wildland fires and (2) identify the extent, severity, and location of wildland fire threats to our nation's communities and ecosystems; these systems are slated for completion in 2008 and 2009, respectively. We are concerned, however, that the agencies' recent endorsement of significant, mid-course design changes to the resource allocation model may not fulfill key project goals, including determining the most cost-effective allocation of resources. In addition, the agencies currently have no plans to routinely update data in the threat modeling system—this would be necessary, for example, after major fires, hurricanes, or other factors have significantly altered the landscape. Such updated data are necessary to accurately capture the nature of wildland fire threats and to optimize allocation of resources over time. For these reasons, we continue to believe that a cohesive strategy and tactical plan would be helpful to the Congress and the agencies in making informed decisions about effective and affordable long-term approaches to addressing the nation's wildland fire problems.

In addition, in 2006, we reported that the agencies needed to develop better guidance on sharing the costs of suppressing fires among federal

¹GAO, *Western National Forests: A Cohesive Strategy Is Needed to Address Catastrophic Wildfire Threats*, [GAO/RCED-99-65](#) (Washington, D.C.: Apr. 2, 1999).

²GAO, *Wildland Fire Management: Important Progress Has Been Made, but Challenges Remain to Completing a Cohesive Strategy*, [GAO-05-147](#) (Washington, D.C.: Jan. 14, 2005).

³GAO, *Wildland Fire Management: Update on Federal Agency Efforts to Develop a Cohesive Strategy to Address Wildland Fire Threats*, [GAO-06-671R](#) (Washington, D.C.: May 1, 2006).

⁴GAO, *Wildland Fire Management: Lack of a Cohesive Strategy Hinders Agencies' Cost Containment Efforts*, [GAO-07-427T](#) (Washington, D.C.: Jan. 30, 2007).

and nonfederal entities.⁵ In some cases, these entities used different cost-sharing methodologies for fires with similar characteristics, which resulted in inconsistent sharing of costs among federal and nonfederal entities. The cost-sharing method used can have consequences in the millions of dollars for the entities involved. As of January 2007, the agencies were updating their guidance on possible cost-sharing methods and when each typically would be used, but it is unclear how the agencies will ensure that the guidance is followed.

Finally, as we testified last month, preliminary findings from our ongoing work indicate that the effectiveness of the agencies' efforts to contain wildfire suppression costs may be limited because the agencies have not clearly defined their cost-containment goals, developed a strategy for achieving those goals, or developed related performance measures.⁶ In addition, for efforts to contain wildfire suppression costs to be effective, once the agencies have defined their cost-containment goals, they need to integrate them with other goals of the wildland fire program—such as protecting life and property—and to recognize that trade-offs will be needed to meet desired goals within the context of fiscal constraints.

Hardrock Mining Operations Lack Needed Financial Assurances

Under BLM regulations, hardrock mining operators who extract gold, silver, copper, and other valuable mineral deposits from land belonging to the United States are required to provide financial assurances, before they begin exploration or mining, to guarantee that the costs to reclaim land disturbed by their operations are paid.⁷ However, we reported in June 2005 that BLM did not have a process for ensuring that adequate assurances were in place.⁸ As a result, some assurances may not fully cover all future reclamation costs, some operators do not have financial assurances, and some have either outdated reclamation plans and cost estimates or none at all. When operators with insufficient financial assurances fail to reclaim

⁵GAO, *Wildland Fire Suppression: Lack of Clear Guidance Raises Concerns about Cost Sharing between Federal and Nonfederal Entities*, [GAO-06-570](#) (Washington, D.C.: May 30, 2006).

⁶GAO-07-427T.

⁷Unlike operations that extract oil and gas from federal lands, hardrock mining operations are not required to pay royalties on the minerals they extract.

⁸GAO, *Hardrock Mining: BLM Needs to Better Manage Financial Assurances to Guarantee Coverage of Reclamation Costs*, [GAO-05-377](#) (Washington, D.C.: June 20, 2005).

BLM land disturbed by hardrock mining operations, BLM is left with public land that poses risks to the environment and public health and safety, and requires millions of federal dollars to reclaim. For example, we reported that 48 hardrock operations had ceased to operate and had not been reclaimed since the financial assurance requirement began in 1981; for 43 of these sites, BLM identified a total of about \$56 million in unfunded reclamation costs. We also reported that BLM's system for managing financial assurances did not have current information or track certain information critical to managing the program.

In response to our 2005 recommendations, BLM has taken substantial steps to correct these problems. In 2006, the agency modified its system for managing financial assurances to track key data. BLM also began requiring its state office directors to use a newly created report available from the system to ensure that adequate financial assurances are in place, and to (1) develop corrective action plans to address any financial assurance deficiencies with operators and (2) certify that reclamation cost estimates are adequate. If implemented properly, these efforts should ensure that appropriate financial assurances are in place to pay for necessary reclamation of federal lands.

