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**DEPARTMENT OF THE
INTERIOR**

**Major Management
Challenges**

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Highlights of [GAO-09-425T](#), a testimony before the Subcommittee on Interior, Environment, and Related Agencies, Committee on Appropriations, House of Representatives

Why GAO Did This Study

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

This testimony highlights some of the major management challenges facing Interior today. It is based on prior GAO reports.

What GAO Recommends

GAO has made a number of recommendations intended to improve Interior's programs by enhancing the information it uses to manage its programs and strengthening internal controls. Interior has agreed with most of the recommendations and taken some steps to implement them. However, Interior has been slow to implement other recommendations, such as developing a cohesive wildland fire strategy and improving oversight of oil and gas activities.

View [GAO-09-425T](#) or key components. For more information, contact Robin M. Nazzaro or Frank Rusco at (202) 512-3841 or nazzaror@gao.gov and ruscof@gao.gov, respectively.

DEPARTMENT OF THE INTERIOR

Major Management Challenges

What GAO Found

As GAO's previous work has shown, the Department of the Interior faces major management challenges in the following six areas.

- *Strengthening resource protection.* Interior has not yet developed a cohesive strategy to address wildland fire issues, as GAO recommended in 1999 and 2005. In addition, Interior faces challenges in managing oil and gas operations on federal lands, adapting to climate change, and resolving natural resource conflicts through collaborative management.
- *Strengthening the accountability of Indian and island community programs.* Having a land base is important to Indian tribes. Concerns remain about delays in decisions about land that Interior will take into trust status. In addition, programs for seven island communities—four U.S. territories and three sovereign island nations—continue to have financial and program management deficiencies.
- *Improving federal land acquisition and management.* As the steward of more than 500 million acres of federal land, land consolidation through sales and acquisitions and land management are important functions for the department. The Federal Land Transaction Facilitation Act has had limited success and Interior's U.S. Fish and Wildlife Service is unlikely to achieve its goals to protect certain migratory bird habitat and it is generally not managing a majority of its farmlands.
- *Reducing Interior's deferred maintenance backlog.* While Interior has improved inventory and asset management systems, the dollar estimate of the deferred maintenance backlog has continued to grow. The 2008 estimate of between \$13.2 billion and \$19.4 billion is more than 60 percent higher than the 2003 estimate. The funds for Interior in the recently enacted stimulus package may reverse this trend.
- *Ensuring the accurate collection of royalties.* GAO and others have found many material weaknesses in their numerous evaluations of federal oil and gas management and revenue collection processes. These weaknesses place an unknown but significant proportion of royalties and other oil and gas revenues at risk and raise questions about whether Interior is collecting an appropriate amount of revenue for the rights to explore for, develop, and produce oil and gas from federal lands and waters.
- *Enhancing other revenue collections and financial assurances.* Additional revenues or financial assurances could be generated by (1) amending the General Mining Act of 1872 to collect federal royalties on gold, silver, copper, and other valuable minerals belonging to the United States, (2) requiring adequate financial assurances from hardrock mining operations to fully cover estimated reclamation costs, and (3) increasing the grazing fee for public lands managed by Interior's Bureau of Land Management.

Mr. Chairman and Members of the Subcommittee:

We are pleased to be here today to discuss our work at the Department of the Interior. As the stewards for more than 500 million acres of federal land—about one-fifth of the total U.S. landmass—and over 1.8 billion acres of the Outer Continental Shelf, Interior agencies are responsible for a wide array of programs to ensure that our nation's natural resources are adequately protected and that access to and use of those resources is appropriately managed. Interior is to provide for the environmentally sound production of oil, gas, minerals, and other resources found on the nation's public lands; honor the nation's obligations to American Indians and Alaska Natives; protect habitat to sustain fish and wildlife; help manage water resources in western states; and provide scientific and technical information to allow for sound decision-making about resources. In recent years, Congress has appropriated over \$10 billion annually to meet these responsibilities. With these resources, Interior employs about 70,000 people in eight major agencies and bureaus at over 2,400 locations around the country to carry out its mission. Interior's management of this vast federal estate is largely characterized by the struggle to balance the demand for greater use of its resources with the need to conserve and protect them for the benefit of future generations.

Our testimony today expands upon the issues raised in our 2009 Congressional and Presidential Transition Web site for the Department of the Interior.¹ Specifically, we will discuss management challenges in six key areas: (1) resource protection, (2) Indian and island community programs, which includes programs for four U.S. territories and three sovereign island nations, (3) land acquisition and management, (4) deferred maintenance, (5) royalties collection, and (6) other revenue collections and financial assurances. Our testimony is based on findings from a number of reports we have issued over the past few years on some of Interior's natural resource management programs.²

¹GAO, *2009 Congressional and Presidential Transition: Department of the Interior* (Web-based update at http://www.gao.gov/transition_2009/agency/doi/).

