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Inspection



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Memorandum

DEC 04 2024

To: Deb Haaland
Secretary, U.S. Department of the Interior

Laura Daniel-Davis
Acting Deputy Secretary, U.S. Department of the Interior

From: Mark Lee Greenblatt 
Inspector General

Subject: Final Inspection Report – *The U.S. Department of the Interior Should Take Action to Fully Implement Its Enterprise Risk Management Capability*
Report No. 2023-ISP-036

This memorandum transmits our inspection report on the U.S. Department of the Interior's (DOI's) enterprise risk management capability.

We will track open recommendations for resolution and implementation. We will notify Congress about our findings, and we will report semiannually, as required by law, on actions you have taken to implement the recommendations and on recommendations that have not been implemented. We will also post a public version of this report on our website.

If you have any questions about this report, please call me or Nicki Miller, Acting Assistant Inspector General for Audits, Inspections, and Evaluations, at 202-208-5745.

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Results in Brief

Objective

Our objective was to determine whether the U.S. Department of the Interior (DOI) built an enterprise risk management (ERM) capability in accordance with the Office of Management and Budget (OMB) Circular No. A-123.

Finding

Although DOI took steps toward building an ERM capability, we found that it was not fully implemented as required by the Circular. Specifically, DOI:

- Did not establish and communicate a risk appetite to set the level of risk DOI is willing to accept in pursuit of its mission.
- Did not have a complete and approved risk profile, which is a prioritized list of the most significant risks.

We determined that this occurred because DOI lacked a governance structure to effectively implement, direct, and oversee implementation of the Circular and all the provisions of a robust process of risk management. Specifically, DOI did not clearly define ERM roles and responsibilities for senior leadership or establish a risk management council or equivalent governance system to oversee the establishment of DOI's risk profile, regular assessment of risk, and development of appropriate risk response.

Impact

Without a fully implemented ERM capability, DOI may not have a holistic and Departmentwide view of the most significant risks that could affect its mission. In addition, in the absence of an approved Departmentwide risk profile, DOI may miss opportunities to proactively identify, assess, respond to, and monitor risks that may hamper its operations and ability to achieve its overall mission. Further, without an established, regularly convened risk management council (or an equivalent governance system), DOI's ERM Program operates without significant input from the senior leadership of DOI, as well as that of its bureaus and offices, and prevents DOI from complying with other aspects of the Circular. Specifically, until DOI's ERM capability is fully implemented, it is also unable to complete regular reviews on its risk management process to deliver assurance that it remains appropriate and effective.

Recommendations

We make five recommendations that, if implemented, will further build and improve DOI's ERM capability.

Introduction

Objective

Our objective was to determine whether the U.S. Department of the Interior (DOI) built an enterprise risk management (ERM) capability in accordance with Office of Management and Budget (OMB) Circular No. A-123.

See Appendix 1 for our inspection scope and methodology.

Background

In July 2016, OMB updated¹ its Circular No. A-123 on ERM to provide guidance to Federal managers on how to effectively manage risks that impede agencies from achieving strategic objectives and that arise from agency activities and operations. The Circular defines ERM as an agencywide approach to addressing the full spectrum of an organization's significant risks by understanding the combined impact of risks as an interrelated portfolio, rather than addressing risks individually. ERM involves identifying, assessing, and managing risks. Through adequate risk management, agencies can focus on key points of failure to reduce or eliminate the potential for disruptive events. At the time the updated Circular was issued, the OMB Director stated that it would improve mission delivery, reduce costs, and focus corrective actions toward key risks.² Figure 1 describes key documents and concepts for implementing ERM.

Enterprise risks are risks that could cause losses or jeopardize an agency's ability to carry out its mission. Risk categories include **reputational, compliance, financial, legal, legislative, operational, political, reporting, and strategic.**

Figure 1: Key ERM Documents and Concepts, as Defined in OMB Circular No. A-123

Document or Concept	Description
Risk Appetite	The risk an organization is willing to accept in pursuit of its mission.
Risk Tolerance	The acceptable level of variance in performance relative to the achievement of objectives.
Portfolio View of Risk	Provides insight into all areas of organizational exposure to risk.
Risk Inventory or Risk Register	A list of the risks facing the agency.
Risk Profile	A prioritized inventory of significant risks identified and assessed by an agency through its risk assessment process. DOI's risk profile is generated from its risk register.

¹ OMB Circular No. A-123, *Internal Control Systems*, was first issued by OMB's Office of Federal Financial Management in 1981. The Circular defines management's responsibility for internal control in Federal agencies. Since its first issuance in 1981, OMB Circular No. A-123 underwent numerous updates. On July 15, 2016, the Circular provided "updated implementation guidance to Federal managers to improve accountability and effectiveness of Federal programs as well as mission support operations through implementation of ERM practices and by establishing, maintaining, and assessing internal control effectiveness." The revised Circular took effect in fiscal year 2016 and superseded all previous provisions; however, Appendices A, B, C, and D remained in effect.

² OMB Circular No. A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*, p. i, as issued under OMB Memorandum M-16-17, issued on July 15, 2016.

The Circular required executive agencies to implement an ERM capability beginning in fiscal year (FY) 2017.³ The Circular describes several agency responsibilities for implementing ERM in management practices:

- Risk Management Governance:** Management is responsible for establishing a governance structure to effectively implement, direct, and oversee implementation of the Circular and all the provisions of a robust process of risk management and internal control.⁴ According to the Circular, “agencies may use a Risk Management Council (RMC) [or equivalent governance body] to oversee the establishment of the Agency’s risk profile, regular assessment of risk, and development of appropriate risk response.”⁵ If a Cabinet-level agency, such as DOI, chooses to use an RMC, then the Circular notes that the chair of the council should be the Deputy Secretary. The governance structure should include processes for considering risk appetite and tolerance levels because understanding these concepts is essential to creating a comprehensive enterprise-level risk profile.
- Risk Profile:** Agencies must prepare a risk profile by June 3 each year to (1) provide thoughtful analysis of risks arising from agencies’ activities and operations that could impede strategic objectives and (2) identify appropriate options for addressing significant risks.⁶ The risk profile must consider risks from a portfolio perspective and be approved by the agency’s RMC or equivalent governance body. The Circular states that the risk profile should generally include the following: (1) identification of objectives, (2) identification of risk, (3) inherent risk assessment, (4) current risk response, (5) residual risk assessment, (6) proposed risk response, and (7) proposed action category. The risk profile must include the following four types of objectives: (1) strategic, (2) operations, (3) reporting, and (4) compliance. Figure 2 provides an excerpt of a risk profile with each of the seven components for a strategic objective.

