



Report to the Committee on Energy and  
Natural Resources, U.S. Senate

March 2010

# U.S. INSULAR AREAS

## Opportunities Exist to Improve Interior's Grant Oversight and Reduce the Potential for Mismanagement





Highlights of [GAO-10-347](#), a report to the Committee on Energy and Natural Resources, U.S. Senate

## Why GAO Did This Study

The U.S. insular areas of American Samoa, the Commonwealth of the Northern Mariana Islands (CNMI), Guam, and the U.S. Virgin Islands (USVI) face serious economic and fiscal challenges and rely on federal funding to deliver critical services. The Department of the Interior (Interior), through its Office of Insular Affairs (OIA), provides roughly \$70 million in grant funds annually to increase insular area self-sufficiency. GAO and others have raised concerns regarding insular areas' internal control weaknesses, which increase the risk of grant fund mismanagement. GAO was asked to determine (1) whether previously reported internal control weaknesses have been addressed and, if not, to what extent they are prevalent among OIA grant projects; (2) the challenges, if any, insular areas face in implementing OIA grant projects; and (3) the extent to which OIA has taken action to improve grant project implementation and management. GAO reviewed a random sample of 173 OIA grant files, conducted site visits, and interviewed OIA and insular area officials.

## What GAO Recommends

GAO recommends that Interior improve OIA's ability to effectively manage grants by taking several actions, including clarifying its authorities to ensure insular areas use funds more efficiently, and developing criteria for project redirection request approvals. Interior agreed with our recommendations.

View [GAO-10-347](#) or key components. For more information, contact Anu K. Mittal at (202) 512-3841 or [mittala@gao.gov](mailto:mittala@gao.gov).

## U.S. INSULAR AREAS

### Opportunities Exist to Improve Interior's Grant Oversight and Reduce the Potential for Mismanagement

#### What GAO Found

Internal control weaknesses previously reported by GAO and others continue to exist, and about 40 percent of grant projects funded through OIA have these weaknesses, which may increase their susceptibility to mismanagement. These weaknesses, including insufficient reporting and record-keeping discrepancies, can be categorized into three types of activities that may increase the possibility of mismanagement: grant recipient activities, joint activity between grant recipients and OIA, and OIA's grant management activities. Weaknesses associated with grant recipient activities were the most common issues GAO found, encompassing 62 percent of the weaknesses exhibited by OIA grant projects. The joint activity—redirection of grant funds, a practice by which OIA allows insular areas to move grant funds between projects—accounts for 24 percent of the weakness present in OIA grant projects. While project redirection can be a helpful tool, it can contribute to project mismanagement if not used appropriately. Weaknesses associated with OIA grant management activities, including discrepancies in grant management data, account for 14 percent of the weaknesses in grant projects.

Insular areas confront a number of challenges in implementing OIA grants, which can be categorized into project planning challenges such as frequently changing local priorities; project management challenges such as limited local capacity for project implementation; and external risk factors, including the declining economic conditions of American Samoa and the CNMI. While some of these challenges are beyond the insular areas' control, others result from decisions made by the insular area governments. These challenges can result in implementation delays for grant projects.

Over the past 5 years, OIA has taken steps to improve project implementation and management. Most notably, OIA established incentives for financial management improvements and project completion by tying a portion of each insular area's annual allocation to the insular governments' efforts in these areas—such as their efforts to submit financial and status reports on time. In addition, OIA established expiration dates for grants to encourage expeditious use of the funds. Despite these and other efforts, some insular areas are still not completing their projects in a timely and effective manner, and OIA faces key obstacles in compelling them to do so. Specifically, (1) current OIA grant procedures provide few sanctions for delayed or inefficient projects, and the office is not clear on its authorities to modify its policies; (2) resource constraints impede effective project completion and proactive monitoring and oversight; (3) inconsistent and insufficiently documented project redirection policies do little to discourage insular areas from redirecting grant funds in ways that hinder project completion; and (4) OIA's current data system for tracking grants is limited and lacks specific features that could allow for more efficient grant management. Interior is currently phasing in an agencywide database that is scheduled to be implemented in OIA in 2011, but to be effective, it will require some flexibility to address OIA's needs for grants management.

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## Abbreviations

CNMI	Commonwealth of the Northern Mariana Islands
Freely Associated States	Federated States of Micronesia, Palau, and the Republic of the Marshall Islands
OIA	Office of Insular Affairs
OMB	Office of Management and Budget
USVI	U.S. Virgin Islands

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United States Government Accountability Office  
Washington, DC 20548

March 16, 2010

The Honorable Jeff Bingaman  
Chairman  
The Honorable Lisa Murkowski  
Ranking Member  
Committee on Energy  
and Natural Resources  
United States Senate

U.S. insular areas—which include American Samoa, the Commonwealth of the Northern Mariana Islands (CNMI), Guam, the U.S. Virgin Islands (USVI), and three Freely Associated States (the Federated States of Micronesia, Palau, and the Republic of the Marshall Islands)—face serious economic and fiscal challenges. Consequently, these insular areas, some of which are under U.S. sovereignty, and some of which are independent nations that have signed Compacts of Free Association with the United States, rely on federal funding to support their local governments and deliver critical services. The Department of the Interior (Interior), through its Office of Insular Affairs (OIA), provides approximately \$400 million annually in financial assistance to insular area governments—roughly \$70 million of which is awarded annually as grants to insular areas for capital improvement projects, operations and maintenance improvement projects, technical assistance, and other purposes, to increase the self-sufficiency of the insular areas. For example, capital improvement project funds are used to build roads, schools, and medical facilities; operations and maintenance improvement project funds support basic operations of waste treatment facilities or maintenance of school facilities; and technical assistance funds are used to conduct feasibility studies or train government staff. Although OIA grants are essential in supporting insular areas' economies, we and others—including Interior's Office of Inspector General—have had long-standing concerns with insular area governments' internal control weaknesses, which increase their risk of fraud, waste, abuse, and mismanagement.<sup>1</sup> In addition, several cases of misconduct and mismanagement involving insular areas have raised additional concern about the capacity of OIA to monitor grants and detect cases of

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<sup>1</sup>GAO, *U.S. Insular Areas: Economic, Fiscal, and Financial Accountability Challenges*, [GAO-07-119](#) (Washington, D.C.: Dec. 12, 2006). Department of the Interior, Office of Inspector General, *Report on Grants Administered by the Office of Insular Affairs*, Report No. 2003-I-0071 (Washington, D.C.: September 2003).

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mismanagement. Two examples are (1) extensive delays in the construction of a dialysis facility in the CNMI that was provided funds in 1997 but as of August 2009 had yet to be certified and utilized, and (2) the 2007 indictment of two high ranking American Samoa officials charged with fraud, bribery, and obstruction pertaining to federal grants.

Internal control is an integral component of an organization's management that provides reasonable assurance that the following objectives are being achieved—effectiveness and efficiency of operations, reliability of financial reporting, and compliance with applicable laws and regulations. Internal control also serves as the first line of defense in safeguarding assets and preventing and detecting errors and fraud. Under the federal standards for internal control, federal agencies are to employ internal control activities—the policies, procedures, techniques, and mechanisms that enforce management's directives—that are integral to the accountability for stewardship of government resources and achieving effective results, and help ensure that actions are taken to address risks.<sup>2</sup> Examples of such internal control activities include accurate and timely recording of transactions and events and controls over information processing. If federal agencies do not use effective internal control activities, or have weaknesses in their internal controls, they can increase the risk of potential mismanagement or misuse and waste of grant funds.

In this context, you asked us to determine (1) whether previously reported internal control weaknesses have been addressed and, if not, to what extent they are prevalent among OIA grant projects; (2) the challenges, if any, insular areas face in implementing OIA grant projects; and (3) the extent to which OIA has taken action to improve grant project implementation and management.

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<sup>2</sup>In assessing the adequacy of internal controls, we used the criteria in GAO's *Standards for Internal Control in the Federal Government*, [GAO/AIMD-00-21.3.1](#) (Washington, D.C.: November 1999). These standards, issued pursuant to the requirements of the Federal Managers' Financial Integrity Act of 1982 (FMFIA), provide the overall framework for establishing and maintaining internal control in the federal government. Also pursuant to FMFIA, the Office of Management and Budget issued *Circular A-123*, revised December 21, 2004, to provide the specific requirements for assessing the reporting on internal controls. Internal control standards and the definition of internal control in *Circular A-123* are based on GAO's *Standards for Internal Control in the Federal Government*.

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In conducting our work for our first objective, we focused on insular areas that receive noncompact types of grants—including American Samoa, the CNMI, Guam, the USVI, and the Freely Associated States.<sup>3</sup> To identify key internal control weaknesses that have been identified in the past as well as key internal controls relevant to grant management, we first summarized the weaknesses that were identified in our insular area related reports published between 2000-2009, Interior Office of Inspector General reports on insular areas over that period, and the three most recent Single Audit reports—or audited financial statements—for American Samoa, the CNMI, Guam, and the USVI.<sup>4</sup> We also reviewed several documents outlining policies and procedures applicable to OIA’s grant management and oversight responsibilities to determine the internal control activities that OIA has in place, including the *Standards for Internal Control in the Federal Government*, OIA and Interior-specific grant management policies and procedures, and best practices in grant management. From our review of these documents, we determined that the following internal control activities are particularly relevant to OIA: accurate and timely recording of transactions and events, appropriate documentation of transactions and internal control, proper execution of transactions and events, and controls over information processing. We reviewed a random probability sample of 173 grant project files to determine whether and the extent to which internal control weaknesses are still prevalent. We were able to project our sample results to the 1,771 OIA grant projects in the grant management database as of April 27, 2009. We ranked the projects according to the prevalence of internal control weaknesses and selected

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<sup>3</sup>Noncompact grants include those provided for capital improvement projects, operations and maintenance improvement projects, technical assistance and other purposes. The seven insular areas listed above receive at least some noncompact grant funding. Compact funding is the assistance the United States provides to the Federated States of Micronesia, the Republic of the Marshall Islands, and Palau through Compacts of Free Association. We specifically excluded compact funds from this review because GAO is required to review and report on the effectiveness of U.S. oversight of compact funds on a regular basis. For example, we recently reported on compact assistance to the Federated States of Micronesia and the Republic of the Marshall Islands. See GAO, *Compacts of Free Association: Micronesia and the Marshall Islands Face Challenges in Planning for Sustainability, Measuring Progress, and Ensuring Accountability*, [GAO-07-163](#) (Washington, D.C.: Dec. 15, 2006).

<sup>4</sup>Under the Single Audit Act, certain entities, including the insular areas of American Samoa, the CNMI, Guam, and the USVI, expending \$500,000 or more in awards, including grants and other assistance under more than one federal program in a fiscal year, are required to obtain an annual “Single Audit,” which includes an audit of the entity’s financial statements and a schedule of the expenditure of federal awards, and review of related internal controls.

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24 of the grant projects with the highest prevalence of internal control weaknesses to review in more detail during our work for objectives two and three; those grant projects were located in American Samoa, the CNMI, Guam, and the USVI. To identify insular area challenges in implementing OIA grants, we visited the four insular areas to follow up on the 24 selected grant projects. During these site visits, we physically inspected grant projects whenever possible and interviewed project managers, insular government officials, and where applicable, OIA field representatives. To determine the extent to which OIA has taken action to improve grant project implementation and management, we built upon information obtained through our file reviews and site visits by reviewing OIA policies, procedures, and other documents and by interviewing OIA grant managers and division directors regarding OIA's policies and procedures, grant management, and related challenges. A more detailed description of our scope and methodology is presented in appendix I.

We conducted this performance audit from March 2009 to March 2010, in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

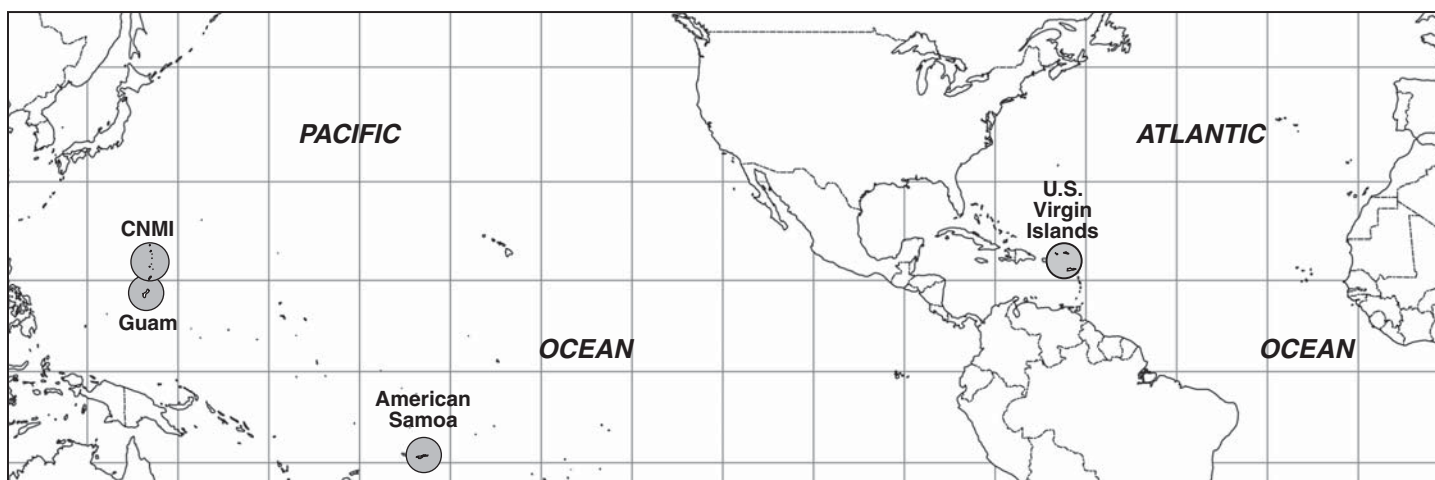
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## Background

The insular areas of American Samoa, the CNMI, and Guam are located in the Pacific Ocean, some 4,100 to 6,000 miles from the U.S. mainland (see fig. 1). The USVI is located about 1,000 miles southeast of Miami in the Caribbean Sea.



**Figure 1: Location of Four U.S. Insular Areas**



Sources: GAO and MapArt (map).

American Samoa, which had a population of about 65,628 in 2009,<sup>5</sup> lies about 2,600 miles southwest of Hawaii and consists of seven islands covering a land area of 76 square miles. The main island of Tutuila has very little level land and is mostly rugged. Agricultural production on the island is limited by the scarcity of arable land, and tourism is impaired by the island's remote location and lack of tourist-rated facilities. Most of American Samoa's economic activity—primarily tuna canning—and government operations take place on Tutuila in the Pago Pago Bay area. In September 2009, one of American Samoa's two canneries closed operations.

The CNMI—a group of 14 islands with a total land area of 183 square miles—is located in the western Pacific Ocean, just north of Guam and 5,500 miles from the U.S. mainland. Most of the CNMI's population—51,484 in 2009<sup>6</sup>—resides on the island of Saipan, with additional residents on the islands of Rota and Tinian. Historically, the CNMI's economy has depended on garment manufacturing and tourism. Beginning in 1998,

<sup>5</sup>U.S. Census Bureau, International Data Base. American Samoa's local population estimate, as reported by American Samoa's Department of Commerce, was 70,100 in 2009.

<sup>6</sup>U.S. Census Bureau, International Data Base. CNMI's local population estimate, as reported by the CNMI's Department of Labor, is similar—52,000 in 2009.

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garment industry shipments began falling, and the last garment factory closed in early 2009.

Guam is located about 50 miles south of the southernmost island of the CNMI. It has long been a strategic location for the U.S. military, which currently controls about 62 square miles of the island's total 212 square miles. By 2020, the Department of Defense plans to increase the U.S. military presence on Guam by more than two-and-a-half times the island's current military population of 15,000. In July 2009, the total population of the island was estimated at 178,430.<sup>7</sup>

The USVI is composed of three main islands—St. Croix, St. John, and St. Thomas—and many other surrounding islands. Most of the insular area's population (estimated at 109,825 in July 2009<sup>8</sup>) resides in St. Thomas and St. Croix. The USVI's economy is more diversified than other insular areas, with tourism as the primary activity, followed by manufacturing including petroleum refining, rum distilling, and textile manufacturing.

While the United States exercises sovereignty over these insular areas, each administers its local government functions through popularly elected governors. American Samoa and the CNMI are self-governed under locally adopted constitutions, while Guam and the USVI have not adopted local constitutions and remain under organic acts approved by Congress.<sup>9</sup>

These insular areas receive hundreds of millions of dollars in federal grants from a variety of federal agencies, including the Departments of Agriculture, Education, Health and Human Services, Homeland Security, the Interior, Labor, and Transportation.<sup>10</sup> The Secretary of the Interior has

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<sup>7</sup>U.S. Census Bureau, International Data Base.

<sup>8</sup>U.S. Census Bureau, International Data Base.