²See the list of related GAO products at the end of this statement. We conducted our work in accordance with all sections of GAO's Quality Assurance Framework that were relevant to the objectives of each engagement. The framework requires that we plan and perform each engagement to obtain sufficient and appropriate evidence to meet our stated objectives and to discuss any limitations in our work. We believe that the information and data obtained, and the analyses conducted, provided a reasonable basis for the findings and conclusions in each report.

Strengthening Resource Protection

Interior, working with the Department of Agriculture's Forest Service, has taken steps to help manage perhaps the most daunting challenge to its resource protection mission—protecting lives, private property, and federal resources from the threats of wildland fire. But concerns remain. Interior also faces challenges in managing oil and gas operations on federal lands, adapting to climate change, and resolving natural resource conflicts through collaborative management.

Wildland Fire Management Challenges Persist

The wildland fire problems facing our nation continue to grow. The average annual acreage burned by wildland fires has increased by approximately 70 percent since the 1990s, and appropriations for the federal government's wildland fire management activities tripled from about \$1 billion in fiscal year 1999 to nearly \$3 billion in fiscal year 2007. As we have previously reported, a number of factors have contributed to worsening fire seasons and increased firefighting expenditures, including an accumulation of fuels resulting from past land management practices; drought and other stresses, in part related to climate change; and an increase in human development in or near wildlands. While Agriculture's Forest Service receives the majority of fire management resources, Interior agencies—the National Park Service (NPS); the Bureau of Indian Affairs (BIA); the U.S. Fish and Wildlife Service (FWS); and, particularly, the Bureau of Land Management (BLM)—are key partners in responding to the threats of wildland fire. Consequently, most of our work and recommendations on wildland fire management address agencies in both departments. Specifically, we have called on the agencies to

- *develop a cohesive strategy that identifies options and associated funding to reduce potentially hazardous vegetation and address wildland fire problems.* In 1999, to address the problem of excess fuels and their potential to increase the severity of wildland fires and the cost of suppression efforts, we recommended that a cohesive strategy be developed to identify the available long-term options for reducing fuels and the associated funding requirements.³ Six years later, in 2005, we reiterated the need for a cohesive strategy and broadened our recommendation's focus to better address the interrelated nature of fuel reduction efforts and wildland fire response.⁴ In January 2009,

³GAO, *Western National Forests: A Cohesive Strategy Is Needed to Address Catastrophic Wildfire Threats*, GAO/RCED-99-65 (Washington, D.C.: Apr. 2, 1999).

⁴GAO, *Wildland Fire Management: Important Progress Has Been Made, but Challenges Remain to Completing a Cohesive Strategy*, GAO-05-147 (Washington, D.C.: Jan. 14, 2005).

agency officials told us they were working to create such a cohesive strategy, although they could not provide an estimate of when it would be completed.

- *establish clear goals and a strategy to help contain wildland fire costs.* In 2007, we reported that the agencies were taking a number of steps intended to help contain wildland fire costs, but had not clearly defined cost-containment goals or developed a strategy for achieving those goals.⁵ Agency officials identified several documents that they believed provide clearly defined goals and objectives that make up Interior's strategy to contain costs. However, the documents lack the clarity and specificity officials in the field need to help manage and contain wildland fire costs. We therefore continue to believe that our recommendations, if effectively implemented, would help the agencies better manage their cost-containment efforts and improve their ability to contain wildland fire costs.
- *continue to improve their processes for allocating fuel reduction funds and selecting fuel reduction projects.* Also in 2007, we identified several shortcomings in the agencies' processes for allocating fuel reduction funds to field units and selecting fuel reduction projects, shortcomings that limited the agency's ability to ensure that funds are directed where they will reduce risk most effectively.⁶ While Interior has taken steps to improve its processes for allocating fuel reduction funds and the information it uses in selecting fuel reduction projects, we believe that Interior must continue these efforts so that it can more effectively use its limited fuel reduction dollars.
- *take steps to improve its use of a new interagency budgeting and planning tool.* In 2008, we reported on the Forest Service's and Interior's development of a new planning tool known as fire program analysis (FPA).⁷ FPA was intended, among other things, to allow the agencies to analyze potential combinations of firefighting assets, and

⁵GAO, *Wildland Fire Management: Lack of Clear Goals or a Strategy Hinders Federal Agencies' Efforts to Contain the Costs of Fighting Fires*, [GAO-07-655](#) (Washington, D.C.: June 1, 2007).

⁶GAO, *Wildland Fire Management: Better Information and a Systematic Process Could Improve Agencies' Approach to Allocating Fuel Reduction Funds and Selecting Projects*, [GAO-07-1168](#) (Washington, D.C.: Sept. 28, 2007).

⁷GAO, *Wildland Fire Management: Interagency Budget Tool Needs Further Development to Fully Meet Key Objectives*, [GAO-09-68](#) (Washington, D.C.: Nov. 24, 2008).

potential strategies for reducing fuels and fighting fires so that they could determine the most cost-effective mix of assets and strategies. While recognizing that FPA represents a significant step forward and shows promise in achieving certain of its objectives, we believe the agencies' approach to FPA's development hampers it from meeting other key objectives. We made a number of recommendations designed to enhance FPA and the agencies' ability to use it, and Interior, in conjunction with the Forest Service, has identified several steps it is considering taking to do so. It is not yet clear how successful these steps will be. Furthermore, the steps the agencies outlined do not address all the shortcomings we identified. We continue to believe agency improvements are essential if the full potential of FPA is to be realized.