Figure 2: Example of a Risk Profile

STRATEGIC OBJECTIVE – Improve Program Outcomes								
Risk	Inherent Assessment		Current Risk Response	Residual Assessment		Proposed Risk Response	Owner	Proposed Risk Response Category
	Impact	Likelihood		Impact	Likelihood			
Agency X may fail to achieve program targets due to lack of capacity at program partners.	High	High	REDUCTION: Agency X has developed a program to provide program partners technical assistance	High	Medium	Agency X will monitor capacity of program partners through quarterly reporting from partners	Primary – Program Office	Primary – Strategic Review

Source: OMB Circular No. A-123.⁷

- Continuous Assessment:** Agencies must regularly review their risk management system to monitor whether the risk profile has changed and to gain assurance that risk management is effective or to determine if further action is necessary.⁸ In addition, the overall risk management process must be subjected to regular review to deliver assurance that it remains appropriate and effective. Agencies must put processes in place to (1) ensure all aspects of the risk management process are reviewed at least once a year; (2) ensure that risks are subjected to review with appropriate frequency; (3) review whether already-identified risks still exist, the likelihood and impact of those risks have changed, or new risks have arisen; (4) make provisions for alerting the appropriate level of management to new or emerging risk; and (5) report significant changes that adjust risk priorities.

³ *Id.* at p. 2.

⁴ *Id.*

⁵ *Id.* at Part II, Section A, “Governance,” pp.12-13.

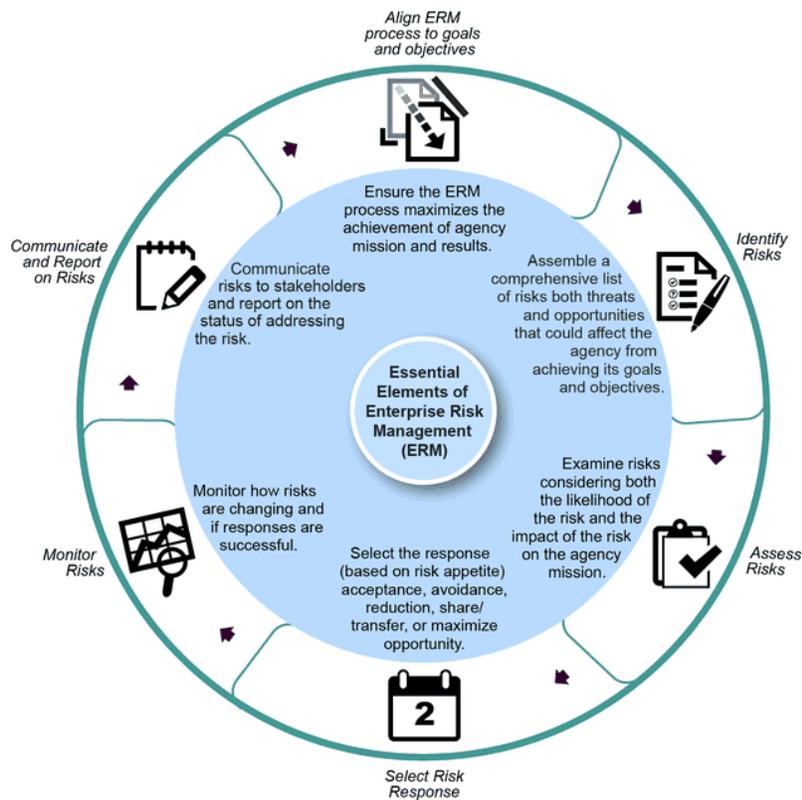
⁶ *Id.* at Part II, Section B, “Risk Profile,” pp.13-15. All requirements in this bullet are supported by this citation.

⁷ *Id.* at p. 15, Table 1, “Illustrative Example of a Risk Profile.”

⁸ *Id.* at Part II, Section C, “Implementation,” p. 19. All requirements in this bullet are supported by this citation.

The Circular requires executive agencies to coordinate their ERM capability with the strategic planning and strategic review process established by the Government Performance and Results Act Modernization Act of 2010⁹ and the internal control processes required by the Federal Managers' Financial Integrity Act¹⁰ and the U.S. Government Accountability Office's *Standards for Internal Control in the Federal Government*. Specifically, agencies conduct annual strategic reviews to assess progress toward achieving strategic objectives and mission and have annual strategic review meetings to present findings to OMB and receive feedback; the Circular requires agencies to have their risk profile available for discussion at those meetings. Strategic reviews should inform long-term strategy and annual planning and budget formulation; facilitate identification and adoption of opportunities for improvement; identify areas for additional evaluation, skills, or other capacity; strengthen collaboration on crosscutting issues; and improve decision making response time and transparency. According to the Government Accountability Office, ERM provides ways to better anticipate and manage risk across an agency; the essential elements for implementation are shown in Figure 3.¹¹

Figure 3: Essential Elements of Federal Government ERM



Source: Government Accountability Office.¹²

⁹ The Government Performance and Results Act Modernization Act (Pub. L. No. 111-352) mandates that agencies establish strategic goals and performance plans, report the performance results to the U.S. Congress, and make the performance results available to the public.

¹⁰ The Federal Managers' Financial Integrity Act of 1982 (Pub. L. No. 97-255) requires the executive agencies to conduct ongoing evaluations and issue reports of the adequacy of internal accounting and administrative controls.

¹¹ Report No. GAO-17-63, *Enterprise Risk Management Selected Agencies' Experiences Illustrate Good Practices in Managing Risk*, issued December 2016.

¹² *Id.* at "Figure 1: Essential Elements of Federal Government Enterprise Risk Management," p. 8.

DOI's Office of Planning and Performance Management

Roles and Responsibilities

As early as May 2019, the Office of Planning and Performance Management (known as PPP) was responsible for leading DOI's ERM efforts, which includes building ERM awareness and capabilities within DOI and promoting a risk-aware culture. On August 26, 2022, DOI's *Departmental Manual*¹³ designated the PPP Director as the Chief Risk Officer and officially established PPP as the central coordinating office for DOI's ERM Program with responsibility to implement the Circular's ERM-related requirements. The Chief Risk Officer's responsibilities include developing the framework implementation plan and policy, chairing and facilitating ERM workgroups, assisting bureaus and offices with building ERM capabilities, and maintaining a comprehensive enterprise risk register.

In practice, the PPP Director informally delegated the Chief Risk Officer responsibilities to a PPP Program Analyst,¹⁴ hereinafter referred to as the ERM Program Lead, who is leading DOI's efforts to implement an ERM program. The ERM Program Lead stated that the PPP Director reports ERM efforts to the Deputy Assistant Secretary for Policy and Environmental Management (DAS-PEM). The DAS-PEM stated to us that he reports the status of ERM efforts to the Principal Deputy Assistant Secretary exercising the authority of the Assistant Secretary for Policy Management and Budget (AS-PMB). We confirmed that the AS-PMB then reports that ERM information up to the Acting Deputy Secretary (see Figure 4). PPP currently has 12 employees, of which 2 are dedicated to the ERM Program.