<sup>9</sup>Organic acts are federal laws that serve as the constitution or basic charter of the territory, thereby conferring the powers of government upon a territory. The organic acts of the insular areas usually include a bill of rights and provide for the establishment of the insular areas' tripartite government.

<sup>10</sup>According to the Schedule of Expenditures of Federal Awards in the Single Audit Reports for fiscal year 2008 for American Samoa, the CNMI, and Guam, the total federal expenditure amounts in millions for that fiscal year were \$114.4, \$51.5, and \$200.6, respectively. According to the Schedule of Expenditures of Federal Awards for the USVI's most recent Single Audit—covering fiscal year 2005—the total expenditure amount in millions was \$171.8. We note that some of these estimates do not include federal funds provided to certain component units that are audited separately.

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administrative responsibility over the insular areas for all matters that do not fall within the program responsibility of another federal department or agency. OIA, established in 1995, is responsible for carrying out the Secretary's responsibilities for U.S. insular areas.<sup>11</sup> OIA's mission is to promote the self-sufficiency of the insular areas by providing financial and technical assistance, encouraging private sector economic development, promoting sound financial management practices in the insular governments, and increasing federal responsiveness to the unique needs of the island communities.

Much of the assistance that OIA administers to insular areas is in the form of what it considers mandatory assistance, including compact assistance,<sup>12</sup> permanent payments to U.S. territories, American Samoa operations funding, and capital improvement project grants. OIA also administers discretionary assistance through, for example, technical assistance grants and operations and maintenance improvement program grants. The administration and management of OIA grants is guided by OIA's Financial Assistance Manual. OIA grants other than compact assistance are subject to Interior's Grants Management Common Rule,<sup>13</sup> relevant Office of Management and Budget (OMB) circulars,<sup>14</sup> and specific terms and conditions that OIA outlines in each grant agreement, such as semiannual narrative and financial reporting and grant expiration dates.

Within OIA, two divisions are largely responsible for grant administration and management—the Budget and Grants Management Division and the Technical Assistance Division. The Budget and Grants Management Division, which covers capital improvement project and operations and maintenance improvement program grants, has a director and three grant

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<sup>11</sup>Interior underwent restructuring in 1995. It eliminated the Office of Territorial and International Affairs, which previously carried out Interior's insular responsibilities, and created the Office of Insular Affairs.

<sup>12</sup>Compact funding is the assistance the United States provides to the Federated States of Micronesia, the Republic of the Marshall Islands, and Palau through Compacts of Free Association.

<sup>13</sup>43 C.F.R. part 12.

<sup>14</sup>OIA grants, as applicable, are subject to OMB Circulars A-102, "Grants and Cooperative Agreements with State and Local Governments"; A-110, "Grants and Other Agreements with Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations"; A-87, "Cost Principles for State and Local Governments"; A-21, "Cost Principles for Educational Institutions"; A-122, "Cost Principles for Non-Profit Organizations"; and A-133, "Audits of States, Local Governments, and Non-Profit Organizations."

managers.<sup>15</sup> The Technical Assistance Division, which administers several types of technical assistance, has a director and two grant managers. A third OIA division—the Policy and Liaison Division—also provides some staff for grant-related tasks, including staff that focus on OIA’s accountability and audit responsibilities.<sup>16</sup> The majority of OIA’s budget is directed to compact assistance and permanent fiscal payments (see table 1). About 2 percent of OIA’s budget is dedicated to administrative costs, leaving less than 16 percent for noncompact grants and technical assistance.

**Table 1: Breakdown of the Office of Insular Affairs’ Fiscal Year 2009 Budget**

Component of OIA’s budget	Dollars in thousands	Percentage of OIA budget
Compact of Free Association	\$216,795	48.9
Permanent fiscal payments <sup>a</sup>	148,000	33.4
Office of Insular Affairs (administrative)	8,850	2.0
Noncompact grants and technical assistance		
American Samoa operations	22,752	5.1
Capital improvement project grants (covenant grants)	27,720	6.3
Operations and maintenance improvement program grants	2,241	0.5
Technical assistance grants <sup>b</sup>	17,102	3.9
<b>Subtotal</b>	<b>\$69,815</b>	<b>15.7</b>
<b>Total</b>	<b>\$443,460</b>	<b>100<sup>c</sup></b>

Source: OIA budget justifications and performance information, fiscal year 2010.

<sup>a</sup>Permanent fiscal payments include payments to Guam (section 30 income taxes) and the U.S. Virgin Islands (rum excise taxes).

<sup>b</sup>Technical assistance funds in this table include funds for general technical assistance, brown tree snake control, insular management controls, coral reef initiative, and water and wastewater.

<sup>c</sup>Column does not add up to 100 percent due to rounding.

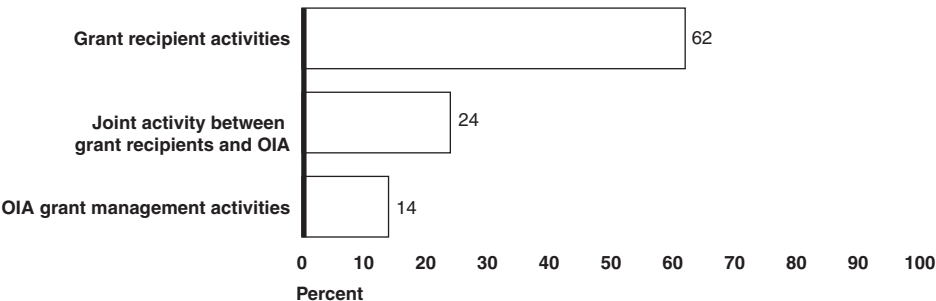
<sup>15</sup>In addition, the division maintains an office in Hawaii for compact oversight in the Federated States of Micronesia and the Republic of the Marshall Islands and has a field presence in the CNMI, the Federated States of Micronesia, Palau, and the Republic of the Marshall Islands.

<sup>16</sup>The division maintains a field presence in American Samoa and the CNMI.

Nearly 40 Percent of OIA Grant Projects Have Internal Control Weaknesses That Could Increase Susceptibility to Mismanagement

On the basis of our review of grant files from a random probability sample of grant projects,<sup>17</sup> we determined that previously reported internal control weaknesses still exist and estimate that 39 percent of the 1,771 grant projects in OIA’s grant management database demonstrate at least one internal control weakness that may increase the projects’ susceptibility to mismanagement.<sup>18</sup> The eight internal control weaknesses we assessed can be grouped into three categories based on the entity responsible for the action: grant recipient actions, OIA grant management actions, or joint actions between grant recipients and OIA. As shown in figure 2, the internal control weaknesses we identified were most often associated with grant recipient activities, followed by joint activities and OIA grant management activities.

Figure 2: Distribution of Overall Internal Control Weaknesses in OIA Grant Projects by Category of Activity



Source: GAO analysis of OIA documents.

We also determined how frequently each of the eight internal control weaknesses was found among OIA grant projects in the database (see table 2).

<sup>17</sup>We reviewed a random sample of 173 OIA grant projects, selected from 1,771 grant projects in OIA’s grant management database as of April 27, 2009.

<sup>18</sup>All percentage estimates from the file review have margins of error at the 95 percent confidence level of plus or minus 10 percentage points or less, unless otherwise noted.

**Table 2: Internal Control Weaknesses Present in OIA Grant Projects**

Internal control weaknesses <sup>a</sup>	Percentage of applicable projects affected <sup>b</sup>
Grant recipient activities	
Failure to submit required status reports in full and on time	60
Failure to submit required final reports on time (closed grants)	58 <sup>c</sup>
Projects' expected or actual completion date fall after grant expiration	19
Drawing down funds faster than project progress (open grants)	0
Joint activity between grant recipients and OIA	
Redirection of project funds	30
OIA grant management activities	
Information in grant management database does not match grant file <sup>d</sup>	41
Field representatives perform less than half of all site visits	10
Unexpended funds are not deobligated (closed grants)	0

Source: GAO analysis of OIA documents.

Notes: Unless otherwise specified, internal control weaknesses apply to both open and closed grant projects.

<sup>a</sup>See appendix I for information on how we selected the internal control weaknesses and assessed grant projects for the presence of those weaknesses.

<sup>b</sup>Not all internal control weaknesses apply to every grant project. For example, we could only assess the field representative-related internal control weakness for grants awarded to the two insular areas with field representatives—American Samoa and the CNMI. Our data analysis takes the applicability of the internal control weaknesses into account. As a result, numbers reported for individual weaknesses apply only to the relevant subset of projects. See app. I for more information.

<sup>c</sup>The confidence interval for this estimate is within +/- 11 percent.

<sup>d</sup>The database contains at least one piece of information that does not match corresponding information in the grant file.

Internal control weaknesses associated with grant recipient activities were the most common internal control weaknesses we found, accounting for 62 percent of the weaknesses exhibited by OIA grant projects. By accepting a grant, recipients agree to a set of terms and conditions that are part of OIA's internal controls. We assessed grant recipients' consistency in meeting requirements of the grant terms and conditions by examining project files for adherence to four key requirements that we determined are relevant to a grant management program: semiannual financial and narrative reporting, project close-out reporting, grant expiration dates, and reimbursable funding. For example, grant recipients are required to submit regular financial and status reports to OIA within a set time frame. We found that recipients in 60 percent of grant projects with semiannual

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reporting requirements did not submit these reports as required. In many cases, reports were submitted after the deadline had passed, but in some cases, reports were never submitted.<sup>19</sup> These financial and narrative status reports are a key monitoring tool for OIA grant managers, and incomplete information can hinder OIA's ability to identify and address any issues. In addition, we found that recipients of 58 percent of grant projects failed to submit final reports (or project close-out reports) on time. Final financial and narrative reports are required to be submitted within 90 days of grant expiration or project termination; failure to do so can delay the deobligation of any unspent grant funds from the project account.<sup>20</sup> We also found that recipients of 19 percent of grant projects expect to or did actually complete the project after the grant expiration date.<sup>21</sup> Grant terms and conditions state clearly that grant funds are only available until the grant expiration date, and the grant recipient should not continue to spend federal funds after they have expired. It is important to note, however, that our assessment relied on grant expiration dates as reflected in the file or database; project extensions may have been granted but not recorded. Nevertheless, situations where the grant expiration date has been or will be breached may be an indication of poor initial planning or problems with the grant project. Finally, we compared the proportion of awarded funds that had been disbursed to grant recipients with the progress made toward project completion to ensure that OIA grant recipients were requesting funds on a reimbursement basis, as required. We found that all open projects satisfied the reimbursement requirement.

Of the joint activities between OIA and grant recipients, project redirection, whereby grant funds may be moved between projects, can contribute to increased susceptibility to mismanagement. This practice, which OIA refers to as "reprogramming," accounted for 24 percent of the

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<sup>19</sup>While we did not systematically assess how late reports were for all 173 grant projects in our sample, we did assess this information for the 24 grant projects selected for follow-up. Of these 24 projects, 6 had late reports, ranging from being a few days to several months late. Five of these were submitted at least 2 months late. In addition, 18 of the 24 grant projects' files did not include all required reports. We did not determine whether these reports had been submitted but not included in the grant project files.

<sup>20</sup>Deobligation is the process in which unused monies are canceled or unobligated from the project account.

<sup>21</sup>For open grant projects we determined if the expected completion date is after the grant expiration date. For closed grant projects we determined if the completion date was after the grant expiration date. This figure combines the two categories. See appendix I for more information.

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overall internal control weaknesses that we found in OIA grant projects. However, the presence of project redirection is not, in and of itself, an indication of weakness. As we will describe later in this report, project redirection can be used as a tool to improve timely use of federal funds and expedite project completion. However, if not used appropriately, project redirection can also impede project completion and contribute to wasted funds or prolonged holding of grant funds. Specifically, if project redirection is approved in cases where an insular area starts a project and expends funds, but then wants to redirect the funds to another project without completing the initial project, those expended funds may be wasted. In addition, frequent project redirection can result in projects that are started but do not have sufficient funds to be completed. Based on our review, project redirection occurred in 30 percent of applicable grant projects. Grant recipients generally initiate project redirection through a request to OIA. OIA policy requires that grant recipients must obtain written approval from OIA before any funds may be moved between grant projects and that technical assistance project funds may not be redirected. We did not identify any cases where these requirements were not met.<sup>22</sup>

For OIA grant management activities, we found that the presence of internal control weaknesses accounted for 14 percent of the overall internal control weaknesses that we identified for OIA grant projects. We assessed OIA's consistency in following its recordkeeping, monitoring, oversight, and close-out procedures, each of which help OIA to ensure that grant funds are being used as intended, in accordance with relevant laws and regulations, and that the projects will achieve the planned results. While OIA generally follows its close-out procedures, we identified a number of concerns with OIA's record keeping and monitoring and oversight activities:

- OIA grant managers generally use OIA's internal grant management database as a monitoring tool to track key information about grants they oversee; they also use the database to create reports by insular area and grant type to respond to inquiries from Congress and others. However, for 41 percent of OIA grants in the database, we found that the database

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<sup>22</sup>Prior to May 2009, OIA's Financial Assistance Manual required that the OIA Deputy Assistant Secretary approve all project redirection requests, but this requirement is no longer in place. We assessed individual files for the presence of an official approval letter but did not assess which level within OIA granted the approval. However, we did find at least one instance where the then-required OIA Deputy Assistant Secretary approval was not documented in the file.



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contains at least one piece of information that does not match corresponding information in the grant file. For example, among applicable grant projects, the grant expiration date was the element most often improperly recorded in the database. We also found cases where individual fund drawdowns were not entered into the database in a timely manner.<sup>23</sup> Such inconsistent and inaccurate data can limit the ability of OIA grant managers to efficiently and effectively monitor whether grant projects are being completed on time and within budget and may increase the susceptibility of these projects to mismanagement. OIA officials explained that procedures for entering some data elements into the database—such as the date the grant was awarded and redirected funds—have changed over time and may have accounted for some of the inconsistent data we found. Some OIA grant managers reported using tools other than the database to track grant progress. For example, capital improvement project grant managers use their own spreadsheets to track information such as grant expiration dates, grant status, and when reports were last received. However, reliance on such informal systems can also introduce internal control risk because they are not subject to policies, procedures, or internal controls to ensure the information maintained in them is accurate.

- OIA also monitors capital improvement grant projects through site visits and related oversight activities. OIA field representatives stationed in two insular areas—American Samoa and the CNMI—can assist grant managers in headquarters with grant monitoring and oversight by conducting site visits of ongoing projects and advising headquarters staff of any issues that may arise. It is important to note that while the field representative in the CNMI has official grant management responsibilities, the field representative in American Samoa works for OIA’s policy division and has no formal grant management responsibilities. However, the American Samoa representative estimates that she spends nearly half of her time addressing issues relating to capital improvement grant projects. Although these resources are available for oversight, we found that 10 percent of capital improvement grant projects in these insular areas were visited more often by headquarters grant managers than by field representatives, which raises some concerns about the effectiveness of having field

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<sup>23</sup> Grant recipients initiate a drawdown of grant funds by making a request to OIA for funds to reimburse payments the grant recipient has already incurred on the grant project. We found four cases where individual drawdowns were not entered into the database in a timely manner; the delays in entering the information ranged from 6 days to over 2 years.

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representatives in these areas.<sup>24</sup> However, OIA field representatives told us that they have informal interactions with project managers that are not captured by site visit reports; and our review of grant files indicates that field representative reports may not be submitted to headquarters or included in the grant files.<sup>25</sup> This inconsistent transmission of site visit reports is contrary to OIA policy and has the potential to impact the amount of information that headquarters oversight staff have about the status of various grant projects.

- OIA follows close-out procedures once grant projects are complete. We assessed OIA's consistency in applying these procedures as an internal control weakness. We found that unexpended grant funds were properly deobligated from project accounts for all closed grant projects in the database.

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<sup>24</sup>Specifically, we found that the grant files maintained at OIA headquarters for these projects contained more site visit reports completed by OIA grant managers than field representatives. Field representatives prepare reports to document their site visits and submit these site visit reports to the relevant grant manager in headquarters, and the reports are required to be included in the official grant files.

<sup>25</sup>During our review of field representatives' grant files, we located several reports of site visits conducted by field representatives that were not included in the headquarters grant files related to those projects.

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## Insular Areas Face Challenges in Implementing OIA Grant Projects, as Selected Projects Illustrate

Insular areas confront both project planning and management challenges in implementing OIA grant projects as a result of decisions made by the insular area governments and external factors. Project planning challenges include frequently changing local government decisions, natural disaster impacts, and other factors. Project management challenges include issues such as a limited local capacity for implementing OIA projects and poor contractor performance. External factors include issues such as declining economic conditions and various U.S. policies. Officials in all of the four insular areas we visited reported facing some of these challenges. These challenges were most often noted for capital improvement projects in American Samoa and the CNMI that we reviewed. While some of these challenges, which influence the insular areas' abilities to effectively complete OIA grant projects, are beyond their control, others can be overcome. Figure 3 summarizes our analysis of the project planning and project management challenges experienced by insular areas for the 24 selected grant projects.