Managing Oil and Gas Activities on Federal Lands

The number of oil and gas operations that are permitted by BLM for access to federal oil and gas resources has increased dramatically—more than quadrupling from fiscal year 1999 to fiscal years 2006 and 2007—in part as a result of the desire to reduce the country's dependence on foreign sources of oil and gas. In June 2005, we reported that BLM has struggled to deal with the increase in the permitting workload while also carrying out its responsibility to mitigate the impacts of oil and gas development on land that it manages.⁸ Overall, BLM officials told us that staff had to devote increasing amounts of time to processing drilling permits, leaving less time to ensuring the mitigation of the environmental impacts of oil and gas development. While the Interior, Environment, and Related Agencies Appropriation Act of Fiscal Year 2008 required BLM to charge a \$4,000 processing fee for drilling permits, the act provided that the appropriation for permit processing would be reduced by the amount of fees received; thus the fee did not provide any additional resources for BLM to increase its monitoring and enforcement activities for oil and gas development. In its fiscal year 2009 budget request, BLM requested authority to (1) permanently implement a cost recovery fee for processing applications for permits to drill, (2) set the cost recovery fee at \$4,150 for fiscal year 2009, and (3) deposit the revenues generated from the cost recovery fee in BLM's Service Charges, Deposits and Forfeitures Account. BLM estimated the cost recovery fee would generate \$34 million for fiscal year 2009.

⁸GAO, *Oil and Gas Development: Increased Permitting Activity Has Lessened BLM's Ability to Meet Its Environmental Protection Responsibilities*, GAO-05-418 (Washington, D.C.: June 17, 2005).

Within the energy and minerals budget for fiscal year 2009, BLM also requested a net increase of \$7.8 million for oil and gas activities.

Just as we have had concerns about BLM's protection of environmental resources from oil and gas activities, we have had concerns, as we reported in 2003, that FWS's oversight of oil and gas operations on wildlife refuge lands was not adequate.⁹ For example, we found that some refuge managers took extensive measures to oversee operations and enforce environmental standards, while others exercised little or no control. Such disparities occurred for two primary reasons. First, FWS had not officially determined its authority to require permits—which would include environmental conditions to protect refuge resources—of all oil and gas operations in refuges; we believe the agency has such authority. Second, refuge managers lacked guidance, adequate staffing levels, and training to properly oversee oil and gas activities. We also found that FWS was not collecting complete and accurate information on damage to refuge lands as a result of oil and gas operations and not identifying the steps needed to address that damage. In June 2007, we reported that the FWS had generally not taken sufficient actions to address five of the six recommendations we had made in 2003 to improve FWS's management and oversight of oil and gas activities on national wildlife refuges.¹⁰

Adapting to the Effects of Climate Change on Public Lands

A growing body of evidence shows that increasing concentrations of greenhouse gases—primarily carbon dioxide, methane, and nitrous oxide—in the Earth's atmosphere have resulted in a warmer global climate system, among other changes. In August 2007, we reported that, according to experts, federal land and water resources are vulnerable to a wide range of effects from climate change, some of which are already occurring.¹¹ These effects include (1) physical effects, such as droughts, floods, glacial melting, and sea level rise; (2) biological effects, such as increases in insect and disease infestations, shifts in species distribution, and changes

⁹GAO, *Natural Wildlife Refuges: Opportunities to Improve the Management and Oversight of Oil and Gas Activities on Federal Lands*, [GAO-03-517](#) (Washington, D.C.: Aug. 28, 2003).

¹⁰GAO, *U.S. Fish and Wildlife Service: Opportunities Remain to Improve Oversight and Management of Oil and Gas Activities on National Wildlife Refuges*, [GAO-07-829R](#) (Washington, D.C.: June 29, 2007).

¹¹GAO, *Climate Change: Agencies Should Develop Guidance for Addressing the Effects on Federal Land and Water Resources*, [GAO-07-863](#) (Washington, D.C.: Aug. 7, 2007).

in the timing of natural events; and (3) economic and social effects, such as adverse impacts on tourism, infrastructure, fishing, and other resource uses.

BLM, FWS, and NPS have not made climate change a priority, and the agencies' strategic plans do not specifically address it. To better enable federal resource management agencies to take into account the existing and potential future effects of climate change on federal resources, we recommended that the Secretary of the Interior and two other departments develop guidance incorporating agencies' best practices that advises managers on how to address climate change effects on the resources they manage. Interior and the other agencies generally agreed with our recommendation.