Figure 4: DOI's Enterprise Risk Management Reporting Structure



DOI's ERM Program and Framework

The goal of DOI's ERM Program is to "have appropriate risk management processes, and systems, to identify challenges and risk early and bring them to the attention of Agency leadership for action."¹⁵ Among other responsibilities, the ERM Program is responsible for:

- Implementing all ERM-related requirements of the OMB Circular.
- Collaborating with DOI, bureau, and office leaders on risk management matters, including developing and updating risk registers, risk profiles, risk treatments,¹⁶ and testing.
- Analyzing risk to inform decision making.

¹³ 112 *Departmental Manual* 9, "Office of Planning and Performance Management," effective August 22, 2022.

¹⁴ There was no official documentation stating that the PPP Director delegated her authority as Chief Risk Officer to the ERM Program Lead. The PPP Director and the Program Analyst stated that the roles and responsibilities were delegated to the ERM Program Lead via an email, but they could not provide a timeframe for when this occurred.

¹⁵ DOI, *Enterprise Risk Management*, <https://www.doi.gov/performance/enterprise-risk-management>.

¹⁶ DOI's *FY 2023 Enterprise Risk Management Guidance* defines risk treatment as "how an organization deals with risk."

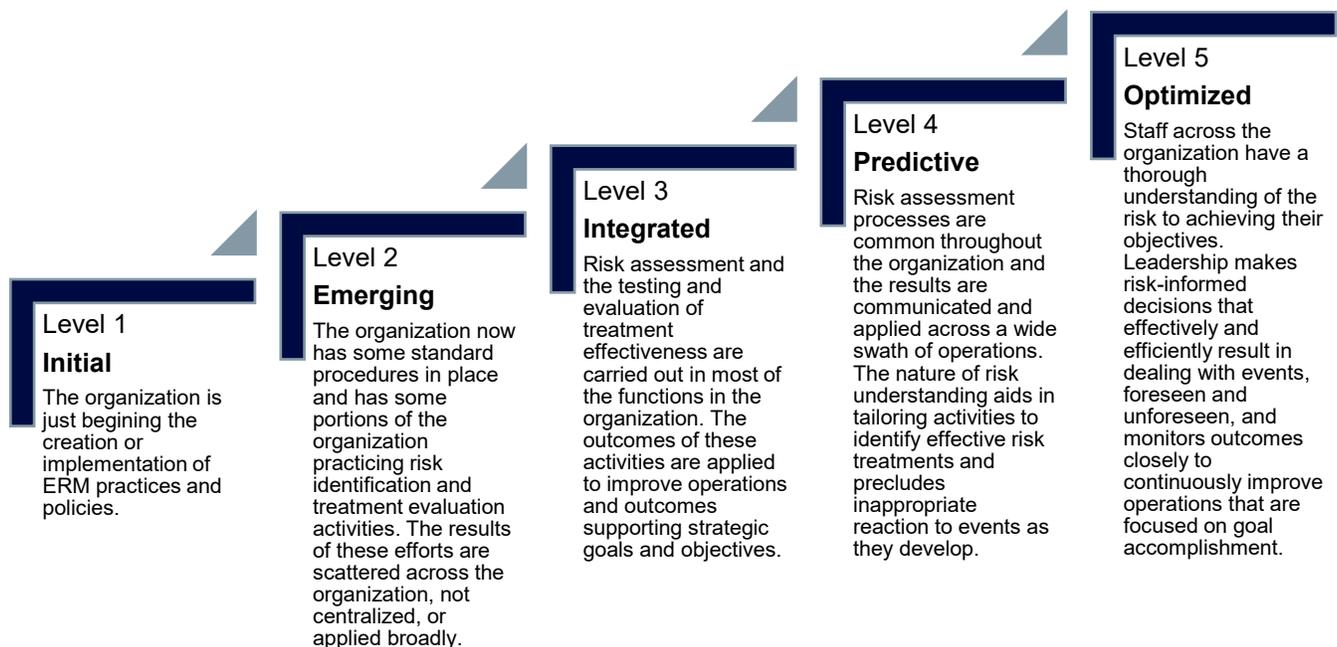
Prior to being designated as the central coordinating office for DOI’s ERM capability, PPP developed the *Department of the Interior Enterprise Risk Management Framework*, which a former acting AS-PMB issued on September 10, 2020. The framework was meant to guide DOI’s implementation of the ERM Program Departmentwide and “outlines the building blocks that are being used to develop and implement an effective ERM discipline within [DOI].” The framework introduces and defines DOI’s ERM Program, explains and expands on the role of the Chief Risk Officer, and provides key principles and concepts to establish a risk management culture. The framework also sets expectations for ERM Program implementation at the DOI, bureau, and office levels. The framework does not assign ERM responsibilities to specific offices or functions in DOI, aside from PPP, but it does rely on existing risk management roles within bureaus and offices. Each bureau or office is given the independence to tailor the framework to fit its operating culture. According to the ERM Program Lead, PPP is in the early stages of revising the framework.

DOI states its ERM Program is a framework that “enables communications, training, and tools to effectively identify, assess, respond to, and monitor risks – empowering Department leadership to make informed decisions and focus priorities on serving the Department’s stakeholders better.”

DOI’s ERM Five-Step Maturity Model

The Circular states that “[a]gencies should develop a maturity model approach to the adoption of an ERM framework.” The ERM Program Lead conducted maturity assessments of DOI’s ERM Program in FYs 2021 and 2022.¹⁷ Both assessments state, “ERM maturity is a progressive process. To know where you are going, you need to start with an assessment of where you are.” See Figure 5 for explanations of DOI’s five levels of maturity (Initial, Emerging, Integrated, Predictive, and Optimized). According to DOI’s FYs 2021 and 2022 ERM maturity assessments, DOI’s governance structure is “Emerging” (Level 2). There was no update in 2023, and the ERM Program Lead stated he would reassess maturity in 2024.

Figure 5: DOI’s ERM Five-Step Maturity Model



¹⁷ FY2021 Maturity Assessment of the Department of the Interior Enterprise Risk Management (ERM) program and FY2022 Maturity Assessment of the Department of the Interior Enterprise Risk Management (ERM) program.

DOI's ERM Guidance

In addition to the ERM framework, PPP issues annual ERM guidance to the bureaus and offices.¹⁸ The guidance serves as a foundational document to support DOI risk management efforts in partnership with organizations across DOI. According to the guidance, bureau and office risk officers will establish and maintain a risk register for their bureau and office. Bureaus and offices' risk registers are integrated into an enterprise DOI risk register to facilitate enterprisewide analysis. According to the Circular, senior management should be aware of significant risks.¹⁹

In FY 2022, PPP used a spreadsheet to capture DOI's first enterprise risk register. In FY 2023, PPP transferred the risk register from a spreadsheet into an ERM automated tool, which generated DOI's first enterprise risk profile. PPP is currently in the process of procuring a new system to generate DOI's enterprise risk register and risk profile.

