# U.S. DEPARTMENT OF THE INTERIOR

## OFFICE OF INSPECTOR GENERAL

# AUDIT WORKPLAN SUMMARY

## FISCAL YEAR 1998

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# DEPARTMENT OF THE INTERIOR
# CONSOLIDATED FINANCIAL STATEMENTS
# FOR FISCAL YEARS 1997 AND 1998

## 'YPE OF AUDIT

inancial - all bureaus

## 3ACKGROUND

he Congress enacted the Chief Financial Officers Act of 1990 to reform the fundament nancial management requirements and practices of obsolete and inefficient Federal system he purpose of the Act is to bring more effective general and financial management practices t ıe Federal Government by: (1) improving the financial management functions of the Office c Ianagement and Budget; (2) designating a chief financial officer in each executive departmei ıd major executive agency; and (3) providing for improvements in accounting and managemei ontrol systems to ensure the issuance of complete, reliable, and timely financial information

## ıUDIT OBJECTIVE AND SCOPE

Ve will audit the Department of the Interior's consolidated financial statements for fiscal yeai 997 and 1998. The objective of the audit is to determine whether: (1) the consolidate nancial statements of the Department were presented fairly and in accordance with applicabl ccounting standards; (2) internal controls were effectively implemented (that is, assurance wa rovided that the Department complied with applicable laws and regulations; safeguarded fund roperty, and other assets against waste, loss, unauthorized use, or misappropriation; an roperly recorded and accounted for revenues and expenditures); (3) the Department complie ith applicable laws and regulations as required by generally accepted government auditin tandards; (4) the internal control evaluation process was in compliance with the Feder Ianagers' Financial Integrity Act and Office of Management and Budget guidelines an equirements; and (5) significant financial information in the overview was consistent with th nancial statements and the systems providing data for the significant performance measures i ıe overview were reliable.

# OVERSIGHT OF AUDITS OF INDIVIDUAL BUREAU FINANCIAL STATEMENTS FOR FISCAL YEAR 1998

## 'YPE OF AUDIT

inancial - all funds

## 3ACKGROUND

he Congress enacted the Chief Financial Officers Act of 1990 to reform the fundament nancial management requirements and practices of obsolete and inefficient Federal system he purpose of the Act is to bring more effective general and financial management practices t ıe Federal Government by: (1) improving the financial management functions of the Office c Ianagement and Budget; (2) designating a chief financial officer in each executive departmei ıd major executive agency; and (3) providing for improvements in accounting and managemei ontrol systems to ensure the issuance of complete, reliable, and timely financial information

he Office of Inspector General has been auditing the financial statements of each of th )epartment's bureaus and has issued separate opinions on their financial statements since 991. However, beginning with the fiscal year 1998 financial statements, the Office of Inspecto ;eneral will not audit or issue an opinion on each bureau's financial statements. We anticipat ıat some bureau financial statements will be separately audited by independent external auditor n that regard, the Office of Inspector General is responsible for providing oversight of audi erformed by independent external auditors, in accordance with the Chief Financial Officers A f 1990, as required by Office of Management and Budget Bulletin 93-06, "Audit Requiremen or Federal Financial Statements."

## ıUDIT OBJECTIVE AND SCOPE

he objective of the audit is for the Office of Inspector General to ensure, through oversight, th ıreau financial statements audits performed by an independent external auditor are conducte ı accordance with the requirements of Section 10 of Bulletin 93-06, "Audit Requirements fo ederal Financial Statements." In that regard, the Office of Inspector General will: (1) provic ·chnical advice and liaison to bureau officials and independent external auditors; (2) perfor uality control reviews of audits conducted by these

ıonitor and report on management's progress in resolving audit findings reported by th ıdependent external auditors.

# GENERAL CONTROLS FOR PROCESSING TRANSACTIONS AT THE ADMINISTRATIVE SERVICE CENTERS, U.S. GEOLOGICAL SURVEY AND BUREAU OF RECLAMATION

## 'YPE OF AUDIT

inancial related

## 3ACKGROUND

he Department of the Interior operates two Administrative Service Centers: the Washingto .dministrative Service Center, located in Reston, Virginia, under the direction of the U.S ;eological Survey, and the Denver Administrative Service Center, located in Lakewoo olorado, under the direction of the Bureau of Reclamation. These centralized centers provic .DP services to all Departmental bureaus and for other Federal agencies by contract. Th enters support planning, acquisition/development, implementation, and operation an ıaintenance of standardized Departmentwide administrative systems.

ıcluded in the duties of the Washington Administrative Service Center are the following:

- Providing oversight of software modifications of the Federal Financial System (FFS) fc l Departmental bureaus and other clients. In addition, the Center operates and maintains th FS for the U.S. Geological Survey, the National Park Service, the Bureau of Indian Affairs, an ıe Office of the Special Trustee for American Indians, as well as for other Federal agencies an ıe U.S. House of Representatives.

- Implementing and maintaining the Department's standardized automated procuremer ystem, the Interior Department Electronic Acquisition System (IDEAS).

- Providing computer services and operational support for the Governmentwide Feder rocurement Data System (FPDS).

ıcluded in the duties of the Denver Administrative Service Center are the following:

- Providing, through the Payroll/Personnel System (PAY/PERS), payroll and personn ervices to 16 Departmental bureaus and Federal agencies that have more than 110,00 mployee accounts nationwide. PAY/PERS also supports a variety of user equipment at 13 tes and access to its mainframe computer in Lakewood.

ederal Personnel/Payroll System (FPPS), that will operate on the mainframe computer i akewood.

- Maintaining and operating the FFS for the Bureau of Reclamation, the Bureau of Lan Ianagement, and the U.S. Fish and Wildlife Service, as well as for other Federal agencies.

## AUDIT OBJECTIVE AND SCOPE

he objective of the audit is to determine whether policies and procedures at the Denve dministrative Service Center and the Washington Administrative Service Center are designe achieve specific control objectives and whether the control objectives are operating effectivel provide reasonable assurance that assets such as computers and the data contained therein ar dequately safeguarded. The audit is to be performed during fiscal year 1998 and reported i ccordance with the "Government Auditing Standards," which includes the American Institut f Certified Public Accountants Statement on Auditing Standards No. 70, "Reports on th rocessing of Transactions by Service Organizations."

# YEAR 2000 COMPLIANCE, DEPARTMENT OF THE INTERIOR

## 'YPE OF AUDIT

urvey - performance (economy and efficiency)

## 3ACKGROUND

)n or before January 1, 2000, a considerable number of computer systems are at risk of nc 'orking correctly, which may result in confusion and, potentially, in system failure. This ma ccur because most computer systems currently cannot handle the change of date as we mov 'om the year 1999 to the year 2000. During processing, computers will interpret the year 200 ; 1900 because most software programs assume that the first two digits of any year are "19 his could result in inaccurate data in determining due dates, interest, or benefits and in othe ısks that schedule or project future events. Some analysts have estimated the cost to remed ıe change of date in the Federal Government to be $30 billion and for the Department of th ıterior's 67 major systems to be $25 million.

he 67 major systems include systems that have been operational for many years, as well a ystems that are currently being designed and developed. These systems include the Bureau c and Management's Automated Land and Minerals Record System (ALMRS), which track ederal and Indian land and minerals; the Minerals Management Service's Royalty Managemer ystem, which includes the Auditing and Finance System, which accounts for all Federal oil an as royalties; and the Departmental accounting and personnel and payroll systems. While th )epartment has identified 67 major systems that will be affected by the change in date from 199 ) 2000, the Department has approximately 350 automated systems that support Departmenta rograms and operations which also may be affected and may adversely impact the Departmer ı accomplishing its mission.

## ıUDIT OBJECTIVE AND SCOPE

he objective of the audit is to determine whether: (1) the Department of the Interior has th ıpability to address the year 2000 compliance issues; (2) application programs and hardwar ıd system software programs are year 2000 compliant; and (3) plans and procedures are i lace to monitor year 2000 compliance changes to ensure that changes are made before the yea 000.

# IMPLEMENTATION OF THE CLINGER-COHEN ACT OF 1996, DEPARTMENT OF THE INTERIOR

## 'YPE OF AUDIT

urvey (performance) - Departmentwide

## 3ACKGROUND

ı February 1996, the Congress passed the Information Technology Management Reform A f 1996, which, under Public Law 104-208, was renamed the Clinger-Cohen Act of 1996. Th linger-Cohen Act requires the Director, Office of Management and Budget, with respect t ıformation technology in the Federal Government, to control capital planning; improv cquisition, use, and disposal of such technology by improving Federal programs; analyze, trac ıd evaluate the risks and results of all major capital investments in information systems as pa f the budget process; oversee the Secretary of Commerce's development and implementatio f standards and guidelines pertaining to Federal computer systems; use pilot projects fo nplementing information systems; compare and disseminate agencies' results; inform th ongress of these results; and coordinate the development and review of policy associated wit ederal information technology acquisition. In addition, the Act:

- Requires the Director, Office of Management and Budget, to evaluate the informatic esources management practices of the executive agencies with respect to the performance an esults of investments made in information technology.

- Provides enforcement authority to the Director to hold agency heads accountable fo ıformation resources management and investments.

- Requires the head of each executive agency to design and implement a process fo ıaximizing the value and assessing and managing the risks of information technolog cquisitions; utilize performance- and results-based management practices; and prepare an annu eport to the Congress concerning progress in achieving such goals.

chieve at least a 5 percent decrease in information technology operation and maintenance cos
nd a 5 percent increase in efficiency of operations annually.

## AUDIT OBJECTIVE AND SCOPE

he objective of the audit is to determine, based on this review, whether the Department of th
nterior can implement the Clinger-Cohen Act of 1996 by making progress in: (1
esigning and implementing a process for maximizing the value and assessing and managing th
sks of information technology acquisitions and (2) reducing operations and maintenance cos
y 5 percent and increasing the efficiency of operations as required by the Act. To accomplis
ur review, we will use the General Accounting Office's "Assessing Risks and Returns: A Guid
or Evaluating Federal Agencies' IT [information technology] Investment Decision-making" a
guideline for evaluating and assessing the Department's selection and management of i
nformation technology resources.