**Figure 3: Project Planning and Project Management Challenges Experienced by Insular Areas for 24 Selected OIA Grant Projects**

	Project	Grant type <sup>a</sup>	Project planning challenges				Project management challenges	
			Frequently changing priorities (project redirection)	Natural disaster impact	Limited land access	Lack of local operations and/or maintenance funding	Limited local capacity	Contractor issues
<b>Commonwealth of the Northern Mariana Islands (CNMI)</b>	Commonwealth Health Center <sup>b</sup>	CIP	●	○	○	●	●	●
	Tinian Wastewater <sup>c</sup>	CIP	●	○	○	○	●	○
	Tinian Elementary School <sup>c</sup>	CIP	●	○	○	○	●	○
	Tinian Landfill <sup>b</sup>	CIP	●	○	●	○	●	○
	Saipan Power Plant Rehabilitation <sup>b</sup>	CIP	●	○	○	●	●	●
	Tinian Dialysis Facility <sup>d</sup>	CIP	●	○	○	○	●	○
	Precinct IV Road Paving	CIP	○	○	○	○	○	○
	Ginalangan-Palie Power (1998) <sup>b,e,f</sup>	CIP	●	○	○	○	●	○
	Ginalangan-Palie Power (2005) <sup>b,e,f</sup>	CIP	Project not started as of the time of our site visit					
	Purchase incinerator for airport	CIP	○	○	○	●	○	○
	Purchase incinerator for Port of Saipan	CIP	Project not started as of the time of our site visit					
	Rota Health Center (2003) <sup>c,e,f</sup>	CIP	●	○	○	●	●	●
	Rota Health Center (2004) <sup>c,e,f</sup>	CIP	●	●	○	●	●	●
<b>American Samoa</b>	Petesa Happy Valley Village Road <sup>g</sup>	CIP	Project not started as of the time of our site visit					
	Central Office Building, Phase II <sup>h</sup>	CIP	Project not started as of the time of our site visit					
	Professional Training & Apprenticeship Program	CIP	○	○	○	○	●	○
	Micronesia Water & Wastewater Training Program	CIP	○	○	○	○	●	○
	Leone High School <sup>c</sup>	CIP	●	○	○	○	●	●
	Lyndon B. Johnson Hospital	CIP	○	●	●	○	●	●
	Manulele Tausala Elementary School Road <sup>b</sup>	CIP	●	○	○	○	●	○
<b>U.S. Virgin Islands (USVI)</b>	Waste Management Authority – Construction Manager	CIP	●	○	○	○	●	○
	Household Income & Expenditures Survey	TA	○	○	○	○	●	○
	University Wellness Center <sup>i</sup>	CIP	○	●	●	○	●	●
<b>Guam</b>	Guam Waterworks Authority – Management Analyst	OMIP	○	○	○	○	●	○

- Challenges that were detected
- Challenges that were not detected

Source: GAO analysis of OIA grants to the insular areas.

Notes: We reviewed grant project file documents and assessed them for the presence of each of the above listed project challenges. We also corroborated this information, to the extent possible, with information we obtained from insular officials during our site visits. While extensive effort was made to be thorough, some information may be missing and some project challenges may be present that we did not detect because we based our analysis on records that were in some cases incomplete. For further information on specific project examples, see appendix II.

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The table reflects challenges that insular area agencies identified for these specific projects. Some agencies reported regularly facing additional challenges in OIA projects.

<sup>a</sup>CIP = Capital improvement project; OMIP = Operations and maintenance improvement program; TA = Technical assistance.

<sup>b</sup>Project received redirected funding from other OIA projects.

<sup>c</sup>Project's funding was redirected to other OIA projects.

<sup>d</sup>The project began, never progressed, and was ultimately closed due to insufficient funding, which was caused by project fund redirection.

<sup>e</sup>Two funding years (provided for projects within a larger multi-year project) were selected as part of our site visit follow-up.

<sup>f</sup>Many projects receive funding in multiple years and OIA tracks each funding year separately. Years listed in parentheses indicate the fiscal year during which project funds were awarded.

<sup>g</sup>Project never started largely due to land access issues.

<sup>h</sup>The Central Office Building project was selected as part of our site visit follow-up, but Phase II is only a continuation of project funding. The construction of the building (Phase I) is under way but has experienced challenges with fund redirection out of the project and limited local capacity.

<sup>i</sup>The Wellness Center is a construction project at the University of the Virgin Islands campus on St. Thomas.

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## Project Planning Challenges

Many of the challenges that can contribute to OIA grant project delays stem from local government project planning decisions:

*Frequently changing priorities.* Some insular area governments regularly shift priorities and frequently redirect grant project funds. While some changes in priorities are to be expected, when these priorities change frequently, it can lead to project delays and wasted resources. Of the four insular areas we reviewed, only American Samoa has and adheres to a master plan that lists planned capital improvement projects and categorizes them into one of three priority areas.<sup>26</sup> In contrast, as of December 2009, OIA reported that the CNMI did not have a master plan for

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<sup>26</sup>The Omnibus Consolidated Rescissions and Appropriations Act of 1996, Pub. L. No. 104-134, §118(c)(3), authorized OIA to provide covenant grant funding to American Samoa for capital improvement projects. The law requires that specific projects to be funded in American Samoa be established in a 5-year capital improvement plan to be developed by OIA in consultation with the American Samoan government, and updated annually; and that Interior indicate the highest priority projects, among other items, in its annual budget request. In implementing this requirement, OIA has categorized projects into three general priority areas. First tier priorities include health, safety, education, and utilities. Second tier priorities include ports and roads. Third tier priorities include industry, shoreline protection, parks and recreation and other government facilities.

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its capital improvement projects or established priority areas.<sup>27</sup> Without established local government priorities, frequent priority shifts can more easily occur that affect which projects are pursued, and in turn, grant funds can be more frequently redirected between projects with widely different goals, often leading to project delays or incomplete projects. For example, in 2005 the CNMI government shifted OIA funds from a project originally funded in 2004 updating a Tinian school building to a project developing a wastewater system, and then in 2007 funds were again shifted from this incomplete wastewater project to a project developing a Tinian airport instrument landing system, which has since been suspended.<sup>28</sup> To this end, OIA and the CNMI government acknowledged that establishing and enforcing a master plan would be helpful to guide priorities for capital improvement project funding. OIA has taken steps to encourage the development of a CNMI infrastructure master plan, and forward movement has been made with the submittal of a budget and scope of work by the U.S. Army Corps of Engineers; however, as of January 2010, the CNMI had not yet fully identified funding sources for the plan's completion.<sup>29</sup>

In contrast, OIA and American Samoa use its master plan to help guide which projects should be funded and which project redirection requests should be approved. As a result of the long-term planning, we found that projects in American Samoa generally do not experience delays due to project redirection and that funds are redirected in a way that aids project completion. According to OIA, project redirection generally occurs within

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<sup>27</sup>While the CNMI previously had a master plan, OIA officials told us it was subject to political influences, was not particularly effective, and is no longer used. One reason the CNMI's plan was particularly subject to political influence is that, until 2004, the insular area was required to provide matching funds to receive OIA covenant funding, which required legislative approval and allowed legislators to influence the prioritization of projects.

<sup>28</sup>In December 2009, the CNMI official responsible for administering capital improvement project grants reported that the recently elected Tinian Delegation would like to restart the airport instrument landing project. However, that official reported in January 2010 that the CNMI's current priority, pursuant to the Governor's October 2009 Declaration of Emergency, is to redirect these funds to repair the Tinian Harbor and its deteriorating seawall.

<sup>29</sup>The U.S. Army Corps of Engineers is involved in various ways in the insular areas. The Honolulu District provides project management, design, construction management, and cost engineering services, among other things. Generally, these services are provided and the U.S. Army Corps of Engineers is reimbursed. OIA also uses their services to provide engineering expertise in its review and oversight of capital improvement project grants in the Pacific insular areas.

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a priority area and between projects listed in the master plan.<sup>30</sup> For example, funds were redirected from the Petesa-Happy Valley Village Road project, where the project was facing delays in getting access to necessary lands, to the Taputimu Village Road project, which was then able to be completed in February 2008. In addition, American Samoa replaced the redirected sum with an equal amount from a later fiscal year's funding for the Taputimu Village Road project. OIA officials attributed much of American Samoa's success in using project redirection effectively to the insular area's leadership.

*Natural disaster impacts.* Natural disasters are unexpected challenges that are beyond insular area governments' control; however, local government project planning decisions can mitigate some of these effects. Frequently occurring natural disasters such as typhoons, cyclones, and hurricanes can have a significant impact on the condition of the insular area's economy, health, and physical infrastructure. Recovering from such disasters can demand a considerable amount of local and federal resources to be directed to immediate disaster recovery efforts rather than long-term future or current economic and infrastructure development. For example, the U.S. Department of Homeland Security Federal Emergency Management Agency disbursed, as of January 2010, roughly \$22 million for individual and household assistance to American Samoa victims of the September 2009 tsunami. In addition, the agency estimates damages to American Samoa public infrastructure to cost roughly \$80 million. Similarly, Interior reported that the combined economic costs to the USVI for damage caused by Hurricanes Hugo in 1989 and Marilyn in 1995 ranged from \$3 billion to \$4 billion.<sup>31</sup> The shifting of both local and federal efforts and resources to repair these damages can contribute to challenges in project planning and implementation.

Insular areas' remote locations and limited natural resources can further exacerbate the effects of natural disasters by increasing costs and the amount of time for reconstruction. These factors can cause project delays and contribute to OIA project budget increases because of the difficulty in estimating fluctuating material and fuel costs.

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<sup>30</sup>OIA reported that exceptions are made to its project redirection practice for American Samoa when a project exhibits immediate need and is given high priority by the Governor, such as a project associated with disaster recovery.

<sup>31</sup>[GAO-07-119](#).

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*Limited land access.* Local governments' project planning decisions regarding how to proceed when land access issues arise can also result in some grant project delays. Limited access to land was cited by some insular area officials, specifically in American Samoa and the CNMI, as a challenge they face in completing OIA capital improvement project grants. For example, in the American Samoa Petesa Happy Valley Road capital improvement project, land access has been a major contributor to delays since the project was initially funded in 2003.<sup>32</sup> Although both of the insular area governments have the power of eminent domain over their land,<sup>33</sup> that authority has not always been asserted. According to some American Samoa and CNMI officials, communities sometimes resist government land acquisition efforts, which can lead to project delays. When land access issues affect project implementation, local governments can choose to address the issue by enforcing their authority or by choosing to fund other projects.

*Lack of local operations and maintenance funding.* Another project planning challenge identified by CNMI officials is a lack of local operations and maintenance funding—which in part is a result of the local government's decision to not prioritize operations and maintenance activities for local funds and to not use a portion of OIA funds for operations and maintenance of OIA grant projects. For example, according to the CNMI Lieutenant Governor, the CNMI government does not provide funding specifically dedicated to operations or maintenance of its infrastructure, including OIA capital improvement projects. However, we believe that it is significantly more cost effective to perform preventative maintenance rather than to perform repairs. Further, if agencies only perform maintenance on a reactive basis, then the critical services they provide can be disrupted. For example, the CNMI experienced intermittent electricity blackouts from 2006 to 2008, which were in part caused by aging power generators that had not been properly maintained. This crisis management approach can be disruptive to ongoing projects because critical services may not be available as planned and local government resources and contractors may be diverted to address the crisis.

According to OIA, because capital improvement project funding awarded to the CNMI was required to have a significant local match, it was more

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<sup>32</sup>However, a scope of work for this project was not approved until December 2005.

<sup>33</sup>The Commonwealth Constitution, Article XII (2010); American Samoa Code Annotated Ch. 20, § 37.2001 (2007).



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challenging for the CNMI to dedicate adequate additional funds for project operations and maintenance. However, since fiscal year 2005, this match has not been required. In addition, according to OIA, operation costs in the CNMI are not eligible for capital improvement funds, but in 2008 and 2009, the office provided the CNMI with pilot grants of \$350,000 for maintenance. According to the OIA grant manager for capital improvement projects in the CNMI, the goal of the pilot grants was to ensure that the CNMI would spend the funds on maintenance if OIA provided them. OIA reported that the CNMI had spent the 2008 funds on maintenance and that if the 2009 funds were similarly spent, the next step would be to regularly provide the CNMI with a percentage of each grant's funding specifically for maintenance.

In contrast, the American Samoa government sets aside 5 percent of its OIA capital improvement project grant funds for maintenance.<sup>34</sup> The American Samoa government also provides a 100 percent match to all OIA funds directed to maintenance. This maintenance set-aside program requires specific plans from the local government for the use of the money, as well as reporting procedures to account for this fund.

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## Project Management Challenges

Several project management challenges, including the following, also limit the ability of some insular areas to manage and implement OIA grants:

*Limited local capacity for OIA project implementation.* Some insular area officials reported that they face a shortage of skilled workers and limited opportunities for training and education in disciplines such as grant management. Insular governments have access to training funds—for example, through OIA technical assistance grants. However, as we previously reported, because citizens of insular areas are free to migrate to the United States, it is difficult to retain highly educated or skilled workers.<sup>35</sup> Further, in the CNMI, several officials reported a shortage of funding for staff, although they did not provide us with data to quantify this issue. This concentrates key knowledge in few individuals and can cause high staff burn-out rates, increasing the likelihood that projects will encounter delays if these staff leave before projects are completed. In the future, access to low-cost foreign labor in the CNMI and American Samoa

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<sup>34</sup>Pub. L. No.104-134, § 118, 48 U.S.C. § 1804(c).

<sup>35</sup>[GAO-07-119](#).

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could change due to the rising minimum wages.<sup>36</sup> In addition, the CNMI's access could also be affected by the transition to the U.S. immigration system which began November 28, 2009, under recent legislation.<sup>37</sup> The effect of the legislation's implementation on the CNMI's foreign labor pool will largely depend on various U.S. government agency decisions regarding the provision of foreign worker temporary permits, as we reported in March 2008.<sup>38</sup>

*Contractor issues.* Some insular area officials also attributed project delays to poor performing contractors. In several of the American Samoa and CNMI projects we reviewed, insular officials identified poor contractor performance as a significant cause of project delays and cost increases. In some cases, contracts had to be canceled and, in other cases, insular area project managers had to either redesign or expand the project. Poor contractor performance is a particular concern when insular area governors declare a state of emergency. In the CNMI in particular, along with an emergency declaration, a governor may waive local standard procurement regulations. In bypassing the standard procurement regulations, the government increases the likelihood that poor performing contractors are hired. For example, during the implementation of the CNMI's power plant rehabilitation project, the Governor declared a state of emergency to address the plant engines' inability to provide necessary power to the island, which was caused by wear and inadequate maintenance. During the state of emergency, the Commonwealth Utilities Corporation hired a contractor that performed poorly, causing the agency

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<sup>36</sup>In response to U.S. legislative changes, the federal minimum wage in American Samoa and the CNMI began rising in 2007 and will continue to do so until they equal the U.S. minimum wage. Pub. L. No. 110-28, § 8103 (May 25, 2007).

<sup>37</sup>The Consolidated Natural Resources Act of 2008, Pub. L. No. 110-229, Title VII, 122 Stat. 754, 853 (2008), applies federal immigration law in the CNMI through a transition program. CNMI immigration law was in effect until the start of the transition period on November 28, 2009. However, federal restrictions on the total number of foreign workers in the CNMI applied immediately. On August 4, 2008, we reported that although the legislation and the CNMI government have stated goals of preparing CNMI residents to replace foreign workers, factors such as the limited number of available CNMI residents may impede these efforts' effectiveness. See GAO, *Commonwealth of the Northern Mariana Islands: Managing Potential Economic Impact of Applying U.S. Immigration Law Requires Coordinated Federal Decisions and Additional Data*, [GAO-08-791](#) (Washington, D.C.: Aug. 4, 2008).

<sup>38</sup>GAO, *Commonwealth of the Northern Mariana Islands: Pending Legislation Would Apply U.S. Immigration Law to the CNMI with a Transition Period*, [GAO-08-466](#) (Washington, D.C.: Mar. 28, 2008).

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to cancel the contract and delay the project, which was approved in 2007 and was not yet completed at the time of our visit in September 2009 (see app. II for more information). To address the issue of contractor performance, CNMI regulations require contractors to carry payment and performance bonds—whereby payment is ensured for all employees, subcontractors, and suppliers involved in a project, and monetary reparations will be made in the event of contractor nonperformance—for construction projects in excess of \$25,000. For example, the CNMI recently imposed a \$17,000 damage claim and initiated debarment proceedings against a delinquent contractor in an OIA Commonwealth Health Center project, according to the CNMI Capital Improvement Project Administrator. According to the OIA grant manager responsible for capital improvement project grants in American Samoa, American Samoa regulations require performance bonds for contracts over \$100,000, USVI regulations allow but do not mandate the government to require performance bonds, and Guam generally requires 100 percent Surety Performance Bonds, but some exceptions have been made to allow only 50 percent.

*Varying effectiveness of central grant management offices.* American Samoa, the CNMI, and the USVI have central grant management agencies that are similarly structured and act as a liaison between OIA and the local government agencies receiving grants. However, the effectiveness of the central grant management agencies varies, in part based on the capacity of their staff.