Increases in Oil and Gas Permitting Activities Lessen BLM's Ability to Meet Its Environmental Protection Responsibilities

The number of oil and gas operations occurring on or under federal lands and private lands for which the federal government retains mineral rights that are permitted by BLM, has increased dramatically—more than tripling from fiscal year 1999 to fiscal year 2004—in part as a result of the desire to reduce the country's dependence on foreign sources of oil and gas. In June 2005, we reported that BLM has struggled to deal with this permitting workload increase while also carrying out its responsibility to mitigate the impacts of oil and gas development on land that it manages.⁹ Overall, BLM officials told us that staff had to devote increasing amounts of time to processing drilling permits, leaving less time to ensure mitigation of the environmental impacts of oil and gas development. For example, two field offices we visited that had the largest increases in permitting activity were each able to meet their annual environmental inspection goals only once in the past 6 years. BLM has authority to assess and charge fees to cover its expenses for processing oil and gas permits, which would enable it to

⁹GAO, *Oil and Gas Development: Increased Permitting Activity Has Lessened BLM's Ability to Meet Its Environmental Protection Responsibilities*, GAO-05-418 (Washington, D.C.: June 17, 2005).

supplement its program resources. While the agency had not exercised this authority at the time of our report, it had begun taking steps to develop a fee structure for these permits. To help BLM better respond to its increased workload, we recommended that the agency finalize and implement this fee structure to recover its costs for processing applications for oil and gas drilling permits.

In response to our recommendation, BLM issued a proposed regulation in July 2005 that included a \$1,600 fee for processing oil and gas permits.¹⁰ However, the next month, the Congress prohibited Interior from initiating the new fee in the Energy Policy Act of 2005, and the final regulation did not include the proposed fee.¹¹ Nevertheless, the department has continued to express interest in initiating such a fee and has proposed that the Energy Policy Act be amended to allow the fee to move forward.

FWS Oversight of Oil and Gas Activities in Wildlife Refuges Needs Improvement

Similar to the concerns we have about BLM's protection of environmental resources from oil and gas activities, we reported in 2003 that FWS's oversight of oil and gas operations on wildlife refuge lands was not adequate.¹² For example, we found that some refuge managers took extensive measures to oversee operations and enforce environmental standards, while others exercised little or no control. We found that such disparities occurred for two primary reasons. First, FWS had not officially determined its authority to require permits—which would include environmental conditions to protect refuge resources—of all oil and gas operations in refuges; we believe the agency has such authority. Second, refuge managers lacked guidance, adequate staffing levels, and training to properly oversee oil and gas activities. We also found that FWS was not collecting complete and accurate information on damage to refuge lands as a result of oil and gas operations and what steps were needed to address that damage.

FWS has taken some steps to address recommendations we made to resolve these problems. For example, the agency has implemented training for staff overseeing oil and gas activities and has begun collecting better

¹⁰70 *Fed. Reg.* 41532, 41542 (July 19, 2005).

¹¹Pub. L. No. 109-58, title III, subtitle F, § 365(i), 119 Stat. 594, 725 (2005) and 70 *Fed. Reg.* 58854 (Oct. 7, 2005).

¹²GAO, *National Wildlife Refuges: Opportunities to Improve the Management and Oversight of Oil and Gas Activities on Federal Lands*, [GAO-03-517](#) (Washington, D.C.: Aug. 28, 2003).

data on the nature and extent of oil and gas activities. However, FWS has not implemented two key recommendations that would strengthen its ability to protect refuge resources.

- First, because FWS had not formally clarified its authority to oversee all types of oil and gas operations on refuges, we recommended that the agency (1) determine its authority to oversee such operations and report that determination to the Congress and (2) seek from the Congress any additional authority that might be needed to apply a consistent and reasonable set of controls over all oil and gas activities occurring on national wildlife refuges. To date, FWS has not finalized its determination, but it has indicated that it does not believe it has the authority to require permits of all oil and gas operations that would include steps that must be taken to protect refuge resources. Further, FWS has indicated that it does not believe it needs additional authority to effectively manage oil and gas operations on refuges. We continue to believe, however, that FWS does have the authority to require such permits of all operators. Moreover, because of the effects of oil and gas activities on refuge resources that we previously reported, we also continue to believe that if FWS ultimately determines that it does not have the authority to require permits, it should seek this authority from the Congress in order to adequately protect refuges.
- Second, although FWS has taken steps to identify the level of staffing it needs to adequately oversee oil and gas activities occurring on national wildlife refuges, it has not—as we recommended—sought the funding to meet those needs through appropriations, its authority to assess fees, or other means.