Bureau and office risk officers are responsible for (1) collecting and documenting risks, (2) collaborating with PPP, (3) engaging with the risk owners²⁰ and bureau leadership on risks and risks arising from emerging requirements, and (4) participating in the review of risk profiles. PPP also established the ERM Community of Practice, which is a working group of risk management officers or representatives from DOI bureaus and offices. PPP meets with the ERM Community of Practice monthly to discuss existing and emerging risks, common challenges and solutions, and ongoing responses.

¹⁸ DOI Office of the Secretary Memorandum, *Implementation of the DOI Enterprise Management Program*, issued March 16, 2022; DOI Office of the Secretary Memorandum, *FY 2023 Guidance for the DOI Enterprise Risk Management Program*, issued September 30, 2022; and DOI Office of the Secretary Memorandum, *FY 2024 Guidance for the Department of the Interior Enterprise Risk Management Program*, issued October 3, 2023.

¹⁹ OMB Circular No. A-123, p. 13.

²⁰ According to ERM guidance, a "risk owner" is the program office or staff member with the authority to treat or manage risk affecting the activities, operations, and outcomes of that organization.

Results of Inspection

We found that DOI has taken steps toward building an ERM capability but has not fully implemented it as required by Circular A-123. Without a fully implemented ERM capability, DOI may not have a holistic and Departmentwide view of the most significant risks that could affect its mission.

DOI's ERM Capability Was Not Fully Implemented

To build its ERM capability, DOI issued the ERM framework in FY 2020, providing implementation guidance for its ERM Program. DOI then issued annual ERM guidance to bureaus and offices in FYs 2022 and 2023 and generated a risk register in FY 2022 and a risk profile in FY 2023. In addition, the ERM Program Lead told us that PPP is also in the process of incorporating ERM guidance into the *Departmental Manual*. According to DOI's FYs 2021 and 2022 ERM maturity assessments, DOI's governance structure is "Emerging" (Level 2), which is when an organization "has some standard procedures in place and has some portions of the organization practicing risk identification and treatment evaluation activities. The results of these efforts are scattered across the organization, not centralized, or applied broadly." (See Figure 5 for additional details on DOI's ERM maturity model.)

Consequently, although DOI took steps toward establishing an ERM capability, we found that it was not fully implemented as required by the Circular. Specifically:

- DOI did not establish a risk appetite.
- DOI did not have a complete and approved risk profile.

We concluded that this occurred because DOI lacked a governance structure to effectively direct and oversee implementation of the Circular and all the provisions of a robust process of risk management. Specifically, DOI's framework and annual ERM guidance did not clearly define ERM roles and responsibilities for senior leadership and did not establish an RMC or equivalent governance system. As a result, DOI was unable to fully implement and integrate ERM into decision making for the development of the legislative and policy agenda, operational planning, and budget formulation.

DOI Did Not Establish a Risk Appetite

The Circular states that agencies should include a process for considering risk appetite and tolerance levels and that the agencies' "most senior leadership" should develop the process.²¹ While the Circular does not require a formally documented risk appetite statement, it does require DOI to have a solid understanding of its risk appetite to serve as the guidepost to set strategy and select objectives.²² Specifically, the Circular states, "[t]he concept of 'risk appetite' is key to achieving effective ERM and is essential in determining risk responses."²³

DOI's ERM framework²⁴ goes further, including establishing and communicating risk appetite as a guiding principle for DOI's ERM implementation. The framework states, "Risk appetite allows organizations to clearly and explicitly articulate their risk and reward tradeoffs in determining strategy, budget, and performance." It also states, "Every organization has a risk appetite which is represented through its resource allocation, the design and application of policies and internal controls activities, and its approach to integrating novel concepts, ideas, and technologies into existing infrastructure and culture."

²¹ OMB Circular No. A-123, p.13.

²² *Id.*

²³ *Id.* at Part II, Section A, "Governance," p.13.

²⁴ *Department of the Interior Enterprise Risk Management Framework*, Version 1, issued on September 10, 2020.

The Association for Federal Enterprise Risk Management's²⁵ 2023 survey on ERM in the Federal Government reported that 54 percent of Federal organizations have a defined risk appetite statement. For example, the U.S. Agency for International Development (USAID) issued a risk appetite statement "to provide broad-based guidance on the level and type of risk the Agency is willing to accept—based on an evaluation of opportunities and threats—to achieve the Agency's mission and objectives."²⁶ The 25-page document outlines USAID's risk appetite for eight risk categories.

We found that DOI's senior leadership did not establish and communicate a risk appetite. We interviewed the AS-PMB, the DAS-PEM, the PPP Director, and the ERM Program Lead, and they all confirmed that DOI did not establish a risk appetite. Additionally, Circular A-123 states that risk tolerance should be evaluated and adjusted, along with risk appetite, on a regular basis to meet the needs of the organization. PPP established a risk tolerance in the ERM guidance for FY 2023, but the ERM Program Lead stated that it is difficult to determine risk tolerance without an established risk appetite.

Risk appetite is key for an effective ERM Program because it provides risk thresholds for DOI decision makers at the executive, bureau, and office levels to appropriately apply risk treatment. Without a clear understanding of risk appetite, risk owners may be too accepting or too conservative when developing risk responses and DOI may not be effectively responding to risks affecting its mission.

DOI Did Not Have a Complete and Approved Risk Profile

The Circular states that agencies must maintain a risk profile that considers risk from a portfolio perspective and is approved by the RMC (or equivalent risk management governance body).²⁷ The Circular further requires agencies to prepare a complete risk profile by June 3 each year.²⁸ Additionally, DOI's ERM guidance states that bureaus and offices are responsible for inputting and assessing their risk information into DOI's enterprise risk register. Risk profiles are generated from the risk register. DOI developed its first enterprise risk register in FY 2022 and generated its initial risk profile in FY 2023.

We found that DOI's FY 2023 risk profile included risks from the 11 bureaus but (1) did not include risks from all DOI offices and (2) was not approved by an RMC or equivalent risk management governance body.

DOI's FY 2023 risk profile was not complete because it did not include risks from all DOI offices. After we inquired and were provided an incomplete list of ERM points of contact, PPP confirmed that at least 14 of DOI's 42 offices were not contributing to DOI's risk register and ultimately its risk profile. The ERM Program Lead told us that DOI does not have liaisons for the 14 offices that did not contribute to the risk register and added, "We hope to have more interaction this year with them."

In addition, DOI's FY 2023 risk profile was not approved by an RMC or an equivalent risk management governance body, as required. The ERM Program Lead stated that "each bureau and office have its own process for the identification of risks, the documenting of risks, the assessment of risks and their treatments, and submission of risks to the risk register. There is no approval required since the data speaks for itself and we do not modify what the bureaus and offices submit."