In the CNMI, OIA capital improvement project grants are largely administered through the Governor's Capital Improvement Project office. OIA officials noted that the CNMI central management office is more effective, particularly in comparison to American Samoa's central grant management agencies.<sup>39</sup> The OIA grant manager that works with the CNMI office said that the staff are essential to her efforts to monitor ongoing projects; however, a CNMI office representative reported concerns about limited resources. A key position, the Capital Improvement Project Administrator, is appointed by the CNMI Governor, which makes the position subject to change when local government administrations change. Another key position, the Capital Improvement Project Contracting Officer, is an OIA-funded contract employee, which means the position

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<sup>39</sup>Several CNMI officials, from grant recipient agencies, reported that they would prefer the local agencies directly administer OIA grants.

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could be eliminated if funding is not continued. To this end, OIA has taken action, including awarding funds specifically for capital improvement project administration, to ensure that the office is adequately staffed to manage projects.

In American Samoa, the Territorial Office of Fiscal Reform and the Capital Improvement Project Committee are primarily responsible for OIA grant administration. OIA and American Samoa officials reported that this central grant management arrangement has contributed to project delays. For example, the Director of the Territorial Office of Fiscal Reform, who is also the Chairman of the Capital Improvement Project Committee, is responsible for overseeing efforts to adhere to American Samoa's fiscal reform plan. In addition, he reviews and approves all of the projects that go through the Capital Improvement Project Committee, such as OIA grant project plans and approvals. During the last 3 years, however, this official has been absent from the island but has retained his responsibilities and has not delegated them to anyone else, according to OIA and American Samoa officials. As a result of his absence and the lack of delegation, implementation of capital improvement projects has been delayed and the committee has become ineffective, according to the officials we spoke with.

In the USVI, the local Office of Management and Budget is primarily responsible for OIA grant administration. OIA officials told us that the agency can be effective but can also delay the project administration process, including financial and status report submissions, because they do not always expeditiously provide reports submitted by the agencies receiving grants to OIA. A local government official told us that the USVI Office of Management and Budget has become more effective in its administration of OIA grants over the past few years.

*Limited local auditing agency resources.* Insular area governments have not prioritized oversight of OIA grant projects through local auditing agencies, which may contribute to the potential for project fraud, waste, abuse and mismanagement by both the agencies receiving the grants and contractors. For example, the CNMI's local audit agency has not reviewed any federal grants for several years and the position of the Territorial Auditor in American Samoa was vacant from 2005 until the fall of 2009.

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## External Factors Likely to Affect OIA Grant Project Implementation

The following external factors, some of which we have previously reported on, can also contribute to project delays and inefficiencies:

*Declining economic conditions.* Although all insular areas we reviewed face serious economic challenges, the CNMI and American Samoa face particularly difficult obstacles as a result of their dependence on a few key industries.<sup>40</sup> If economic conditions further destabilize, the CNMI and American Samoa could face difficulties in funding local government agencies and the administrative costs required for OIA grant project implementation, as can be seen in the following examples:

- The CNMI relied mainly on two industries for its economic prosperity—garment manufacturing and tourism—until early 2009 when the last of its garment factories closed.<sup>41</sup> Together both industries had accounted for 85 percent of the CNMI's economic activity.<sup>42</sup> The CNMI now relies largely on its tourism industry to support its economy, which is a volatile industry and is susceptible to both local and global crises.
- American Samoa's economy depends primarily on the tuna canning industry,<sup>43</sup> which recently endured two major setbacks—the closure of one tuna cannery and a significant reduction in workforce at the other cannery. American Samoa also experienced a tsunami in the fall of 2009, which caused considerable damage.

*U.S. government policies.* Several recent changes in U.S. government policies may also likely contribute to OIA project implementation challenges.

- First, as mentioned previously, the federal minimum wage in American Samoa and the CNMI began rising in 2007 and will continue to do so until

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<sup>40</sup> [GAO-07-119](#) and GAO, *American Samoa Accountability for Key Federal Grants Needs Improvement*, [GAO-05-41](#) (Washington, D.C.: Dec. 17, 2004), have provided in-depth assessments of insular area economies.

<sup>41</sup> GAO, *Commonwealth of the Northern Mariana Islands: Coordinated Federal Decisions and Additional Data Are Needed to Manage Potential Economic Impact of Applying U.S. Immigration Law*, [GAO-09-426T](#) (Washington, D.C.: May 19, 2009).

<sup>42</sup> GAO, *Northern Mariana Islands: Garment and Tourist Industries Play a Dominant Role in the Commonwealth's Economy*, [GAO/RCED/GGD-00-79](#) (Washington, D.C.: Feb. 14, 2000).

<sup>43</sup> [GAO-07-119](#).

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they equal the U.S. minimum wage.<sup>44</sup> This may increase the cost of OIA-funded projects. Additionally, if the economies falter and local revenues fall, OIA grants still requiring a local government match may face delays or noncompletion as they become increasingly expensive for the local government agencies to fund.

- Second, in response to U.S. legislation, the CNMI's immigration system was federalized on November 28, 2009.<sup>45</sup> Accordingly, some of the foreign workers that made up a majority of the workforce, as of 2005, may not be able to reside in the CNMI in the future. For those OIA grant implementing agencies that employ foreign workers, it is possible that the departure of these workers could disrupt project progress and basic service provision.
- Third, the planned U.S. military buildup on Guam is expected to challenge the island's infrastructure. According to a recent GAO report,<sup>46</sup> the U.S. Department of Defense is expected to relocate 8,000 Marines and their estimated 9,000 dependents from Okinawa, Japan, to Guam by 2014, and also plans to expand the capabilities and presence of Navy, Air Force, and Army forces on Guam. As a result, the military population, including dependents, on Guam is expected to grow by over 160 percent, from its current population of about 15,000 to over 39,000 by 2020. The Guam government has not yet identified a strategy to expand the roads, power, water, wastewater and solid waste systems to accommodate this population increase. Furthermore, according to the OIA Budget and Grants Management Division Director, the infrastructure development will require significant labor, thus contractor availability may be affected for many other U.S. insular areas.

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<sup>44</sup>Pub. L. No. 110-28, § 8103 (2007).

<sup>45</sup>Pub. L. No. 110-229, Title VII, 122 Stat. 754, 853 (2008).

<sup>46</sup>GAO, *Defense Infrastructure: Guam Needs Timely Information from DOD to Meet Challenges in Planning and Financing Off-Base Projects and Programs to Support a Larger Military Presence*, [GAO-10-90R](#) (Washington, D.C.: Nov. 13, 2009).

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## OIA Has Taken Actions to Improve Grant Project Implementation and Management but Faces Several Obstacles

OIA has taken several important steps to improve grant project implementation and management but faces several obstacles in its efforts to compel insular areas to complete their projects in a timely and effective manner.

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## OIA Has Taken Steps to Improve the Implementation and Management of Grant Projects

Over the past 5 years, OIA has taken steps to improve project implementation and management, including implementing a competitive allocation system that establishes incentives for insular areas to make financial management improvements and complete projects; establishing grant expiration dates; and taking steps to improve administrative continuity in insular areas. Specifically, OIA has taken steps in the following areas:

*Competitive allocation system.* In fiscal year 2005, OIA implemented a new competitive allocation system for the \$27.7 million in capital improvement project grants that it administers to the insular areas.<sup>47</sup> This system provides incentives for financial management improvements and project completion by tying a portion of each insular area's annual allocation to the insular governments' efforts in these areas—such as their efforts to submit financial and status reports on time. Through this system, OIA scores each insular area against a set of performance-based criteria and increases allocations to those insular areas with higher scores, thereby lowering allocations to insular areas with lower scores.

To date, the competitive allocation criteria have measured the insular governments' abilities to exercise prudent financial management practices and to meet certain federal grant requirements. As described in OIA's Budget Justification for fiscal year 2010, there are 10 competitive criteria,

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<sup>47</sup>The Section 702 Funding Agreement between the Government of the United States and the Government of the CNMI, entered June 21, 2004, established a system for OIA's allocation of capital improvement project funds among the eligible territories and provided that a portion of such funds would be allocated using competitive criteria. Previous agreements between the governments regarding the capital improvement project funds did not allow for such a process but set fixed amounts.

which include the extent to which the applicant is in general compliance with deadlines established under the Single Audit Act, has complied with all grant reporting requirements, and has properly functioning internal controls—including the presence of a qualified independent auditor, an adequately funded office, and strong safeguards to ensure the office’s independence. (See table 3 for a list of the 10 criteria and the insular areas’ scores for fiscal year 2010.)

**Table 3: OIA Competitive Allocation Criteria and Insular Areas’ Scores for Fiscal Year 2010**

Criteria and point values	American Samoa	Commonwealth of the Northern Mariana Islands (CNMI)	Guam	U.S. Virgin Islands (USVI)
<b>1. Single Audits—timeliness (out of 4 points)</b>	<b>2</b>	<b>4</b>	<b>4</b>	<b>0</b>
Met statutory deadline (4 points)				
Met an approved extension of less than 91 days (3 points)				
Met an approved extension of greater than 90 days (2 points)				
No extension or extension not met (0 points)				
<b>2. Financial statements—reliability (out of 8 points)</b>	<b>0</b>	<b>1</b>	<b>8</b>	<b>0</b>
Unqualified—no qualifications <sup>a</sup> (4 points)	0	1	4	0
Qualified—one material qualification (3 points)				
Qualified—two to four material qualifications (2 points)				
Qualified—five or more material qualifications (1 point)				
Adverse opinion <sup>b</sup> or disclaimer of opinion <sup>c</sup> (0 points)				
Each unqualified statement for the following categories also earns 1 point, with a maximum of 4 points earned (4 points):	0	0	4	0
Statement of net assets				
Statement of activities				
Balance sheet				
Statement of revenues, expenditures, and changes in fund balances				
Statement of net assets—proprietary funds				
Statement of net assets—fiduciary funds				
<b>3. Financial position of government operations<sup>d</sup> (out of 4 points)</b>	<b>4</b>	<b>0</b>	<b>4</b>	<b>0</b>
Balanced/surplus (4 points)				
Deficit, decreasing in size (2 points)				
Deficit, constant (1 point)				
Deficit, increasing in size (0 points)				



Criteria and point values	American Samoa	Commonwealth of the Northern Mariana Islands (CNMI)	Guam	U.S. Virgin Islands (USVI)
<b>4. Single Audit findings—resolutions<sup>e</sup> (out of 4 points)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
No outstanding questioned costs for OIA grants (earns 2 points)				
No recurring findings (earns 2 points)				
<b>5. Single Audit findings—responses<sup>f</sup> (out of 5 points)</b>	<b>1</b>	<b>1</b>	<b>3</b>	<b>0</b>
OIA required actions are over 50 percent complete (3 points)	1	1	3	0
OIA actions are less than 50 percent complete (1 point)				
Other federal actions are completed or in satisfactory progress (earns 2 points)	0	0	0	0
<b>6. Procurement processes<sup>g</sup> (out of 4 points)</b>	<b>0</b>	<b>0</b>	<b>2</b>	<b>0</b>
Fully compliant; no material issues (4 points)				
Substantially compliant; no material issues (3 points)				
Improvements over procurement issues (2 points)				
<b>7. Timely submission of capital improvement project application (out of 2 points)</b>	<b>2</b>	<b>2</b>	<b>2</b>	<b>2</b>
Timely, includes all elements (2 points)				
Timely, not all elements included (1 point)				
Not timely (0 points)				
<b>8. Compliance with financial and narrative OIA grant reporting requirements<sup>h</sup> (out of 5 points)</b>	<b>4</b>	<b>4</b>	<b>4</b>	<b>4</b>
Timely (3 points)	2	2	2	2
Within 10 days late (2 points)				
Within 11-89 days late (1 point)				
No report within 90 days (0 points)				
Accuracy is greater than or equal to 75 percent (2 points)	2	2	2	2
Accuracy is less than 75 percent (0 points)				
<b>9. Island government audit office (out of 4 points)</b>	<b>0</b>	<b>4</b>	<b>4</b>	<b>4</b>
Qualified Public Auditor (earns 1 point)				
Audit and responses process in place (earns 1 point)				
Audit reports completed and responses in compliance with the insular area's audit office requirements (earns 1 point)				
Recommendations resolved (earns 1 point)				
<b>10. Additional financial reporting required by OIA<sup>i</sup> (out of 2 points)</b>	<b>2</b>	<b>2</b>	<b>2</b>	<b>2</b>
Quarterly reporting as requested (2 points)				
<b>Total (out of 42 points)</b>	<b>15</b>	<b>18</b>	<b>33</b>	<b>12</b>

Source: OIA data.

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<sup>a</sup>Unqualified audit opinions, or “clean” audit opinions are when the auditor concludes that the financial statements and accompanying notes present the information fairly in all material respects. Qualified opinions are when, except for the effects of the matter to which the qualification relates, the financial statements present the information fairly, in all material respects. An auditor issues a qualified opinion when the audit scope is limited or there is insufficient, appropriate audit evidence or based on the audit results, the auditor believes that a departure from generally accepted accounting principles had a material effect on financial statements.

<sup>b</sup>An adverse audit opinion states that the financial statements do not present fairly the financial statements in conformity with generally accepted accounting principles, which is expressed on the financial statements taken as a whole when there are material departures from generally accepted accounting principles.

<sup>c</sup>For a disclaimer audit opinion, the auditor does not express an opinion of the financial statements, which is when the audit scope is not sufficient to enable the auditor to express such an opinion or when there are material uncertainties involving scope limitation.

<sup>d</sup>Federal grants are not included in this determination.

<sup>e</sup>This measures the extent to which the insular area has demonstrated prompt and effective efforts to resolve questioned costs and internal control deficiencies identified in its Single Audits.

<sup>f</sup>This measures the extent to which the insular area has provided timely and comprehensive responses to any follow-up inquiries that OIA and other federal agencies may have regarding Single Audits, including those related to questioned costs and those related to internal control deficiencies.

<sup>g</sup>This measures the extent to which the applicant has demonstrated effective contract administration and compliance with local statutes and regulations regarding procurement practices and processes.

<sup>h</sup>Timeliness is determined by the average number of days late for all the reports received for that area for the reporting period. Accuracy is similarly determined by the average accuracy of these reports.

<sup>i</sup>This measures the extent to which the insular area has complied with OIA information requirements resulting from issues outside of Single Audits.

The criteria have had a positive impact on insular governments’ financial management practices. For example, although the four insular areas initially had trouble submitting their Single Audits in a timely manner, according to Interior’s fiscal year 2008 *Annual Performance and Accountability Report*, as of fiscal year 2006, each of the insular areas has been in compliance with the requirement for annual Single Audits.<sup>48</sup>

In September 2009, OIA announced it will add another criterion to the competitive allocation criteria for fiscal year 2011 allocations to encourage more efficient project completion and use of unspent funds. The new criterion will measure the rate at which territories expend funds over a 5-year period. According to OIA officials, this measure was largely added to address the roughly \$52 million unspent capital improvement project fund balance that the CNMI currently carries, as well as the smaller but proportionally higher balance carried by the USVI (approximately

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<sup>48</sup>U.S. Department of the Interior, *Fiscal Year 2008 Annual Performance and Accountability Report* (Washington, D.C., Nov. 15, 2008).

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\$18 million) in comparison to American Samoa (approximately \$20 million) and Guam (approximately \$10 million).<sup>49</sup>

*Grant expiration dates.* Beginning in 2005, to encourage expeditious use of funds, OIA established 5-year expiration dates in the terms and conditions of new capital improvement project grants. Beginning in 2008, OIA also notified insular area officials of expiration dates for grant projects that had been ongoing for more than 5 years with no or limited progress. OIA officials explained that while the expiration dates have not yet pushed all of the insular areas to complete projects, they have encouraged some areas to do so. The officials also stated that the expiration dates have helped OIA grant managers administer and manage grants—which they believe has improved accountability—and have been useful for insular area grantees whose agencies have high staff turnover and were unaware of the status of older grants.

*Actions to improve insular area continuity.* OIA has also taken steps to help with the continuity of grant administration at the insular level. For example, in March 2008, OIA awarded a \$770,000 grant for capital improvement project administration in the CNMI, which provided funding for positions in the local central grant management office in that insular area. According to the grant manager for CNMI capital improvement projects, the grant was given to help ensure that the central grant management office had the staff necessary to help move implementation of projects forward. Among other positions, the grant funded three project manager positions; these managers have worked on three of the projects we discuss in appendix II—the Jose T. Villagomez Center for Public Health and Dialysis (Commonwealth Health Center dialysis facility), the Rota Health Center, and the Tinian Landfill Projects. Although the continuity of the office itself is vulnerable to changes in the CNMI’s administration, the grant manager stated that OIA is hopeful that in the long term, even if the insular area’s central grant management office does dissolve, OIA will have helped develop the capacity—in terms of knowledge and resources—that could go back to the local agencies for continued progress.