Management Problems in Indian and Island Community Programs Persist

GAO has reported on management weaknesses in Indian programs for a number of years. While the department has taken significant steps in the last 10 years to address these weaknesses, it is still in the process of implementing key trust fund reforms, and several concerns exist about the completion of these reforms. We have also reported on serious delays in BIA's program for determining whether the department will accept land in trust. In addition, the department could be doing more to assist seven island communities—four U.S. territories and three sovereign island nations—with long-standing financial and program management deficiencies.

Indian Trust Funds and Assets Need to Be More Effectively Managed

The Secretary of the Interior administers the government's trust responsibilities to tribes and individual Indians, including maintaining about 1,450 trust fund accounts for more than 250 tribal entities with assets of about \$2.9 billion and about 300,000 individual Indian trust fund accounts with assets of about \$400 million. Management of Indian trust funds and assets has long been plagued by inadequate financial management, such as poor accounting and information systems; untrained and inexperienced staff; backlogs in appraisals, determinations of ownership, and record-keeping; lack of a master lease file or accounts-receivable system; inadequate written policies and procedures; and poor internal controls.

In response to these problems, the Congress enacted the American Indian Trust Fund Management Reform Act of 1994, which among other things, established the Office of the Special Trustee (OST) to oversee and coordinate the department's implementation of trust fund management reforms.¹³ In December 2006, we reported that OST had made progress implementing reforms, and it estimated that almost all key reforms needed to develop an integrated trust management system and to provide improved trust services would be completed by November 2007.¹⁴ However, OST also estimated that data verification for leasing activities would not be completed for all Indian lands until December 2009. Furthermore, OST's most recent strategic plan, issued in 2003, did not include a timetable for implementing trust reforms or a date for OST's termination, as required by the reform act. As a result, we recommended, among other things, that the department provide the Congress with a timetable for completing the trust fund management reforms. The department agreed with our recommendation and stated that it expects to have a timetable for implementing the remaining trust reforms by late June 2007, including a date for the proposed termination or eventual deposition of OST. Although the department's consolidated financial statements for the fiscal year ending September 30, 2006, received an unqualified audit opinion, the management of Indian trust funds continued to be reported as

¹³Pub. L. No. 103-412, 108 Stat. 4239 (1994). Also, in 1996, a class action lawsuit was filed by Elouise Cobell, a member of the Blackfeet Tribe, and others against the federal government concerning the department's management of Indian trust fund accounts (*Cobell v. Kempthorne*). The lawsuit is still ongoing and the recent attempts during the 109th Congress for a legislative settlement were not enacted.

¹⁴GAO, *Indian Issues: The Office of the Special Trustee Has Implemented Several Key Trust Reforms Required by the 1994 Act, but Important Decisions about Its Future Remain*, [GAO-07-104](#) (Washington, D.C.: Dec. 8, 2006).

a material internal control weaknesses, and information security was reported as an internal control weakness.

Improvements Needed in BIA's Processing of Land in Trust Applications

BIA is the primary federal agency charged with implementing federal Indian policy and administering the federal trust responsibility for 1.9 million American Indians and Alaska Natives. BIA provides basic services to 561 federally recognized Indian tribes throughout the United States, including social services, child welfare services, and natural resources management on about 54 million acres of Indian trust lands. Trust status means that the federal government holds title to the land in trust for tribes or individual Indians; land taken in trust is no longer subject to state and local property taxes and zoning ordinances. Many Indians believe that having their land placed in trust status is fundamental to safeguarding it against future loss and ensuring their sovereignty. In 1980, the department established a regulatory process intended to provide a uniform approach for taking land in trust.¹⁵ While some state and local governments support the federal government's taking additional land in trust for tribes or individual Indians, others strongly oppose it because of concerns about the impacts on their tax base and jurisdictional control.

We reported in July 2006 that while BIA generally followed its regulations for processing land in trust applications, it had no deadlines for making decisions on them.¹⁶ Specifically, the median processing time for the 87 land in trust applications with decisions in fiscal year 2005 was 1.2 years—ranging from 58 days to almost 19 years. We also found that while there was little opposition to applications with decisions in fiscal year 2005 from state and local governments, some state and local governments we contacted said (1) they did not have access to sufficient information about the land in trust applications and (2) the 30-day comment period was not sufficient. We recommended, among other things, that the department move forward with adopting revisions to the land in trust regulations that include (1) specific time frames for BIA to make a decision once an application is complete and (2) guidelines for providing state and local governments more information on the applications and a longer period of time to provide meaningful comments on the applications. The department

¹⁵25 C.F.R. pt. 151.

¹⁶GAO, *Indian Issues: BIA's Efforts to Impose Time Frames and Collect Better Data Should Improve the Processing of Land in Trust Applications*, [GAO-06-781](#) (Washington, D.C.: July 28, 2006).

agreed with our recommendations, and BIA has developed a corrective action plan to implement them by June 30, 2007.