The effects of a warmer climate have been clearly evident in Alaska. In December 2003, we reported that coastal villages in Alaska are becoming more susceptible to flooding and erosion in part because rising temperatures cause protective shore ice to form later in the year, leaving the villages vulnerable to fall storms.¹² In addition, rising temperatures in recent years have led to widespread thawing of the permafrost (permanently frozen subsoil that is found in over approximately 80 percent of Alaska), causing serious damage. At that time, we found that flooding and erosion affects 184 out of 213, or 86 percent, of Alaska Native villages to some extent, and four villages in imminent danger planned to relocate.

Resolving Natural Resource Conflicts Through Collaborative Management

Interior's management of its vast federal estate is largely characterized by the struggle to balance the demand for greater use of its resources with the need to conserve and protect them for the benefit of future generations. In February 2008, we reported that conflicts over the use of our nation's natural resources, along with increased ecological problems, has led land managers to seek cooperative means to resolve natural resource conflicts and problems.¹³ Collaborative resource management is one such approach that communities began using in the 1980s and 1990s.

¹²GAO, *Alaska Native Villages: Most Are Affected by Flooding and Erosion, but Few Qualify for Federal Assistance*, GAO-04-142 (Washington, D.C.: Dec. 12, 2003).

¹³GAO, *Natural Resource Management: Opportunities Exist to Enhance Federal Participation in Collaborative Efforts to Reduce Conflicts and Improve Natural Resource Conditions*, GAO-08-262 (Washington, D.C.: Feb. 12, 2008).

In 2004, an executive order on cooperative conservation encouraged such efforts. Experts generally view collaborative resource management—involving public and private stakeholders in natural resource decisions—as an effective approach for managing natural resources. The benefits that result from using collaborative resource management include less conflict and litigation and improved natural resource conditions, according to experts. Many experts also noted that there are limitations to the approach, such as the time and resources it takes to bring people together to work on a problem and reach a decision. BLM, FWS, NPS, and Agriculture’s Forest Service face challenges in determining whether to participate in a collaborative effort, measuring participation and monitoring results, and sharing agency and group experiences. To enhance the federal government’s support of and participation in collaborative resource management efforts, we recommended that the Council on Environmental Quality, working with the departments of the Interior and of Agriculture take several actions to enhance the federal government’s support of and participation in collaborative resource management efforts, including the preparation of a written plan identifying goals, actions, and time frames for carrying out cooperative conservation activities. Interior generally agreed with our recommendations.

Strengthening the Accountability of Indian and Island Community Programs

We have reported on management weaknesses in Indian and island community programs for a number of years—most recently on serious delays in BIA’s program for determining whether the department will accept land in trust and the need to assist seven island communities—four U.S. territories and three sovereign island nations—with long-standing financial and program management deficiencies.

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

BIA is the primary federal agency charged with implementing federal Indian policy and administering the federal trust responsibility for about 2 million American Indians and Alaska Natives. BIA provides basic services to 562 federally recognized Indian tribes throughout the United States, including natural resources management on about 54 million acres of Indian trust lands. Trust status means that the federal government holds title to the land in trust for tribes or individual Indians; land taken in trust is no longer subject to state and local property taxes and zoning ordinances. In 1980, the department established a regulatory process intended to provide a uniform approach for taking land in trust.¹⁴

¹⁴25 C.F.R. pt. 151.

While some state and local governments support the federal government's taking additional land in trust for tribes or individual Indians, others strongly oppose it because of concerns about the impacts on their tax base and jurisdictional control.

We reported in July 2006 that while BIA generally followed its regulations for processing land in trust applications from tribes and individual Indians, it had no deadlines for making decisions on them.¹⁵ Specifically, the median processing time for the 87 land in trust applications with decisions in fiscal year 2005 was 1.2 years—ranging from 58 days to almost 19 years. We recommended, among other things, that the department move forward with adopting revisions to the land in trust regulations that include (1) specific time frames for BIA to make a decision once an application is complete and (2) guidelines for providing state and local governments more information on the applications and a longer period of time to provide meaningful comments on the applications. While the department agreed with our recommendations, it has not revised the land in trust regulations.

Improve Effectiveness and Accountability for Island Programs

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

In December 2006, we reported on serious economic, fiscal, and financial accountability challenges facing American Samoa, Guam, the Commonwealth of the Northern Mariana Islands, and the U.S. Virgin

¹⁵GAO, *Indian Issues: BIA's Efforts to Impose Time Frames and Collect Better Data Should Improve the Processing of Land in Trust Applications*, GAO-06-781 (Washington, D.C.: July 28, 2006).

Islands.¹⁶ The economic challenges stem from dependence on a few key industries, scarce natural resources, small domestic markets, limited infrastructure, shortages of skilled labor, and reliance on federal grants to fund basic services. In addition, efforts to meet formidable fiscal challenges and build strong economies are hindered by financial reporting that does not provide timely and complete information to management and oversight officials for decision making. As a result of these problems, numerous federal agencies have designated these governments as “high-risk” grantees. To increase the effectiveness of the federal government’s assistance to these island communities, we recommended, among other things, that the department increase coordination activities with other federal grant-making agencies on issues of common concern relating to the insular area governments. The department agreed with our recommendations, stating that they were consistent with OIA’s top priorities and ongoing activities. We will continue to monitor OIA’s actions on our recommendations.