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<sup>49</sup> American Samoa and the CNMI have typically received similar amounts of capital improvement project funding (the allocated amount for fiscal year 2009 for each of these areas was approximately \$9 million and \$11 million, respectively). Guam and the USVI have typically received smaller amounts of capital improvement project funding (the allocated amounts for fiscal year 2009 were approximately \$5 million and \$2 million, respectively). The USVI’s balance is therefore high in proportion to its typical allocation.

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## Several Obstacles to Timely and Effective Project Completion Remain

Despite these efforts, some insular areas are still not completing their projects in a timely and effective manner, and OIA faces the following key obstacles in compelling them to do so:

*Lack of sanctions for delayed or inefficient projects.* Current OIA grant procedures provide few sanctions for delayed or inefficient projects. For example, although OIA established grant expiration dates, they have little practical effect. In theory, a grant expiration date encourages timely completion of a project because if a project is not completed on time, the funds are taken away from the recipient. However, if an insular area's OIA grant funds expire, while the funds do not remain immediately available for the project, the insular area does not lose the funds because OIA treats its capital improvement project grants as mandatory funding with "no-year funds," based on the agency's interpretation of relevant laws.<sup>50</sup> Thus, after a grant expires, OIA deobligates the funds and they are returned to the insular area's capital improvement project account to be reobligated for the same or other projects. Along the same lines, OIA's application of the competitive allocation criteria can reduce an insular area's capital improvement project allocation if the insular area is not performing well, but reductions must stay within a range of \$2 million below or above the baseline funding that has been established for each insular area.<sup>51</sup> As indicated in OIA's fiscal year 2010 budget justification, the office's intention for the competitive allocation process is to allow the governments an opportunity to compete each year for a greater portion of the guaranteed funding rather than to signal declining performance.

Recently, OIA has taken steps to identify possible solutions and actions that could help provide effective sanctions for insular areas that do not efficiently complete projects and expend funds. In doing so, OIA has faced uncertainty regarding the authorities it has to change its current policies and practices, which are guided by many special agreements, laws, and regulations. Accordingly, OIA has sought an Interior Solicitor's opinion on a few discrete issues regarding its authority to take different actions when

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<sup>50</sup> A "no-year" appropriation is one that is available for obligation for an indefinite period, such as those funds appropriated as available until expended.

<sup>51</sup> The base levels of capital improvement project funding used to determine allocations for fiscal year 2010 were as follows: American Samoa (\$10 million), CNMI (\$11 million), Guam (\$3.36 million), and USVI (\$3.36 million). The Section 702 Funding Agreement between the Government of the United States and the Government of the CNMI, entered June 21, 2004, established baseline funding amounts for fiscal years 2005-2010 for each of the insular areas and a formula to determine baseline funding thereafter.

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projects are not completed, grant funds expire, or insular areas sustain large balances of unexpended funds. In response, an attorney with the Solicitor's office orally advised OIA that it did not have the authority to reallocate funds away from the insular areas whose funds expire. However, the attorney acknowledged to us that this advice was not based on a comprehensive review of all potentially relevant sources of law and that there are still some unresolved questions. For example, recent appropriations acts have appropriated funds to OIA for capital improvement project funding for American Samoa, the CNMI, Guam, and the USVI on the condition that these funds are provided according to the Agreement of the Special Representatives on Future United States Financial Assistance for the Northern Mariana Islands approved by Public Law 104-134; however, this 1992 agreement is now expired.<sup>52</sup> The new agreement, entered in 2004, has a different title—Section 702 Funding Agreement—and has not been approved in any law. Unless the reference to the now-expired 1992 agreement is read to mean the 2004 agreement, then OIA may have more discretion with respect to reallocation than it currently exercises. The Interior Solicitor indicated this legal discrepancy has not been resolved and that some documents, such as appendices to the 2004 agreement and legislative history of recent appropriations acts, were not consulted. In addition, OIA is considering using a provision of the 2004 agreement that allows OIA to deviate from the baseline allocations under certain circumstances, including a substantial backlog of prior years' unspent funds. Any such deviations under this provision, however, require the approval of Congress. The Interior Solicitor has not yet determined or advised OIA on how this approval requirement may be met.

*OIA Resource Constraints.* OIA officials report that resource constraints impede effective project completion and proactive monitoring and oversight. Although they could not provide us with data, numerous officials in OIA asserted that heavy workloads are a key challenge in managing grants. The effects of insufficient resources vary across grant type but include impacts on the ability to maintain files, adopt a proactive oversight approach that could aid project completion, conduct more detailed financial reviews of projects, and conduct site visits to more projects to better ensure that mismanagement is detected. Importantly, although grant managers for capital improvement projects noted that the most effective action they can take to move projects along is to conduct

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<sup>52</sup>See, e.g., Interior Department and Further Continuing Appropriations, Fiscal Year 2010, Pub. L. No. 111-88, 123 Stat. 2904, 2920 (2009).

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site visits, they also asserted that their current workloads only afford one visit per year. Furthermore, the grant managers explained that the duration of the visits, and therefore the number of projects visited, is limited to ensure that they are able to meet their requirements and responsibilities at headquarters. In addition, the grant managers reported that their heavy workloads make it harder for them to take a proactive approach, including looking ahead to grants with impending expiration dates, reaching out to determine causes for delays, and taking earlier action to help insular areas move projects forward.

Two of the insular areas—American Samoa and the CNMI—have OIA field representatives whose broad job descriptions include regular site visits to projects to monitor progress. These positions are intended to help ease the workload burden of headquarters grant managers. According to OIA officials, the field representative in American Samoa is effective and a critical contributor to OIA’s efforts to monitor projects. However, OIA officials noted that the American Samoa field representative formally works for OIA’s policy division and has many other roles and responsibilities to fulfill—including acting as a liaison between the American Samoa government and federal agencies, including, but not limited to, Interior—resulting in more work than they believe should be assigned to one person. In contrast, the CNMI has two field representatives, one of whom is specifically assigned to grants management;<sup>53</sup> however, OIA officials believe that the field representative has not been as effective as the American Samoa representative.<sup>54</sup>

Resource constraints also limit OIA’s efforts to assist insular areas in responding to Single Audit report findings, which can help address issues that may lead to mismanagement or ineffective project implementation. Currently, only one OIA auditor works with insular areas to ensure they respond to Single Audit report findings and has numerous other responsibilities, including responding to other external audits and conducting reviews of grant managers’ project files. The auditor explained that when the insular areas were delinquent in complying with Single Audit reporting requirements, the workload was manageable. Now that

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<sup>53</sup>The other field representative is assigned to the policy division and does not have grant management responsibilities.

<sup>54</sup>According to the CNMI field representative’s supervisor, he has communicated his concerns about the field representative’s effectiveness and output to him and now requires that he submit weekly reports.

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OIA has taken steps to help improve the timeliness of these reports and each of the insular areas is complying and providing a timely report to meet the Single Audit requirements, OIA officials believe that the workload associated with assisting insular areas in responding to the findings is significantly larger than one auditor can handle.

The support that Interior's Office of Inspector General provides generally does not reduce OIA's oversight workloads. According to the OIA officials we spoke with, currently, Interior's Office of Inspector General does not typically provide much oversight support on individual grant concerns; rather, the Inspector General's Office of Audits, Inspections, and Evaluations and its Office of Investigations focus their efforts on higher-priority issues that cover a broader spectrum and pertain to more significant instances of misconduct. Historically, the predecessor to OIA—the Office of Territorial and International Affairs—received oversight support from federal comptrollers located in American Samoa, the CNMI, Guam, and the USVI. For example, in fiscal year 1982, 44 full-time positions in the federal comptroller offices—36 of which were professional audit staff—were responsible for auditing the territorial governments. Then, in 1982, legislation transferred responsibility for audits from the federal comptrollers to Interior's Office of Inspector General in an effort to improve independence in the audit oversight of the insular governments.<sup>55</sup> Staff in the Office of Inspector General's regional offices became responsible for performing the functions of the insular area comptrollers by conducting audits of property, receipts, revenues, and expenditures.<sup>56</sup> The Office of Inspector General initially had insular field offices in American Samoa, the CNMI,<sup>57</sup> Guam, and the USVI. However, by 2002, all but the USVI office was closed, despite concerns that the move away from the territories might make it more difficult to provide a satisfactory level of oversight.<sup>58</sup> When the last of the Pacific insular area offices closed, the Office of Inspector General opened its Honolulu field office. According to the Office of Inspector General's *Semiannual Report*

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<sup>55</sup>Pub. L. No. 97-357, §§ 104, 203, 309, 402, 96 Stat. 1705 (1982).

<sup>56</sup>The Interior Office of Inspector General also has audit responsibilities in the Federated States of Micronesia, the Republic of the Marshall Islands, and the Republic of Palau pursuant to the Compact of Free Association Act of 1985 as implemented by Executive Order No. 12569 §6(d) (1986) (48 U.S.C.A. § 1901 note).

<sup>57</sup>The CNMI office, located on Saipan, was a suboffice of the Guam Office.

<sup>58</sup>The American Samoa, CNMI, and Guam offices were closed in 1987, 1995, and 2002, respectively.

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to the Congress in April 2003, the Guam office was moved to Honolulu in an effort to expand the audit and investigation coverage of the department and to address the long-standing challenges facing insular area governments as a whole, while still maintaining an effective presence.<sup>59</sup> Over time, these changes, and the need for the Office of Inspector General to prioritize its resources on broader management issues and more significant cases of misconduct, have reduced some of the oversight support available to OIA on individual grants. According to OIA officials, the responsibility for detailed audits of OIA grants currently falls primarily upon the external auditors conducting Single Audits and the one OIA auditor responsible for following up on the results of those audits. Moreover, because Single Audits are by design risk-based and sample from all federal grants—not just Interior’s OIA grants—to a given insular area, they cannot provide comprehensive coverage for every program or transaction.

Despite their concurrence that additional resources are needed, OIA division directors confirmed that they have not formally communicated these needs to decision makers, or higher levels within Interior, and have not developed a workforce plan or other formal process that demonstrates a need for additional resources. Moreover, OIA does not track workload measures, such as the number of grants handled by each grant manager, to show changes over time that would help justify the need for additional resources. Interior’s own Workforce Planning Instruction Manual emphasizes that workforce planning is a fundamental tool, critical to quality performance that will contribute to the achievement of program objectives by providing a basis for justifying budget allocation and workload staffing levels. As we have previously reported, it is important for agencies to determine the critical skills and competencies that will be needed to achieve current and future programmatic results through workforce planning, and in doing so, it is important to involve agency managers, supervisors, and staff to ensure that the agency understands the need for and benefits of the workforce plan.<sup>60</sup>

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<sup>59</sup>U.S. Department of the Interior, Office of Inspector General, *Semiannual Report to the Congress* (Washington, D.C., April 2003).

<sup>60</sup>GAO, *Human Capital: Key Principles for Effective Strategic Workforce Planning*, [GAO-04-39](#) (Washington, D.C.: Dec. 11, 2003).



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*Inconsistent and insufficiently documented project redirection policies.*

OIA's current project redirection approval practices do little to discourage insular areas from redirecting project funds in ways that hinder project completion. As previously discussed, insular areas shift priorities and frequently redirect grant project funds, which in some cases expedites project completion and in other cases impedes it. Currently, OIA's policies for granting project redirection requests vary across insular areas. Specifically, in American Samoa, project redirection is limited to changes within a priority category because the insular area's grants are issued by priority areas.<sup>61</sup> In contrast, the other insular areas each receive grants as one capital improvement grant and are able to redirect money between projects with widely different purposes.

OIA's policies for granting project redirection requests are also not well-documented. While the 2003 version of OIA's Financial Assistance Manual contained some specific criteria regarding the level of approval that was needed for various project redirection requests, there are no thresholds or specified levels of approval in OIA's 2009 update to the manual. According to OIA officials, that information was omitted because OIA's current practice is for grant managers to approve most project redirection requests. The officials further stated that although they believe OIA has the authority to deny redirection requests, the office has not done so in the CNMI, even though there have been instances when they believed requests should have been denied, but were instead ultimately approved. For example, as we previously discussed, in 2007, funds that had previously been redirected (from a project updating a Tinian school building to a project developing a wastewater system) were again shifted from the unfinished wastewater system project to a Tinian airport instrument landing system, which has since been suspended.<sup>62</sup> Correspondence documented in the grant file for the wastewater project shows that some OIA officials did not believe the request should be granted and expressed concern that the project redirection request, if approved, would result in a significant funding shortfall in the already underfunded Tinian wastewater project, leading to capital improvement project funds remaining unspent

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<sup>61</sup>OIA's unique policy for American Samoa stems in part from the law authorizing capital improvement project grants, which places particular conditions, such as the requirement for a master plan identifying priorities, on grants to this insular area.

<sup>62</sup>As previously discussed, the CNMI official responsible for administering capital improvement project grants reported in January 2010 that the CNMI's current priority, pursuant to the Governor's Declaration of Emergency, is to redirect these funds to repair the Tinian Harbor.

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for a considerable length of time. However, this request was eventually approved. In contrast, in American Samoa, OIA has denied project redirection requests in cases where the insular area wanted to redirect project funds from one priority area to another or when the new project was not on American Samoa's master plan.

Project redirection is a particular concern in instances where a project starts and federal money is expended but the project is never completed, leading to the waste of both federal resources and the local governments' limited technical capacity to implement projects. With regard to federal resources, OIA does sometimes recover funds by disallowing costs for projects that are not completed or by offsetting previously obligated costs by reducing reimbursements to insular areas for other projects. However, according to OIA officials, costs are disallowed or offset only about 50 percent of the time such a project redirection situation arises, and the decision as to whether to pursue the costs depends upon the particular project and circumstances. Importantly, OIA does not currently have established criteria to guide these decisions. In the previously discussed example of project redirection from the Tinian wastewater system project in the CNMI to an airport instrument landing system project, OIA reimbursed the CNMI approximately \$53,000 for costs associated with completing an environmental assessment for the Tinian wastewater facility, which is expected to be canceled because the remaining funds expired on December 30, 2009. According to OIA officials, these costs could be disallowed, but OIA opted not to pursue them.<sup>63</sup> Even in cases where the costs are recovered, the waste of limited technical capacity on the island may contribute to the insular area's difficulty in efficiently completing grant projects.

*Inefficient grant management system.* OIA's current data system for tracking grants is limited in the data elements it contains, leading to inconsistencies in the data that some grant managers rely on for monitoring and oversight activities. Grant managers vary in the degree to which they rely upon OIA's database, as well as the priority they place on

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<sup>63</sup>OIA determined that the costs should not be disallowed because the CNMI leaders who initially proposed the project had every intention of seeing the project through, and the current leadership, while supportive of the project, determined that they needed to prioritize Tinian's limited funding on one large-scale project. Accordingly, the leaders decided that a Tinian landfill project was a more pressing need than the wastewater facility. OIA decided that while the funds expended for the environmental assessment were not an ideal use of federal funds, disallowing the costs was not necessary given the circumstances.

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keeping information in the database up to date. While grant managers for all grant types reported relying on the database for information on the amount of funds drawn down from grants and for responding to requests for data from outside parties (such as Interior's Office of Inspector General and GAO), some told us that they do not find OIA's database useful and therefore maintain their own separate spreadsheets to track some information, including expiration dates, grant status, and receipt dates for the most recent financial and narrative reports. Because these grant managers do not rely on OIA's database, they do not always keep information on their grants in OIA's database up to date, leading to inconsistent or incomplete information in the database. Importantly, when grant managers do rely on the database, they may be relying on inaccurate or unreliable data. As we previously discussed, database elements, including grant expiration dates, were sometimes improperly recorded, and we found cases where individual fund drawdowns were not entered into the database in a timely manner. Such occurrences increase the susceptibility of grant funds to mismanagement.

As reported in the Domestic Working Group's *Guide to Opportunities for Improving Grant Accountability*, consolidating information systems can enable agencies to better manage grants.<sup>64</sup> Along these lines, Interior is currently phasing in a centralized agencywide system—the Financial and Business Management System—that is scheduled to be implemented in OIA in 2011. By design, Interior's system will incorporate the majority of the department's financial management functions into one system and will eliminate over 80 departmentwide and bureau-specific systems, including OIA's grant management system. Interior has already implemented the system in its Bureau of Land Management, Office of Surface Mining Reclamation and Enforcement, and Minerals Management Service. According to the Interior officials leading this effort, the system has a financial assistance module with a real-time interface to Interior's accounting system and is to be used by all of Interior's grant-making organizations and programs. Among other capabilities, the system can receive applications electronically and conduct several postaward tasks. Specifically, among other things, grantees will be able to submit financial reports and status reports electronically, grant managers will be able to set up electronic reminders for reports with impending due dates, and drawdown requests and payments will have the capability to be processed

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<sup>64</sup>Domestic Working Group, Grant Accountability Project, *Guide to Opportunities for Improving Grant Accountability* (October 2005).

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electronically. During our site visits, some insular area grantees reported that a centralized electronic database that is accessible to them, such as those used by other federal agencies, would make it easier to meet reporting requirements and request fund drawdowns.

