



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



Evaluation of Office of Insular Affairs' Program Management




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MAY 25 2010

Memorandum

To: Anthony Babauta
Assistant Secretary for Insular Affairs

From: Mary L. Kendall 
Acting Inspector General

Subject: Evaluation of Office of Insular Affairs' Program Management
(Report No. WR-EV-OIA-0007-2008)

This evaluation focuses on Office of Insular Affairs (OIA) effectiveness in assisting the Insular Areas: the four U.S. territories and three independent countries freely associated with the United States. OIA carries out the Secretary of the Interior's responsibilities to the Insular Areas by administering grant programs benefitting the Insular Areas and advocating for Insular Area issues within the federal community.

We found that OIA has limited authority and resources to achieve positive outcomes in the island communities. Nevertheless, OIA has not effectively used its available resources to monitor the use of its grant funds by the Insular Areas and advocate for the four territories. Further, OIA does not have adequate performance measures to track the success of its efforts. Because of these limitations, areas such as infrastructure development, waste disposal, and health care remain as serious challenges to the Insular Area governments and their communities. The report contains recommendations for OIA to improve the effectiveness of its assistance to the Insular Areas. These actions should dovetail with those recommended by the recent Government Accountability Office report on grants oversight.

We would appreciate being kept informed of the actions taken on our recommendations as we will track the status of their implementation. Please have a written response forwarded to this office within 30 days, identifying plans to address the findings and recommendations cited in this report.

Should you have any questions about this report, please call me at 202-208-5745.

cc: Nikolao Pula, Director, Office of Insular Affairs, U.S. Department of the Interior

Executive Summary

The Office of Insular Affairs (OIA) has limited resources and authority to accomplish major policy goals in the Insular Areas. Specifically, OIA does not have the technical expertise to directly assist the Insular Areas with the numerous problem areas they face. OIA also lacks the authority to directly tackle these problems because the responsibility for providing local government services rests with each Insular Area government. Beyond the constraints facing OIA, however, we found that OIA can improve fulfilling its responsibilities in three areas: grants management, advocacy, and performance measurement.

OIA's grants management is hindered by problems with the use of staff, location of field representatives, and assessments of ongoing grant-funded programs. Field representatives are not present in all Insular Areas and OIA has not used its role in the Interagency Group on Insular Affairs to achieve positive outcomes for the Insular Areas, which inhibits OIA's success with advocacy. Finally, performance goals are not adequately defined and performance measures do not take into account OIA's role in influencing policy.

The purpose of this evaluation was to determine if OIA was able to effectively assist the Insular Area governments in gaining economic self-sufficiency and improving the quality of life for their people. Insular Area programs have been identified as a major management challenge for many years. Numerous reviews conducted by the Government Accountability Office (GAO) and the Office of Inspector General (OIG) identified ongoing management and financial problems in the Insular Areas. For example, in 2008 GAO reported that the Federated States of Micronesia (FSM) faced major challenges in achieving the goals of the Compact of Free Association with the U.S. Also, OIG reported in 2008 that Insular Area health care was "at the crossroads of a total breakdown."

We are providing recommendations to improve OIA's staff utilization and Insular Area advocacy. In addition, given OIA's limitations identified in this evaluation and prior audit coverage, we suggest that policymakers examine whether OIA as it is currently constituted can successfully mitigate the critical problems facing the Insular Areas, such as education, health care, and infrastructure.

Background

The purpose of this evaluation was to determine if OIA is able to effectively assist the Insular Area governments in gaining economic self-sufficiency and improving the quality of life for their people. See Appendix 1 for more information on our objective, scope, and methodology.

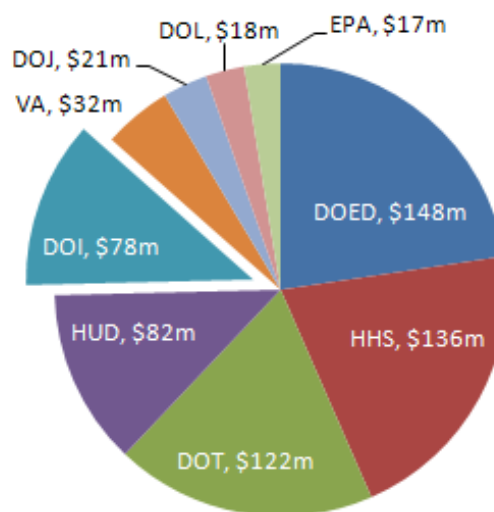
The Insular Areas

The Insular Areas are comprised of the three freely associated states (FAS), which are sovereign (FSM, the Republic of the Marshall Islands (RMI), and the Republic of Palau), and the four major U.S. territories (American Samoa, the Commonwealth of the Northern Mariana Islands (CMNI), Guam, and the U.S. Virgin Islands (USVI)). A brief history of these areas is included in Appendix 2.