The primary purpose of a risk profile is to provide a thoughtful analysis of risks DOI faces toward achieving its strategic objectives. It is supposed to allow leadership at all levels to understand the risk environment and how their areas of particular responsibility fit into it. Without an approved Departmentwide risk profile, senior leadership may not have a comprehensive understanding of Departmentwide risks and may be using incomplete information when making operational planning, legislative and policy, and budget formulation

²⁵ The Association for Federal Enterprise Risk Management (AFERM) is a professional organization dedicated to the advancement of Federal enterprise risk management. For nine consecutive years, AFERM has collaborated and conducted surveys of Federal Government leaders and staff to gather insights into the current state of ERM in their organizations.

²⁶ *USAID Risk Appetite Statement: A Mandatory Reference for ADS Chapter 596*, August 22, 2022 ed., at p. 2.

²⁷ OMB Circular No. A-123, p. 13.

²⁸ *Id.* at Part II, Section C, "Implementation," p. 21.

decisions. In addition, DOI may miss opportunities to proactively identify, assess, respond to, and monitor risks that may hamper its operations and overall mission.

DOI Lacked a Governance Structure to Fully Implement Its ERM Capability

We concluded that DOI's ERM capability was not fully implemented primarily because DOI lacked a governance structure that (1) clearly defined ERM roles and responsibilities for senior leadership and (2) established an RMC or equivalent risk management governance body. Clearly defined roles for DOI's senior leaders and the establishment of an RMC are essential components for DOI to implement its ERM capability.

DOI Guidance Did Not Include Roles and Responsibilities for Senior Leadership

Circular A-123 states that the responsibilities of managing risks are shared throughout an agency from the highest levels of executive leadership to the service delivery staff executing Federal programs.²⁹ The Circular explains that management is responsible for the establishment of a governance structure to effectively implement, direct, and oversee implementation of the Circular and all the provisions of a robust process of risk management and internal control.³⁰ According to the Circular, an agency's senior leaders should oversee (1) establishment of the agency's risk profile, (2) regular assessment of risks, and (3) development of appropriate risk responses.³¹ In addition, DOI's ERM framework states that a strong governance structure "articulates roles and responsibilities, clarifies expectations for the flow of risk information, and defines related decision-making processes."

Despite these requirements, DOI's ERM framework and annual ERM guidance did not clearly define and establish ERM roles and responsibilities for DOI's senior leadership (see Figure 6). Although DOI's annual ERM guidance establishes roles and responsibilities for the Chief Risk Officer, PPP, DOI program managers, bureau risk officers, and others; it fails to establish roles for senior leadership situated above the Chief Risk Officer and PPP Director. Specifically, DOI's annual guidance did not define ERM responsibilities for the DAS-PEM, the AS-PMB, or the Deputy Secretary. The DAS-PEM directly oversees PPP and should report ERM efforts to the AS-PMB, who should then pass this information to the Deputy Secretary. According to the Circular, the Deputy Secretary should be the chair of the RMC or equivalent risk management governance body. According to the PPP Director, she did not believe she had the authority to assign ERM responsibilities to DOI senior leadership; therefore, PPP did not include that in its guidance.

Successful ERM implementation requires input from the most senior leaders of the organization to be effective, and clearly defined ERM roles and responsibilities for those senior leaders provides clear expectations and promotes communication for ERM's consideration in critical decision making.

²⁹ *Id.* at p. 12.

³⁰ *Id.* at p. 2.

³¹ *Id.* at Part II, Section A, "Governance," p. 12.

Figure 6: Current DOI ERM Responsibilities

Role	ERM Responsibilities
DOI Senior Leadership	None
DOI Program Managers and Directors	<ul style="list-style-type: none"> • Designate an ERM point of contact to collaborate with PPP. • Implement a continuous risk identification process. <p><i>No responsibilities defined regarding ERM oversight.</i></p>
Bureau and Office Risk Officers	<ul style="list-style-type: none"> • Collect and document risk. • Collaborate with PPP to identify and treat risks. • Engage risk owners and bureau leadership on risk discussions. • Participate in review of risk profiles and opportunities to strengthen risk management.
PPP	<ul style="list-style-type: none"> • Establish an ERM Program. • Advise senior leaders through the Management Improvement Team on the status of agency risks. • Work closely with bureau risk officers and program managers to identify risks. • Partner with stakeholders across DOI to cooperatively and collaboratively provide support to meet compliance requirements mandated by Federal guidance.
DOI Employees and Contractors	<ul style="list-style-type: none"> • Communicate with bureau risk officer or ERM point of contact to identify and report risks. • Assist management to design, implement, and operate an effective system of identifying and managing risks. • Use ERM information to inform planning and decision making.

DOI Did Not Establish an RMC or Equivalent

As discussed in the “Background” section of the report, the Circular states that agencies may use an RMC or equivalent risk management governance body to oversee the establishment of the agency’s risk profile, regular assessment of risk, and development of appropriate risk response. It also states that RMC structures will vary by agency and in some cases may be integrated with existing management structures. The Circular states that for Cabinet-level agencies like DOI, the Deputy Secretary should chair the RMC.

Furthermore, the *Playbook: Enterprise Risk Management for the U.S. Federal Government*,³² an ERM best practice guide, states that effective risk governance requires continuing and focused support from the top of the organization, and one effective approach is to develop an RMC. Although an RMC is not required, governance for the risk management function is required.³³ An RMC would be the primary body for overseeing the implementation of ERM and providing senior leadership with the opportunity to address enterprise risks.

We did not find evidence during our fieldwork that DOI had formally established an RMC or equivalent formal governance system for risk management. According to the PPP Director, initially PPP was to work through the

³² *Playbook: Enterprise Risk Management for the U.S. Federal Government* (Fall, 2022 Update), November 28, 2022, <https://www.doi.gov/sites/doi.gov/files/erm-playbook-2022-update-final-508-compliant.pdf>. The playbook was developed and issued by the Chief Financial Officers Council and the Performance Improvement Council in collaboration with Federal organizations to provide guidance and support for the implementation of the Circular. The playbook states that it is intended to assist Federal managers by identifying the objectives of a strong ERM program, suggesting questions agencies should consider in establishing or reviewing their approaches to ERM, and offering examples of best practices.

³³ OMB Circular No. A-123, p. 12.

DOI Management Improvement Team (MIT) to address DOI's ERM capability.³⁴ The MIT is an existing body chaired by the AS-PMB with the purpose of providing a departmental forum for initiating, discussing, recommending, planning, prioritizing, and implementing the President's and the Secretary's management and administrative agenda and policies. According to the MIT charter, meetings are to occur monthly. The ERM Program Lead stated that he briefed the MIT once in 2022 to introduce the ERM Program but has not briefed the group since. We confirmed with the AS-PMB that the MIT still exists but had not conducted a meeting recently.