Also in December 2006, we reported on challenges facing the Federated States of Micronesia and the Republic of the Marshall Islands.¹⁷ In 2003, the United States approved amended compacts with the countries by signing Compacts of Free Association with the two governments. The amended compacts provide the countries with a combined total of \$3.6 billion from 2004 to 2023, with the annual grants declining gradually. The single audits for 2004 and 2005 for both countries reported (1) weaknesses in their ability to account for the use of compact funds and (2) noncompliance with requirements for major federal programs. We recommended, among other things, that the department work with the countries to establish plans to minimize the impact of declining assistance and to fully develop a reliable mechanism for measuring progress towards program goals. Furthermore, in June 2007 we reported that trust funds for both nations may not provide sustainable income after the compact grants end, and we recommended, among other things, improvements in trust fund

¹⁶GAO, *U.S. Insular Areas: Economic, Fiscal, and Financial Accountability Challenges*, GAO-07-119 (Washington, D.C.: Dec. 12, 2006).

¹⁷GAO, *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).

administration.¹⁸ The department agreed with the recommendations in our December 2006 and June 2007 reports.

In our June 2008 assessment of the Compact of Free Association with the Republic of Palau, we reported on the challenges Palau faced in dealing with persistent financial management weaknesses and with achieving long term economic self-sufficiency.¹⁹ We recommended that the department formally consult with the government of Palau regarding Palau's financial management challenges and target future technical assistance toward building Palau's financial management capacity. The department concurred with our recommendations.

Improving Federal Land Acquisition and Management

As the steward of more than 500 million acres of federal land, land consolidation through sales and acquisitions and land management are important functions for the Department of the Interior. However, the Federal Land Transaction Facilitation Act of 2000 which, in part, was intended to facilitate land consolidation, has had limited success. In February 2008, we reported that BLM had raised \$95.7 million in revenue through May 2007 under the Federal Land Transaction Facilitation Act.²⁰ About 92 percent of this revenue came from land transactions in Nevada. However, the four land management agencies (BLM, FWS, NPS, and Agriculture's Forest Service) have spent only \$13.3 million of the revenues raised for acquiring certain nonfederal lands, primarily those lying within the boundaries of national parks, forests, wildlife refuges, and other designated areas, known as inholdings, (\$10.1 million) or for administrative expenses to prepare land for sales (\$3.2 million).

The agencies face several challenges to completing future land acquisitions under the act. Most notably, the act requires that the agencies use most of the funds to purchase land in the state in which the funds were raised; this restriction has had the effect of making little revenue

¹⁸GAO, *Compacts of Free Association: Trust Funds for Micronesia and the Marshall Islands May Not Provide Sustainable Income*, [GAO-07-513](#) (Washington, D.C.: June 15, 2007).

¹⁹GAO, *Compact of Free Association: Palau's Use of and Accountability for U.S. Assistance and Prospects for Economic Self-Sufficiency*, [GAO-08-732](#) (Washington, D.C.: June 10, 2008).

²⁰GAO, *Federal Land Management: Federal Land Transaction Facilitation Act Restrictions and Management Weaknesses Limit Future Sales and Acquisitions*, [GAO-08-196](#) (Washington, D.C.: Feb. 5, 2008).

available outside of Nevada. If Congress decides to reauthorize the act, we suggested that it consider including additional lands for sale and greater flexibility for acquisitions. We also made a number of recommendations to the agencies to improve the implementation and compliance with the act. Interior generally agreed with our recommendations.

In addition, Interior's Fish and Wildlife Service is unlikely to achieve its goals to protect certain migratory bird habitat, and it is generally not managing a majority of its farmlands. In September 2007, we reported that since the inception of the Small Wetlands Acquisition Program in the late 1950s, FWS has acquired and permanently protected about 3 million acres of wetlands and grasslands in the Prairie Pothole Region.²¹ However, at the current pace of acquisitions, it could take FWS about 150 years and billions of dollars to acquire and permanently protect as much as possible of an additional 12 million acres of "high-priority" habitat. Some emerging market forces suggest that FWS may have only several decades before most of its goal acreage is converted to agricultural uses.

We also reported in September 2007 that, according to FWS data, since 1986, the Service has received at least 1,400 conservation easements and fee-simple farmlands covering 132,000 acres from the Department of Agriculture's Farm Service Agency.²² However, FWS is generally not managing a majority of its farmlands. For 2002 through 2006, FWS has inspected an annual average of only 13 percent of these lands. Because the farmlands are now part of the National Wildlife Refuge System, we found that FWS cannot dispose of unwanted farmlands. As a result, we recommended that FWS develop a proposal to Congress seeking authority for additional flexibility in dealing with farmlands FWS determines may not be in the best interests of the National Wildlife Refuge System. Interior agreed with our recommendations.