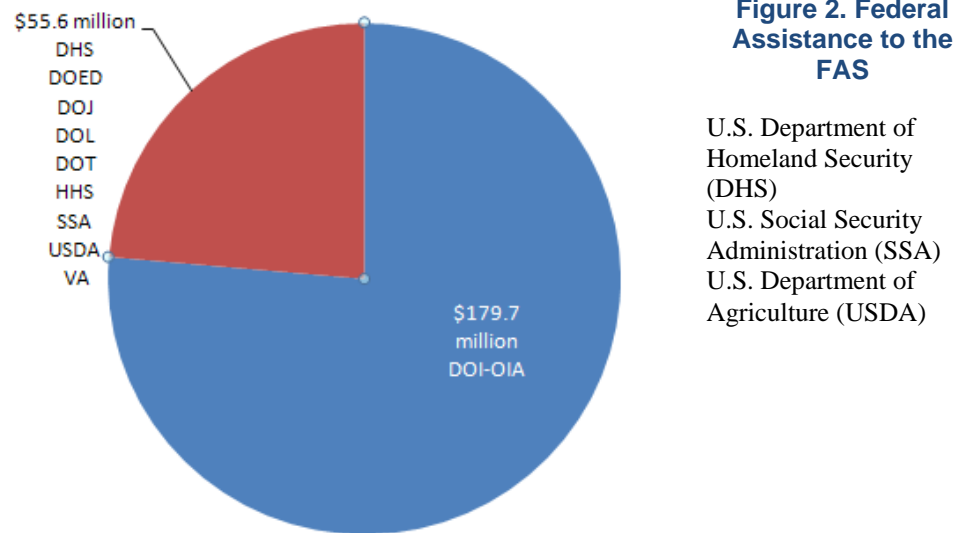
The Insular Areas are self-governing. They are located on isolated islands with small populations. These conditions impact the costs of doing business, the ability to recruit and retain skilled personnel, and basic services such as waste disposal and health care. Each territory has an elected governor and legislature to provide for local government, as well as a non-voting delegate to the U.S. Congress. In addition to their own revenue bases, the Insular Areas rely on Federal funding from many agencies. In 2006, Federal assistance from the agencies identified in Figure 1 totaled about \$654 million dollars. About 12 percent came from Interior (primarily through OIA).

Figure 1. Federal Assistance to the U.S. Territories

U.S. Department of Justice (DOJ)
U.S. Department of Labor (DOL)
U.S. Environmental Protection Agency (EPA)
U.S. Department of Education (DOED)
U.S. Health and Human Services (HHS)
U.S. Department of Transportation (DOT)
U.S. Housing and Urban Development (HUD)
U.S. Department of the Interior (DOI)
U.S. Department of Veteran Affairs (VA)



In 2006, for the FAS, Federal assistance totaled about \$235 million, of which \$179.7 million (76 percent) came from Interior as Compact grants administered by OIA. (See Figure 2.)



Interior's responsibilities to the Insular Areas

Interior's responsibilities to the Insular Areas have ebbed and flowed since the turn of the 20th Century when the Hawaiian Islands came under Interior's jurisdiction. Currently, the seven main Insular Areas under Interior's jurisdiction exercise varying degrees of self-governance, leaving Interior to play a supporting role.

Interior is responsible for administering and overseeing U.S. Federal assistance provided to FSM, RMI, and Republic of Palau under the Compacts of Free Association.¹ In carrying out these responsibilities, Interior is required to coordinate with the State Department and other Federal agencies to promote economic development and budgetary self-reliance in these countries. Interior also provides for the general administrative supervision of the relations between the U.S. government and the territories of American Samoa, CNMI, Guam, and the USVI, except for matters under the jurisdiction of other Federal agencies.² Through the Interagency Group on Insular Affairs (IGIA), Interior is to obtain information and advice from the four U.S. territories and collaborate with other Federal agencies to advise the President on policy establishment or

¹ Public Law 108-188 contains the amended compacts with the FSM and the RMI, while Public Law 99-658 provides for the compact with the Republic of Palau.

² 48 USC 1541(c), Ex. Ord. No. 12572, and 48 USC 1421a. Interior has broader but similar responsibilities in American Samoa per Executive Order No.10264.

implementation.³ Congress also gave Interior responsibilities such as providing grants for capital improvement projects, technical assistance, and support of American Samoa governmental functions.⁴

“The Territories and their governments are not instrumentalities of the Department of the Interior. They are self-governing entities whose aspirations and responsibilities are, to a degree, similar to those of state and local governments. With the passage of time, the Department of Interior’s role has diminished, and rightly so.”

Assistant Secretary of the Interior, 1984

The Office of Insular Affairs

OIA is charged with carrying out Interior’s responsibilities with respect to the Insular Areas. In implementing the public laws and executive orders applicable to the Insular Areas, OIA “assists U.S. affiliated islands in developing more efficient and effective governments by providing financial and technical assistance, and helps manage Federal-island relations by promoting appropriate Federal policies.” OIA’s current emphasis is on “improving the financial management practices of insular governments, increasing economic development opportunities, and increasing Federal responsiveness to the unique needs of island communities.”⁵ OIA is led by an Assistant Secretary and a Director and has a staff of about 30 employees. Of this staff, 21 members are located in the Washington, D.C. office. Four employees are stationed in the Honolulu office, which is dedicated solely to administering FSM and RMI Compacts. Five employees (field representatives) are located in the Insular Areas and provide support for the grants managers as well as perform other various policy functions.