Improve Effectiveness and Accountability for Island Programs

The Secretary of the Interior has varying responsibilities to the island communities of American Samoa, Guam, the Commonwealth of the Northern Mariana Islands, and the U.S. Virgin Islands, all of which are U.S. territories—as well as to the Federated States of Micronesia, the Republic of the Marshall Islands, and the Republic of Palau, which are sovereign nations linked with the United States through Compacts of Free Association. The Office of Insular Affairs (OIA) carries out the department’s responsibilities for the island communities. OIA’s mission is to assist the island communities in developing more efficient and effective government by providing financial and technical assistance and to help manage relations between the federal government and the island governments by promoting appropriate federal policies. The island governments have had long-standing financial and program management deficiencies. Specifically, island governments experience difficulties in accurately accounting for expenditures, collecting taxes and other revenues, controlling the level of expenditures, and delivering program services.

In December 2006, we reported on serious economic, fiscal, and financial accountability challenges facing the U.S. insular areas of American Samoa, Guam, the Commonwealth of the Northern Mariana Islands, and the U.S. Virgin Islands.¹⁷ The economic challenges stem from dependence on a few key industries, scarce natural resources, small domestic markets, limited infrastructure, shortages of skilled labor, and reliance on federal grants to fund basic services. To help diversify and strengthen their economies, OIA sponsors conferences and business opportunities missions to the areas to attract U.S. businesses; however, there has been little formal evaluation of these efforts. In addition, efforts to meet formidable fiscal challenges and build strong economies are hindered by financial reporting that does not provide timely and complete information to management and oversight officials for decision making. The insular area governments have also submitted required audits late, received disclaimer or qualified audit opinions, and had many serious internal control weaknesses identified. As a result of these problems, numerous federal agencies have designated these governments as “high-risk” grantees. Interior and other federal

¹⁷GAO, *U.S. Insular Areas: Economic, Fiscal, and Financial Accountability Challenges*, GAO-07-119 (Washington, D.C.: Dec. 12, 2006).

agencies are working to help these governments improve their financial accountability, but more should be done.

To increase the effectiveness of the federal government's assistance to the U.S. insular areas, we recommended, among other things, that the department (1) increase coordination activities with officials from other federal grant-making agencies on issues of common concern relating to the insular area governments, such as single audit reports, high-risk designations, and deficiencies in financial management systems and practices and (2) conduct formal periodic evaluations of OIA's conferences and business opportunities missions, assessing their impact on creating private sector jobs and increasing insular area income. The department agreed with our recommendations, stating that they were consistent with OIA's top priorities and ongoing activities. We will continue to monitor OIA's actions on our recommendations.

Also in December 2006, we reported on challenges facing the Federated States of Micronesia and the Republic of the Marshall Islands.¹⁸ In 2003, the United States amended a 1986 compact with the countries by signing Compacts of Free Association with the two governments. The amended compacts provide the countries with a combined total of \$3.6 billion from 2004 to 2023, with the annual grants declining gradually. We found that for 2004 through 2006, compact assistance to the respective governments was allocated largely to the education, infrastructure, and health sectors, but that neither country has planned for long-term sustainability of the grant programs, taking into account the annual decreases in grant funding. In addition, both countries' single audit reports for 2004 and 2005 indicated (1) weaknesses in their ability to account for the use of compact funds and (2) noncompliance with requirements for major federal programs. For example, the Federated States of Micronesia's audit report for 2005 contained 57 findings of material weaknesses and reportable conditions in the national and state governments' financial statements for sector grants and 45 findings of noncompliance. We recommended, among other things, that the department work with the countries to establish plans to minimize the impact of declining assistance and to fully develop a reliable mechanism for measuring progress towards program goals. The department concurred with our recommendations.

¹⁸GAO, *Compacts of Free Association: Micronesia and the Marshall Islands Face Challenges in Planning for Sustainability, Measuring Progress, and Ensuring Accountability*, [GAO-07-163](#) (Washington, D.C.: Dec. 15, 2006).

Land Appraisals Continue to Fall Short of Standards

Over the years, we and Interior's IG have reported on the difficulties BLM and other federal land management agencies have had in managing land appraisals. Conducting appraisals is an important function—between November 2003 and May 2006, for example, Interior appraised more than 6.5 million acres of land that was valued at over \$7 billion. Land appraisals are needed when Interior agencies are buying, exchanging, or leasing land. Such transactions are an integral part of Interior's land management in order to achieve specific purposes, such as consolidating existing holdings, acquiring land deemed important for wildlife habitat or recreational opportunities, and opening land to the development of energy and mineral resources. Interior generally requires land acquisitions to be based on market value and, thus, objective land appraisals are essential. Past reports, however, have identified serious problems with Interior agencies' appraisal programs, particularly with regard to appraisal independence, and have identified millions of dollars that the federal government had lost because of inadequate appraisals.