²¹GAO, *Prairie Pothole Region: At the Current Pace of Acquisitions, the U.S. Fish and Wildlife Service Is Unlikely to Achieve Its Habitat Protection Goals for Migratory Birds*, GAO-07-1093 (Washington, D.C.: Sept. 27, 2007).

²²GAO, *U.S. Fish and Wildlife Service: Additional Flexibility Needed to Deal with Farmlands Received from the Department of Agriculture*, GAO-07-1092 (Washington, D.C.: Sept. 18, 2007).

Reducing Interior's Deferred Maintenance Backlog

Interior also faces a challenge in adequately maintaining its facilities and infrastructure. The department owns, builds, purchases, and contracts services for assets such as visitor centers, schools, office buildings, roads, bridges, dams, irrigation systems, and reservoirs; however, repairs and maintenance on these facilities have not been adequately funded. The deterioration of facilities can impair public health and safety, reduce employees' morale and productivity, and increase the need for costly major repairs or early replacement of structures and equipment. In November 2008, the department estimated that the deferred maintenance backlog for fiscal year 2008 was between \$13.2 billion and \$19.4 billion (see table 1). Interior is not alone in facing daunting maintenance challenges. In fact, we have identified the management of federal real property, including deferred maintenance issues, as a governmentwide high-risk area since 2003.²³

Table 1: Department of the Interior's Estimate of Deferred Maintenance for Fiscal Year 2008

| Dollars in billions | | |
|--|---|----------------|
| Type of structures | Estimated range of deferred maintenance | |
| | Low estimate | High estimate |
| Roads, bridges, and trails | \$6.41 | \$9.37 |
| Irrigation, dams, and other water structures | 2.40 | 3.59 |
| Buildings (e.g., administration, education, housing, historic buildings) | 2.38 | 3.48 |
| Other structures (e.g., recreation sites and fish hatcheries) | 2.00 | 2.93 |
| Total | \$13.19 | \$19.37 |

Source: Department of the Interior.

²³GAO, *High-Risk Series: An Update*, GAO-03-119 (Washington, D.C.: Jan. 2003); GAO, *High-Risk Series: Federal Real Property*, GAO-03-122 (Washington, D.C.: Jan. 2003); GAO, *High-Risk Series: An Update*, GAO-05-207 (Washington, D.C.: Jan. 2005); GAO, *High-Risk Series: An Update*, GAO-07-310 (Washington, D.C.: Jan. 2007); GAO, *High-Risk Series: An Update*, GAO-09-271 (Washington, D.C.: Jan. 2009).

Interior has made progress addressing prior recommendations to improve information on the maintenance needs of NPS facilities, BIA schools, and BIA irrigation projects. For example, in February 2006 we reported that BIA plans to hire experts in engineering and irrigation to thoroughly assess the condition of all 16 irrigation projects every 5 years to further refine the deferred maintenance estimate for these projects.²⁴ It completed its first assessment in July 2005, and expects to complete all 16 assessments by 2010. Although Interior has made a concentrated effort to address its deferred maintenance backlog, the dollar estimate of the backlog has continued to escalate. The 2008 backlog estimate is more than 60 percent higher than the 2003 estimate of between \$8.1 billion and \$11.4 billion. The funds included in the recently enacted stimulus package for Interior may reverse this trend.

Ensuring the Accurate Collection of Royalties

Interior collects, on average, over \$10 billion annually in mineral lease revenues,²⁵ but many material weaknesses in federal oil and gas management and revenue collection processes and practices place an unknown but significant proportion of royalties and other oil and gas revenues at risk. These weaknesses also raise questions about whether Interior is collecting an appropriate amount of revenue for the rights to explore for, develop, and produce oil and gas on federal lands and waters.

Substantial Revenues May be at Risk Due to Inadequate Management Practices

With regard to overall revenue collection, in September 2008, we reported that compared with other countries, the United States receives one of the lowest shares of revenue for its oil and gas resources.²⁶ A number of these other countries and resource owners had responded to higher oil and gas prices by increasing their share of oil and gas revenues to potentially generate substantially more revenue. However, despite significant changes in the oil and gas industry and widely fluctuating prices, Interior has not systematically reexamined how the federal government is compensated

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

²⁵Interior collected \$10.98 billion in mineral lease revenues in fiscal year 2007. However, mineral lease revenues increased to \$25.37 billion in fiscal year 2008 largely due to an increase in offshore lease sales revenue from \$0.39 billion in fiscal year 2007 to \$9.54 billion in fiscal year 2008.

²⁶GAO, *Oil and Gas Royalties: The Federal System for Collecting Oil and Gas Revenues Needs Comprehensive Reassessment*, GAO-08-691 (Washington, D.C.: Sept. 3, 2008).

for oil and gas on federal lands for over 25 years. Furthermore, we have found that Interior does less to encourage development of its leases than do some state and private landowners.