# OVERSIGHT OF AUDIT OF
# INDIAN TRUST FUNDS FINANCIAL STATEMENTS
# FOR FISCAL YEAR 1998

## 'YPE OF AUDIT

inancial - all funds

## 3ACKGROUND

he Congress enacted the Chief Financial Officers Act of 1990 to reform the fundament nancial management requirements and practices of obsolete and inefficient Federal system he purpose of the Act is to bring more effective general and financial management practices t ıe Federal Government by: (1) improving the financial management functions of the Office c Ianagement and Budget; (2) designating a chief financial officer in each executive departmei ıd major executive agency; and (3) providing for improvements in accounting and managemei ontrol systems to ensure the issuance of complete, reliable, and timely financial information

he Secretary of the Interior has been designated by the Congress as the U.S. Governmei ustee on behalf of the account holders of the Indian Trust Funds. Through February 8, 199( ıe Secretary delegated the authority for management of the Indian Trust Funds to the Assistai ecretary for Indian Affairs, who carried out the management of the Indian Trust Funds throug ıe Office of Trust Funds Management, Bureau of Indian Affairs. On February 9, 1996, th ecretary transferred the management of the Indian Trust Funds from the Bureau of India .ffairs to the newly established Office of the Special Trustee for American Indians, within th )ffice of the Secretary. The Office of Trust Funds Management was also transferred from th ureau of Indian Affairs to the Office of the Special Trustee, but administrative support of th )ffice of Trust Funds Management will continue to be provided by the Bureau.

he Office of Trust Funds Management has contracted with a public accounting firm to aud ıe Indian Trust Funds financial statements. The financial audit of the operations of the Offic f the Special Trustee and the Office of Trust Funds Management will be included in the financi atements audit of the Office of the Secretary, which is performed by the Office of Inspecto eneral. Office of Management and Budget Bulletin 93-06, "Audit Requirements for Feder inancial Statements," requires oversight by the Inspector General of audits performed b ıdependent external auditors in accordance with the Chief Financial Officers Act of 1990.

he objective of the audit is for the Office of Inspector General to ensure, through its oversigh
ıat the Indian Trust Funds financial statements audits performed by an independent extern
ıditor are conducted in accordance with the requirements of Section 10 of Bulletin 93-0
Audit Requirements for Federal Financial Statements." In that regard, the Office of Inspecto
eneral should: (1) provide technical advice and liaison to Indian Trust Funds officials an
ıdependent external auditors; (2) perform quality control reviews of audits conducted by thes
ıdependent external auditors and provide the results to other interested parties; and (3) monito
ıd report on management's progress in resolving audit findings reported by the independer
xternal auditors.

# OIL AND GAS EXPLORATION AND EXTRACTION ACTIVITIES ON NATIONAL WILDLIFE REFUGES, U.S. FISH AND WILDLIFE SERVICE

## TYPE OF AUDIT

Performance - Servicewide

## BACKGROUND

In several states, companies conduct oil and gas exploration and extraction activities on U.S. Fish and Wildlife Service national wildlife refuges. These activities are subject to oversight by the Service, which, in conjunction with the mineral rights holder, establishes the overall approach to exploration and extraction operations (such as acceptable exploration and extraction practices, refueling restrictions, and hours or periods of operation). Also, the U.S. Coast Guard and the National Response Center (a consortium of the Environmental Protection Agency and other resource management organizations) monitor pipelines and oil production activities.

## AUDIT OBJECTIVE AND SCOPE

The objective of the audit is to determine whether: (1) the U.S. Fish and Wildlife Service established adequate regulations and guidance to ensure that companies conducting oil and gas exploration and extraction activities on national wildlife refuges fully compensated the Government for the damage or contamination caused by their operations; (2) amounts charged for mitigation of damages or as bonding/insurance coverage were fair and reasonable; and (3) payments made by oil and gas companies for potential refuge damage were spent in accordance with Federal regulations and prudent business practices. The audit was requested by the Service. The audit will review the Service's oversight and administration of oil and gas exploration activities that occurred during fiscal years 1995 through 1998.

# MAINTENANCE OF WILDLIFE REFUGES AND FISH HATCHERIES, U.S. FISH AND WILDLIFE SERVICE

## TYPE OF AUDIT

Performance (economy and efficiency) - Servicewide

## BACKGROUND

The U.S. Fish and Wildlife Service maintains buildings, roads, water control structures, and equipment to support its wildlife management and fishery programs. The replacement value of these structures and equipment exceeds $4.5 billion for refuges and $700 million for hatcheries. To maintain these items, the Service established the Maintenance Management System to plan, budget, implement, and document maintenance projects for its buildings, facilities, and equipment. According to the Service, the most recent System information indicates that the refuge system has a maintenance backlog of about $428 million and that its hatcheries system has a maintenance backlog of about $134 million. The fiscal year 1998 funding request for hatchery maintenance is $6.9 million, and the request for refuge maintenance is $17.1 million.

## AUDIT OBJECTIVE AND SCOPE

The objective of the audit is to determine whether the U.S. Fish and Wildlife Service: (1) was managing its maintenance program in an efficient and effective manner and in accordance with established laws, regulations, and guidance and (2) was maintaining and using a maintenance management system that provides useful and reliable data at a reasonable cost. The audit will review refuge and hatchery maintenance activities that occurred during fiscal years 1996 through 1998.

# MISCELLANEOUS RECEIPTS, U.S. FISH AND WILDLIFE SERVICE

## TYPE OF AUDIT

Performance (economy and efficiency) - Servicewide

## BACKGROUND

The U.S. Fish and Wildlife Service authorizes a variety of nonrecreational uses at more than 500 units of the National Wildlife Refuge System. In fiscal year 1996, the Service collected $9 million in miscellaneous receipts from timber sales, grazing fees, mineral royalties, rights of way, concession operations, and special uses, which was a $2.4 million increase over fiscal year 1995 receipts. The Service uses the revenues to supplement its annual appropriations.

## AUDIT OBJECTIVE AND SCOPE

The objective of the audit is to determine whether the U.S. Fish and Wildlife Service: (1) established adequate guidance and controls over the assessment, collection, and use of fees that are charged at the refuges; (2) applied consistent fees or charges that provide a reasonable return to the Government and that enable the Service to recover related administrative costs; and (3) complied with applicable Government regulations. The scope of the audit will include receipts-related activities that occurred during fiscal years 1996 and 1997.

# EMPLOYEE HOUSING RENTAL INCOME, NATIONAL PARK SERVICE

## TYPE OF AUDIT

Program and financial - Servicewide

## BACKGROUND

The National Park Service maintains park housing for some employees who provide visitor services in the parks. In-park housing is provided for some seasonal employees, permanent employees at isolated parks, and permanent employees at nonisolated parks who provide necessary visitor services or who protect Government property or resources. In a few parks, Government housing is provided to concessioner employees. In fiscal year 1996, the Park Service had about 5,200 single-family and multiple-unit housing quarters for park employees and collected about $12.5 million in rental income from park employees who used Government housing. In its fiscal year 1997 budget justification, the Park Service reported that it expected to receive rental income of about $15 million in fiscal year 1997 and $15.4 million in fiscal year 1998. The Park Service does not maintain information on the amount of rental income received from concessioner employees because this income is collected by the concessioner and used to maintain these Park Service housing units.

Federal guidance regulates the rental rates that are charged for the use of Government quarters. Federal law (5 U.S.C. 5911) requires Federal agencies to establish rental rates or charges for Government quarters that are based on their "reasonable value . . . to the employee . . . in the circumstances under which the quarters and facilities are provided, occupied or made available." Office of Management and Budget Circular No. A-45, "Rental and Construction of Government Quarters," states that rental rates should be based on "the rule of equivalence; namely, that charges for rental and related facilities should be set at levels equal to those prevailing for comparable private housing located in the same area, when practicable." The Circular also states that the rates should not reflect subsidies to the employees or serve as an inducement in the recruitment or retention of employees and that the rates should be fair and consistent. Public Law 101-121, Title III (Section 331), dated October 1989, provides for rents and charges for housing to be collected by payroll deduction, and Public Law 98-473 (Section 101(c)) provides for rental fees to be deposited in a special fund and for the monies "to remain available, until expended, for the maintenance and operation of the quarters of that agency."

## AUDIT OBJECTIVE AND SCOPE

The objective of the audit is to determine whether: (1) the rental rates charged to employees of the National Park Service and to concessioner employees for the use of Government housing are based on criteria contained in Office of Management and Budget Circular No. A-45 and (2) the National Park Service has established adequate controls over assessing, recording, and using rental income paid by Park Service and concessioner employees for the use of Government quarters. The scope of the audit will include rental rates, assessments, and collections that occurred from fiscal years 1996 through 1998.

# FACT SHEET

## CONCESSION CONTRACTING PROCEDURES, NATIONAL PARK SERVICE

## TYPE OF AUDIT

Performance - Servicewide

## BACKGROUND

In fiscal year 1997, the National Park Service had 209 contracts and 456 permits with concessioners that operated at 133 park units nationwide. Concession contracts, many of which are for terms of 10 or more years, have historically granted the concessioners preferential rights of renewal, exclusive rights to provide services or merchandise within a particular park area, and compensation for capital improvements. The contracts also typically required the concessioner to pay a franchise fee and/or deposit funds into concessioner improvement accounts. Estimated franchise fees and improvement account deposits for fiscal year 1996 were $16.4 million and $24.5 million, respectively.

In response to public and Congressional concerns about preferential treatment granted to certain concessioners (for example, low franchise fees, overcompensation for possessory interest, and limited responsibility for the maintenance and insufficient compensation for the use of government facilities), the Park Service agreed to revise some of its concession contracting practices. Since 1990, the Park Service has: (1) issued guidance on limitations to the period of performance of concession contracts and on the assessment of building use fees; (2) agreed to issue guidance on utility cost reimbursements; (3) established special accounts that are funded by concessioners and that pay for capital improvements; and (4) assigned a greater responsibility to concessioners for the payment of maintenance and utility costs. The Park Service also established authorization levels for the approval of concession contracting actions based on the dollar value of the awards.

## AUDIT OBJECTIVE AND SCOPE

The objective of the audit is to determine whether the National Park Service contracted for concession services in compliance with Federal and Park Service regulations and in accordance with prudent business practices. Specifically, we will determine whether the Park Service: (1) negotiated and renegotiated contracts and permits and fees/payments (franchise, permit, capital account, and building use fees and maintenance and utility cost

adequately addressed the issue of vesting concessioners with possessory interest; and (3) established adequate controls over concessioner improvement account funds, including deposits and expenditures. The scope of the audit will include concession contracting-related activities that occurred during fiscal years 1996, 1997, and 1998.

# FACT SHEET

## EMPLOYEE HOUSING, NATIONAL PARK SERVICE

## TYPE OF AUDIT

Performance - Servicewide

## BACKGROUND

The National Park Service constructs park housing for some employees who provide in-park visitor services. In-park housing is provided for some seasonal employees, permanent employees at isolated parks, and permanent employees at nonisolated parks who provide necessary visitor services or who protect Government property or resources. In fiscal year 1996, the Park Service had about 5,200 housing units for park employees, which consisted of single-family and multi-unit housing facilities.

In its testimony to the Congress on the fiscal year 1998 budget, the Park Service reported a significant maintenance backlog, which included housing rehabilitation and construction costs. A December 1996 Office of Inspector General report (No. 97-I-224) showed that the Park Service had a recapitalization requirement of about $441.9 million for housing permanent and seasonal employees.

## AUDIT OBJECTIVE AND SCOPE

The objective of the audit is to determine whether the National Park Service justified its need for additional employee housing and for major renovation/rehabilitation of employee housing facilities, based its housing needs on an analysis of the most cost-effective means of providing housing facilities (single-family and multi-unit housing facilities), and initiated housing construction programs based on the highest priority housing needs. The audit will include a review of housing planned, under construction, or completed during fiscal years 1996 through 1998.

# INTEGRITY OF PROGRAM FUNDING, NATIONAL PARK SERVICE

## TYPE OF AUDIT

Performance - Servicewide

## BACKGROUND

The national park system comprises 374 units, which include natural areas such as Yellowstone and Yosemite National Parks, urban areas such as the Gateway National Recreation Area in New York and New Jersey, national battlefields, national historic sites, and national preserves. Most of the funding for the National Park Service is for park operating budgets. For fiscal year 1997, the Park Service was appropriated about $1.55 billion, of which $1.2 billion was to cover operations of the park system, including the headquarters and the regional offices.