The ERM framework states that one of PPP's responsibilities is to provide DOI leadership, including the MIT, with information regarding the status of ERM efforts and management of individual risks. In addition, DOI's annual ERM guidance for 2023 states the Chief Risk Officer is responsible for "providing an integrated view of risks and risk treatments . . . to senior leadership through briefings to the [MIT] to facilitate planning and evidence-based decision making as described in the DOI ERM framework," but neither the framework nor the guidance formally designates the MIT as the RMC or an oversight body for the risk management function. Had the MIT met regularly to discuss Departmentwide risk and been formally designated, it may have been an acceptable risk governance structure. In February 2024, during an interview with both the AS-PMB and PPP Director, the AS-PMB instructed the PPP Director to create an RMC. As of April 2024, the ERM Program Lead stated that PPP was still working on a charter.

Without an established, regularly convened RMC or other governance structure, the ERM Program at DOI operates without significant input or direction from DOI's senior leadership and senior bureau and office leadership to advance DOI's ERM maturity. Further, it prevents DOI from complying with other aspects of the Circular, such as senior leadership's requirements to oversee the establishment of DOI's risk profile, to continuously monitor risks, and to develop appropriate risk responses.

³⁴ 307 *Departmental Manual* 1, "Management Improvement Team," effective September 29, 2020, provides the policy and the charter for DOI's MIT. The MIT is a partnership among the Immediate Office of the Secretary, the AS-PMB, the Program Assistant Secretaries, and bureaus/offices.

Conclusion and Recommendations

Conclusion

The Circular states that “ERM is beneficial since it addresses the fundamental organizational issue: the need for information about major risks to flow both up and down the organization and across its organizational structures to improve the quality of decision-making.” Without an established risk appetite from DOI’s most senior level leadership and complete risk profile, DOI’s ERM capability is not fully implemented. DOI was unable to fully implement its ERM capability because it did not include clear roles and responsibilities in its guidance or establish an RMC composed of the highest senior leaders at DOI. Because DOI’s senior leaders are not involved through defined ERM or RMC roles and responsibilities, DOI was unable to fully implement and integrate ERM into decision making for the development of the legislative and policy agenda, operational planning, and budget formulation.

Without a fully implemented ERM capability, DOI may not have a holistic and Departmentwide view of the most significant risks that could affect its mission and may not effectively monitor its risks. Further, DOI is unable to comply with other aspects of the Circular. Specifically, without a fully implemented ERM capability, DOI is unable to complete regular reviews on its risk management process to deliver assurance that it remains appropriate and effective.

We make five recommendations that, if implemented, will further build and improve DOI’s ERM capability.

Recommendations Summary

We provided a draft of this report to the DOI Secretary and DOI Acting Deputy Secretary for review. The AS-PMB provided a written response on behalf of the Secretary and Acting Deputy Secretary and concurred with all five recommendations. PMB’s response also included technical comments. We evaluated these comments and made changes to the report, as appropriate. However, we did not modify our overall findings. We consider Recommendations 1, 2, 4, and 5 resolved and Recommendation 3 unresolved. We determined that all five recommendations still need further action to be considered implemented, and we require that PMB provide new target implementation dates for all five recommendations. We also determined that all five recommendations are significant and will be reported as such in our semiannual report to Congress in accordance with the Inspector General Act.³⁵ Below we summarize PMB’s response to our recommendations, as well as our comments on its response. See Appendix 2 for the full text of PMB’s response; Appendix 3 lists the status of each recommendation.

We recommend that the DOI Secretary or designee:

1. Establish a risk appetite as required in the Office of Management and Budget Circular No. A-123 and implement a process to ensure Departmentwide awareness of the risk appetite.

DOI Response: PMB concurred with the recommendation and stated:

The Department’s Management Improvement Team (MIT) Executive Council, which serves as the Risk Management Council and is chaired by the Acting Deputy Secretary, reviewed and unanimously approved a risk appetite statement on September 13, 2024. The MIT Executive Council/Risk Management Council is comprised of Assistant Secretaries; Heads of Bureaus; Solicitor; Deputy Assistant Secretary – Administrative Services; Deputy Assistant Secretary - Budget, Finance, Grants and Acquisitions;

³⁵ The Inspector General Act of 1978, 5 U.S.C. § 405(b), requires inspectors general to prepare semiannual reports summarizing OIG activities during the immediately preceding six-month periods ending March 31 and September 30. It also states that these semiannual reports should include an identification of each “significant recommendation” described in previous semiannual reports on which corrective action has not been completed.

Deputy Assistant Secretary – Public Safety, Resource Protection, and Emergency Services; Deputy Assistant Secretary – Human Capital and Diversity; and the Chief Information Officer.

PMB provided a copy of the risk appetite statement and notes from the September MIT meeting as part of its response.

OIG Comment: Although PMB stated in its response that it considered this recommendation implemented, we consider it resolved based on the information PMB provided. We will consider this recommendation implemented when PMB provides documentation demonstrating DOI has distributed the approved risk appetite statement Departmentwide for awareness.

We recommend that the DOI Deputy Secretary or designee:

2. Implement a process to periodically reevaluate and adjust risk appetite and tolerance levels to meet DOI's needs in accordance with the Office of Management and Budget Circular No. A-123.

DOI Response: PMB concurred with the recommendation and stated, "In 2023, the Department established a process to periodically review, reevaluate, and adjust tolerance levels" and that "PPP established a risk tolerance level of 15 . . . [that] is used by the ERM community to indicate when additional actions to treat risk are called for." PMB further stated, "The risk tolerance and the risk appetite will be reviewed and reevaluated annually by the MIT Executive Council/Risk Management Council." PMB provided a copy of the *FY 2025 Enterprise Risk Management Guidance* as a part of its response.

OIG Comment: Although PMB stated in its response that it considered this recommendation implemented, we consider it resolved based on the information PMB provided. DOI's FY 2023 ERM guidance established and implemented risk tolerance levels; however, DOI's FY 2023, 2024, and 2025 ERM guidance documents do not mention reevaluating risk appetite. We will consider this recommendation implemented when DOI updates its annual ERM guidance to include language that requires the MIT to periodically reevaluate and adjust risk appetite to meet DOI's needs in accordance with the Circular.

3. Create a comprehensive risk profile as required by the Office of Management and Budget Circular No. A-123 and ensure it is properly approved and incorporated into discussions for decision making.