However, OIA officials expressed some concern about whether the new system will have the flexibility needed to address OIA's specific needs for grants management. Specifically, the officials are concerned that because Interior's goal is to standardize the system used by all of Interior's grant-making organizations and programs, the system may not provide for the level of detail that OIA needs. For example, OIA is often called on to generate reports for external parties, such as members of Congress and auditors, that are sorted by specific fields, including fiscal year, grant type, and insular area. Because Interior's existing agencywide financial system does not provide this capability, OIA created its current grant management system database. Because Interior will require that all grant-making organizations and programs stop using other databases or spreadsheets once the Financial and Business Management System is implemented, OIA officials want to be sure that the capabilities of the new system will be responsive to their particular needs. In addition to flexibility concerns, OIA officials expressed general concern about the capabilities of the financial assistance module, noting that Interior recently changed the software for the module in response to issues that arose during implementation in other bureaus.<sup>65</sup> Interior officials responsible for the conversion to the new system indicated that they do plan to be responsive to the needs of each office and bureau and have means to configure the software to meet any individualized requirements.

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<sup>65</sup>In November 2009, officials leading the Financial and Business Management System implementation told us that the financial assistance module would soon be changing. According to these officials, the previous software, and the company adapting it for Interior's use, had trouble keeping up with changes Interior needed, such as changes to reporting forms.

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## Conclusions

OIA has made important strides in implementing grant reforms, particularly in its efforts to establish disincentives for insular areas that do not complete grant projects in a timely and effective manner. However, the unique characteristics and situations facing insular area governments, and the need to mindfully balance respect for insular governments' self-governance and political processes with the desire to promote efficiency in grant project implementation, limit as a practical matter some of the actions that OIA can take to improve the implementation of grant projects.

Nonetheless, OIA has not exhausted its opportunities to better oversee grants and reduce the potential for mismanagement. In light of OIA's concerns that limited authority to withhold or reallocate unexpended grant funds impedes the imposition of sanctions on projects that are wasteful of government resources, it is important that the office has a clear understanding of its available authorities and any additional authorities that are needed to ensure that insular area project personnel, agency heads, and administrative officials more effectively and expeditiously utilize large balances of unexpended funds. In addition, although OIA officials are concerned that limited resources impede more rigorous and proactive grant project monitoring, OIA has not formally communicated its needs to key decision makers and has not developed a workforce plan or other formal process that demonstrates a need for additional resources.

Inconsistency among grant managers in the way they consider project redirection requests also raises concerns about OIA's grant management and oversight processes. OIA lacks a uniform policy to help ensure that insular areas are discouraged from redirecting project funds in ways that hinder project completion. Along these lines, when federal money is expended but projects are not completed after redirection occurs, OIA does not have established criteria to guide decisions regarding whether to disallow costs, leading to inconsistency in those decisions, as well.

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## Recommendations for Executive Action

We recommend that the Secretary of the Interior take the following three actions:

- To improve OIA's ability to require insular areas to efficiently complete projects and expend funds, we recommend that the Secretary direct Interior's Office of the Solicitor to prepare a detailed written evaluation of OIA's existing authorities that could be used to ensure the more efficient use of funds by insular areas, and work with OIA officials to use such authorities as appropriate and to identify the need, if any, for additional authority. We recommend that if the evaluation identifies the need for additional authorities, the Secretary should submit the evaluation to the Congress.
- To ensure that OIA's staffing needs are clearly and accurately communicated to key decision makers, we recommend that the Secretary direct OIA to create a workforce plan and reflect in its plan the staffing levels necessary to adopt a proactive monitoring and oversight approach.
- To reduce the impact that frequently shifting insular area priorities have on insular areas' incentives to complete projects and efficiently use federal funds, we recommend that the Secretary direct OIA to develop criteria that establish when project redirection requests should be approved and when they should be denied and update its financial assistance manual with these criteria to clarify OIA policy on redirection. In developing these criteria, OIA should adopt guidelines that minimize ineffective project redirection. In addition, we recommend that the Secretary direct OIA to develop criteria that establish when offset or disallowed costs should be pursued.

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## Agency Comments

We provided a draft of this report for review and comment to the Department of the Interior as well as the Governors of American Samoa, the CNMI, Guam, and the USVI. Interior's Assistant Secretary for Insular Affairs concurred with our recommendations and commented that our report is a useful analysis. Interior's written comments are reprinted in appendix III. We also received written comments from the Lieutenant Governor of the CNMI (see app. IV) and the Acting Governor of the USVI (see app. V). Both concurred with our recommendations. The Lieutenant Governor of the CNMI noted that the CNMI had recently adopted a new structure to manage OIA grant funds that addresses many of the insular area challenges we identified. We agree that this new structure, as well as the Capital Improvement Project Office's efforts to address issues that have delayed ongoing grant projects, will reduce the potential for mismanagement among OIA grant programs in the CNMI. We did not receive comments from the Governors of American Samoa and Guam.

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We are sending copies of this report to the appropriate congressional committees; the Secretary of the Interior; the Governors of American Samoa, the Commonwealth of the Northern Mariana Islands, Guam, and the U.S. Virgin Islands; and other interested parties. In addition, this report is available at no charge on the GAO Web site at <http://www.gao.gov>.

If you or your staff members have any questions about this report, please contact me at (202) 512-3841 or [mittala@gao.gov](mailto:mittala@gao.gov). Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. GAO staff who made major contributions to this report are listed in appendix VI.

A handwritten signature in black ink that reads "Anu K. Mittal". The signature is fluid and cursive, with the first name "Anu" and last name "Mittal" clearly distinguishable.

Anu K. Mittal  
Director, Natural Resources  
and Environment

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# Appendix I: Objectives, Scope, and Methodology

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This appendix details the methods we used to assess the Department of the Interior's Office of Insular Affairs' (OIA) management of its grant programs to insular areas. For this review, we determined (1) whether previously reported internal control weaknesses have been addressed and, if not, to what extent they are prevalent among OIA grant projects; (2) the challenges, if any, insular areas face in implementing OIA grants; and (3) the extent to which OIA has taken action to improve grant project implementation and management.

For our first objective, our review focused on OIA grants that were provided to all insular areas that receive noncompact types of grants—including American Samoa, the Commonwealth of the Northern Mariana Islands (CNMI), Guam, the U.S. Virgin Islands (USVI), and three Freely Associated States (the Federated States of Micronesia, Palau, and the Republic of the Marshall Islands). We excluded compact funds from the review because we are required to regularly review and report on the effectiveness of U.S. oversight of compact funds. Instead, we focused on grants awarded for capital improvement projects, operations and maintenance projects, technical assistance, and other purposes. Our review covered grant projects awarded during fiscal years 1984 through 2009 that were open or had been closed for less than 3 years as of April 27, 2009.

To identify key internal control weaknesses that have been identified in the past, as well as key internal controls relevant to grant management, we first summarized the weaknesses that were identified in our insular area related reports published from 2000-2009, Interior Office of Inspector General reports on insular areas over that period, and the three most recent Single Audit reports for American Samoa, the CNMI, Guam, and the USVI.<sup>1</sup> We also reviewed several documents outlining policies and procedures applicable to OIA's grant management and oversight responsibilities to determine the internal control activities that OIA has in

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<sup>1</sup>We reviewed numerous past GAO reports, including *U.S. Insular Areas: Economic, Fiscal, and Financial Accountability Challenges* (GAO-07-119) and *American Samoa: Accountability for Key Federal Grants Needs Improvement* (GAO-05-41). We also reviewed several reports by Interior's Office of Inspector General, including *Report on Grants Administered by the Office of Insular Affairs* (No. 2003-I-0071) and its semiannual reports to Congress from 2001-2008. In addition, we reviewed the internal control portion of the Single Audit reports, focusing on fiscal years 2005-2007 for American Samoa, the CNMI, and Guam, and fiscal years 2003-2005 for the USVI. The USVI has been behind on its Single Audit reporting but is expected to be on time in submitting its 2008 Single Audit report, which is due in February 2010.



place, including (1) the *Standards for Internal Control in the Federal Government*, (2) OIA's Financial Assistance Manual and Interior's Grants Management Common Rule, and (3) best practices in grant management as identified by a working group of federal and state audit agencies.<sup>2</sup> From our review of these documents, we determined that the following internal control activities are particularly relevant to OIA: accurate and timely recording of transactions and events, appropriate documentation of transactions and internal control, proper execution of transactions and events, and controls over information processing. Some of these internal control weaknesses we identified do not apply to all projects in the sample (i.e., focusing on open or closed grant projects), and data were analyzed accordingly. See table 4 for a summary of the internal control weaknesses we considered and their applicability to projects in the sample.

**Table 4: Internal Control Weaknesses We Considered and Their Applicability to Projects in the Sample**

Internal control weakness	Assessment procedures	Open projects	Closed projects	Applicability
Failure to submit required status reports in full and on time	Grant files were reviewed for the presence and submission date of all required financial and narrative reports, based on reporting requirements laid out in grant award document	✓	✓	Applicable to grants with requirement for semiannual reporting in the grant award document
Failure to submit required final reports on time (i.e., within 90 days of completion)	Examined submission date of final report and compared this to date of project completion		✓	Applicable to all closed grant projects
Projects' expected completion date (for open grant projects) or actual completion date (for closed grant projects) fall after grant expiration <sup>a</sup>	For open grant projects: comparison of "expected completion date" from most recent narrative status report to grant expiration date <sup>b</sup>  For closed grant projects: comparison of grant expiration date <sup>b</sup> to date of project completion; if possible, used "date completed" from final narrative report; otherwise used date of final fund drawdown	✓	✓	Applicable to all grant projects

<sup>2</sup>Domestic Working Group, Grant Accountability Project, *Guide to Opportunities for Improving Grant Accountability* (October 2005).

**Appendix I: Objectives, Scope, and  
Methodology**

Internal control weakness	Assessment procedures	Open projects	Closed projects	Applicability
Drawing down funds faster than project progress (i.e., progress toward project completion lags behind expenditure of grant funds by at least 5 percent)	Comparison of funds claimed by grantee to date (from database) to “percent complete” as noted in the most recent narrative status report	✓		Applicable to all open grant projects
Redirection of project funds	Presence of the first or both of the following confirmed that funds were redirected: (a) official letter approving the redirection request, (b) notation on drawdown sheet in grant file	✓	✓	Applicable only to capital improvement projects
Information in grant management database does not match grant file	Thirteen database elements were compared with information contained in the grant files <sup>c</sup>	✓	✓	Not applicable to capital improvement projects (where database serves as secondary tracking tool)
Field representatives perform less than half of all site visits <sup>d</sup>	Comparison of number of site visit reports in the grant files completed by headquarters grant managers to number of site visit reports by field representatives	✓	✓	Applicable only to capital improvement projects in American Samoa and the CNMI
Unexpended funds not deobligated	If the project had been closed for more than 90 days, we responded “Yes” or “No”; if project was closed for less than 90 days, we responded “N/A”		✓	Applicable to all closed grant projects

Source: GAO.

<sup>a</sup>This internal control weakness was assessed separately for open and closed grants and combined during data analysis.

<sup>b</sup>We used the grant expiration date recorded in the database unless the grant file contained evidence that the grant expiration date had been extended beyond that.

<sup>c</sup>The 13 database elements we examined include grant number, grant title, subproject title, amount awarded, amount of fund drawdown (summed to obtain the total amount drawn down), date grant awarded, fiscal year, grant expiration date, insular area, project, project number, status, and grant type.

<sup>d</sup>OIA’s *Financial Assistance Manual* requires that OIA field representatives conduct regular site visits of ongoing projects and meet with the insular program manager of each project at least quarterly and submit reports to the grants manager. According to OIA grant managers responsible for capital improvement projects in American Samoa and the CNMI, although there is no documented requirement, they have been told by their supervisor that they are to conduct site visits once per year. Therefore, OIA field representatives should be performing more site visits than headquarters grant managers.

We reviewed a random probability sample of 173 grant project files to determine whether and the extent to which internal control weaknesses are prevalent. The sample of 173 projects, stratified by project status (i.e., open or closed), was drawn from the 1,771 projects in OIA’s internal

grant management database (see table 5).<sup>3</sup> This sample allowed us to make estimates about all projects in the database. With this probability sample, each member of the study population had a nonzero probability of being included, and that probability could be computed for any member. Each sample element was subsequently weighted in the analysis to account statistically for all members of the population, including those who were not selected.

**Table 5: Sample Disposition**

Strata	Population size	Sample size
Closed	1,323	88
Open	448	85
Total	1,771	173

Source: GAO analysis of Office of Insular Affairs (OIA) database sample.

Because we followed a probability procedure based on random selections, our sample is only one of a large number of samples that we might have drawn. Since each sample could have provided different estimates, we express our confidence in the precision of our particular sample's results as a 95 percent confidence interval (e.g., plus or minus 10 percentage points). This is the interval that would contain the actual population value for 95 percent of the samples we could have drawn. All percentage estimates from the file review have margins of error at the 95 percent confidence level of plus or minus 10 percentage points or less, unless otherwise noted.

There are limitations to the database, including the fact that the database does not include the full universe of closed grants. Grant files are only retained until the project has been closed for 3 years, after which the physical files are destroyed. In addition, the database has only been in use for all grant types—including capital improvement project grants, operations and maintenance improvement program grants, and technical assistance grants—since fiscal year 2008, and only grants that were open

<sup>3</sup>We initially drew a sample of 174 grant projects. In the course of our review, we suspected that OIA had provided us with the incorrect file for one of those projects. We raised this concern in June 2009, but the OIA grant manager assured us that it was the correct file. However, after further discussions on this matter in January 2010, OIA agreed that they had provided us with the wrong file. Because this occurred well after our file review had been completed, we opted to remove the project from our sample and data analysis.

at that time were entered into the database. Despite these limitations, the database is the most comprehensive source of information about OIA grants that includes both open and closed projects.

Prior to drawing the sample of grant projects, we modified the database to meet our needs by removing anything outside the scope of our review, including compact funding and reimbursable agreements.<sup>4</sup> To standardize the data at our unit of analysis—individual grant projects—we identified unique projects within the capital improvement block grants given to insular area governments. It was also necessary to unify multiple entries for each project, representing partial payments to the grantees, in order to establish a single database entry for every project that reflected the full amount paid to grantees at the time of our review. We worked with grant managers at OIA to explain, clarify, and correct incomplete or possibly erroneous identification and status information in the database file they provided to us.

To assess the reliability of the data, we interviewed agency officials and grant managers about the data system and elements, how the system is used, and the method of data input, among other areas. We also corroborated the data using OIA grant files. Specifically, when reviewing grant files for each project, we compared select data elements from the database with information in the grant files, corrected the data with any updates that were not reflected in the database, and recorded any inconsistencies or inaccuracies as internal control weaknesses that were present. This allowed us to identify cases where the agency's electronic record keeping was not accurate while using correct information for any analysis using the data from OIA. We did not assess the accuracy of data in the grant files that grant recipients submitted to OIA. We determined that the data we used were sufficiently reliable for our purposes.

For each project in the sample we reviewed the grant files maintained by grant managers at OIA headquarters in Washington, D.C., and assessed every project for the presence of relevant internal control weaknesses. Based on that initial review, we ranked the projects by prevalence of the weaknesses. To account for the fact that grant projects were assessed for different numbers of internal control weaknesses, we ranked projects

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<sup>4</sup>OIA enters into reimbursable agreements with other federal agencies to provide assistance to insular areas. Reimbursable agreements (or reimbursable support agreements) are not categorized as grants and, therefore, outside the scope of this review.

based on the percentage of applicable weaknesses present. We selected 24 of the grant projects with the highest percentages of internal control weaknesses to review in more detail for objectives two and three; those grant projects were located in American Samoa, the CNMI, Guam, and the USVI. During this step, we gathered more information from OIA headquarters grant files on the internal control weaknesses demonstrated by the 24 selected projects and examined the grant files for any other phases or funding years of the same project.

Follow-up to the file review addressed objectives two and three. We traveled to American Samoa, the CNMI, Guam, and the USVI and met with representatives for 24 projects. During these visits we interviewed government officials and project managers for each project to follow up on specific issues identified during file reviews, such as late reporting or project delays. In addition, we physically inspected sites for 10 of these projects. We also asked officials and project managers to describe any challenges faced while implementing OIA grant projects and their experiences interacting with OIA officials and grant managers. In American Samoa, we reviewed 7 projects and met with officials from the Office of the Governor, Department of Public Works, American Samoa Power Authority, Territorial Office of Fiscal Reform, Lyndon B. Johnson Tropical Medical Center, Department of Education, and the OIA field representative stationed in American Samoa. In the CNMI, we reviewed 13 projects and met with officials from the Office of the Governor and its Capital Improvement Program Office, Department of Public Works, Public School System, Department of Health, Commonwealth Ports Authority, Commonwealth Utilities Corporation, Office of the Rota Mayor, Office of the Tinian Mayor, Office of the Public Auditor, and the OIA field representative stationed in the CNMI who is responsible for grants. In Guam, we reviewed 1 project and met with Guam Waterworks Authority and Office of the Public Auditor. In the USVI, we reviewed 3 projects and met with the Virgin Islands Office of Management and Budget, Virgin Islands' Waste Management Authority, University of the Virgin Islands, Bureau of Economic Research, and the Office of the Virgin Islands Inspector General.