Park Service headquarters has overall program responsibility for Servicewide programs such as maintenance, resource management, and law enforcement and plays a key role in formulating the budget requests for these programs and in allocating funds to the parks. However, upon receiving their budget allocations, the park superintendents exercise a great deal of discretion in setting operational priorities. Under this decentralized, park-based, decision-making structure, park managers generally plan and execute their budgets with little involvement from regional and headquarters managers. Funds are allotted to the parks on a quarterly basis, and separate accounts have been established for recording expenditures under the various programs.

## AUDIT OBJECTIVE AND SCOPE

The objective of the audit is to determine whether the National Park Service established adequate budget and accounting controls to ensure that: (1) funds were allocated to the parks on a timely basis to ensure the efficient and effective management of park programs; (2) expenditures were recorded in the proper accounts; and (3) the accounting system provided sufficient information for program managers to monitor program expenditures effectively. The audit was requested by the Park Service. The audit will cover program funding for fiscal year 1997.

# LINE ITEM CONSTRUCTION PROGRAM RESERVES, NATIONAL PARK SERVICE

## TYPE OF AUDIT

Performance - Servicewide

## BACKGROUND

The National Park Service requests funds annually for its line item construction program, which provides for the construction, rehabilitation, and replacement of facilities. The overall physical plant of the Park Service includes about 16,000 permanent structures, 300 major water and sewage treatment systems, 1,200 secondary water and sewage treatment systems, and 5,200 employee housing units. The line item construction program finances the rehabilitation and preservation of historic, archeological, recreational, interpretive, and operational structures and facilities throughout the national park system. Before requesting line item construction funds, the Park Service evaluates each project to ensure that construction planning has progressed sufficiently to justify obligation of project funds in the current fiscal year. Also, Park Service construction cost estimates are based on nearly completed construction drawings or at least "advanced" construction planning. In developing its annual construction appropriation budget justifications to the Congress, the Park Service adds an additional 16 percent to its cost estimates for approved projects for "contingencies" (for items such as cost overruns and contract modifications) and an additional 15 percent for "administrative costs" (for items such as the Denver Service Center's administrative costs and construction supervision). All funds appropriated to the Park Service for this program are "no-year" monies, which are available to the Park Service until expended.

From fiscal years 1995 through 1997, the Congress appropriated construction funds of about $300.9 million to the Park Service as follows: 1995 - $126.5 million; 1996 - $92.2 million; and 1997 - $82.2 million. Of these amounts, the Park Service reserved about $53.3 million for contingencies and $50 million for administrative costs.

## AUDIT OBJECTIVE AND SCOPE

The objective of the audit is to determine whether the National Park Service established effective accounting and administrative controls over the recording and use of funds reserved for contingencies and administrative expenses. The scope of the audit will include a review

were obligated during fiscal years 1995 through 1997.

# FACT SHEET

## ACQUISITION OF UTILITY SERVICES, NATIONAL PARK SERVICE

## TYPE OF AUDIT

Performance - Servicewide

## BACKGROUND

At some parks, the National Park Service constructs and operates utility systems that provide water, electricity, and the removal of wastewater, while at others, the Park Service purchases utility services, such as electricity and solid waste hauling, from municipal or public utility providers. In general, the Park Service's Denver Service Center is responsible for the development of Government-owned utility facilities, and the Public Utilities Branch of the Park Service's Washington Office is responsible for negotiating with municipal and public utility providers for utility services. In fiscal year 1997, the Park Service identified capitalization requirements of over $304 million for utility systems in the parks.

The Code of Federal Regulations (48 CFR 41.2) requires that agencies obtain utility services from sources of supply which are most advantageous to the Government in terms of economy, efficiency, reliability, or service. In addition, the Service's management policies provide that the Service will use municipal or other utility systems outside the parks whenever economically and environmentally practicable and authorizes the Park Service to participate, where authorized, in cost-sharing projects with municipalities and others in meeting new, expanded, or replacement park utility needs. Although it may be more cost effective for the Park Service to contract with local municipalities for utility services rather than to construct utility systems, factors such as the isolation of the park and the size of existing local municipal plants may affect the decision to build or buy.

## AUDIT OBJECTIVE AND SCOPE

The objective of the audit is to determine whether the National Park Service complied with Federal, Departmental, and Park Service regulations pertaining to the acquisition of utility services and established an effective process for determining whether to build or rehabilitate utility systems or to purchase utility services from local municipality or public utility providers. The scope of the audit will include a review of constructed or planned utility system developments in the parks from fiscal years 1994 through 1997.

# LAND RECORDS MANAGEMENT SYSTEM, BUREAU OF INDIAN AFFAIRS

## TYPE OF AUDIT

Performance - Bureauwide

## BACKGROUND

The Bureau of Indian Affairs has five Land Titles and Records offices, which are responsible for recording, imaging, adjudicating, certifying, and managing title documents (including leases) and title and ownership for Indian trust and restricted lands under the Bureau's jurisdiction. The program offices provide title service to Bureau and Federal offices that deliver services to tribal and individual owners of trust and restricted lands and to those Federal, state, and private sector offices that rely on land titles and records data and reports. The Bureau is responsible for maintaining land ownership records for more than 50 million acres of tribally and individually owned Indian lands.

## AUDIT OBJECTIVE AND SCOPE

The objective of the audit is to determine whether the Bureau of Indian Affairs land records management system ensured that land ownership records were accurate. The scope of audit will include land, title, and encumbrance records that pertained to fiscal years 1996 and 1997.

# FOLLOWUP OF MANAGEMENT OF THE CONSTRUCTION OF NEW INDIAN SCHOOL FACILITIES AND OF THE MAINTENANCE AND REPAIR OF SCHOOL FACILITIES, BUREAU OF INDIAN AFFAIRS

## TYPE OF AUDIT

Followup - Bureauwide

## BACKGROUND

In accordance with applicable legislation, the Bureau of Indian Affairs is responsible for constructing new schools and repairing, operating, and maintaining 2,113 school buildings (excluding quarters), which have over 16 million square feet, that include academic facilities, dormitories, administrative offices, food services, transportation facilities, and recreation facilities.

The current priority list for constructing new school facilities was developed in 1993 and consists of 16 school facilities. As of December 1996, construction was completed or nearly completed for seven facilities, and construction had not been started for the remaining nine facilities. In fiscal year 1996, the Bureau received $18.5 million for new school construction and requested $4 million and $14 million for fiscal years 1997 and 1998, respectively. The Bureau's Facilities Management and Construction Center, in Albuquerque, New Mexico, is responsible for designing school facilities, ensuring that space guidelines are met in the construction of facilities, and awarding and administering construction contracts. The Bureau's Office of Indian Education Programs assists the Facilities Management and Construction Center in approving the size of the schools that are constructed.

Regarding existing school facilities, the Bureau's 1998 budget justification estimated that $682 million was needed to reduce the backlog of school improvement and repair projects. In comparison, the Bureau's 1998 budget request for education facilities improvement and repair was approximately $32 million. The school facilities improvement and repair program involves an ongoing effort to ensure that facilities are safe and sanitary, meet program requirements, and are handicapped accessible. At the direction of the U.S. Senate, the Bureau uses existing health and safety criteria as the bases for prioritizing needed school improvements and repairs. Potential projects are identified by facility users, area office facility staff, and the Facilities Management and Construction Center to ensure that projects meet

corrected as economically feasible. The Bureau received about $24.1 million for the improvement and repair program for school facilities for fiscal year 1997 and was authorized 29 full-time equivalent positions. The Bureau received about $73.7 million for cleaning, heating, and performing preventive maintenance on the schools and for the schools' daily operation and maintenance of Bureau, grant, and contract school facilities for fiscal year 1997. Schools may be operated by the Bureau or by tribal organizations under Public Law 93-638 contracts or Public Law 100-297 grants.

## AUDIT OBJECTIVE AND SCOPE

The objective of the audit is to determine whether the Bureau of Indian Affairs satisfactorily implemented recommendations made in our October 1992, August 1991, and June 1991 reports on the management and maintenance of school facilities and whether any new recommendations are warranted. The audit will cover the status of school facilities and construction as of the end of fiscal year 1997.

# FIRE MANAGEMENT ACTIVITIES, BUREAU OF INDIAN AFFAIRS

## TYPE OF AUDIT

Performance - Bureauwide

## BACKGROUND

The Bureau of Indian Affairs is responsible for protecting against wildfires by providing fire preparedness and fire suppression services on more than 50 million acres of Native American lands. In carrying out these responsibilities, the Bureau cooperates with other Department of the Interior bureaus and Federal, state, and local fire agencies to share scarce resources and minimize costs. Also, certain Indian tribes have arranged, through contract or compact, to perform the Bureau's fire management activities on their reservations. The Bureau's fire program funds are allocated from appropriations to the Bureau of Land Management for the Department's wildland fire management program.

The fire management program consists of nonemergency and emergency activities, which are accounted for separately. Nonemergency fire preparedness costs represent the predictable aspects of the Department's fire management program, such as the basic 40-hour workweek payroll costs of fire suppression, support personnel and facilities, and aircraft availability. Emergency fire suppression costs include the unpredictable aspects of the fire program, such as overtime and hazard pay, wages of direct-hire emergency fire fighter personnel, and emergency costs to repair damage caused by wildfires. For fiscal year 1996, the Bureau incurred costs of $26.1 million for fire preparedness and $22.7 million for fire operations. For fiscal year 1997, the Bureau budgeted $26.8 million for fire preparedness and $23.7 million for fire operations.

Funding requests for fire suppression activities are based on the average costs of the last 10 years, with emergency contingency funds available when authorized by the President. Funding requests for fire preparedness activities should be based on a process known as the Most Efficient Level, which represents the organizational structure, staffing, and funding level required to provide the most cost-effective fire program that also meets established fire suppression standards and land management objectives. The process is also used by the U.S. Forest Service.

National Indian Forest Resources Management Act of 1990 (25 U.S.C. 3101), which provides the Bureau with authority for fire protection and suppression on Indian trust lands; (2) the Indian Self-Determination and Education Assistance Act of 1975 (Public Law 93-638), which authorizes the contracting of Departmental programs with Indian tribes; (3) the Tribal Self-Governance Act of 1994 (Public Law 103-413), which establishes a program known as tribal "self-governance" (which authorizes the compacting of Departmental programs); and (4) Part 53 of the Bureau of Indian Affairs Manual, which defines the Bureau's fire management policies.

## AUDIT OBJECTIVE AND SCOPE

The objective of the audit is to determine whether the Bureau of Indian Affairs: (1) was managing its wildland fire management activities in accordance with applicable laws, regulations, and policies and (2) was properly using and accounting for emergency and nonemergency fire program funding. The scope of the audit will include fire management-related activities that occurred at selected area and agency offices during fiscal years 1996 and 1997.

# INDIAN ACUTE DISTRESS DONATION PROGRAM ADMINISTERED BY THE BILLINGS AREA OFFICE, BUREAU OF INDIAN AFFAIRS

## TYPE OF AUDIT

Performance - multiple locations

## BACKGROUND

Under an emergency feed program authorized by Section 407 of the Agricultural Act of 1949 (7 U.S.C. 1427), the U.S. Department of Agriculture provides free feed grain for the maintenance of Indian-owned subsistence livestock on any reservation designated by the Secretary of Agriculture to be an acute distress area. The Act defines an acute distress area as a location where the chronic economic distress of needy members of an Indian tribe is materially increased because of natural disaster, such as a flood, drought, or blizzard. The Department of Agriculture and the Department of the Interior jointly administer the emergency feed program through the Indian Acute Distress Donation Program. The Commodity Credit Corporation, on behalf of the Department of Agriculture, determines the kind of grain, the quantity of grain, and the period of time for which the grain will be donated and delivers the grain to a central distribution point. The Bureau of Indian Affairs, for the Department of the Interior, is responsible for the distribution of donated grain to eligible Indian participants.