DOI Response: PMB concurred with this recommendation and stated, "The Department developed a comprehensive enterprise risk profile, aligned to the objectives in the FY 2022-2026 Strategic Plan. It is a list of risk levels to objectives in the Department's strategic plan, and is updated as new risks are reviewed, rated, and ranked." PMB stated that the risk profile was presented to the MIT Executive Council in May 2024 and was approved by the Acting Deputy Secretary. In addition, PMB stated that the MIT Executive Council/Risk Management Council incorporated the process into decision making going forward

OIG Comment: Although PMB stated in its response that it considered this recommendation implemented, we consider it unresolved because PMB did not state how it planned to address its exclusion of 14 DOI offices from its risk register used to develop its risk profile. According to DOI's FY 2025 ERM guidance, which PPP developed to be compliant with the Circular, "Bureau Risk Officers owners will establish and maintain risk registers for their Bureau and Office. Bureau/Office risk registers are integrated into an enterprise (Department) risk register and facilitate enterprise-wide analysis." The guidance also states that it is applicable to all DOI bureaus and offices unless otherwise noted. PPP confirmed that at least 14 of DOI's 42 offices were not contributing to DOI's risk register—and ultimately its risk profile—because PPP had not yet established liaisons with those offices. Without risk registers from all offices identifying their significant risks, PPP cannot properly facilitate enterprise risk analysis and develop a comprehensive risk profile. We will consider this recommendation implemented when PMB provides documentation demonstrating that all offices contributed to DOI's enterprise risk register,

or alternatively, documents the exclusion of the offices—including the 14 offices we discovered during this review—that did not contribute to DOI’s enterprise risk register as required in its guidance.

4. Establish a risk management council or an equivalent governance system to direct and oversee the establishment of DOI’s risk profiles, regularly assess risk, develop appropriate risk responses, and approve the updated risk profile annually.

DOI Response: PMB concurred with this recommendation and stated that in September 2024, the MIT Executive Council met to review a charter “outlining the functions of [the MIT Executive Council] as the Risk Management Council and identified roles and responsibilities of its members as well as a process to oversee, assess, treat, and manage risks. The MIT Executive Council/Risk Management Council has the authority to review and approve the risk profile, regularly assess risk, and develop appropriate risk responses.” PMB noted that Council members’ comments and edits to the charter will be incorporated and discussed by the Council members when they consider the charter for adoption. PMB provided a copy of the draft *Department of the Interior Enterprise Risk Management Governance Charter* as part of the response to this report.

OIG Comment: Although PMB stated in its response that it considered this recommendation implemented, we consider it resolved based on the information PMB provided. We will consider this recommendation implemented when PMB provides us with the final charter.

5. Define the enterprise risk management roles and responsibilities for DOI’s leadership at the executive, bureau, and office level and ensure those roles and responsibilities are clearly communicated.

DOI Response: PMB concurred with this recommendation and stated that PPP issued its FY 2025 annual guidance on August 26, 2024, which included “additional clarifying language for senior leaders in the Department.” PMB also stated that “the MIT Executive Council/Risk Management Council met on September 13, 2024, chaired by the Acting Deputy Secretary, who officially designated the Council as the body to direct and oversee risk management.” PMB further stated, “The draft charter identifies roles and responsibilities of its members and a process to oversee, assess, treat, and manage risks.”

OIG Comment: Although PMB stated in its response that it considered this recommendation implemented, we consider it resolved based on the information PMB provided. We reviewed the FY 2025 ERM guidance and the draft charter PMB provided to support the implementation of this recommendation. We determined that both documents define ERM roles and responsibilities for DOI’s leadership at the executive, bureau, and office levels. Specifically, the FY 2025 ERM guidance defines senior leaders’ roles and responsibilities for establishing and championing ERM, and the charter defines senior leaders’ roles and responsibilities to provide ERM governance and oversight. However, we could not determine if the FY 2025 ERM guidance was distributed and that the updates were communicated to appropriate officials. In addition, the charter is marked as a draft. We will consider this recommendation implemented when PMB provides documentation demonstrating the FY 2025 ERM guidance was distributed Departmentwide and the *Department of the Interior Enterprise Risk Management Governance Charter* was finalized.

Appendix 1: Scope and Methodology

Scope

We inspected the U.S. Department of the Interior's (DOI's) implementation of an Enterprise Risk Management (ERM) capability for fiscal years (FYs) 2017 through 2023. Our scope included the steps DOI took to build its ERM capability to identify, assess, and manage risks. We did not inspect or opine on the following areas of DOI's ERM: (1) identified risk; (2) risk ratings; (3) the reliability of any software or systems used to identify, track, or manage enterprise risks; or (4) internal controls used to manage, mitigate, or monitor risks identified through the ERM Program.

Methodology

We conducted our inspection in accordance with the *Quality Standards for Inspection and Evaluation* as put forth by the Council of the Inspectors General on Integrity and Efficiency. We believe that the work performed provides a reasonable basis for our conclusions and recommendations. To meet our objectives, we:

- Reviewed the following sources of guidance on ERM:
 - Office of Management and Budget (OMB) Circular No. A-123, *Management's Responsibility for Enterprise Management and Internal Control* (July 2016)
 - OMB Circular A-11, Section 10, *Overview of the Budget Process*
 - Federal Managers' Financial Integrity Act
 - Government Performance and Results Act Modernization Act of 2010
 - DOI's ERM Framework (2020)
 - DOI's *FY 2022 Enterprise Risk Management Guidance*
 - DOI's *FY 2023 Enterprise Risk Management Guidance*
 - DOI's 112 *Department Manual* 9, "Office of Planning and Performance Management" (August 26, 2022)
- Interviewed the following DOI officials to determine steps DOI has taken to build an ERM capability:
 - Principal Deputy Assistant Secretary exercising the authority of the Assistant Secretary – Policy, Management and Budget
 - Deputy Assistant Secretary for Policy and Environmental Management
 - Director of the Office of Planning and Performance Management (known in DOI as PPP)
 - ERM Program Lead, PPP
 - Management Analyst, PPP
 - Performance Management Lead, PPP
- Designed an inspection questionnaire to facilitate a high-level query of PPP's ERM points of contact and analyzed their responses. The questionnaire queried steps and processes DOI's ERM points of contact are taking to build ERM capability at respective bureaus and offices.

- Completed a walkthrough of DOI's ERM automated tool.
- Reviewed DOI's FY 2023 risk register and DOI's FY 2023 risk profile contained in the ERM automated tool to verify whether DOI conducted risk assessments.
- Collected and analyzed data, such as DOI's maturity assessments of its ERM Program for FYs 2021 and 2022, PPP position descriptions, and FY 2023 through 2024 PPP organization structure.

Appendix 2: Response to Draft Report

The U.S. Department of the Interior's response to our draft report follows on page 19.