Of the 30 staff members, OIA has 10 grants managers: four for Compacts, two for capital improvements, two for technical assistance, one for operation and maintenance improvement, one for the Coral Reef Initiative. OIA’s funding assistance in 2008 totaled \$231 million, of which \$163 million was for sector grants under the Compacts of Free Association. In addition, \$68 million was generally available in the form of grants to the territories with the largest program being for capital improvements. (See Figure 3.)

³ The IGIA was originally established by Presidential memorandum dated August 9, 1999. The IGIA was reestablished by Executive Order 13299, dated May 12, 2003. This Executive Order was superseded by Executive Order 13537 dated April 14, 2010.

⁴ 48 USC 1804, 48 USC 1469d, and annual Interior appropriation acts such as Public Law 110-161 for 2008.

⁵ The Interior Budget in Brief, fiscal year 2010.

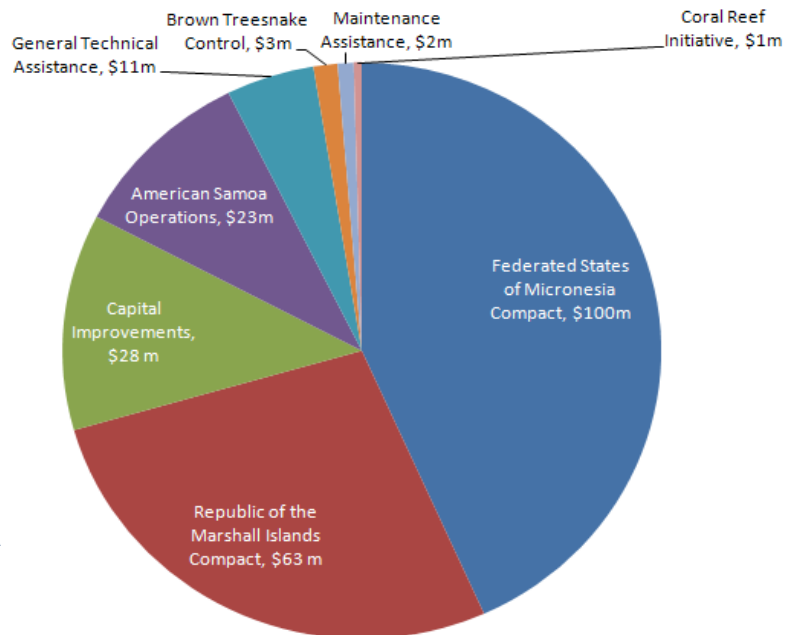


Figure 3. OIA Assistance Programs

The grant managers are responsible for the day-to-day activities associated with OIA's grant programs such as reviewing grant applications, approving grant disbursements, approving changes in project timing or scope, and conducting site visits to the grantee. The five field representatives provide assistance to these grants managers. The remaining half of the staff is located in Washington, D.C. This staff includes three division heads as well as the OIA Director and the Assistant Secretary. These individuals perform the leadership functions of OIA such as consulting with Insular Area elected officials, approving grant applications, and establishing policies with respect to the Compact grants. The remaining Headquarters personnel perform various policy or administrative functions such as monitoring current events in the Insular Areas, preparing briefing papers and Congressional testimony, and coordinating with other Federal agencies.

Interior measures and reports OIA's progress in meeting its mission in its annual performance report. OIA's performance measures are: 1) decrease the ratio of federal revenue to total revenues in Insular Areas; 2) increase the ratio of private sector jobs to total employment; 3) decrease the total average number of months that general fund financial statements of the Insular Areas are late; and 4) increase the Insular Areas' satisfaction with Interior's responsiveness to their needs.

Interior reported for fiscal year 2008 that OIA has met its three of the four performance measures pertaining to the Insular Areas. For the missed target pertaining to private sector employment, Interior reported that the deviation from the performance goal was "slight" and that significant steps are not necessary to resolve the deviation.

Results of Evaluation

OIA's ability to accomplish major policy objectives in the Insular Areas is hindered by a lack of technical expertise and authority to directly assist the Insular Areas with the numerous problems they face. The lack of authority to address these problem areas exists because the responsibility for providing local government services rests with each Insular Area government. Beyond these constraints, we found that OIA can improve fulfilling its responsibilities in three areas: grants management, advocacy, and performance measurement.

Grants Management

We identified problem areas in OIA's grants management with respect to use of staff, location of field representatives, and assessments of ongoing grant-funded programs. Field representatives are not being consistently used to assist grant managers in performing their oversight duties. Further, field representatives with grant management responsibilities are not located in areas that allow oversight and assistance to be most successful. Finally, OIA has difficulty in measuring the success of its grant programs.

Use of Staff

We found that OIA neither requires all its field representatives to provide regular oversight and administration of its grants, nor formally designates field representatives as grants officer technical representatives, as do the other Interior bureaus. Further, grant managers are not being used to their full potential.