Under the Program, feed grains are to be distributed only to Indian tribal members who do not have sufficient cash, credit, or other means to purchase the necessary feed to maintain their subsistence livestock. To meet its responsibility under the Program, Bureau agency officials are to review and approve applications from individual livestock owners and notify grain elevators of the amounts of grain approved for each participant. Operators of grain elevators issue grain to participants and provide reports to Bureau agency offices on the amounts issued. Agency office officials are to monitor the performance of the grain elevators.

No data were provided by the Bureau on the number of participants, the amount of grain distributed, or the estimated cost because agency offices were not required to report Program information until the middle or last part of June 1997. However, preliminary discussions with area office personnel indicate that Program costs will probably be less than $1 million.

The objective of the audit is to determine whether the Bureau of Indian Affairs ensured that emergency grain provided through the Indian Acute Distress Donation Program was properly distributed to only individuals who were eligible for assistance. The audit was requested by the Assistant Secretary for Indian Affairs. The review will cover Program activities that occurred during fiscal year 1997.

# FOLLOWUP OF THE HOUSING IMPROVEMENT PROGRAM, BUREAU OF INDIAN AFFAIRS

## TYPE OF AUDIT

Followup - Bureauwide

## BACKGROUND

According to the Bureau of Indian Affairs, the purpose of the Housing Improvement Program is to provide decent, safe, and sanitary housing for Indians who reside in Indian communities. The Bureau provides four categories of housing assistance to eligible Indians in the form of grants or contracted services: (1) up to $2,500 for improvements to houses that will remain substandard; (2) up to $20,000 for improvements to houses presently in substandard condition but which can economically be brought up to standard condition; (3) up to $5,000 or 10 percent of the purchase price of a house plus closing costs, whichever is less, to secure a loan to purchase a house; and (4) up to $45,000 for constructing a new house. The Bureau considers the last two categories to be low priorities. The Program requires housing funds to be distributed on the basis of biennial inventories of housing needs, with priority given to families that have the greatest need.

The Bureau's fiscal year 1997 budget for housing was about $18.3 million, which consisted of $15.8 million for improvements to houses of Indian families, $150,000 for central office program direction, and $2.3 million for area office services. This program has 39 full-time equivalent positions for central office (2) and area office (37) operations, which is a decrease from the 75 positions that existed in 1992.

The Department reported in the Secretary's Annual Statement and Report to the President and the Congress for fiscal year 1994 that the Housing Improvement Program had material weaknesses. This statement was based on the results of three prior Office of Inspector General audit reports. As a result of the reported weaknesses, the Department selected the Housing Improvement Program as a "Reinvention Laboratory" under the National Performance Review.

## AUDIT OBJECTIVE AND SCOPE

The objective of the audit is to determine whether the Bureau of Indian Affairs satisfactorily implemented recommendations made in our prior audit reports and whether any new recommendations are warranted. The audit will focus on Housing Improvement Program activities that occurred during fiscal year 1997.

# PROCESSING AND MONITORING RIGHT-OF-WAY GRANTS, BUREAU OF LAND MANAGEMENT

## TYPE OF AUDIT

Performance - Bureauwide

## BACKGROUND

Under the Federal Land Policy and Management Act of 1976 (43 U.S.C. 1701) and the Mineral Leasing Act of 1920, as amended (30 U.S.C. 185), the Bureau of Land Management issues right-of-way grants for the construction, operation, and maintenance of a wide range of projects on public lands, such as reservoirs and water transportation systems, petroleum pipelines, power lines, roads, and communication sites.

The Code of Federal Regulations (43 CFR 2800) provides the Bureau's specific regulations for processing right-of-way applications and for administering right-of-way grants. The regulations specifically limit the amount of land that may be included in a right-of-way grant to those lands which the authorized officer determines "will be occupied by the facilities authorized . . . [and] be necessary for the construction, operation, maintenance, and termination of the authorized facilities." The regulations also describe the circumstances warranting termination of a right-of-way authorization, such as a grantee's failure to use the right-of-way for the authorized purpose for any continuous 5-year period.

The Bureau estimates that, during fiscal year 1997, it will process 3,000 new or existing right-of-way applications and will issue 3,000 right-of-way grants. The work involved in a right-of-way grant includes responding to the application, including preliminary investigations, assessments, and appraisals; developing legal stipulations; issuing the grant and/or temporary use permit; and monitoring the authorized grant. The Bureau also processes application amendments and withdrawals and relinquishments, assignments, and expirations of existing grants. Finally, the Bureau performs postauthorization compliance and monitoring to ensure that the project authorized is constructed and operated in accordance with the terms and conditions of the authorization, including the laws, the regulations, and the granting document.

The objective of the audit is to determine whether the Bureau of Land Management was processing right-of-way applications and monitoring right-of-way grants in accordance with applicable laws and regulations. To accomplish this objective, we will review right-of-way applications and grants that were active during fiscal year 1997.

# MANAGEMENT OF THE DRAINAGE PROTECTION PROGRAM, BUREAU OF LAND MANAGEMENT

## TYPE OF AUDIT

Performance - Bureauwide

## BACKGROUND

Drainage is the gradual removal of oil or gas from beneath a specified property by a producing well on an adjoining property. Oil and gas in subsurface reservoirs tend to flow to areas of reduced pressure that surround a producing well, thus enabling the oil and gas to be removed and drainage to occur. The rule of capture established by court decisions protects the producer that removes oil and gas which has migrated across property lines from any liability as long as the well itself does not trespass. Furthermore, the owner of a lease acquires title to all oil and gas produced regardless of whether such oil and gas migrated from adjoining lands.

The Bureau of Land Management is responsible for identifying and analyzing potential drainage situations on Federal and Indian lands. The Code of Federal Regulations (43 CFR 3100.2-2) requires the lessee of Federal lands that are being drained either to drill a protective well or to pay compensatory royalties. Compensatory royalties are payments made by a lessee to the Government as reimbursement for revenues lost because the lessee did not protect its lease from drainage. The Code of Federal Regulations (25 CFR 227.23) requires similar protection on Indian lands. In addition, Federal and Indian oil and gas leases require that lessees protect their leases from drainage.

During fiscal years 1992 through 1996, the Bureau intensified its efforts to identify and resolve drainage cases. As a result of these efforts, the Bureau reported that it has eliminated the backlog from 25,000 to a level of about 3,000 potential drainage situations, which it considers to be a working inventory or maintenance level. Funding and personnel in the program have decreased in the past several years. In its fiscal year 1997 budget justification, the Bureau reported that it screens almost all of the onshore wells drilled in the United States to decide whether a potential drainage situation exists. About 200 cases annually of the 3,000 potential drainage situations are identified as potential drainage cases and are subjected to additional review. Of those cases reviewed in detail, current statistics show that approximately 10 percent will result in actual drainage assessments.

## AUDIT OBJECTIVE AND SCOPE

The objective of the audit is to determine whether the Bureau of Land Management, in managing the drainage program, identified all potential drainage situations and required the lessees to drill wells or pay compensatory damages when drainage was identified.

# WILDLIFE AND FISHERIES MANAGEMENT ON PUBLIC LANDS, BUREAU OF LAND MANAGEMENT

## TYPE OF AUDIT

Performance - Bureauwide

## BACKGROUND

The Federal Land Policy and Management Act of 1976 identified fish and wildlife development and utilization as major uses of public lands; directed that the public lands be managed to provide food and habitat for fish and wildlife; authorized the use of Range Betterment funds for the protection, maintenance, rehabilitation, improvement, and management of wildlife habitat; and provided for the preparation and maintenance of an inventory of public land resources on a continuing basis.

Wildlife habitat management is a critical component in maintaining public land resources and ecosystems. To help restore, maintain, and enhance wildlife habitat conditions, the Bureau of Land Management plans and performs wildlife habitat improvement projects. For fiscal year 1997, the Bureau planned to complete about 450 projects, which involved about 7,000 acres. These projects are funded either entirely through appropriated funds or through the Bureau's Challenge Cost Share Program under agreements with cooperating private entities. For fiscal year 1997, the Bureau was providing $4.5 million for cost share projects, which will contribute to more than $10 million in habitat improvements.

The Bureau's budget justification for fiscal year 1997 includes a request of about $27 million for the wildlife and fisheries management activity. This amount consists of about $20 million, which includes funding for 278 employees, for the wildlife management subactivity and about $7 million, which includes funding for 67 employees, for the fisheries management subactivity.

## AUDIT OBJECTIVE AND SCOPE

The objective of the audit is to determine whether the Bureau of Land Management managed its Wildlife and Fisheries Management Program effectively and efficiently. Specifically, we will review the Bureau's selecting, funding, managing, and reporting processes for wildlife

during fiscal years 1996 through 1997.

# FACT SHEET

## RANGELAND MANAGEMENT, BUREAU OF LAND MANAGEMENT

## TYPE OF AUDIT

Performance - Bureauwide

## BACKGROUND

The Bureau of Land Management's Rangeland Management Program involves managing rangeland ecosystems to ensure their health, natural diversity, and long-term productivity. Rangeland management activities include administering livestock grazing permits, supporting wildlife habitats, serving wild horse and burro needs, promoting watershed health, and maintaining and improving the condition of rangelands to serve a variety of uses and values. The Bureau of Land Management's rangelands contain 22,000 grazing allotments encompassing 165 million acres in the western states. The Bureau authorizes about 10 million animal unit months of livestock use annually to about 19,000 operators. These operators graze about 3.7 million livestock (2 million cattle and 1.7 million sheep). By contrast, there are only about 42,000 wild horses and burros on Bureau lands. In its budget for fiscal year 1998, the Bureau requested $54.3 million, which would include funding for 767 employees.

The Taylor Grazing Act of 1934, as amended (43 U.S.C. 315) provides for the regulation of livestock grazing, improvement of the productive capacity of the public rangeland, and stabilization of the livestock industry. The Federal Land Policy and Management Act of 1976, as amended (43 U.S.C. 1701 to 1734), states that public land management should be "on the basis of multiple use and sustained yield unless otherwise specified by law." As stated in the Act, management of the public rangelands requires balancing the guiding principles of multiple use and sustained yield. With the enactment of the Public Rangelands Improvement Act of 1978 (43 U.S.C. 1901 to 1908), the Congress recognized that vast segments of the public rangelands were in an unsatisfactory condition and would remain so or even decline under Bureau management existing at that time. The Act required that the condition of the rangelands be improved so that they could become as productive as feasible for all rangeland values, that equitable livestock grazing fees be assessed, and that wild horses and burros continue to be protected while excess wild horses and burros are removed.

degradation of the Bureau's rangelands, Bureau statistics reported that, as of 1995, at least 49 percent of the Bureau's rangelands were in an unsatisfactory condition. However, authorized livestock grazing has been reduced only slightly since a 1988 General Accounting Office report found that overgrazing was the most prevalent cause of declining range conditions. Continuous overgrazing could seriously, even permanently, damage the land.