While Interior has made major program changes, significant problems continue. Specifically, to remedy decades of problems with the quality and objectivity of its land appraisals, Interior removed the land appraisal function from its land management agencies and consolidated it into a departmental office—the Appraisal Services Directorate—in November 2003. This was a substantial move in the right direction to help ensure the independence of the appraisal function, and we reported in September 2006 that the objectivity of appraisals has improved since the directorate's inception.¹⁹ However, we also identified two major remaining challenges.

- First, there is still wide variation in the quality of appraisals for land transactions involving potentially billions of dollars. For example, about 40 percent of Interior's appraisals for land transactions that we reviewed did not comply with recognized appraisal standards. This lack of compliance occurred, in large part, because appraisers appeared not to apply the specialized skills needed to perform their duties for certain appraisals. In addition, peer reviews of appraisals were cursory, with reviewers approving appraisals without considering property characteristics that can impact the value of land, such as the presence of roads.

¹⁹GAO, *Interior's Land Appraisal Services: Actions Needed to Improve Compliance with Appraisal Standards, Increase Efficiency, and Broaden Oversight*, GAO-06-1050 (Washington, D.C.: Sept. 28, 2006).

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- Second, the directorate does not have a system for ensuring that it sets and meets realistic time frames for appraisal delivery. Of the 3,500 appraisals completed since the directorate was created, over 70 percent missed their deadlines, with an average delay of 4 months. Delays in delivery of appraisals can impact the ability of land management agencies to carry out land acquisition missions, and some land deals have been scuttled as a result.

Since our report last fall, Interior has taken encouraging steps to address our recommendations. For example, Interior has stated that it has implemented a compliance inspection program for appraisals that are considered “high risk” to help ensure that such appraisals comply with recognized appraisal standards. We will continue to monitor the department’s progress in this area. In addition, we currently we have a review under way to evaluate Interior’s management of land exchanges.

Deferred Maintenance Backlog Needs to Be Addressed

In addition to the challenges the department faces in adequately maintaining the natural resources under its stewardship, it also faces a challenge in adequately maintaining its facilities and infrastructure. The department owns, builds, purchases, and contracts services for assets such as visitor centers, schools, office buildings, roads, bridges, dams, irrigation systems, and reservoirs; however, repairs and maintenance on these facilities have not been adequately funded. The deterioration of facilities can adversely impact public health and safety, reduce employees’ morale and productivity, and increase the need for costly major repairs or early replacement of structures and equipment. In 2003, we reported that the department estimated that the deferred maintenance backlog was between \$8.1 billion and \$11.4 billion. In November 2006, the department estimated that the deferred maintenance backlog for fiscal year 2006 was between \$9.6 billion and \$17.3 billion, an increase of between 18 to 51 percent (see table 1).

Table 1: Department of the Interior’s Estimate of Deferred Maintenance for Fiscal Year 2006

Type of structures	Estimated range of deferred maintenance	
	Low estimate	High estimate
Roads, bridges, and trails	\$4.80	\$9.18
Irrigation, dams, and other water structures	1.39	1.85
Buildings (e.g., administration, education, housing, historic buildings)	2.12	3.70
Other structures (e.g., recreation sites and fish hatcheries)	1.29	2.57
Total	\$9.60	\$17.30

Source: Department of the Interior.

Interior is not alone in facing daunting maintenance challenges. In fact, we have identified the management of federal real property, including deferred maintenance issues, as a governmentwide high-risk area since 2003.²⁰ While Interior has made progress addressing prior recommendations to improve information on the maintenance needs of Park Service facilities and BIA schools, the challenge of how the department will secure the significant funding needed to reduce this maintenance backlog to a manageable level remains.

While some programs have improved information on their deferred maintenance needs, in February 2006, we reported that similar information is still needed for 16 BIA irrigation projects with an estimated \$850 million in deferred maintenance.²¹ For example, we found that some of the irrigation projects classified items as deferred maintenance when they were actually new construction, and some had incomplete information on their deferred maintenance needs. To further refine the deferred maintenance estimate for the 16 irrigation projects, BIA plans to hire

²⁰GAO, *High-Risk Series: An Update*, GAO-03-119 (Washington, D.C.: Jan. 2003); GAO, *High-Risk Series: Federal Real Property*, GAO-03-122 (Washington, D.C.: Jan. 2003); GAO, *High-Risk Series: An Update*, GAO-05-207 (Washington, D.C.: Jan. 2005); GAO, *High-Risk Series: An Update*, GAO-07-310 (Washington, D.C.: Jan. 2007).