Current practice allows duties and responsibilities of the field representatives to vary from person to person and location to location. For example, the American Samoa field representative assists the grants managers even though her job description defines only the role of policy liaison. In comparison, one field representative in CNMI was dedicated solely to grant management. OIA does not require all its field representatives to provide regular oversight and administration of its grants. OIA has no schedule for site visits; rather, site visits have been planned in response to outside forces, such as media reports or headquarters inquiries. In one case, the OIA Director himself visited Saipan to investigate rolling blackouts, when the field representatives stationed in Saipan should have been doing so. OIA provided millions of dollars to the Commonwealth Utility Commission of Saipan to address maintenance issues with the power generators without determining how prior OIA funds were used.

Designations of grants officer technical representatives involve individual memorandums that notify individuals of their specific responsibilities, such as monitoring project performance for specific grants. Without designations, the roles and responsibilities that a field representative has for a particular grant are

not clearly defined. One of OIA's grant managers told us that the use of these designations would be beneficial in clarifying employee roles in grants management.

We also found instances where grant managers were not being used to their full potential. For example, the grant manager in Honolulu responsible for the public sector capacity building grants in FSM and RMI has significant experience in public sector capacity building, and could provide invaluable assistance in this critical area of weakness. He has been told, however, that he "is not allowed" to work on public sector capacity building as that was the function of OIA's contractor, the U.S. Department of Agriculture (USDA) Graduate School. Under its OIA contract, the USDA Graduate School provides training courses to Insular Area employees and provides support to various OIA initiatives. When we asked an OIA official why Compacts staff members were not reaching out to assist the FSM in areas such as budget development, he replied that technical assistance is the responsibility of the USDA Graduate School and "If we do it once, they will always expect it."

Location of Field Representatives

OIA's field representatives with grants management responsibilities are not located in areas that allow them to be most successful. Historically, OIA had field representatives in each of the Insular Areas. This changed in 1995, however, when the OIA's predecessor office was downsized. OIA closed its offices in USVI and Guam. OIA has not addressed its field presence in the territories since then.

In 2003, OIA opened a Compacts office in Honolulu dedicated to coordinating OIA Compacts oversight. An increased OIA presence in the area was needed because of the new accountability provisions of the revised Compacts with the FSM and the RMI. The location of the staff in Honolulu, however, has been a point of contention from the beginning. The then-U.S. Ambassador to the FSM stated that to achieve real accountability, there is no substitute for permanent, expert staff on the ground and that, despite the best of intentions, "periodic" visits would "inevitably become infrequent." For many reasons, OIA managers disregarded the recommendations and warnings of this State Department official and established the Compacts office in Honolulu. During our review, we found that staff visits from the Honolulu office have, in fact, become less frequent, depriving the FSM of needed assistance and oversight. In our interviews with FSM government officials, we were told that OIA needs an active presence in FSM in order to positively influence compact implementation. When speaking of the site visits from the Honolulu office, some FSM officials compared them to policemen who come in to look for problems and hand out sanctions but fail to give them advice on how to correct underlying problems. We also heard that the OIA officials were concerned about catching their planes and "going home to paradise." One FSM official told us he wanted a more collegial relationship with OIA; not micromanagement that compromises the sovereignty of FSM.

OIA did not assign a field representative to assist the Honolulu office, the U.S. Ambassador, or FSM government officials with Compact oversight, despite the fact that FSM received about \$100 million in grant funds, more than any other Insular Area. OIA left FSM officials to struggle and U.S. Embassy staff to communicate day-to-day with the FSM government.

“The administration of a \$92 million foreign aid program (US-FSM Compact) by means of periodic visits from Honolulu has caused serious strain here. I refer to ineffective application of U.S. assistance money as well as a strain on the very fabric of our bilateral relationship in a Pacific island nation where we face intensifying regional competition.”

U.S. Ambassador to the FSM, 2008

Coordination between the U.S. Embassy and OIA under this arrangement is ineffective. In a 2009 inspection (ISP-I-09-17), the Department of State Office of Inspector General identified this as a “serious problem.” Specifically, the report states that Compact assistance is “not factored properly into the mission strategic plan, and the Ambassador is unable to exercise chief of mission oversight of how U.S. assistance is utilized.” The report recommended improved coordination between the U.S. Embassy and OIA on Compact implementation.

During our visit to FSM, we heard from a number of people about problem areas with OIA oversight of the Compact sector grant funds. One FSM official stated that in the absence of effective OIA administration, “the management of the Compact should be transferred to an agency that is more disposed to helping the people of Micronesia to achieve higher standards of health care, education, and governance in a spirit of helpfulness and friendship.” The U.S. Ambassador to the FSM told us that she “tends to agree” with those who said that Compact administration should have been given to the U.S. Agency for International Development (USAID).

Although USVI and Guam receive far less OIA grant assistance, OIA would benefit from an increased presence in these territories. For example, our 2003 grant management report detailed the problems associated with the Ordot Landfill grants to Guam and the lack of OIA oversight. The U.S. District Court in Guam placed Guam’s Solid Waste Management Division under receivership in 2008 because of continued violations of the Clean Water Act and U.S. Environmental Protection Agency regulations at the Ordot facility.