## AUDIT OBJECTIVE AND SCOPE

The objective of the audit is to determine whether the Bureau of Land Management has been effective in implementing land use decisions to improve rangeland conditions. Specifically, we will determine whether: (1) the Bureau's practice of reducing animal unit months of grazing preference before reducing actual livestock numbers has resulted in continued overgrazing; (2) practices on improved grazing allotments could be applied to unsatisfactory allotments; (3) grazing permittees have increased livestock numbers in multiple-use areas after wild horses were removed; and (4) any rangelands should be closed to grazing. The audit will review Bureau actions taken to improve the condition of the rangelands since 1988.

# CULTURAL RESOURCES MANAGEMENT, BUREAU OF LAND MANAGEMENT

## TYPE OF AUDIT

Performance - Bureauwide

## BACKGROUND

The Bureau of Land Management manages one of the Federal Government's largest, most varied, and most scientifically important body of archeological and historical resources. The Bureau has inventoried more than 10 million of the 270 million acres of public lands in 11 western states and Alaska. More than 190,000 cultural properties have been discovered to date, and estimates of the total number of these properties range from 4 million to 5 million. The Bureau is responsible for protecting and preserving these properties, which consist of paleontological localities and archaeological and historical sites. The Bureau is also responsible for protecting and preserving any objects (museum property) derived from these areas. For the most part, these museum properties or collections consist of archeological, physical anthropological, historical, or paleontological objects that are required to be held in public trust in perpetuity.

Over the past 185 years, the Bureau and its predecessor organization, the General Land Office, have transported many of the museum objects collected from public lands to hundreds of professional non-Federal repositories, including museums, universities, and historical societies. Under the Archeological Resources Protection Act (16 U.S.C. 470 a, 470 cc, and 470 ee), the Antiquities Act (16 U.S.C. 432), and the National Historic Preservation Act (16 U.S.C. 470), Federal agencies are required to manage and preserve museum collections whether they are located in Federal or non-Federal repositories. Federal regulations also require agencies to inventory the museum collections derived from lands under their jurisdiction. To date, the Bureau has identified about 24 million museum objects for which it is responsible. About 98 percent of these objects are housed in about 220 non-Federal repositories, while the remaining objects are located in two Bureau-maintained facilities: the Anasazi Heritage Center in Colorado and the Billings Curation Center in Montana. Although progress appears to have been made in inventorying these objects, inventory completion has reportedly been hampered because the records for many collections assembled before 1975 were found to be incomplete or disorganized.

## AUDIT OBJECTIVE AND SCOPE

The objective of the audit is to determine whether the Bureau of Land Management was effectively and efficiently managing its cultural properties and museum collections in accordance with applicable laws, regulations, and policies. The audit will include a review of selected Bureau cultural properties and collections on record by the end of fiscal year 1997.

# BIENNIAL AUDIT OF THE FEDERAL ROYALTY MANAGEMENT SYSTEM, MINERALS MANAGEMENT SERVICE

## TYPE OF AUDIT

Mandatory - Servicewide

## BACKGROUND

The Federal Oil and Gas Royalty Management Act of 1982 requires the Inspector General to conduct a biennial audit of the Federal Royalty Management System and to report the results to the Congress and the Secretary of the Interior. Six biennial reports have been issued. This audit data sheet provides the framework for the biennial audit requirement for fiscal years 1996 and 1997.

The Royalty Management System is composed of activities managed by the Minerals Management Service, the Bureau of Land Management, and the Bureau of Indian Affairs. Most of the royalty management functions and responsibilities are assigned to the Royalty Management Program of the Minerals Management Service. The overall mission of the Royalty Management Program is to ensure proper determination, collection, and distribution of bonuses, rents, and royalties from Federal and Indian lands in a manner that maximizes incentives for the efficient management, production, and use of oil, gas, coal, and other mineral resources consistent with public health and safety, environmental, and public land use requirements. Additionally, the Minerals Management Service is responsible for monitoring production from offshore Federal leases located on the Outer Continental Shelf, whereas the Bureau of Land Management monitors production from onshore Federal and Indian leases. Further, the Bureau of Indian Affairs distributes minerals revenues to individual Indians and tribes.

## AUDIT OBJECTIVE AND SCOPE

The objective of the audit is to determine whether the Department of the Interior has complied with the Federal Oil and Gas Royalty Management Act of 1982. The audit will cover Royalty Management System activities that occurred during the biennial period of fiscal years 1998 and 1999.

# FOLLOWUP OF TRANSPORTATION AND PROCESSING ALLOWANCE DEDUCTIONS, MINERALS MANAGEMENT SERVICE

## TYPE OF AUDIT

Performance - Servicewide

## BACKGROUND

The Code of Federal Regulations (30 CFR 206) allows royalty payors to deduct the costs of oil and gas transportation and gas processing from their royalty payments. In our August 1994 report "Transportation and Processing Allowance Deductions, Minerals Management Service" (No. 94-I-1110), we found that the Minerals Management Service had not ensured that royalty payors were deducting the proper amount of transportation and processing allowances. Specifically, some allowance deductions exceeded the payors' reported costs or exceeded 100 percent of the royalty value. Also, we found that other deductions exceeded maximum allowable percentages without the Service's approval being obtained. These deficiencies occurred because the Service did not adequately monitor the allowance deduction process.

Since our August 1994 report, the Service has revised the regulatory requirements for allowance deductions. The prior and current regulations state the following:

- For March 1988 through January 1996, royalty payors were required to submit an annual allowance report for Federal and Indian leases to the Service before they deducted allowances from their royalty payments. Payors were also required to obtain approval from the Service prior to deducting an allowance that exceeded regulatory limits.[1] If the actual transportation or processing costs were later determined to be less than the original reported amounts, payors were required to submit revised allowance and royalty reports and to pay any additional royalties due.

- Beginning in February 1996, the requirement for payors to submit an annual allowance report for Federal leases was discontinued. However, payors still had to submit reports for

[1]The limits are 50 percent of the royalty value for oil and gas transportation allowances and 66 2/3 percent of the royalty value for gas processing allowances.

leases before they deducted an allowance that exceeded regulatory limits.

## AUDIT OBJECTIVE AND SCOPE

The objective of the audit is to determine whether the Minerals Management Service satisfactorily implemented the recommendations made in our August 1994 audit report and whether any new recommendations are warranted. We will also determine whether the Service has ensured that royalty payors have complied with the regulatory changes applicable to allowances that became effective in February 1996. The audit scope will consist of transportation and processing allowances that were deducted from royalty payments since the regulatory changes. The audit will be conducted as part of the biennial review of the Royalty Management System, as required by the Federal Oil and Gas Royalty Management Act of 1982.

# OIL ROYALTY IN KIND PROGRAM, MINERALS MANAGEMENT SERVICE

## TYPE OF AUDIT

Performance (economy and efficiency) - Servicewide

## BACKGROUND

Under the authority of the Mineral Lands Leasing Act of 1920 and the Outer Continental Shelf Lands Act of 1953 and provisions of the Federal onshore and offshore leases, the Federal Government takes part of its royalty oil in kind and sells the oil to certain small refiners that do not have access to a secure supply of crude oil.

The Minerals Management Service, which manages the overall royalty program, collected $1.1 billion from royalty oil sold in the Oil Royalty in Kind Program during calendar years 1986 to 1995. In 1995, 14 participating refiners purchased 21.7 million barrels of royalty oil (valued at $363.1 million) from about 580 Federal onshore and offshore leases. The total oil royalty in kind represented over 30 percent of the nearly $1.2 billion in oil royalties paid to the Federal Government. During 1996 and 1997, the number of participating refiners decreased; consequently, in June 1997, six refiners were purchasing royalty oil from 234 (183 offshore and 51 onshore) Federal leases.

To be eligible to purchase royalty oil, a refiner must qualify: (1) as a small and independent refiner as defined in the Emergency Petroleum Act for Federal onshore oil or (2) as a small business enterprise under the rules of the Small Business Administration (13 CFR 121.3-9(a)(1)) for Federal offshore oil. After determining eligibility, the Service determines whether the eligible refiners have access to adequate supplies of crude oil and at equitable prices. Upon determining that they do not have this access, the Service may elect to take some or all of the royalty oil in kind for sale to the eligible refiners. Interested refiners are advised of the availability of royalty oil and the approximate volume of royalty oil available in the "Notice of Availability of Royalty Oil," which is published in the "Federal Register" and other media as appropriate. An eligible refiner interested in purchasing a quantity of this royalty oil must submit a formal written request application (MMS-4070) to the Service. When two or more refiners are interested in purchasing oil at one location, the oil is equally divided among them. The last crude oil sale was in 1987 for onshore oil and 1994 for offshore oil. The sales contracts are usually 3 years in term but may be extended (1987 contracts have been extended

posted price, including associated transportation costs from offshore leases to the designated delivery points.

The oil royalty in kind volume is reported monthly by the payor (producer) on a royalty reporting and payment form (Form MMS-2014); however, no payment is required. Using the payor's reported oil royalty in kind volume, the Service bills the refiner (royalty oil purchaser) for the volume at the contract price. The refiner is also required to post a bond with the Service equal to 1 month's oil purchases.

In addition to the royalty billings, the Service bills the refiners for the Program's administrative costs. The Program's administrative costs, consisting of direct and indirect costs, amount to over $1 million annually. As of June 1997, the Service was billing the refiners $183.91 per lease monthly (approximately $660,000 for 1997) for administrative fees.

As of June 1997, the Service had three project groups that had ongoing studies of various aspects of the royalty in kind issue, such as the future of and/or how to improve the existing Oil Royalty in Kind Program.

## AUDIT OBJECTIVE AND SCOPE

The objective of the audit is to determine whether the Minerals Management Service effectively administered its Oil Royalty in Kind Program. Specifically, we will determine whether: (1) the oil royalty taken in kind has been properly valued and billed; (2) administrative costs have been properly identified and assessed to the participating refiners; (3) eligibility requirements have been met by the participating refiners; and (4) refiner bonds have been adequate. Our audit will include a review of the Program's refiner eligibility verification process, sales process, pricing method, refiner bonds, administrative costs, oil royalty in kind volume reporting process, transportation costs, and billing process for the royalty oil sold. We will review royalty oil sold during fiscal years 1996 and 1997 and other periods as appropriate.

# ROYALTIES ON TAX CREDITS FOR NONCONVENTIONAL FUELS, MINERALS MANAGEMENT SERVICE

## TYPE OF AUDIT

Performance - Servicewide

## BACKGROUND

Nonconventional fuels include gas produced from coal seams and tight geological formations. The Congress provided a subsidy to encourage development of the nonconventional fuels. The value of the tax credit has been approximately equal to the selling price of gas in recent years. In our August 1993 audit report (No. 93-I-1502) on tax credits for nonconventional fuels earned from gas produced on Federal and Indian leases, we stated that if the Service had required lessees to pay royalties on these tax credits, it could have collected additional revenues during 1989 through 1992 estimated at $74 million. We estimated that potential additional royalty revenues of at least $210 million would be available over the next 10 years through an aggressive collection program based on production remaining at the 1992 level. Further, because of expected increases in future gas production, the potential revenues have increased rapidly since 1993 and are expected to continue to increase rapidly through 2002, when the tax credit expires.