Also in September 2008, we reported that Interior's Minerals Management Service's (MMS) management of cash royalty collection lacks key controls, such as the ability to effectively monitor and validate oil and gas company adjustments to self-reported royalty data, including those made after audits have been completed. Furthermore, MMS's royalty compliance efforts rely too heavily on self-reported data, but the more consistent use of available third-party data as a check on self-reported data could provide greater assurance that royalties are accurately assessed and paid.²⁷ In another September 2008 report, we found that for MMS's Royalty-in-Kind program, in which companies provide the federal government with oil or gas in lieu of cash royalty payments, MMS's oversight of natural gas volumes is less robust than its oversight of oil volumes—a finding that raises questions about the accuracy of company-reported volumes of natural gas from which MMS must determine whether it is receiving its appropriate share of production.²⁸ In addition, we found that MMS's annual reports to Congress do not fully describe the performance of the Royalty-in-Kind program and, in some instances, may overstate the benefits of the program.

Concerning workforce issues, we reported in June 2005 that BLM has encountered persistent problems in hiring and retaining sufficient and adequately trained staff to keep up with an increasing workload as a result of rapid increases in oil and gas operations on federal lands.²⁹ For example, between 1999 and 2004, when applications for permits to drill more than tripled, BLM was unable to keep up with the commensurate increase in its workload, in part, as a result of an ineffective workforce planning process, the lack of key data on workload activities, and a lack of resources. BLM's inability to attract and retain sufficiently trained staff has

²⁷GAO, *Mineral Revenues: Data Management Problems and Reliance on Self-Reported Data for Compliance Efforts Put MMS Royalty Collections at Risk*, [GAO-08-893R](#) (Washington, D.C.: Sept. 12, 2008).

²⁸GAO, *Oil and Gas Royalties: MMS's Oversight of Its Royalty-in-Kind Program Can Be Improved through Additional Use of Production Verification Data and Enhanced Reporting of Financial Benefits and Costs*, [GAO-08-942R](#) (Washington, D.C.: Sept. 26, 2008).

²⁹[GAO-05-418](#).

kept the agency from meeting requirements to inspect the drilling and production of oil and gas on federal lands. Lack of inspection puts federal revenues at risk because inspections have found violations, including errors in the volumes of oil and gas that operators reported. Furthermore, in one of our September 2008 reports, we reported that Interior is not meeting statutory or agency targets for inspecting certain onshore and offshore leases and metering equipment for measuring oil and gas production, raising questions about the accuracy of company-reported oil and gas production figures.³⁰ As a result, and based on Interior's comments, we recommended that Interior report to Congress any year in which it does not meet its legal and agency requirements for completing production inspections, along with the cause and a plan for achieving compliance.

Substantial Revenue May be Forgone Because of Royalty Relief

In 2007 and 2008, we reported on MMS's implementation of the Outer Continental Shelf Deep Water Royalty Relief Act of 1995 and other authorities for granting royalty relief for oil and gas leases.³¹ We found that MMS had issued lease contracts in 1998 and 1999 that failed to include price thresholds above which royalty relief would no longer be applicable. As a result, large volumes of oil and natural gas are exempt from royalties, which significantly reduces the amount of royalty revenues that the federal government can collect. At least \$1 billion in royalties has already been lost because of this failure to include price thresholds. We developed a number of scenarios that showed that forgone royalties from leases issued between 1996 and 2000 under the act could be as high as \$53 billion. However, there is much uncertainty in this scenario as a result of the inherent difficulties in estimating future production, ongoing litigation over MMS's authority to set price thresholds for some leases, and widely fluctuating oil and gas prices. Other authorities for granting royalty relief may also affect future royalty revenues. Specifically, under discretionary authority, the Secretary of the Interior administers programs granting

³⁰GAO-08-893R.

³¹In order to promote oil and gas production, the federal government has at times and in specific cases provided "royalty relief"—the waiver or reduction of royalties that companies would otherwise be obligated to pay. See GAO, *Oil and Gas Royalties: Royalty Relief Will Cost the Government Billions of Dollars but Uncertainty Over Future Energy Prices and Production Levels Make Precise Estimates Impossible at this Time*, GAO-07-590R (Washington, D.C.: Apr. 12, 2007) and GAO, *Oil and Gas Royalties: Litigation over Royalty Relief Could Cost the Federal Government Billions of Dollars*, GAO-08-792R (Washington, D.C.: June 5, 2008).

relief for certain deep water leases issued after 2000, certain gas wells drilled in shallow waters, and wells nearing the end of their productive lives. In addition, the Energy Policy Act of 2005 mandates relief for leases issued in the Gulf of Mexico during the 5 years following the act's passage, provides some relief for some gas wells that would not have previously qualified for royalty relief, and addresses relief in certain areas of Alaska where there currently is little or no production.

Enhancing Other Revenue Collections and Financial Assurances

Additional revenues or financial assurances could be generated through hardrock mining operations by amending the General Mining Act of 1872 so that the federal government could collect federal royalties on minerals extracted from U.S. mineral rights and by requiring adequate financial assurances from hardrock mining operations to fully cover estimated reclamation costs. Additional revenues could also be generated by increasing the grazing fee for public lands managed by Interior's Bureau of Land Management.