For the second report objective, we identified common challenges that insular area projects confront during project implementation by (1) analyzing records of the interviews we conducted with insular area officials and project managers to identify common challenges that insular area projects confront during project implementation, (2) reviewing correspondence and other documents we received from these officials and project managers, and (3) reviewing correspondence, project status

reports, and other documents from OIA headquarters and field office grant files.

For the third report objective, we also reviewed relevant OIA and other documents, including OIA's Financial Assistance Manual (2003 and 2009 versions); official letters to grantees detailing changes to OIA grant management policies and procedures; OIA Budget Justifications; Interior's Grants Management Common Rule (as codified in 43 C.F.R. §12); and OMB Circulars A-87, A-102, A-110, and A-133, to gather information on policies and procedures relevant to OIA grant programs. In addition, we interviewed OIA grant managers and division directors to obtain information about how OIA's policies and procedures are applied across different grant types and insular areas, any changes to the policies and procedures, and their perspectives on any additional changes that would improve OIA's management of grants and their capacity to do so. We also reviewed documents, including OIA memos detailing possible strategies to address problematic grant situations and an intergovernmental working group's survey of best practices in grant management across government agencies, to obtain information about alternate approaches to grant management challenges. Additionally, we interviewed Interior officials who are responsible for implementing the departmentwide Financial and Business Management System to obtain information about how the new system will affect OIA's grant management.

We conducted this performance audit from March 2009 to March 2010 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

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# Appendix II: Selected Examples of OIA Grant Projects That Face Implementation Challenges

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Some examples of OIA grant projects that clearly illustrate how the previously discussed implementation challenges can contribute to delays are discussed below.

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## Jose T. Villagomez Center for Public Health and Dialysis (Commonwealth Health Center Dialysis Facility); Saipan, CNMI

According to OIA, a capital improvement project grant was provided in 1997 for the addition of a dialysis clinic to the Commonwealth Health Center, a public health facility on the main island of Saipan, CNMI. The dialysis facility was scheduled to be constructed by August 2004 but was not completed until December 2007, according to OIA officials. As of September 2009, the dialysis facility still lacked Medicare and Medicaid certification and was not yet in use (see fig. 4). The main challenges contributing to the delay of this project's completion include limited local capacity for design and construction, changing local government priorities, and contractor issues. For example, according to CNMI officials, the project implementers lacked the technical expertise to identify a critical structural design flaw in its early stages. When the flaw was discovered, OIA decided to disallow, or not reimburse the CNMI for, roughly \$85,000 in project funds. The CNMI then filed a lawsuit against the contractor responsible for the design. The project was halted while it was redesigned, which contributed to the project's delay and cost overruns. Changing local government priorities contributed to the increase in scope from a dialysis clinic to a full-scale dialysis hospital, which, according to CNMI officials, entailed important legal and engineering distinctions. In addition, according to CNMI officials, the Department of Public Works was without the capacity it needed to manage the project scope expansion—all of which contributed to a delay in implementation and a budget increase. To supplement the increased budget, the CNMI and OIA redirected \$2.9 million away from a wastewater project in 2005, which had not been completed at the time of our review. In addition, a contractor damaged a crucial piece of equipment that was, according to a CNMI official, then fraudulently certified by another.<sup>1</sup>

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<sup>1</sup>A 2003 U.S. Army Corps of Engineers study reported many of the CNMI capital improvement project contracts awarded went to contractors who were known to have previously performed poorly and that procurement regulations were conflicting. U.S. Army Corps of Engineers, Honolulu District, *Review of the Operation and Management of the Capital Improvement Program for the Commonwealth of the Northern Mariana Islands* (Mar. 31, 2003).

**Figure 4: Unused Commonwealth Health Center Dialysis Facility**



Source: GAO.

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## **Commonwealth Utilities Corporation Power Plant Rehabilitation; Saipan, CNMI**

In May 2007, OIA approved a capital improvement project grant for the CNMI Commonwealth Utilities Corporation's rehabilitation of its power plant on the main island of Saipan. As of January 2010, the project was substantially complete. The main challenges contributing to the delay of this project's completion included contractor issues, lack of maintenance funding, and limited local capacity. In 2006, the CNMI Governor declared a state of emergency in response to a power crisis, which was also when the Commonwealth Utilities Corporation hired a contractor to address the problem. This allowed for standard procurement regulations to be lifted. The contractor performed poorly, as did its replacement, which resulted in project delay and cost overruns. According to the Commonwealth Utilities Corporation's officials, during the summer 2008, the CNMI experienced over 1,300 hours of unscheduled power outages. In the fall of 2008, the CNMI Governor declared another state of emergency to divert resources to repairing engines damaged by wear and lack of maintenance (see fig. 5). In addition, according to CNMI officials, the Commonwealth Utilities Corporation's operating capacity was diminished by a CNMI immigration policy change in 2007, when 22 nonresident workers were forced to resign



their jobs at the agency.<sup>2</sup> Further, the Commonwealth Utilities Corporation reported that because roughly 70 percent of the agency's budget is spent on fuel, it is vulnerable to rising fuel prices. This can add to the challenge of estimating project budgets. The Commonwealth Utilities Corporation has responded to fuel cost fluctuations in the past by diverting funds away from its periodic maintenance and required engine overhauls, which increases the risk for future engine failures.

**Figure 5: An Unused Saipan Power Plant Engine**



Source: GAO.

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## **Rota Health Center; Rota, CNMI**

According to OIA, it provided a capital improvement project grant in 1989 for the construction of the Rota Health Center on the island of Rota in the CNMI; however, construction began in 1999, then stopped and did not resume until 2005. As of January 2010, only one of the facility's two buildings was complete. The other is substantially complete. At the time of our site visit in August 2009, the dental facility was not yet open because there was no dentist to staff it, and additional construction on the dental clinic had not been approved. Further, the Rota Health Center has not received Medicare and Medicaid certification due to an inadequate number of medical staff. According to CNMI officials, several challenges

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<sup>2</sup>The Commonwealth of the Northern Mariana Islands Pub. L. No. 14-91 (2005). The law allowed some CNMI agencies to employ foreign workers for a 2-year period, which expired on September 30, 2007.

contributed to delays in the project, including contractor issues, limited technical expertise, inadequate maintenance funding, and natural disaster impacts.

- First, the contractor the Rota Health Center initially hired quit before the project was complete, and the contractor it hired to replace it went out of business and abandoned the project, which caused further delay.
- Second, the project suffered due to lack of technical expertise. This contributed to project delay and a budget increase. For example, the project was delayed and the budget increased in part to redesign the project and address issues identified by both an Interior Office of Inspector General investigation into contractor problems and a U.S. Army Corps of Engineers review of project costs. The latter review resulted in a U.S. Army Corps of Engineers recommendation that OIA disallow \$400,000 in material costs.<sup>3</sup> However, OIA chose not to pursue those costs because agency officials did not believe they could identify the appropriate amount to disallow.
- Third, at the time of our site visit in August 2009, they faced maintenance challenges including flooding, X-ray machines that only occasionally worked, an elevator—the only one in the building—that had been broken for roughly 3 to 4 months, and significant mold present in the loading area (see fig. 6). There is inadequate maintenance funding and local capacity to address these problems, according to project stakeholders. The Rota Health Center staff had not communicated these problems to project administrators in the Department of Public Works or to the Governor's Capital Improvement Project office. Despite ongoing delays, project administrators had not visited the site in several months to check the project status.
- Fourth, the Rota Health Center project budget increased as a result of damage caused by Typhoons Pongsona, Tingting, and Chaba.

As of January 2010, the CNMI Capital Improvement Project Administrator reported that the CNMI took steps to address some of the Rota Health Center project challenges, such as correcting the elevator outage and humidity causing mold in the loading area.

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<sup>3</sup>Department of the Interior, Office of Inspector General, *Report on Grants Administered by the Office of Insular Affairs*, Report No. 2003-I-0071 (Herndon, VA: September 2003). U.S. Army Corps of Engineers, Honolulu District, *Review of the Operation and Management of the Capital Improvement Program for the Commonwealth of the Northern Mariana Islands* (Mar. 31, 2003).

**Figure 6: Rota Health Center Loading Area with Significant Mold**



Source: GAO.

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**Tinian Landfill  
Project;  
Tinian, CNMI**

In 2003, OIA approved a \$1.7 million capital improvement project grant for the CNMI's Department of Public Works to close a dump on the island of Tinian that, according to CNMI officials, does not comply with environmental regulations and build a landfill in another location. An environmental assessment was completed in 2008, but construction had not begun as of August 2009. The CNMI encountered multiple challenges during this grant's implementation, including frequently changing priorities, limited land access, and limited local capacity. For example, project administrators experienced confusion over whether permission was needed to develop the landfill at the proposed site—on land leased to the U.S. military, which contributed to the delay. Nonetheless, the Department of Public Works moved forward and completed the environmental assessment in August 2008 that, according to an OIA official, cost roughly \$500,000 and was almost complete before OIA realized that the selected site had not actually been secured. In 2007, roughly \$190,000 was redirected into the landfill project from the Tinian Wastewater project. As of the time of our review in February 2010, no funds had been withdrawn since the redirection—leaving \$1.6 million in the project account. In January 2010, the CNMI Capital Improvement Project Administrator reported that the project's design is ready for solicitation.

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**Tinian Wastewater  
System Project;  
Tinian, CNMI**

In fiscal year 2003, OIA approved capital improvement project funding for the CNMI to construct a wastewater system on the island of Tinian. The environmental assessment was completed in June 2008, but as of January 2010, OIA officials reported that the project had not moved into the design phase and is expected to be canceled. OIA's grant project file indicated that there has been no account activity since November 2007. Fluctuating Tinian Delegation priorities and corresponding project redirection have contributed to the project's delay. For example, the CNMI redirected funds from a school modernization project into the wastewater system project, then redirected them again into a landfill, an airport instrument landing system, and other projects. In 2007, OIA officials initially denied the CNMI's request to redirect funds for the airport instrument landing system. However, the request was eventually approved to accommodate the Tinian Delegation's priorities. Of the roughly \$8.3 million that was originally awarded and \$34,000 that was redirected into the wastewater system project, roughly \$6.6 million has since been redirected away from the wastewater system project. After a total of roughly \$5.6 million was redirected from the wastewater system project into the airport instrument landing system project, the Tinian Delegation suspended the airport landing system. Although subsequently about \$2.2 million was redirected

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**Appendix II: Selected Examples of OIA Grant  
Projects That Face Implementation  
Challenges**

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from the airport instrument landing system to a Tinian airport terminals project, in December 2009, the CNMI Capital Improvement Project Administrator reported that the recently elected Tinian Delegation would like to restart the airport instrument landing project. However, that official reported in January 2010 that the CNMI's current priority, pursuant to the Governor's October 2009 Declaration of Emergency, is to redirect these funds to repair the Tinian Harbor and its deteriorating seawall.

# Appendix III: Comments from the Department of the Interior



## United States Department of the Interior

OFFICE OF THE SECRETARY  
Washington, DC 20240



MAR 2 2010

Anu K. Mittal  
Director, Natural Resources and Environment  
U.S. Government Accountability Office  
4416 G Street, NW  
Washington, D.C. 20548

Dear Director Mittal:

The Department of the Interior, through its Office of Insular Affairs, has reviewed the U.S. Government Accountability Office's draft Report entitled, *U.S. INSULAR AREAS: Opportunities Exist to Improve Interior's Grant Oversight and Reduce the Potential for Mismanagement*, (GAO-10-347). The Report is a useful analysis, and I am pleased with your conclusion that OIA has made important strides in implementing grant reforms. The Department concurs with your recommendations (see enclosure for complete response).

OIA's processes are continuously reviewed and strengthened to resolve identified weaknesses and address the recommendations made by GAO, Interior's Office of Inspector General, and other reviewers. Also, through direct technical advice and financial assistance for consultants, training and system upgrades, OIA assists insular governments to improve their internal control processes. Additionally, through increased coordination with other Federal agencies, OIA is helping to assure that other Federal agencies provide assistance to insular governments related to their respective Federal programs. It is the combined actions of OIA and other Federal agencies that help to prevent and to identify mismanagement and abuse of Federal funding in the insular areas. The efforts have led to several indictments and convictions of insular officials and private sector employers for activities that include the mismanagement of Federal funds (e.g. programs funded by the United States Departments of Agriculture, Education, Health and Human Services and Homeland Security) mainly through improper practices related to procurements and contracting.

The internal control weaknesses identified in the Report are categorized as Grant recipient activities (62%), Joint activities between OIA and grant recipients (24%), and OIA grant management activities (14%). OIA will aggressively develop and implement controls to address the identified weaknesses and continue to help ensure that insular governments take similar action. I note that:

- Grant recipient activities (62%) relate primarily to the grantee's reporting of the status of completion of OIA-funded projects. OIA's processes implemented in

recent years have resulted in more timely reports from insular grantees. Also, in each subsequent year, insular grantees have progressed closer to full compliance. Moreover, since reports are required only every 6 months, OIA relies heavily on information obtained from continuous communication with grantees and reviews by OIA grant managers, field representatives and other staff.

- Joint activities between OIA and grant recipients (24%) relate to reconsideration OIA has provided when a grantee requests to redirect approved funding to an alternate project, i.e., reprogramming. Although the Report identified circumstances of mismanagement that possibly could result from reprogramming, the Report did not identify any instances of which OIA's approval of reprogramming resulted in the failure of a grantee to complete a final approved project. OIA believes that the ability to reprogram funds helps to ensure that critical projects identified from changed circumstances may be considered. OIA does concur with the Report in that insular governments with a completed master plan, such as American Samoa, may have fewer instances of requests for reprogramming. Planning is a key element, and OIA is discussing similar plans with other insular officials.
- OIA's grant management activities (14%) relate to discrepancies between OIA's grant management system data and grant documents on file. OIA will revise its database for information captured and ensure that all data are timely and accurately posted.

OIA will continue to improve its processes and also work with other Federal agencies and insular grantees to help ensure that effective internal controls are in place. The recommendations in the Report are extremely helpful, and the actions of OIA that are in line with the recommendations are described in the enclosure.

If you have any questions, please feel free to communicate with me directly at (202) 208-4709, or with Nikolao Pula, Director of the Office of Insular Affairs, at (202) 208-4736.

Sincerely,



Anthony M. Babauta  
Assistant Secretary for Insular Areas

Enclosure

Enclosure

U.S. Government Accountability Office Draft Report  
*U.S. INSULAR AREAS: Opportunities Exist to Improve Interior's Grant  
Oversight and Reduce the Potential for Mismanagement*  
GAO-10-347

Report Recommendations:

The Report's recommendations for executive action and responses to them are as follows:

*Recommendation 1: To improve OIA's ability to require insular areas to efficiently complete projects and expend funds, we recommend that the Secretary direct Interior's Office of the Solicitor to prepare a detailed, written evaluation of OIA's existing authorities that could be used to ensure the more efficient use of funds by insular areas, and work with OIA officials to use such authorities as appropriate and to identify the need, if any, for additional authority. We recommend that if the evaluation identifies the need for additional authorities then the Secretary submit it to the Congress.*

Response: Concur. Although OIA has a listing of regulations applicable to the insular areas, an evaluation by the Department's Office of the Solicitor of the current authorities to ensure more efficient use of funds by insular areas would greatly enhance the accountability of Federal grant programs and help to prevent fraud, waste and abuse.

Title of Responsible OIA Official: Director of Policy Division

Target Date: OIA estimates to have the details of a review and a request to the Department's Office of the Solicitor by June 30, 2010.

*Recommendation 2: To ensure that OIA's staffing needs are clearly and accurately communicated to key decision makers, we recommend that the Secretary direct OIA to create a workforce plan and reflect in its plan the staffing levels necessary to adopt a proactive monitoring and oversight approach.*

Response: Concur. OIA agrees that a workforce plan is necessary to identify staffing levels required to adopt a proactive monitoring and oversight approach and to fulfill more effectively the responsibilities of the office.

Title of Responsible OIA Official: Assistant Secretary for Insular Areas

Target Date: OIA estimates that a workforce plan will be completed by September 30, 2010.

*Recommendation 3: To reduce the impact that frequently shifting insular area priorities have on insular areas' incentives to complete projects and efficiently use federal funds, we recommend that the Secretary direct OIA to develop criteria that establish when*



*project redirection requests should be approved and when they should be denied and update its financial assistance manual with these criteria to clarify OIA policy on redirection. In developing these criteria, OIA should adopt guidelines that minimize ineffective project redirection. In addition, we recommend that the Secretary direct OIA to develop criteria that establish when offset or disallowed costs should be pursued.*

Response: Concur. OIA will immediately begin discussion with relevant parties and develop appropriate criteria.

Title of Responsible OIA Official: Director of Budget and Grant Management Division

Target Date: Estimate development of criteria by June 30, 2010, and inclusion in the financial assistance manual shortly thereafter.