In 1993, the Internal Revenue Service issued a revenue ruling which provided that owners of royalty interests are allowed an allocable share of the nonconventional fuels tax credit. Also in 1993, as a result of our prior audit, the Minerals Management Service obtained a Solicitor's opinion which stated that tax credits for nonconventional fuels were not part of gross proceeds and therefore were not royalty bearing. In a November 1995 development, the State of New Mexico initiated a program to "monetize" (sell the rights to the tax credits to a third party) its royalty interest from nonconventional fuels from state leases by auctioning off the royalty interests. This plan was approved by the Internal Revenue Service. The Solicitor's opinion, that the tax credits are not royalty bearing, does not appear to be consistent with the revenue ruling and the New Mexico program to monetize the royalty interest.

The objective of the audit is to determine whether the Minerals Management Service initiated the collection of royalties from monetized tax credits on nonconventional fuels. If not, we will determine the amount of potential revenues lost as a result of this decision. If so, we will determine whether the Service has a program to match production reported for royalty purposes with production reported for Federal income tax purposes and whether producers can be required, if no such program exists, to provide tax return information as a provision of their lease or by a rule making. We will review the circumstances of the New Mexico program as they relate to the 1993 Solicitor's opinion and Service activities related to the production of nonconventional fuels that occurred during fiscal years 1993 through 1997.

# ADMINISTRATION OF STATE REGULATORY PROGRAMS, OFFICE OF SURFACE MINING RECLAMATION AND ENFORCEMENT

## TYPE OF AUDIT

Performance - Officewide

## BACKGROUND

Under the Surface Mining Control and Reclamation Act of 1977, 24 states currently have programs approved by the Secretary of the Interior to regulate coal mining activities. The state programs are funded through grants issued by the Office of Surface Mining Reclamation and Enforcement and include the review and issuance of mining permits, inspection and enforcement, designation of lands unsuitable for mining, administration of bonding and bond release programs that ensure proper reclamation of land after mining, and administration of small operator assistance programs. In addition, some states that are authorized to perform the regulatory functions on Federal lands within state boundaries also receive funding through cooperative agreements with the Office of Surface Mining.

In its fiscal year 1998 budget justification, the Office of Surface Mining requested $50.2 million for regulatory program grants to 24 states that have approved permanent regulatory programs (primacy) and reported that, in fiscal year 1997, the Office of Surface Mining provided primacy states with regulatory program grant funding of $50.7 million. According to the Act, grants to states currently cannot exceed 50 percent of total annual state costs. The budget justification also showed that the States of Illinois, Kentucky, Ohio, Pennsylvania, Virginia, and West Virginia should receive $36.7 million, or more than 73 percent, of the total fiscal year 1998 Federal regulatory grant funding provided.

## AUDIT OBJECTIVE AND SCOPE

The objective of the audit is to determine whether the Office of Surface Mining Reclamation and Enforcement administered the state regulatory grant programs efficiently and effectively and in accordance with applicable regulations and whether the state regulatory programs were operated efficiently and effectively and in accordance with grant and cooperative agreements. The audit was requested by Office of Surface Mining officials. The scope of the audit includes a review of the program's activities that occurred during fiscal years 1996 and 1997.

# ADMINISTRATION OF STATE RECLAMATION GRANT PROGRAMS, OFFICE OF SURFACE MINING RECLAMATION AND ENFORCEMENT

## TYPE OF AUDIT

Performance - Officewide

## BACKGROUND

Under the Surface Mining Control and Reclamation Act of 1977, grants are provided to states and Indian tribes that have reclamation programs approved by the Office of Surface Mining Reclamation and Enforcement. The grants are used to address problems such as underground fires, subsidence, landslides, open shafts, unstable or burning refuse piles, acid mine drainage, and highwalls. Funding for the grants and for the cost of the Office of Surface Mining's related monitoring and technical assistance is derived from the Abandoned Mine Reclamation Fund, which consists primarily of monies obtained from reclamation fees paid by coal operators.

In its budget justification for fiscal year 1998, the Office of Surface Mining requested $142.3 million for reclamation program grants to 23 states and 3 Indian tribes. The budget justification also showed that in fiscal year 1997, reclamation grant funding of $142.0 million was provided to states and tribes. In support of its reclamation program, the Office of Surface Mining provides grants management, technical assistance, and management of emergency projects for states that do not have approved programs.

## AUDIT OBJECTIVE AND SCOPE

The objective of the audit is to determine whether the Office of Surface Mining Reclamation and Enforcement administered its state reclamation grant programs efficiently and effectively and in accordance with applicable regulations and whether the state reclamation programs were operated efficiently and effectively and in accordance with grant agreements. The audit was requested by Office of Surface Mining officials. The scope of the audit includes a review of the programs' activities that occurred during fiscal years 1996 and 1997.

# ENVIRONMENTAL MITIGATION AND ENHANCEMENT COSTS ASSOCIATED WITH PREVIOUSLY CONSTRUCTED FACILITIES, BUREAU OF RECLAMATION

## TYPE OF AUDIT

Performance - Bureauwide

## BACKGROUND

Environmental mitigation and enhancement efforts on Bureau of Reclamation projects have increased over the years as awareness of the effects of projects on the environment has also increased. Although such efforts have been applied to projects as they were constructed, the Bureau has also applied these efforts to projects that were constructed before the current level of environmental awareness. Generally, environmental mitigation involves activities required by law or regulation for project construction and/or operation. Environmental enhancement involves activities that, while not required by law or regulation, benefit wildlife in and around project areas. According to the Bureau's fiscal year 1997 budget justification, Bureau programs have evolved from projects that emphasized irrigation and hydropower generation to projects that serve a range of other uses: urban needs, Indian self-sufficiency, fish and wildlife protection, endangered species recovery, recreation, and environmental restoration.

With increasing frequency, the operation and the maintenance of older Bureau projects are being changed to respond to environmental concerns and operating criteria that were not envisioned when the projects were constructed. Such changes may be required by Reclamation law and instructions; Federal, state, or local environmental protection directives; or court orders. This process can affect the computations of construction repayment and operation and maintenance costs and have financial ramifications for the Government and project water and power beneficiaries. Reclamation law and instructions, project authorizing legislation, and specific project repayment and operation and maintenance contracts define how project costs are to be allocated and financed. In the past, Reclamation law has provided that the environmental mitigation and enhancement costs were nonreimbursable, although some recent project legislation has required that the project water, power, and other beneficiaries bear a portion of these costs. However, project water and power beneficiaries have taken the position that the Federal Government should absorb all environmental mitigation and enhancement costs as part of the nonreimbursable portion of repayment of

mitigation efforts can also work to the benefit of the water and power beneficiaries by eliminating the need to reduce or divert a project deliverable, such as water, to ease the negative effects the project is having on fish and wildlife.

In addition, changes in project operation caused by increased environmental awareness have been accompanied by new perspectives of how previously planned project operation and maintenance activities may affect the project areas. This may lead to project beneficiaries' seeking changes in the original allocation/repayment agreements to lower their repayment or operation and maintenance obligations. For example, on the Columbia Basin Project, a number of retention reservoirs that were developed to provide for a stable and adequate irrigation water supply for farmers have, over the years, become populated with fish and are being used by birds and other wildlife. However, even these wildlife benefits are coincidental, and no costs were actually incurred to provide them. Project irrigators have reportedly been requesting the Bureau to allocate more of the repayment and/or operation and maintenance costs as nonreimbursable under the fish and wildlife mitigation function of the project.

Based on our review of the Bureau's fiscal year 1997 budget justification, we found that about $60 million in proposed budget authority was requested for environmental mitigation and/or enhancement activities at previously constructed facilities. A portion of this amount was previously recognized as part of the overall project development plans produced during project construction, while other portions of this amount are related to environmental mitigation and/or enhancement efforts initiated after project construction. However, these environmental mitigation costs are currently required by law or regulation and may provide some benefits to project water and power beneficiaries regardless of whether such costs were planned as part of project development plans or were added after the projects were constructed. Thus, some or all of these costs should be eligible for cost recovery as part of the operating "overhead" of the projects either through repayment or through operation and maintenance assessments. Although some of these costs (such as those funded by the Central Valley Project Restoration Fund) are partially financed by beneficiary surcharges and donations, many of these costs are borne by the Federal Government. Recovering these costs from benefiting water and power recipients would be in consonance with the Governmentwide initiatives to recover costs from project beneficiaries and, in this regard, would place the water and power users on the same level as private sector businesses, which are required to comply with current environmental requirements as they pertain to the businesses' older facilities.

## AUDIT OBJECTIVE AND SCOPE

The objective of the audit is to determine whether Bureau of Reclamation policies and procedures for allocating and funding construction and annual operation and maintenance costs associated with the environmental mitigation and enhancement activities on previously constructed reclamation projects were adequate to protect the Federal Government's financial

constructed facilities were incurring unanticipated environmental mitigation or enhancement costs and the amount of unanticipated environmental mitigation or enhancement costs borne by the Federal Government. We will also determine how such costs could be collected from the projects' water, power, or other beneficiaries. The scope of the review will be limited to those projects that were in operation 25 years or longer which have had costs incurred for construction or operation and maintenance activities associated with environmental mitigation or enhancement that occurred during the last 2 fiscal years.

# UTAH RECLAMATION MITIGATION AND CONSERVATION COMMISSION, BUREAU OF RECLAMATION

## TYPE OF AUDIT

Performance - compliance

## BACKGROUND

The Utah Reclamation Mitigation and Conservation Commission was authorized by Section 301(a) of Title IV of the Reclamation and Adjustment Act of 1992 (Public Law 102-575) to coordinate implementation of the Act's required mitigation and conservation activities for the Central Utah Project among Federal and State of Utah fish, wildlife, and recreation agencies. Section 301(f) of the Act states:

> The Commission shall administer the mitigation and conservation funds available under this Act to conserve, mitigate, and enhance fish, wildlife, and recreation resources affected by the development and operation of Federal reclamation projects in the State of Utah.

Section 301(b)(2) of the Act also states, "The Commission shall expire twenty years from the end of the fiscal year during which the Secretary declares the Central Utah Project to be substantially complete." Sections 401(b) and 402(d) of the Act specify that the Utah Division of Wildlife Resources, upon expiration of the Commission, will assume responsibilities for mitigation and conservation projects identified in the Act and for projects of the Colorado River Storage Project in the State of Utah. Section 402 of the Act established the Utah Reclamation Mitigation and Conservation account in the U.S. Treasury and identified contributions from Federal, State, and Project beneficiaries to be deposited into the account. Section 402 of the Act further specified that the Federal Government, the State of Utah, and the Central Utah Water Conservancy District (which represents Project beneficiaries) will contribute annually no less than $10 million, $3 million, and $750,000, respectively, until the year 2001 or until the Project is declared substantially complete. The sources and uses of Commission funds for fiscal years 1994 and 1995, as derived from the unaudited amounts reported in the audit report on Commission management practices issued in June 1995, are detailed as follows:

| | | | |
|---|---|---|---|
| Department of the Interior | $9,850,000 | $16,133,000 | $25,983,000 |
| State of Utah | 3,000,000 | 3,000,000 | 6,000,000 |
| Department of Energy (Western Area Power Administration)[2] | 5,000,000 | 5,135,000 | 10,135,000 |
| Central Utah Water Conservancy District[2] | 750,000 | 772,500 | 1,522,500 |
| Interest on Investments (Treasury Notes)[3] | 184,000 | 768,500 | 952,500 |
| Total | $18,784,000 | $25,809,000 | $44,593,000 |

| USES | | | |
|---|---|---|---|
| Commission Administrative Expenses[2] | $392,000 | $1,029,000 | $1,421,000 |
| Transfers Required by P.L. 102-575[4] | 145,500 | 334,000 | 479,500 |
| Available for Mitigation and Conservation Projects[5] | 4,562,500 | 10,799,000 | 15,361,500 |
| Invested[3] | 13,684,000 | 13,647,000 | 27,331,000 |
| Total | $18,784,000 | $25,809,000 | $44,593,000 |

[1]Sources and uses of funds derived from unaudited amounts reported in the June 1995 audit report on Commission management practices.