Additional Revenue or Financial Assurances Could be Generated Through Hardrock Mining Operations

The General Mining Act of 1872 helped open the West by allowing individuals to obtain exclusive rights to mine billions of dollars worth of hardrock minerals from federal lands without having to pay a federal royalty. In July 2008 we reported that the 12 western states, including Alaska, assess multiple types of royalties on mining operations.³² States may use similar names for the royalties they assess, but these can vary widely in their forms and rates. Unlike the federal government, these states charge royalties that allow them to share in the proceeds from hardrock minerals extracted from state-owned lands, as well as levy taxes that function like royalties, on private, state, and federal lands.

Under BLM regulations, hardrock mining operators who extract gold, silver, copper, and other valuable mineral deposits from land belonging to the United States are required to provide financial assurances, before they begin exploration or mining, to guarantee that the costs to reclaim land disturbed by their operations are paid. However, we reported in June 2005 that BLM did not have a process for ensuring that adequate assurances were in place.³³ When operators with insufficient financial assurances fail

³²GAO, *Hardrock Mining: Information on State Royalties and Trends in Mineral Imports and Exports*, [GAO-08-849R](#) (Washington, D.C.: July 21, 2008).

³³GAO, *Hardrock Mining: BLM Needs to Better Manage Financial Assurances to Guarantee Coverage of Reclamation Costs*, [GAO-05-377](#) (Washington, D.C.: June 20, 2005).

to reclaim BLM land disturbed by hardrock mining operations, BLM is left with public land that poses risks to the environment and public health and safety, and requires millions of federal dollars to reclaim.

In March 2008, we found that the financial assurances required by BLM were not adequate to fully cover estimated reclamation costs.³⁴ According to BLM, mine operators had provided financial assurances valued at approximately \$982 million to guarantee reclamation costs for 1,463 hardrock operations on BLM land. BLM also estimated that 52 mining operations had financial assurances that amounted to about \$28 million less than needed to fully cover estimated reclamation costs. However, we found that the financial assurances for these 52 operations were in fact about \$61 million less than needed to fully cover estimated reclamation costs. The \$33 million difference between our estimated shortfall and BLM's occurs because BLM calculated its shortfall by comparing the total value of financial assurances in place with the total estimated reclamation costs. This calculation approach has the effect of offsetting the shortfalls in some operations with the financial assurances of other operations. However, financial assurances that are greater than the amount required for an operation cannot be transferred to another operation that has inadequate financial assurances. BLM officials agreed that it would be valuable to report the dollar value of the difference between financial assurances in place and required for those operations where financial assurances are inadequate.

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

Ten federal agencies manage grazing on over 22 million acres, with BLM and the Forest Service managing the vast majority of this activity.³⁵ In total, federal grazing revenue amounted to about \$21 million in fiscal year 2004, although grazing fees differ by agency. For example, in 2004, BLM and the Forest Service charged \$1.43 per animal unit month, while other federal agencies charged between \$0.29 and \$112 per animal unit month.³⁶ We reported in 2005 that while BLM and the Forest Service charged generally

³⁴GAO, *Hardrock Mining: Information on Abandoned Mines and Value and Coverage of Financial Assurances on BLM Land*, [GAO-08-574T](#) (Washington, D.C.: Mar. 12, 2008).

³⁵The 10 agencies are the BLM, FWS, NPS, Bureau of Reclamation, Forest Service, Department of Energy, Army Corps of Engineers, Army, Air Force, and Navy. In addition, a number of other federal agencies manage some minor grazing-related activities.

³⁶An animal unit month is the amount of forage (vegetation such as grass and shrubs) that a cow and her calf eat in a month (or one bull, one steer, one horse, or five sheep).

much lower fees than other federal agencies and private entities, these fees reflect legislative and executive branch policies to support local economies and ranching communities.³⁷ Specifically, BLM fees are set by a formula that expired in 1985, but was extended indefinitely by executive order in 1986. This formula takes into account a rancher's ability to pay and, therefore, the purpose is not primarily to recover the agencies' costs or capture the fair market value of forage. Instead, the formula is designed to set a fee that helps support ranchers and the western livestock industry. Other federal agencies employ market-based approaches to setting grazing fees.

Using this formula, BLM collected about \$12 million in receipts in fiscal year 2004, while its costs for implementing its grazing program, including range improvement activities, were about \$58 million. Were BLM to implement approaches used by other agencies to set grazing fees, it could help to close the gap between expenditures and receipts and more closely align its fees with market prices. Instead, for 2007, 2008, and 2009, the grazing fee was set at \$1.35 per animal unit month, the lowest level allowable under the executive order. We recognize, however, that the purpose and size of BLM's grazing fee are ultimately for Congress to decide.

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

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³⁷GAO, *Livestock Grazing: Federal Expenditures and Receipts Vary, Depending on the Agency and the Purpose of the Fee Charged*, GAO-05-869 (Washington, D.C.: Sept. 30, 2005).

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