United States Department of the Interior

OFFICE OF THE SECRETARY
Washington, DC 20240

Memorandum

To: Mark L. Greenblatt
Inspector General

From: Joan M. Mooney **JOAN MOONEY** Digitally signed by JOAN MOONEY
Date: 2024.09.17 17:24:43 -04'00'
Principal Deputy Assistant Secretary Exercising the Delegated Authority of the
Assistant Secretary – Policy, Management and Budget

Subject: Draft Inspection Report – *The U.S. Department of the Interior Should Take
Action to Fully Implement Its Enterprise Risk Management Capability* Report No.
2023-ISP-036

Thank you for providing us the opportunity to respond to the Office of Inspector General Draft Audit Report – *The U.S. Department of the Interior Should Take Action to Fully Implement Its Enterprise Risk Management Capability*. The Draft Audit Report communicates five recommendations for the Department of the Interior (Department, Interior). Interior's response to the recommendations is outlined below.

Recommendation 1. Establish a risk appetite as required in the Office of Management and Budget Circular No. A-123 and implement a process to ensure Departmentwide awareness of the risk appetite.

Response: Concur. The Department's Management Improvement Team (MIT) Executive Council, which serves as the Risk Management Council and is chaired by the Acting Deputy Secretary, reviewed and unanimously approved a risk appetite statement on September 13, 2024. The MIT Executive Council/Risk Management Council is comprised of Assistant Secretaries; Heads of Bureaus; Solicitor; Deputy Assistant Secretary – Administrative Services; Deputy Assistant Secretary - Budget, Finance, Grants and Acquisitions; Deputy Assistant Secretary – Public Safety, Resource Protection, and Emergency Services; Deputy Assistant Secretary – Human Capital and Diversity; and the Chief Information Officer.

Responsible Official: Patricia Currier, Director, Office of Planning and Performance (PPP) Management

Target Date: Completed September 13, 2024

Recommendation 2. Implement a process to periodically reevaluate and adjust risk appetite and tolerance levels to meet DOI's needs in accordance with the Office of Management and Budget Circular No. A-123.

Response: Concur. In 2023, the Department established a process to periodically review, reevaluate, and adjust tolerance levels. Using this process, PPP established a risk tolerance level of 15 in the FY 2023 annual Enterprise Risk Management (ERM) guidance. This risk tolerance level is used by the ERM community to indicate when additional actions to treat risk are called for. A more formal risk appetite statement was approved by the MIT Executive Council/Risk Management Council on September 13, 2024. The risk tolerance and the risk appetite will be reviewed and reevaluated annually by the MIT Executive Council/Risk Management Council.

Responsible Official: Patricia Carrier, Director, Office of Planning and Performance (PPP) Management

Target Date: Not applicable

Recommendation 3. Create a comprehensive risk profile as required by the Office of Management and Budget Circular No. A-123 and ensure it is properly approved and incorporated into discussions for decision making.

Response: Concur. The Department developed a comprehensive enterprise risk profile, aligned to the objectives in the FY 2022-2026 Strategic Plan. It is a list of risk levels to objectives in the Department's strategic plan, and is updated as new risks are reviewed, rated, and ranked. The risk profile is a product generated using a Power Business Intelligence Tool, which facilitates analysis and use of risk information in planning activities. The risk profile was presented to the MIT Executive Council in May 2024. The Acting Deputy Secretary approved the profile, and the MIT Executive Council/Risk Management Council incorporated the process into decision making going forward.

Responsible Official: Patricia Carrier, Director, Office of Planning and Performance (PPP) Management

Target Date: Not applicable

Recommendation 4. Establish a risk management council or an equivalent governance system to direct and oversee the establishment of the Department's risk profiles, regularly assess risk, develop appropriate risk responses, and approve the updated risk profile annually.

Response: Concur. The MIT Executive Council met in May 2024 where PPP provided a briefing on the Department's enterprise risk management program. In September 2024, the MIT Executive Council met again to review a charter outlining the functions of this body as the Risk Management Council and identified roles and responsibilities of its members as well as a process to oversee, assess, treat, and manage risks. The MIT Executive Council/Risk Management Council has the authority to review and approve the risk profile, regularly assess risk, and develop appropriate risk responses. At the September 13, 2024, meeting, Council members were asked to provide any additional guidance on the charter in writing. Comments and edits will be incorporated and discussed by the Council members when they consider the charter for adoption.

Responsible Official: Patricia Currier, Director, Office of Planning and Performance (PPP) Management

Target Date: Completed September 13, 2024

Recommendation 5. Define the enterprise risk management roles and responsibilities for leadership at the executive, bureau, and office level and ensure those roles and responsibilities are clearly communicated.

Response: Concur. PPP included roles and responsibilities in the FY 2023 and 2024 annual ERM guidance. The FY 2025 annual guidance, issued on August 26, 2024, was expanded to include additional clarifying language for senior leaders in the Department. As noted previously, the MIT Executive Council/Risk Management Council met on September 13, 2024, chaired by the Acting Deputy Secretary, who officially designated the Council as the body to direct and oversee risk management. The draft charter identifies roles and responsibilities of its members and a process to oversee, assess, treat, and manage risks.

Responsible Official: Patricia Currier, Director, Office of Planning and Performance (PPP) Management

Target Date: Completed August 26, 2024

If you have questions or require additional information, please contact me at joan_mooney@ios.doi.gov.

cc: Laura Daniel-Davis, Acting Deputy Secretary
Eric Werwa, Deputy Assistant Secretary of Policy, and Environmental Management
Patricia Currier, Director, Office of Planning and Performance Management

Appendix 3: Status of Recommendations

Recommendation	Status	Action Required
<p>2023-ISP-036-01 We recommend that the U.S. Department of the Interior (DOI) Secretary or designee establish a risk appetite as required in the Office of Management and Budget Circular No. A-123 and implement a process to ensure Departmentwide awareness of the risk appetite.</p>	Resolved	We will track implementation.
<p>2023-ISP-036-02 We recommend that the DOI Deputy Secretary or designee implement a process to periodically reevaluate and adjust risk appetite and tolerance levels to meet DOI's needs in accordance with the Office of Management and Budget Circular No. A-123.</p>		
<p>2023-ISP-036-03 We recommend that the DOI Deputy Secretary or designee create a comprehensive risk profile as required by the Office of Management and Budget Circular No. A-123 and ensure it is properly approved and incorporated into discussions for decision making.</p>	Unresolved: pending additional information.	We will meet with the Office of Policy, Management and Budget to further discuss resolution of this recommendation.
<p>2023-ISP-036-04 We recommend that the DOI Deputy Secretary or designee establish a risk management council or an equivalent governance system to direct and oversee the establishment of DOI's risk profiles, regularly assess risk, develop appropriate risk responses, and approve the updated risk profile annually.</p>	Resolved	We will track implementation.
<p>2023-ISP-036-05 We recommend that the DOI Deputy Secretary or designee define the enterprise risk management roles and responsibilities for DOI's leadership at the executive, bureau, and office level and ensure those roles and responsibilities are clearly communicated.</p>		



OFFICE OF
INSPECTOR GENERAL
U.S. DEPARTMENT OF THE INTERIOR

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