[2]Sections 402(b)(3)(C) and 301(I)(2) of the Act state that the annual contributions and Commission administrative expenses "shall be increased proportionally on March 1 of each year by the same percentage increase during the previous calendar year in the Consumer Price Index for urban consumers, published by the Department of Labor."

[3]Section 402 of the Act states, "All funds deposited as principal in the Account shall earn interest in the amount determined by the Secretary of the Treasury on the basis of the current average market yield on outstanding marketable obligations of the United States of comparable maturities."

[4]Section 314 of the Act authorizes the transfer of 3 percent of the funds available for implementation of mitigation and conservation projects to the Secretary of the Interior for use on projects outside the State of Utah.

[5]Amounts available for projects are supported by interagency agreements and contracts with Federal, state, local, and nonprofit environmental organizations.

## AUDIT OBJECTIVE AND SCOPE

The objective of the audit is to determine whether the Utah Reclamation Mitigation and Conservation Commission received and expended Commission funds in compliance with applicable laws and regulations. The scope of the audit will include receipt and expenditure activities that occurred during fiscal years 1996 and 1997.

# IDENTIFICATION AND DISPOSAL OF UNNEEDED ACQUIRED LANDS, BUREAU OF RECLAMATION

## TYPE OF AUDIT

Performance - Bureauwide

## BACKGROUND

The Reclamation Act of 1902 and subsequent statutes authorized the Bureau of Reclamation to construct, operate, and maintain an infrastructure of water storage and development facilities to reclaim arid and semiarid lands for agricultural uses in the West. Bureau projects consist of about 348 storage reservoirs, 150 diversion dams, and 54,500 miles of canals and other conveyance and distribution facilities. The Bureau also manages about 8 million acres of land, consisting of 5.8 million acres of withdrawn public domain land and 2.2 million acres of acquired land obtained through purchase, condemnation, gift, or exchange.

In the late 1980s, the Bureau concluded that it had largely achieved its mission as a developer of large, Federally funded water projects. As a result, some of the projects the Bureau anticipated constructing will not be built, and in some cases, the lands acquired will not be needed for project purposes.

## AUDIT OBJECTIVE AND SCOPE

The objective of the audit is to determine whether the Bureau of Reclamation was conducting required reviews of the real property it manages to identify, report, and dispose of acquired lands no longer needed for project purposes in accordance with Bureau regulations and Reclamation law. The audit will review Bureau activities pertaining to unneeded acquired lands that occurred during fiscal years 1994 through 1997.

# FRANCHISE FEE PAYMENTS BY SELECTED CONCESSIONERS, BUREAU OF RECLAMATION

## TYPE OF AUDIT

Performance (economy and efficiency) - selected locations

## BACKGROUND

The Bureau of Reclamation is responsible for overseeing or managing more than 300 recreation areas established on Bureau water project lands throughout the western states. Bureau water development projects are considered among the Nation's most valuable recreational resources, and about 80 million people visit these areas for camping, swimming, boating, picnicking, and other short-term recreational purposes. Annual visitations for these purposes are expected to increase to more than 100 million by the year 2000. Most concessioners operating on Bureau recreational lands are required to pay a franchise fee to the Government. The fee, which varies according to the agreement reached with the individual concessioners, is usually based on a percentage of revenues generated by the concessioner's business. Bureau regulations require concessioners that have annual gross receipts in excess of $500,000 to submit audited financial statements annually that are prepared in accordance with Bureau guidelines. Concessioners that have annual gross revenues of less than $500,000 are not subject to audit requirements. Approximately 250 concessions are operated at Bureau projects in 17 western states. Of that number, about 210 operations are administered by state and local governments, and 40 are managed directly by the Bureau.

The Bureau's role in providing for outdoor recreational activities on water project lands is defined primarily by the Federal Water Project Recreation Act, dated July 9, 1965 (Public Law 89-72), as amended. The Act directed the Bureau to consider outdoor recreation in investigating and planning Federal water projects, in addition to primary project purposes such as providing water for irrigation and municipal and industrial use and for generating hydroelectric power. The Act also authorized and encouraged the Bureau to enter into agreements with state and local governments for the management of recreation areas. The Act was amended on October 30, 1992, by the Reclamation Recreation Management Act (Public Law 102-575, Title XVIII), which emphasized the Federal responsibility to provide opportunities for public recreation at Federal water projects.

concession activities. The policy emphasized effective business practices; provided for an equitable return to the Government; and protected the interests of the public while providing facilities that are safe, sanitary, and reasonably priced. The policy is to affect new concession agreements and future sales and transfers administered directly by both the Bureau and its non-Federal partners (state and local governments).

## AUDIT OBJECTIVE AND SCOPE

The objective of the audit is to determine whether concessioners properly computed, reported, and paid franchise fees in accordance with provisions of concession contracts. The audit will not determine whether the services provided by concessioners to visitors were adequate and appropriate or the rates and prices charged for these services were reasonable. This audit was requested by the Bureau. The scope of the audit will include concession operations and activities that occurred during fiscal years 1996 and 1997, including contracts awarded and renewed from prior periods that affect current concession contracts.

# OVERHEAD COSTS OF COST-REIMBURSABLE PROJECTS, U.S. GEOLOGICAL SURVEY

## TYPE OF AUDIT

Financial - Surveywide

## BACKGROUND

The U.S. Geological Survey performs surveys, investigations, and research covering topography, geology, mineral, biological, and water resources. Funding is obtained through Congressional appropriations. However, the Geological Survey also performs portions of this work on a cost-reimbursable basis, with funds provided by other Federal and non-Federal agencies. Customers are charged the direct project costs and assessed a percentage of the Geological Survey's indirect costs (overhead) not economically or conveniently charged directly to a specific program. The basis used to allocate the indirect costs is total direct costs, which totaled about $1 million during fiscal year 1996. We determined that overhead rates ranged from 12 to 47 percent among the Geological Survey's divisions for fiscal year 1996 and 1997.

On January 27, 1997, the Geological Survey issued a new assessment system policy in its Survey Manual (revised on February 10, 1997), which described new policies, responsibilities, and procedures for the bureau assessment system. The Geological Survey said that, during fiscal year 1997, it would: (1) complete division assessment rate policy supplements; (2) develop implementing procedures for the assessment rates used by division and regional/district offices; and (3) recalculate all the assessment rates. The new rates are to be in effect by October 1, 1997, for use during fiscal year 1998. Bureau costs are to be prorated to the divisions and included in the division rate calculations. Documentation to support divisional rate calculations and divisional cost center rate calculations for the National Mapping Division and the Biological Resources Division is maintained at the Geological Survey's National Center in Reston, Virginia. Supporting documentation for assessment rate calculations of the cost centers for the Water Resources and the Geologic Divisions is supposed to be maintained by the district/regional offices. About 90 rates may be established within the Geological Survey, its divisions, and its cost centers.

The objective of the audit is to determine whether the U.S. Geological Survey accurately computed and distributed its overhead costs to cost-reimbursable projects through assessment rates. The audit is being conducted as part of the financial statements audits required by the Chief Financial Officers Act of 1990.

# FACT SHEET

## GUAM ECONOMIC DEVELOPMENT AUTHORITY, GOVERNMENT OF GUAM

## TYPE OF AUDIT

Performance - economy and efficiency

## BACKGROUND

The Guam Economic Development Authority was created as a public corporation in 1965 through Title 12, Chapter 2, Section 2101, of the Guam Code Annotated to promote the economic development of Guam. As such, the Development Authority is authorized to provide loans, issue revenue bonds, purchase mortgages, and recommend to the Governor of Guam businesses qualifying for tax rebates and abatements. The Development Authority uses various trust funds to accomplish some of its programs. Two significant programs used to stimulate the local economy have been the Qualifying Certificates Program and the Guam Economic Development Fund. The Qualifying Certificates Program was started in 1965 to grant tax benefits to eligible businesses through the rebate of income taxes and the abatement of property taxes. The Economic Development Fund was established initially with $6.2 million of Federal funds as a revolving loan fund for business development. As of September 30, 1995, the Development Fund had total assets and liabilities of $13.3 million and $159,000, respectively. The assets include $4 million in net loans, with a $2.5 million allowance for doubtful accounts, plus $8.7 million of investments. During the same period, the Fund received about $2 million in revenues and, after operating expenses, had a net income of $1.5 million. In addition, in 1985, the Development Authority issued housing bonds of $300 million, which were the subject of a 52-count Federal indictment against the bond underwriter.

## AUDIT OBJECTIVE AND SCOPE

The objective of the audit is to determine whether the Guam Economic Development Authority was effective in: (1) issuing bonds and administering the Qualifying Certificates Program and the Economic Development Fund and (2) achieving the objectives for which the programs were established. The audit is based partly on a request from a member of the Guam Legislature. The scope of the audit will include a review of bond issues, tax rebates

periods as appropriate.

# CONSTRUCTION OF THE SOUTHERN HIGH SCHOOL, DEPARTMENT OF PUBLIC WORKS, GOVERNMENT OF GUAM

## TYPE OF AUDIT

Performance - economy and efficiency

## BACKGROUND

As part of an overall plan to construct seven schools, the Government of Guam issued a $175 million school bond in September 1993. One of the seven schools planned was the Southern High School, which was to be constructed in the Village of Santa Rita on land previously under the control of the U.S. Navy. The design and specifications for the project raised concerns at the outset that the $76 million estimated cost was higher than expected and the planned facilities were more elaborate than needed. Eventually, a construction contract was awarded in January 1994 for $72 million; however, the lowest bid of the eight bids initially submitted was $82 million.

Construction started in February 1994 but was stopped in January 1995 because toxic wastes were identified on the construction site. Work started again in March 1995, after the site was cleaned. However, the cost of the cleanup and additional payments to the contractor cost the Government of Guam an additional $1.8 million. The project was scheduled to be completed in August 1997. Classroom facilities opened for the 1997 fall term; however, some supporting facilities, such as the fine arts center, the swimming pool, and athletic fields, were not completed.

## AUDIT OBJECTIVE AND SCOPE

The objective of the audit is to determine whether: (1) the design and engineering of the Southern High School project were performed to efficiently and effectively utilize available resources; (2) the procurement of design, engineering, and construction management services and the construction contract was in compliance with applicable laws and regulations; and (3) the project was managed in an efficient and effective manner. The scope of the audit will include the project's planning, design, and construction phases that occurred during fiscal years 1993 through 1997.