²¹GAO, *Indian Irrigation Projects: Numerous Issues Need to Be Addressed to Improve Project Management and Financial Sustainability*, GAO-06-314 (Washington, D.C.: Feb. 24, 2006).

experts in engineering and irrigation to conduct thorough condition assessments of all 16 irrigation projects every 5 years. The first such assessment was completed in July 2005, with all 16 assessments expected to be completed by 2010.

Revenue Collection Needs More Management Attention

For many years, Interior's IG has identified revenue collection as a top management challenge for the department because of the significant potential for underpayments given that it collects, on average, over \$10 billion annually. Work we have conducted in the past 2 years also raises questions about how and when Interior is collecting authorized revenues from oil and gas leases, geothermal leases, recreational uses, and grazing and whether funds are properly controlled and accounted for.

Substantial Revenue May Be Forgone Because of Royalty Relief

We testified in January 2007 on ongoing work investigating the Minerals Management Service's (MMS) implementation of the Outer Continental Shelf Deep Water Royalty Relief Act of 1995 and other authorities for granting royalty relief for oil and gas leases.²² We reported that MMS had issued lease contracts in 1998 and 1999 that failed to include price thresholds above which royalty relief would no longer be applicable. As a result, large volumes of oil and natural gas are exempt from royalties, which significantly reduces the amount of royalty revenues that the federal government can collect. At least \$1 billion in royalties has already been lost because of this failure to include price thresholds. MMS has estimated that forgone royalties from leases issued between 1996 and 2000 under the act could be as high as \$80 billion. However, there is much uncertainty in MMS's estimate as a result of, for example, the inherent difficulties in estimating future production and prices, as well as ongoing litigation addressing MMS's authority to set price thresholds for some leases. Other authorities for granting royalty relief may also affect future royalty revenues. Specifically, under discretionary authority, the Secretary of the Interior administers programs granting relief for certain deep water leases issued after 2000, certain deep gas wells drilled in shallow waters, and wells nearing the end of their productive lives. In addition, the Energy Policy Act of 2005 mandates relief for leases issued in the Gulf of Mexico

²²In order to promote oil and gas production, the federal government has at times and in specific cases provided "royalty relief"—the waiver or reduction of royalties that companies would otherwise be obligated to pay. See GAO, *Oil and Gas Royalties: Royalty Relief Will Likely Cost the Government Billions, but the Final Costs Have Yet to Be Determined*, [GAO-07-369T](#) (Washington, D.C.: Jan. 18, 2007).

during the 5 years following the act's passage, provides relief for some gas wells that would not have previously qualified for royalty relief, and would provide relief in certain areas of Alaska where there currently is little or no production.

The U.S. Comptroller General has highlighted royalty relief as an area needing additional oversight by the 110th Congress.²³ Currently, we are assessing MMS's estimate of forgone royalties in light of changing oil and gas prices, revised estimates of future oil and gas production, and other factors. We are also seeking to identify comprehensive studies that quantify the potential benefits of royalty relief. We intend to issue a report on these issues later this year.

Revenue from Geothermal Leases May Change

In May 2006, we reported that a change in how royalties on geothermal leases are disbursed may result in a change in the amount of royalties collected by the federal government.²⁴ Specifically, while the Energy Policy Act of 2005 included provisions to encourage geothermal development, it also reduced the royalty percentage the federal government receives. Despite this, the act directs the Secretary of the Interior to seek, for most leases, to maintain the same level of royalty revenues as before the act. This could be accomplished by negotiating different royalty rates based on past royalty history, provided that electricity prices remain constant. Although it is impossible to predict with reasonable assurance how these prices will change in the future, Interior must make its best effort to mitigate the impact of changing prices if federal royalty revenue is to remain the same. This mitigation can only be achieved if there is timely and accurate knowledge of the revenues that lessees collect when they sell electricity. However, we reported that MMS does not routinely collect revenue data from electricity sales. Without such knowledge, MMS will have difficulty collecting the same level of royalties from lessees under the new royalty process. To demonstrate its commitment to collect the same level of royalty revenues as prior to passage of the act, we recommended that MMS routinely collect future sales revenues for electricity when royalty payments are due. MMS has plans to address these issues, and we will continue to monitor their efforts.

²³GAO, *Suggested Areas for Oversight for the 110th Congress*, [GAO-07-235R](#) (Washington, D.C.: Nov. 17, 2006).

²⁴GAO, *Renewable Energy: Increased Geothermal Development Will Depend on Overcoming Many Challenges*, [GAO-06-629](#) (Washington, D.C.: May 24, 2006).