Follow-up on Grants Performance

Neither OIA grants managers nor field representatives have been successful in attempts to assess ongoing grant-funded projects to ensure achievement of the grants' intended purposes. We found that a grants manager's role is considered fulfilled once the grant funds are expended and the grant is closed. This means that grants managers are not tracking the ultimate result of grants and instead are just closing files once reports are filed and payments are made. One OIA grants manager asserted that closing grants equates to fulfilling the grants management role.

The most telling example of this perspective in action is the new dialysis unit and adult facility at the CNMI's Commonwealth Health Center on Saipan. They are still non-operational more than 3 years after the facilities were essentially completed. When asked why, the CNMI hospital officials provided different reasons at different times, including the facilities' piping needed repairs, Medicare certification of the facility was needed, and a dialysis supply contract was not in place. This \$17.6 million Commonwealth Health Center capital improvement project is the subject of a 2007 OIG report and is again mentioned in a 2008 report on Insular Areas health care. Such adherence to the idea that closing a grant equates to a successful job, in this case closed files versus increased medical service on Saipan, contributes to the lack of beneficial results.



Unused dialysis facility (above) and adult facility (right) at the CNMI's Commonwealth Health Center.

Photos by OIG Staff

Recognizing the difficulty of OIA contributing to positive outcomes for the Insular Areas, the Associate Deputy Secretary and Acting Assistant Secretary for Policy, Management and Budget told us in 2008 that he asked a group of Interior's Senior Executive Service candidates in 2007 to review the legal basis for Interior's role in the Insular Areas. He also asked the group to offer suggestions, from an outside perspective, on how to improve OIA services.

In June 2008, the group provided its report, "The Insular Areas — A Strategy for Action," to the Deputy Chief of Staff and Acting Deputy Assistant Secretary for

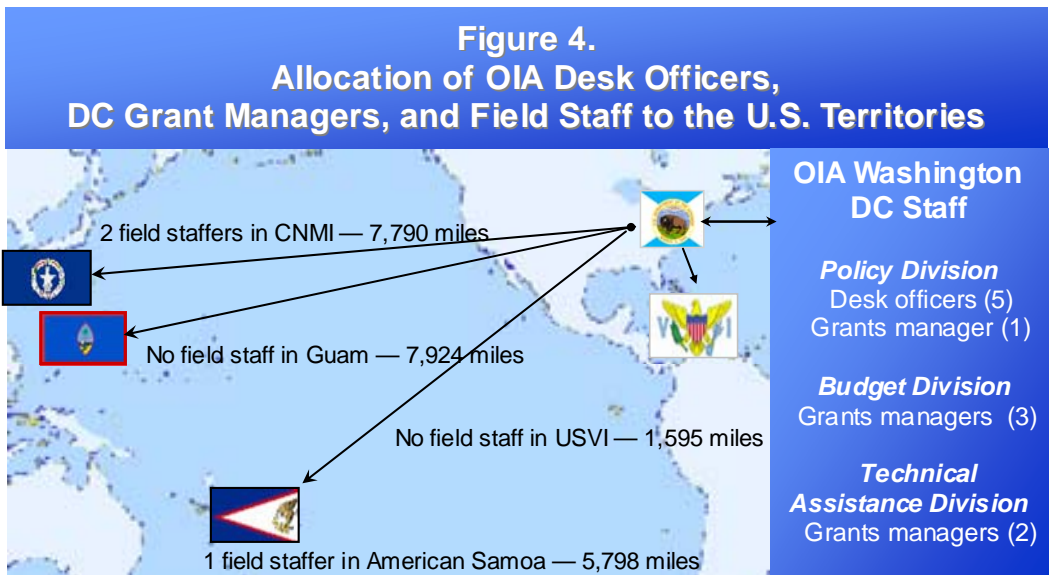
Insular Affairs, who left office in early 2009. The report provided strategies for improving coordination with other federal agencies, improving government-to-government relationships, and providing leadership and technical expertise to improve management practices, policies, and internal controls. The OIA Director informed us in 2009, however, that he did not have the report and could not have acted on its suggestions.

Insular Area Advocacy

Despite the limitations OIA operates under, we found that OIA has not done all it could to be an effective advocate for the Insular Areas. OIA field representatives are not present in all Insular Areas to assist with key policy issues. OIA has also not effectively used its role in the IGIA to push for U.S. policy changes with respect to the territories.

Field Representatives Not Present in All Insular Areas

Over two thirds of OIA’s Washington, D.C. staff does not work primarily on grants management activities. These personnel perform a variety of functions, including overseeing the activities of the grant managers and working on IGIA and Congressional issues. This location works well when the staff is working with senior officials within Interior and other federal agencies. It is not as beneficial when the staff is working with Insular Area officials because the majority of the Insular Areas are located thousands of miles away in the Pacific Ocean.



An example of this problem lies with the one particular job within OIA: the desk officer. This is one of the three most common jobs. These policy analysts serve many functions relating to the specific Insular Areas they are responsible for, including writing policy papers, fielding inquiries, and following current events.