# FACT SHEET

## RURAL ECONOMIC AND COMMUNITY DEVELOPMENT SERVICES, U.S. DEPARTMENT OF AGRICULTURE, POHNPEI AREA OFFICE, FEDERATED STATES OF MICRONESIA

## TYPE OF AUDIT

Performance - economy and efficiency (limited survey)

## BACKGROUND

U.S. Public Law 99-239, the Compact of Free Association of 1985 between the Government of the United States and the Government of the Federated States of Micronesia, was approved on January 14, 1986. As provided by the Compact, the United States and the Federated States agreed, through Section 105(h)(1)(C), to extend the Rural Economic and Community Development Services (formerly the Farmers Home Administration), an agency of the U.S. Department of Agriculture, to each of the four states in the Federated States. The four area offices are operated by the U.S. Department of Agriculture and managed by a District Director located on Guam, who reports to the State Director in Hilo, Hawaii.

The Pohnpei Area Office administers three housing repair loan programs as authorized by Section 504 of the U.S. Housing Act. During 1997, the Area Office had four locally hired Federal employees, two employees paid by the national government, and seven employees paid by the Pohnpei State Government. The national and state governments combined provide about $100,000 per year, primarily for salaries, for operation of the Area Office. Of the four area offices, the Pohnpei Area Office administers the largest number of loans, about 2,200 loans, with a total loan balance of about $5 million. The three loan programs are: (1) an unsecured housing repair loan of up to $2,500; (2) a secured housing repair loan of up to $7,500 if the homeowner does not have clear title and cannot obtain fire insurance; and (3) a secured housing repair loan of up to $15,000 if the homeowner has clear title and can obtain fire insurance. Although other loan and grant programs may become available to Pohnpei residents, the Area Office does not offer these programs.

The objective of the limited survey is to determine whether the Pohnpei Area Office complied with U.S. Department of Agriculture loan and loan administration procedures. The survey is based on a request from the U.S. Ambassador to the Federated States of Micronesia and the former Public Auditor of the Federated States. The scope of the survey will include Area Office operations and all loans issued and administered during fiscal year 1997 and other periods as appropriate.

# MARSHALL ISLANDS DEVELOPMENT BANK, REPUBLIC OF THE MARSHALL ISLANDS

## TYPE OF AUDIT

Performance - economy and efficiency

## BACKGROUND

The Republic of the Marshall Islands established the Development Bank in March 1978. The purpose of the Development Bank is: (1) to provide financial assistance to businesses by making loans, guaranteeing loans, and making equity investments in enterprises; (2) to provide nonfinancial assistance by identifying investment opportunities, undertaking feasibility studies, and promoting the formation of new enterprises and expanding existing enterprises to enlarge the economic base of the country; (3) to manage or participate in the management, supervision, or conduct of business enterprises; and (4) to participate in programs and services of the Government of the United States, such as the Rural Economic and Community Development Services (formerly the Farmers Home Administration) of the U.S. Department of Agriculture.

The Development Bank is funded through contributions from the Marshall Islands government and through administration of Compact funds (Sections 111 and 211). In fiscal year 1989, the Development Bank received Compact contributions of $4 million. Additionally, in fiscal year 1989, the Marshall Islands government transferred over $6.1 million from the Compact Investment Development Fund to the Development Bank for operating funds. In January 1992, the assets and liabilities of the Marshall Islands Housing Authority were transferred to the Development Bank.

The Marshall Islands fiscal year 1995 single audit report showed that the Development Bank had net loans receivable of $6.2 million, interest income of $1.1 million, and a calendar year 1994 operating loss of $1.1 million. In addition, the single audit reported contributed capital of $17.3 million and an unreserved retained earnings deficit of $8.3 million.

The objective of the audit is to determine whether: (1) Compact Section 211(B) funds were used efficiently and effectively in accordance with the intent of the Compact and (2) loans and interest receivable were properly accounted for and effectively collected. The audit was based partly on a request from the U.S. Ambassador to the Republic of the Marshall Islands. The scope of the audit will include all loans issued and administered during fiscal years 1996 and 1997 and other periods as appropriate.

# PALAU NATIONAL DEVELOPMENT BANK, REPUBLIC OF PALAU

## TYPE OF AUDIT

Performance - economy and efficiency

## BACKGROUND

The National Development Banking Corporation was established in February 1982 as a wholly owned government corporation to provide guaranteed loans and direct Economic Development Loan Fund financing for the development of industrial or commercial undertakings in the private sector of Palau. Special emphasis is given to those ventures that involve developing new enterprises or import substitutes. Palau Public Law 1-27 prohibits the Development Bank from operating as a commercial bank. A five-member Board of Directors manages the Development Bank. A president, appointed by the Board of Directors subject to approval by the President of Palau, manages the day-to-day operations. In addition, an August 3, 1996, local newspaper article stated that the Development Bank would be reorganized with new policies and procedures that incorporate all the new loan programs (no details included in the article) created in the last 2 years by the Board.

The single audit report on the Republic of Palau for fiscal year 1995 stated that the Development Bank had: (1) net loans receivable of $2.7 million; (2) interest income of $346,000; and (3) a fiscal year 1995 operating loss of $37,000. Reported deficiencies included instances in which: (1) the amount of the loan exceeded the maximum amount allowed; (2) there was no evidence of insurance on leasehold improvements; (3) there was no evidence of approval for incremental payments based on progress of construction plans or inspections; and (4) there was a longer payback period than that allowed by bank policy. In addition, the single audit reported contributed capital of $1.1 million, including $850,000 of Compact Section 211(B) funds.

## AUDIT OBJECTIVE AND SCOPE

The objective of the audit is to determine whether: (1) Compact Section 211(B) funds were used efficiently and effectively in accordance with the intent of the Compact and (2) loans and interest receivable were properly accounted for and effectively collected. The scope of the

administered during fiscal years 1995 through 1997 and other periods as appropriate.

# FOLLOWUP OF PERSONNEL MANAGEMENT PRACTICES, DIVISION OF PERSONNEL, GOVERNMENT OF THE VIRGIN ISLANDS

## TYPE OF AUDIT

Performance - economy and efficiency

## BACKGROUND

The Division of Personnel is responsible for administering the Personnel Merit System, a group health insurance program, and a training program for Government employees. In accordance with Title 3, Chapter 25, of the Virgin Islands Code and the corresponding Virgin Islands Rules and Regulations, the Director of Personnel is required to establish and maintain a system of personnel administration based on merit principles and scientific methods governing the appointment, promotion, transfer, layoff, removal, and discipline of the officers and employees of the Government. Title 3, Section 491, of the Code contains the requirements for the classification of positions as unclassified and classified service. Act No. 6007, the Early Retirement Incentive, Training and Promotion Act of 1994 was approved on August 16, 1994, to reduce the deficit of the Government of the Virgin Islands through an early retirement incentive program for Government employees.

## AUDIT OBJECTIVE AND SCOPE

The objective of the audit is to determine whether: (1) the Legislature and the Government of the Virgin Islands satisfactorily implemented recommendations made in our 1992 audit report on the Division of Personnel's operations and whether any new recommendations are warranted and (2) the Early Retirement Incentive Act was effective in decreasing the number of Government employees. The audit was requested by the President of the Virgin Islands Legislature. The scope of the audit will include a review of Division of Personnel records for fiscal years 1996 and 1997, including: (1) a review of the actions taken on the six recommendations made in our 1992 report and (2) the effect the Early Retirement Incentive Act had on the number of Government employees.

# GOVERNMENT EMPLOYEES RETIREMENT SYSTEM, GOVERNMENT OF THE VIRGIN ISLANDS

## TYPE OF AUDIT

Performance - economy and efficiency

## BACKGROUND

The Government Employees Retirement System was established in October 1959 to administer the employee pension plan of the Government of the Virgin Islands. The System provides for retirement, disability, and death benefits. The Government's required contribution is 14.5 percent of the members' annual salaries, and the members' required contributions are 8 percent of annual salary for regular employees, 9 percent for senators, and 10 percent for employees in certain high risk jobs as provided for by Act No. 5226 of the Legislature of the Virgin Islands.

By law, the Virgin Islands Commissioner of Finance is the Treasurer of the System and therefore is responsible for all treasury functions of the Retirement System. The Department of Finance established a separate bank account for the System in August 1994. However, the System has not been able to obtain adequate records to reconcile and verify the bank balance with the System's books and records. As of fiscal year 1995, the Department of Finance had not provided confirmation of the balance of cash on deposit. At the end of fiscal year 1994, the Department of Finance reported that the System's bank account had a cash balance of about $55 million. As of the end of fiscal year 1995, the System also had investments valued at $659 million and outstanding mortgage, auto, and personal loans to members totaling about $92 million.

According to a mandated consent judgment of the U.S. District Court, the Department of Finance is required to deposit employer and employee contributions and all other receipts into the System's bank account within 21 days of the end of the payroll period for which the contributions and receipts are collected. However, as of the end of fiscal year 1995, the Department of Finance owed the System $27 million. Of that amount, $24.2 million was past due beyond the 21-day period allowed by the consent judgment. In addition, the judgment required interest to be accrued and paid into the System's bank account on amounts held by the Government and due the System from October 1, 1993. However, the System's audited financial statements for fiscal year 1995 reported that, as of June 1996, this amount had not

interest to be accrued and paid to the System.

## AUDIT OBJECTIVE AND SCOPE

The objective of the audit is to determine whether: (1) the Government of the Virgin Islands was making timely deposits of employer and employee contributions into the Retirement System in accordance with the consent judgment issued by the U.S. District Court and (2) interest receivable from the Government was properly accounted for and collected. The audit will also follow up on recommendations made in our 1991 audit report (No. 91-I-1431) of the Retirement System with regard to the management of mortgages and other loans to members. The audit was requested by the President of the Virgin Islands Legislature. The scope of the audit will include Retirement System transactions that occurred during fiscal years 1996 and 1997 and policies and procedures in effect at the time of the audit.

# POTABLE WATER SERVICE CHARGES, VIRGIN ISLANDS WATER AND POWER AUTHORITY, GOVERNMENT OF THE VIRGIN ISLANDS

## TYPE OF AUDIT

Performance - economy and efficiency

## BACKGROUND

The Virgin Islands Water and Power Authority assumed responsibility for the distribution of potable water in 1988 under the authority of Title 30, Section 104, of the Virgin Islands Code. Before that transfer, production of potable water was performed by the Authority, and distribution was handled by the Department of Public Works. The Authority's latest financial statements indicated that potable water service charges generated revenues of $25.9 million during fiscal year 1995 and $26.6 million during fiscal year 1996. Despite the large amount of total revenues, the Authority's potable water system had an operating income of only $475,703 in fiscal year 1995. Operating income increased to $3.2 million in fiscal year 1996, primarily because of a $2 million decrease in operating expenses. The largest consumer of potable water is the Government of the Virgin Islands, with potable water revenues from that source totaling $13 million and $13.7 million during fiscal years 1995 and 1996, respectively. In addition, accounts receivable from Governmental agencies totaled $3.4 million and $6.7 million during fiscal years 1995 and 1996, respectively. Total accounts receivable increased from $7.2 million in fiscal year 1995 to $11.5 million in fiscal year 1996.

## AUDIT OBJECTIVE AND SCOPE

The objective of the audit is to determine whether the Water and Power Authority: (1) issued bills for potable water service in a timely manner; (2) maintained accurate accounts receivable records for delinquent potable water service charges; and (3) effectively enforced collection of amounts owed. The scope of the audit will include transactions relating to potable water service that occurred during fiscal years 1996 and 1997 and policies and procedures in effect at the time of the audit.