Interior Has Not Maximized Revenue Collections from Recreational and Other Uses

Interior agencies are authorized—and in some cases required—to collect fees for a variety of uses. For example, the Park Service collects fees from air tour operators at selected national parks and from individuals and companies conducting commercial filming. However, we found that the agencies were not collecting such fees in the following cases:

- In May 2006, we reported that the Park Service was not collecting all required fees from companies conducting air tours in or around three highly visited national parks because of (1) an inability to verify the number of air tours conducted over the three national parks and, therefore, to enforce compliance and (2) confusion resulting from differing geographic applicability of legislation governing air tours in national parks.²⁵
- In May 2005, we reported that the Park Service could be collecting more revenue through the permits it issues for special park uses, such as special events, but was not doing so because park units were not consistently applying criteria for charging permit fees.²⁶ In addition, the Park Service had not implemented a May 2000 law that required the collection of location fees for commercial filming and still photography, resulting in significant annual forgone revenues. In response to our recommendation, the Park Service began collecting location fees in May 2006.
- In September 2006, we reported that Interior agencies have been slow to implement authorities for charging fees for recreational uses of federal lands and waters.²⁷ We also reported that some agencies lacked adequate controls and accounting procedures for collecting fees.

²⁵GAO, *National Park Air Tour Fees: Effective Verification and Enforcement Are Needed to Improve Compliance*, [GAO-06-468](#) (Washington, D.C.: May 11, 2006).

²⁶GAO, *National Park Service: Revenues Could Increase by Charging Allowed Fees for Some Special Uses Permits*, [GAO-05-410](#) (Washington, D.C.: May 6, 2005).

²⁷Total fee collections in fiscal year 2004 were about \$192 million. See GAO, *Recreation Fees: Agencies Can Better Implement the Federal Lands Recreation Enhancement Act and Account for Fee Revenues*, [GAO-06-1016](#) (Washington, D.C.: Sept. 22, 2006).

Additional Revenue Could be Generated Through an Adjustment to BLM Grazing Fees

Ten federal agencies manage grazing on over 22 million acres, with BLM and the Forest Service managing the vast majority of this activity.²⁸ In total, federal grazing revenue amounted to about \$21 million in fiscal year 2004, although grazing fees differ by agency. For example, in 2004, BLM and the Forest Service charged \$1.43 per animal unit month, while other federal agencies charged between \$0.29 and \$112 per animal unit month.²⁹ We reported in 2005 that while BLM and the Forest Service charged generally much lower fees than other federal agencies and private entities, these fees reflect legislative and executive branch policies to support local economies and ranching communities.³⁰ Specifically, BLM fees are set by a formula that was originally established by a law that expired, but use of the formula has been extended indefinitely by Executive Order since 1986. This formula takes into account a rancher's ability to pay and, therefore, the purpose is not primarily to recover the agencies' costs or capture the fair market value of forage. Instead, the formula is designed to set a fee that helps support ranchers and the western livestock industry. Other federal agencies employ market-based approaches to setting grazing fees.

Using this formula, BLM collected about \$12 million in receipts in fiscal year 2004, while its costs for implementing its grazing program, including range improvement activities, were about \$58 million. Were BLM to implement approaches used by other agencies to set grazing fees, it could help to close the gap between expenditures and receipts and more closely align its fees with market prices. We recognize, however, that the purpose and size of BLM's grazing fee are ultimately for the Congress to decide.

Contract and Grant Management Lack Needed Controls

Interior's management of contracts and grants has been identified as a management challenge by Interior's IG for a number of years. Our recent work echoes some of the department's IG's concerns, in particular with regard to interagency contracting and grant management for the Chesapeake Bay Gateways grant program.

²⁸The 10 agencies are the BLM, FWS, Park Service, Bureau of Reclamation, Forest Service, Department of Energy, Army Corps of Engineers, Army, Air Force, and Navy. In addition, a number of other federal agencies manage some minor grazing-related activities.

²⁹An animal unit month is the amount of forage (vegetation such as grass and shrubs) that a cow and her calf eat in a month (or one bull, one steer, one horse, or five sheep).

³⁰GAO, *Livestock Grazing: Federal Expenditures and Receipts Vary, Depending on the Agency and the Purpose of the Fee Charged*, GAO-05-869 (Washington, D.C.: Sept. 30, 2005).

Interior's Management of Interagency Contracting Activities Needs Improvement

The Department of Defense (DOD) has used interagency contracting to help support the war in Iraq, including contracting with Interior. Governmentwide, the use of interagency contracts to procure goods and services has continued to increase over the past several years. Because of this continued growth, limited expertise in using these contracts, and unclear lines of responsibility, GAO has designated interagency contracting as a governmentwide high-risk area.³¹ In our review of 11 task orders Interior issued on behalf of DOD—amounting to about \$66 million—we found numerous breakdowns in management controls.³² Specifically, we found that Interior

- issued task orders that were beyond the scope of the contract, in violation of federal competition rules;
- did not comply with additional DOD competition requirements when issuing task orders for services on existing contracts;
- did not comply with ordering procedures meant to ensure the best value for the government; and
- inadequately monitored contractor performance.