The desk officers are not only thousands of miles away from their areas of responsibility (see Figure 4), but we found that they duplicate, at least in part, the duties of the field representatives.

OIA has not always been in this situation. In the past, OIA had field representatives in each Insular Area. USVI and Guam lost their field representatives in the mid 1990s as part of a reorganization of the Office. Desk officers in Washington, D.C. have taken up the responsibilities of those representatives once located in the field.

Having staff located in the islands would not only help keep OIA abreast of issues important to the Insular Areas, but it would help OIA to coordinate with government officials on pressing issues. Given the planned relocation of 8,000 Marines and 9,000 dependents to Guam, a field representative dedicated in Guam will be critical to the needs of the community and mitigate the impacts of this military relocation.

OIA Role within the Interagency Group on Insular Affairs

OIA has not used its role within the IGIA to its fullest potential. When the IGIA was established in 2003 by Executive Order 13299, it named the Interior Secretary or his designee responsible to “convene and preside at the meetings of the IGIA, determine its agenda, direct its work and, as appropriate to deal with particular subject matters, establish and direct subgroups of the IGIA.” The IGIA brings to OIA, as the Secretary’s designee, a leadership role in Federal policy and a means to work with the territories’ governments and various Federal agencies to improve U.S. policy on the territories. Although annual IGIA reports have discussed ideas that would require Administration action to accomplish, they have contained scant policy recommendations to the President. Rather, many of the same issues are raised from year to year with no accompanying policy recommendations. In this regard, some of the OIA employees we spoke with expressed their concern that OIA was having “fruitless meetings” and not utilizing IGIA to its fullest potential.

Interior has held annual meetings of the IGIA with representatives from major federal agencies as well as elected leaders of the territories. The IGIA has established workgroups to address various issues. These meetings are used as examples of accomplishments whether or not they actually effected change. For example, in a 2008 House of Representatives oversight hearing (110-81), Interior cited one accomplishment as establishing a working group in 2003 to address the water situation in Saipan, which Interior provided funding for in subsequent fiscal years. OIA, however, was unable to marshal the resources needed to successfully address the lack of potable water on Saipan which is still a problem to this day.

At the Congressional hearing, a representative of the CNMI stated, “I was hoping that IGIA would move the territories from the realm of forgotten stepchild into

the mainstream where we would finally have powerful advocates on our side.” The Governor of USVI said:

“The IGIA, even under its current structure, offers an important opportunity for the governments of the U.S. territories to raise issues of concern directly to the attention of the Secretary of the Interior and the representatives of the federal departments and agencies. The ability of the IGIA, in its current form, to effect needed change and to develop fair and equitable policies towards the off-shore territories, however, is a different matter.”

The IGIA is a consultative and deliberative body only. Its purpose, as stated by Executive Order 13299, is to 1) provide advice on establishment or implementation of policies concerning the U.S. territories to the President and the Interior Secretary; 2) obtain information and advice from governors and elected officials of the Insular Areas and from others; and 3) review and advise on policy actions proposed by any member of the IGIA that affect one of the Insular Areas. As this list indicates, the IGIA’s role is primarily to gather information and provide advice, which limits its power to actually effect change. For example, GAO reported that the IGIA has tried to help Guam with budgetary requirements related to the ongoing U.S. troop buildup but was unsuccessful because the IGIA lacks authority to make executive decisions. Regardless, OIA cited the IGIA’s work on this issue as one of its successes. Without making recommendations, however, the IGIA fails to exercise even the limited power it has been given.

Executive Order 13537 dated April 14, 2010 appears to have addressed the issue of IGIA authority by assigning the Deputy Assistant to the President and Director of Intergovernmental Affairs as an IGIA co-chair. The practice of having a co-chair from the White House was used from 1999 to 2001 before the IGIA was established by Executive Order. The OIA Director told us that having a White House co-chair would “raise the visibility” of the IGIA within the federal community.

Annual Performance Measures

OIA lacks meaningful performance measures to demonstrate its progress in meeting its mission goals. OIA’s performance measures currently are 1) decrease the ratio of federal revenue to total revenues in Insular Areas; 2) increase the ratio of private sector jobs to total employment; 3) decrease the total average number of months that general fund financial statements of the Insular Areas are late; and 4) increase the Insular Areas’ satisfaction with Interior’s responsiveness to their needs. All but one of these measures expands beyond where OIA responsibilities lie. OIA, at best, can only influence the accomplishment of these measures in the Insular Areas as the authority to provide government service rests with the local governments. The defined outcome goals and correlating performance measures, however, are not structured to account for this.

“I think OIA could benefit from better organization and better clarification of roles and responsibilities not just for each division and each employee, but for the office as a whole.”

OIA Employee, 2009

For example, OIA does not have direct control over the economic policies of the Insular Areas and must work with Insular Area government officials and other federal agencies to increase economic development. OIA has devoted resources over the past few years to improving business opportunities in the Insular Areas. OIA had one Headquarters staff member devoted to private sector development with the assistance from other OIA employees as well as from an OIA contractor. Annual conferences sponsored by OIA have served to elevate the visibility of the Insular Areas within the private sector. While we were told of some successes from these conferences, OIA has no specific performance goals to measure the success of these efforts.