Additional Information:

Closures of the recommendations are assigned to Marina Tinitali, OIA's Senior Policy Specialist: 202-208-5920, [marina\\_tinitali@ios.doi.gov](mailto:marina_tinitali@ios.doi.gov)

# Appendix IV: Comments from the Commonwealth of the Northern Mariana Islands



## COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

**Benigno R. Fitial**  
Governor

**Eloy S. Inos**  
Lt. Governor

February 23, 2010

Anu K. Mittal, Director  
United States Government Accountability Office  
441 G Street, NW  
Washington DC 20548

Dear Director Mittal:

This communication presents the comments of the Commonwealth of the Northern Mariana Islands in regards to the draft report entitled "Opportunities Exist to Improve Interior's Grant Oversight and Reduce the Potential for Mismanagement" (GAO-10-347) ("Grant Management Report"). Overall, it is the opinion of the Commonwealth that the Grant Management Report is well-written; balanced in its analysis; and makes positive suggestions for improving grant implementation. In the sections that follow, we have provided some specific comments on the report's analysis and conclusions.

### **I. Internal Control Weaknesses**

The Commonwealth agrees that all projects must be properly monitored and that the submission of accurate and timely reports by the grantee is a critical component of this structure. However, it is questionable reporting requirements should be considered a critical factor in evaluating effective management. Reporting requirements must be balanced against limitations of grantee resources and may not be an indicator of internal control weaknesses. Since the percentage of internal control weaknesses is so high (i.e., 60%), this may be an indicator that the reporting requirements are inappropriate (e.g., too burdensome; complex).

### **II. Project Monitoring - Site Visits**

The Commonwealth agrees that proper monitoring of projects requires field visits and oversight activities. The Commonwealth and OIA have incorporated direct involvement of the Field representative in all project management meetings and monthly teleconference status reports to headquarters. This increase in direct communication has been beneficial to both OIA and the Commonwealth as it facilitates an open exchange of issues and the development of a teamwork approach in project implementation. It is the Commonwealth's position that

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direct involvement of OIA field staff in project development and implementation should be encouraged as it benefits both parties, improves monitoring, and has the potential to increase program effectiveness.

**III. Insular Area Challenges – Shifting Priorities and Grants Management**

The Commonwealth agrees that the changing of priorities and ineffective management has affected performance. However, these results were symptomatic of the previous grant management structure which has recently been revised.

Under the previous structure, any Commonwealth agency could apply for OIA grant funds. The diversity of government agency interests led to the funding of a wide variety of projects. Additionally, many of these agencies had little or no grant administrative capabilities. Finally, the lack of an expiration date on awarded grants removed any incentive to agencies for timely implementation. This combination of factors led to significant delays in project implementation, and as personnel changed over time, new stakeholders sought to redirect OIA funds.

All of these issues have been addressed in the new program structure that has recently been adopted. Under the new structure grant applications are limited to six OIA priorities that were chosen because they address critical infrastructure needs of the Commonwealth (i.e., water; wastewater; solid waste; education; health; and previously funded programs). Additionally, all grant responsibility was shifted to the Office of the Governor – Capital Improvement Program, which was provided funds to retain staff with specialized skills in grant administration. Finally, all grants now include a five-year expiration period which provides both an incentive for implementation and a simple method to deactivate ineffective programs.

It is the position of the Commonwealth that the recent changes in grant program structure will significantly reduce past problems in shifting priorities and reprogramming. The increased capability of this structure has been evidenced in recent improvements in grant administration and responsiveness to implementation problems. These capabilities have allowed the Commonwealth to impose the \$17,000 in liquidated damages on underperforming contractors and initiation of disbarment procedures on under-performing contractors and resolution of problems associated with contracts at the Rota Health Center.

**IV. Competitive Allocation System**

The Commonwealth agrees that past performance should be used in evaluating future grant awards. However, it is felt that performance should be evaluated based on the immediately preceding fiscal year and that the criteria used should be focused on effective implementation not financial stability of the government.

The principal objective of the OIA grant program should coincide with the agreement established in the Covenant to Establish a Commonwealth of the

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**Appendix IV: Comments from the  
Commonwealth of the Northern Mariana  
Islands**

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Northern Marianas Islands in Political Union with the United States of America, which was to provide direct grant assistance to assist in establishing a progressively higher standard of living for the People of the Commonwealth. Covenant, art. VII § 701 (48 U.S.C. § 1801). The evaluation criteria of Circular A-123 should be used to evaluate progress in reaching this objective, not the Competitive Allocation Structure being used by OIA.

The Competitive Allocation Structure used by OIA focuses on compliance with Single Audit Act; and grant reporting. The Commonwealth agrees that these elements are all important factors in establishing financial accountability and fiscal management, however there is no consideration of the effectiveness of grant programs in addressing critical health, safety, and welfare of the people of the insular areas which is the primary objective of the grant program. This evaluation structure will naturally reward those governments that have greater resources and more established financial structures, however this has nothing to do with measuring the effectiveness of programs at addressing critical infrastructure associated with health systems, utilities, and education. Therefore, this structure seems inappropriate in light of the primary objective of these grant funds and requirements of Circular A-123.

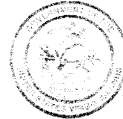
Finally, the Commonwealth has concerns in regards to the five-year period for evaluating agency effectiveness. Significant changes in agency effectiveness can be implemented within one fiscal year period and these changes should be recognized in any evaluation structure. Establishment of a five-year period for evaluation minimizes any changes and is biased towards government that have well-developed financial systems.

In closing, the Commonwealth wishes to state that we sincerely appreciate all of the assistance that the Office of Insular Affairs has provided to the People of the Mariana Islands. This long standing relationship grows stronger each day and it is felt that recent changes in the OIA grants program are having a significant positive effect. We have developed a close working relationship with both OIA headquarters and field representatives and this is benefiting both agencies. The comments we have provided are meant to strengthen this relationship. We appreciate the opportunity presented by the United States Government Accountability Office to present our views.

Sincerely,

  
ELOY S. INOS

# Appendix V: Comments from the U.S. Virgin Islands



**THE UNITED STATES VIRGIN ISLANDS**

OFFICE OF THE GOVERNOR  
GOVERNMENT HOUSE

Charlotte Amalie, V.I. 00802  
340-774-0001

March 1, 2010

Ms. Anu K. Mittal  
Director  
Natural Resources and Environment  
Government Accountability Office  
441 G St. NW  
Washington, DC 20548

Dear Ms. Mittal:

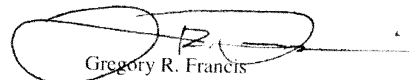
Thank you and your Government Accountability Offices' (GAO) team for the opportunity to provide comments on the draft report of the U.S. Insular Areas entitled: Opportunities Exist to Improve Interior's Grant Oversight and Reduce the Potential for Mismanagement (GAO-10-347). The Government of the Virgin Islands (GVI) appreciates your time and efforts in this process, which will culminate in greater accountability and transparency for the citizens of this nation.

Overall, GVI concurs with your assessment of the management and administration of Department of the Interior grants awarded to the Territory of the United States Virgin Islands. Specific comments regarding the findings and/or recommendations are included in the accompanying Attachment I.

While there is always room for growth, professional development and improvement to any process, GVI is pleased to have worked collaboratively with DOI-OIA over the years towards this end. We are thankful to DOI-OIA for its insight, knowledge, oversight and monitoring and commit to continuing to collaborate with this agency to address the concerns raised in your report.

Once again, thank you for your time and cooperation during this process.

Sincerely,

  
Gregory R. Francis  
Acting Governor

Attachment I

**Government of the Virgin Islands' Response**  
to  
Draft Report to the Committee on Energy and Natural Resources, U.S. Senate  
by the U.S. Government Accountability Office (GAO)  
of the U.S. Insular Areas  
*Opportunities Exist to Improve Interior's Grant Oversight and Reduce the Potential for Mismanagement*  
GAO-10-347, February 2010

**FINDING #1: INTERNAL CONTROL WEAKNESSES**

Previously reported internal control weaknesses still exist for three categories:

- (1) Grant recipients actions involving:
  - a) Submission of timely status reports,
  - b) Submission of final close-out reports,
  - c) Grant expiration dates, and
  - d) Reimbursable funding;
- (2) OIA grants management actions; and
- (3) Joint grant recipients and OIA actions
  - a) Project redirection.

**Recommendations**

The recommendations provided are for executive action by the Department of the Interior (DOI). There are no recommendations specific to the U. S. Virgin Islands or any of the other insular areas. However, the draft report recommends that DOI do the following:

- 1) Require insular areas to efficiently complete projects and expend funds; and
- 2) Minimize insular areas ineffective project redirection to facilitate completing projects and effectively using federal funds.

**Government's Response**

In general, the Government of the Virgin Islands (GVI) concurs with the findings, and provides the following specific comments that are intended to facilitate DOI's response to the GAO recommendations.

- 1) Efficient project completion and fund expenditure – GVI agrees that projects should be completed efficiently and in a timely manner, i.e. on schedule or as close to schedule (original and/or amended) as possible. However, as a condition of funding and a prerequisite to receiving a Notice to Proceed, GVI is mandated to comply with the National Environmental Protection Agency (NEPA) requirements, which can take a considerable amount of time, and thus delay commencement of a project and ultimately project completion. GVI is cognizant of the importance of NEPA and the benefits that NEPA compliance can afford, but it is definitely a factor in delaying projects. GVI is also appreciative of the training provided by the OIA in this area (e.g., NEPA compliance) and looks forward to continuing education, as needed, especially for new staff coming on board. OIA should take into consideration the schedule impacts of NEPA compliance in assessing the efficiency of completion and fund expenditure.

- 2) Ineffective project redirection – Project redirection or fund reprogramming in and of itself is not necessarily ineffective. Effectiveness depends on the facts and circumstances in each case. There are times when reprogramming facilitates expedited expenditure of federal funds. For example, reprogramming of funds to a project that has been determined to be a more critical use than for the original purpose (such as disaster assistance) can, in fact, result in effective use of funds. The GVI concurs in the draft GAO recommendation that written criteria should be developed to evaluate when and whether to approve redirection or reprogramming.
- 3) Timely reporting (status reports) – GVI agrees that the timeliness of reports to the grantor agency (the U.S. Department of the Interior) is essential, as is the accuracy of this financial data and information. As the grantee for certain OIA grants, the V. I. Office of Management and Budget (VIOMB) sends reminder notices to its OIA sub-grantees to encourage and monitor timely submission of financial reports and project status reports to VIOMB, for review and then subsequent submission to OIA. VIOMB and OIA have communicated (e.g., through site visits) concerning the level of review required of VIOMB and the applicable requisite approvals. Such consultation and collaboration helps to enhance the grant reporting and administration process.  
For the record, the GVI further notes that, at least with respect to one of the grants reviewed by GAO, the GVI submitted reports that were on average only one to three days late.
- 4) Timely reporting (final close-out reports) – For the record, the GVI further notes that at least one of the GVI grants included in GAO's review has been closed out, and the final report was timely submitted.
- 5) Grant expiration dates - If GVI anticipates that a project will not be completed by the expiration of the grant award period, an extension is requested from OIA on behalf of the sub-grantee, which is then notified of the new expiration date and also reminded of same. For the record, one of the grants received a three-month extension, and this also facilitated closure of the grant. No expenditures occurred subsequent to that period.
- 6) Reimbursable funding – While this item may have been previously reported as an internal control weakness for the insular areas (and is listed in the current draft report under internal control weaknesses), page 11 of the draft report (last sentence of the section above the first paragraph on that page) states the following: *"Finally, we compared the proportion of awarded funds that had been disbursed to grant recipients with the progress made toward project completion to ensure that OIA grant recipients were requesting funds on a reimbursement basis, as required. We found that all open projects satisfied the reimbursement requirement."*

**Corrective Measure**

While the V. I. Office of Management and Budget (VIOMB) is more efficient in its management of OIA grants, VIOMB will establish a formal policy to facilitate timely submission of reports to OIA through VIOMB, as applicable, and communicate this policy to all sub-grantees. This policy will also address other related matters raised in this report.

**FINDING #2: CHALLENGES CONFRONT INSULAR AREAS IN IMPLEMENTING OIA GRANTS**

Insular areas face challenges (both project planning and management challenges) in implementing OIA grant projects as a result of decisions made by the insular area governments and external factors.

**Recommendations**

None or Not Applicable

**Government's Response**

In general, GVI concurs with the findings. GVI agrees that a master plan prioritizing planned capital improvement projects would be beneficial to this process, and the long-range planning efforts of the Territory. GVI does have a plan for capital improvement projects that looks holistically at all such projects irrespective of funding sources. GVI will update the Territory's plan to develop updated timelines based on updates to funding and other factors. However, as noted on page 19 of the GAO report, natural disasters and the cost of recovery efforts can adversely impact the long-term infrastructure and economic development of insular area governments. This has certainly been an issue for the Virgin Islands, where over an approximate twenty-year period beginning with 1989, the U. S. Virgin Islands has experienced at least eight hurricane/tropical storms, including Hurricanes Hugo and Marilyn, which necessitated Presidential disaster declarations and, as noted in the draft report, caused upwards of \$5 billion in damages.

In addition, to address some of the challenges identified in the draft report, which confront the insular areas, the GVI submits that Congress should double the amount of Technical Assistance funds for insular areas from \$11 million a year to at least \$22 million a year. Further, in order to ensure the funds are equitably allocated among each of the insular areas, Technical Assistance funding should be allocated as follows: 50 percent of the total amount appropriated each year should be allocated on an equal or proportionate (by population) basis among the insular areas (with a reallocation provision for any unused amounts), and the balance (the other 50 percent) should be allocated on a competitive needs basis (perhaps with statutory criteria). Not only would this allocation be more equitable, it would also provide a reasonably predictable minimum stream of funding to each insular area and thereby minimize and mitigate the effect of any year-to-year changes in the amount of competitive grants each insular area receives.

**Corrective Measure**

The GVI will update the Territory's capital improvement plan.

**FINDING #3: OIA HAS TAKEN STEPS TO IMPROVE PROJECT IMPLEMENTATION AND MANAGEMENT**

Over the past five (5) years, OIA has taken steps to improve project implementation and management, including implementing a competitive allocation system for a portion of capital improvement project funds to establish incentives for insular areas to make financial management improvements and complete projects; establishing grant expiration dates; and taking steps to improve administrative continuity in insular areas.

**Recommendations**

N/A for GVI

**Government's Response**

GVI concurs that over the years OIA has continually improved its grant management processes and has communicated these improvements to the Government of the Virgin Islands. These process improvements have been implemented by OIA, and more site visits coupled with



increased communication have also occurred, to ensure proactive and timely monitoring of grantee and sub-grantee activities. This will ultimately ensure the steady progress of capital projects, training, and technical assistance to better serve the people and the Government of the United States Virgin Islands.

The GVI submits that the competitive criteria for Covenant grant funding for Capital Improvement Projects ("CIP"), which are used to adjust the CIP base amount for an insular area, are intended to measure the ability of each eligible government to exercise prudent financial management practices and to meet Federal grant requirements. While laudable in intent, the criteria, as a practical matter, do not adequately take into account the actual infrastructure needs of each eligible insular area. For example, the Virgin Islands is under several EPA administrative orders requiring the Territory to expend resources it does not have to improve its solid waste facilities. Covenant grant funding is thus an essential resource for financing the improvements required to comply with the orders and protect human health and the environment. The GVI submits that the competitive criteria used to adjust the base amount should be broadened to better reflect actual needs for Covenant grant funds.

**Corrective Measures**

The GVI will further review and revisit OIA's new requirement relative to expenditure rate in order to develop a plan of action (grantor, GVI's grantee & sub-grantees) to address this requirement. With respect to the up to \$18 million of funds identified on pages 30-31 of the draft report as being unspent, many of the projects for which these funds were obligated were delayed due to NEPA requirements, litigation, and other factors outside the control of the GVI. In any event, the GVI is taking concerted action to spend these and other funds within the time frames required by OIA.

While there are no questioned costs for single audits for GVI's OIA funding, the GVI will continue on-going procedures to preclude recurrence of audit findings, and will provide grants administration and related updated/continuing education training to applicable new and existing staff, respectively.

The GVI will thoroughly review OIA's competitive allocation criteria to address actions needed to improve the Territory's overall rating/score. For example, GVI is aggressively working on its Single Audits to ensure compliance with the Single Audit Act of 1984 within the statutory deadline and/or approved extensions granted.

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# Appendix VI: GAO Contact and Staff Acknowledgments

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## GAO Contact

Anu K. Mittal, (202) 512-3841 or [mittala@gao.gov](mailto:mittala@gao.gov)

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## Staff Acknowledgments

In addition to the contact named above, Jeffery D. Malcolm, Assistant Director; Elizabeth Beardsley; Keesha Egebrecht; Justin Fisher; Laura Gatz; and Isabella Johnson made key contributions to this report. Also contributing to the report were Mark Braza, Emil Friberg, and Alison O'Neill.

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