Moreover, we found that the contractor was allowed to play a role in the procurement process normally performed by the government because the officials at Interior and DOD responsible for the orders did not fully carry out their roles and responsibilities. In response to the concerns identified, Interior and DOD initiated actions to strengthen management controls. In our report, we made recommendations to further refine their efforts.

In 2005, we also reported on weaknesses in Interior's GovWorks. GovWorks is a government-run, fee-for-service organization that provides various services, including contracting services, on which DOD has relied.³³ Specifically, Interior did not always ensure that GovWorks contracts received fair and reasonable prices and may have missed

³¹GAO, *High-Risk Series: An Update*, [GAO-07-310](#) (Washington, D.C.: Jan. 31, 2007).

³²GAO, *Interagency Contracting: Problems with DOD's and Interior's Orders to Support Military Operations*, [GAO-05-201](#) (Washington, D.C.: Apr. 29, 2005).

³³Such organizations are referred to as "franchise funds." See GAO, *Interagency Contracting: Franchise Funds Provide Convenience, but Value to DOD Is Not Demonstrated*, [GAO-05-456](#) (Washington, D.C.: July 29, 2005.)

opportunities to achieve savings from millions of dollars in purchases. In addition, GovWorks added substantial work—as much as 20 times above the original value of a particular order—without determining that prices were fair and reasonable. We made recommendations to Interior to improve the manner in which GovWorks funds are used to ensure value and compliance with procurement regulations. Interior concurred with our recommendations and identified actions to take to address them. We will continue to monitor their implementation of these actions.

Chesapeake Bay Gateways Grant Program Lacks Needed Controls

In September 2006, we reported on weaknesses in the Park Service’s management of grants provided to nonfederal entities under its Chesapeake Bay Gateways Program.³⁴ In 1998, Congress passed the Chesapeake Bay Initiative Act to establish (1) a network of locations where the public can access and experience the bay and (2) a grant program to accomplish this objective. From 2000 through 2005, the Park Service awarded 189 grants totaling over \$6 million to support the network. However, our review revealed several accountability and oversight weaknesses in the Park Service’s management of these grants, including (1) inadequate training of Park Service staff, (2) a lack of timely grantee reporting on progress and finances, (3) continuing awards to nonperforming grantees, and (4) a backlog of uncompleted grants. To enhance accountability and oversight, we recommended that the department

- develop and implement a process to determine the extent to which grants are effectively meeting program goals;
- ensure that staff responsible for grant management are adequately trained;
- ensure that grantees submit progress and financial reports in a timely manner; and
- ensure that grants are awarded only to applicants who completed any previous grants they received or to applicants who have demonstrated the capacity for completing a grant on schedule.

³⁴GAO, *Chesapeake Bay Gateways Program: National Park Service Needs Better Accountability and Oversight of Grantees and Gateways*, [GAO-06-1049](#) (Washington, D.C.: Sept. 14, 2006).

Interior concurred with our recommendations and has plans to implement them.

Concluding Observations

To conclude, Mr. Chairman, I would like to note that in 1993, GAO testified at a broad oversight hearing on Interior before this Committee, similar to today's hearing. At that time, we testified that Interior faced serious challenges to addressing the declining condition of the nation's natural resources and related infrastructure under its responsibility. Unfortunately, almost 15 years later, the message in my testimony today is very similar. While some of the programs we evaluated in the past have improved, evaluations of additional programs reveal many of the same persistent management problems—a lack of adequate data to understand the condition of its natural resources and infrastructure and the actions necessary to improve them, a lack of adequate controls and accountability to ensure federal resources are properly used and accounted for, and a lack of adequate strategic planning and guidance for program implementation. Clearly the department needs to address management and control gaps in its programs and ensure its activities are carried out in the most cost-effective and efficient manner, but difficult choices remain for improving the condition of the nation's natural resources and the department's infrastructure in light of the federal deficit and long-term fiscal challenges facing the nation. Either new sources of funding need to be identified and pursued, or the department must determine the services it can continue and the standards it will use for maintaining its facilities and lands. As we stated in our testimony nearly 15 years ago, we believe that in reaching these decisions, policy makers should know the full extent of the resource shortfalls facing federal natural resource management agencies. In addition, it is essential for the department to identify the impacts on services and infrastructure that would occur should serious cutbacks be necessary in order to maintain a certain standard of quality.

Mr. Chairman, this concludes my prepared statement. I would be pleased to answer any questions that you or other Members of the Committee may have at this time.

GAO Contact

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