Similarly, OIA has limited influence over the financial management practices of the Insular Areas. OIA has one Headquarters staff dedicated to improved accountability with the assistance of an OIA contractor. Through its technical assistance program, OIA funds training to Insular Area financial personnel. While OIA’s efforts to improve financial management practices are a step in the right direction, we found in our Guam taxes review that the training proved to be counterproductive.⁶ Tax examiners with increased qualifications found it easier to obtain employment outside the Government of Guam. Nevertheless, OIA lacked specific performance measures for its efforts to improve financial practices. Rather, the measure used is the timeliness of Insular Areas in submitting their financial statements.

Performance measurements do not only fail to account for OIA’s sphere of influence, but also improperly translate success in one area to mean success in an outcome goal. Specifically, the fourth measurement is to increase the Insular Area’s satisfaction with Interior’s responsiveness to their needs. The results of OIA’s satisfaction survey reflect the positive feelings that we generally found in the Insular Areas pertaining to OIA assistance but did not reflect the ability of OIA to effect positive outcomes in the Insular Areas. For example, an American Samoa government official said they appreciated the assistance provided by OIA but pointed to the needs of the territory for additional capital improvements funding. Further, FSM officials told us they felt left on their own to implement their grant programs and would appreciate an increased OIA field presence in their country.

⁶ “Guam’s Tax Collection Activities: Office of Insular Affairs Involvement Needed to Achieve Lasting Improvements.” OIG report number HI-EV-GUA-0002-2008, dated November 2008.

Conclusion

Within its available resources, OIA must improve its grants management and staff utilization. Increased on-the-ground oversight is vital for successful use of grant funds and to ensure that grant funding is effectively used to achieve positive outcomes for the Insular Areas. OIA must also fully utilize available forums such as the IGIA to improve its advocacy for the Insular Areas, including coordination with other federal agencies and making needed policy recommendations to the President. In carrying out its responsibilities, OIA must be able to demonstrate the degree of success it has in meeting its mission requirements.

Lastly, we are concerned that OIA as it is currently constituted may not be able to successfully assist the Insular Areas to improve services in critical areas such as education, health care, and utilities. Policymakers may want to consider alternative models. For example, an increased OIA field presence and technical staff could assist the Insular Areas in addressing problem areas. The territories could also be treated much like a State, similar to Puerto Rico, which is no longer under Interior jurisdiction. The FAS may be better served under another model involving an agency better suited to deal with administering aid to foreign countries.

Recommendations

We recommend that the Assistant Secretary for Insular Affairs:

1. Evaluate OIA's staff utilization and location and clarify their duties in order to most effectively accomplish OIA's mission.
2. Consider the strategies proposed in the SES candidates report for improved coordination with other federal agencies to increase federal responsiveness to the needs of the territories.
3. Revise OIA's performance goals and measures to correspond with OIA's current mission.

Appendix I- Objective, Scope, and Methodology

The objective of our evaluation was to determine whether OIA possesses and uses the skill sets and abilities needed to effectively assist Insular Area governments. The scope of our review included all OIA locations, three of the four U.S. territories, and two of the three freely associated states. We excluded USVI because of its relatively small amount of OIA grants funds. We excluded the Republic of Palau because the financial assistance terms of the Compacts of Free Association were scheduled for renegotiation in 2009.

We performed our evaluation work from August 2008 through June 2009 in accordance with the “Quality Standards for Inspections” issued by the President’s Council on Integrity and Efficiency. Accordingly, we included such tests of records and other procedures that were considered necessary under the circumstances. To accomplish our objectives, we conducted the following activities:

- Reviewed applicable laws, executive orders, policy documents, and various reports and documents.
- Interviewed OIA officials and staff from Washington, DC, Hawaii, American Samoa, CNMI, FSM, and RMI.
- Interviewed Insular Area government officials from American Samoa, Guam, CNMI, the national Government of the FSM, and the FSM states of Pohnpei, Yap, and Kosrae.
- Interviewed U.S. Department of State officials from the Washington, DC area, the FSM, and the RMI.

Appendix 2 — Insular Areas History

During most of America's nationhood, a major portion of the land under its jurisdiction was in territories rather than States. In 1873, when the Congress transferred territorial oversight from the Secretary of State to the Secretary of the Interior, the governance of some 1,629,000 square miles became an Interior responsibility. By then, the United States had reached its present continental dimensions, encompassing nearly 3,611,000 square miles, so that the territories covered about 45 percent of the national domain. From them were formed the States of Colorado in 1876; Montana, Washington, and North and South Dakota in 1889; Wyoming and Idaho in 1890; Utah in 1896; Oklahoma in 1907; Arizona and New Mexico in 1912; and Alaska in 1959.

In 1898, the United States acquired its first Insular possessions, annexing the Hawaiian Islands and obtaining Puerto Rico, Guam, and the Philippines from Spain following the Spanish-American War. America's Pacific presence was extended a year later with the addition of several of the Samoan Islands. Only Hawaii came under Interior at the outset; the State Department took primary responsibility for Puerto Rico, the War Department supervised the Philippines, and the Navy Department oversaw Guam and American Samoa. When the United States purchased the Virgin Islands from Denmark in 1917, the Navy also took charge of that Caribbean possession.

This diffusion of territorial responsibility began to be reversed in the 1930s. In 1931, President Herbert Hoover moved the USVI to Interior. In 1934, President Franklin D. Roosevelt created a new Interior unit, the Division of Territories and Island Possessions, to coordinate oversight of Alaska, Hawaii, the USVI, and Puerto Rico. The Division dealt with the Philippines from 1939 until those islands attained independence in 1946, a period during which they were largely self-governing before coming under Japanese wartime occupation.

In the 1950s, Interior gained some small territorial responsibilities but lost some big ones. Interior assumed jurisdiction over Guam, American Samoa, and the Trust Territory of the Pacific Islands in 1950 and 1951. The last contained the Caroline and Northern Mariana Islands, former Japanese possessions that the United Nations assigned to United States trusteeship in 1947. It lost responsibility for Puerto Rico after 1952, when a new Commonwealth constitution granting that island full internal self-government took effect. Most notable were the graduations of Alaska and Hawaii to statehood in 1959.

The USVI, Guam, and American Samoa remain Interior concerns, as is CNMI, a U.S. territory established in 1986 from the Trust Territory of the Pacific Islands. While the territories' legal relationships with the United States vary, all have their own elected legislatures and executives and enjoy substantial autonomy in domestic affairs.

The remaining Trust Territory of the Pacific Islands entities chose a dramatically different political status. In 1979, the United States recognized the Constitution of the Marshall Islands and the establishment of RMI. The United States recognized FSM in 1979 and the establishment of the national Government, as well as four State-level governments from the islands of Yap, Chuuk, Pohnpei, and Kosrae. These two countries entered into Compacts of Free Association with the United States, which became effective in 1986. The last remaining part of the Trust Territory of the Pacific Islands, the Republic of Palau, gained its independence in 1994 and also entered into a Compact of Free Association agreement with the United States.

Under the Compacts, the status of free association recognizes each FAS as a sovereign State with the capacity to conduct foreign affairs consistent with the terms of the Compacts. The Compacts place full responsibility for defense with the United States. The Compacts also provide grants funds and federal program assistance, principally through Interior. The State Department is responsible for government-to-government relations, while Interior is responsible for the oversight and coordination of U.S. programs and funding assistance.

OIA is currently responsible for discharging the responsibilities of the Secretary with respect to the territories. In recognition of the political advancement and increased self-governance of the Insular Areas, a Secretarial Order created OIA in 1995 from a larger predecessor office.

Source: "THE DEPARTMENT OF EVERYTHING ELSE 'Highlights of Interior History,'" by Robert M. Utley and Barry Mackintosh, http://www.nps.gov/history/history/online_books/utley-mackintosh/index.htm. Additional information on the three Freely Associated States is from "History of the Office of Insular Affairs," <http://www.doi.gov/oia/Firstpginfo/oiahistory.htm>.

Appendix 3 — Prior Reviews

Over the past 5 years, the Government Accountability Office (GAO) and OIG have issued over 50 reports detailing failures and deficiencies in many Insular Area programs. The following reports were most applicable to OIA’s oversight and responsibilities:

- **March 2010, “U.S. Insular Areas – Opportunities Exist to Improve Interior’s Grant Oversight and Reduce the Potential for Mismanagement”** (GAO Report No. GAO-10-347). GAO found that previously reported internal control weaknesses continue to exist in about 40 percent of the grant projects funded. Specifically, OIA grant procedures provide few sanctions for delayed or inefficient projects, resource constraints impede project completion and proactive monitoring, inconsistent and insufficient documented project redirection policies do little to discourage insular areas from redirecting grant funds, and OIA’s current data system for tracking grants is limited. GAO recommended that Interior take several actions to improve OIA’s ability to effectively manage grants: clarify its authorities to ensure insular areas use funds more efficiently and develop criteria for project redirection request approvals. Interior agreed with these recommendations.
- **April 2009, “High-Level Leadership Needed to Help Guam Address Challenges Caused by DOD-Related Growth”** (GAO Report No. GAO-09-500R). GAO found that Interior, acting with the IGIA, has made some efforts at Federal collaboration related to the relocation of 8,000 marines and their dependents from Okinawa, Japan, to Guam. The IGIA, however, is an advisory group and lacks the authority to direct other Federal agencies’ budgets or other resource decisions to help ensure that the realignment of military forces on Guam will be completed by the FY 2014 completion date.
- **November 2008, “Guam’s Tax Collection Activities: Office of Insular Affairs Involvement Needed to Achieve Lasting Improvements”** (OIG Report No. HI-EV-GUA-0002-2008). The report identified deficiencies in Guam’s tax collection efforts that have been ongoing for 20 years. Because of the significance of these deficiencies, OIG recommended that OIA facilitate and participate in Guam’s tax administration task force and identify financial resources and/or management assistance that can be made available to Guam’s Department of Revenue and Taxation.

- **September 2008, “Insular Area Health Care ‘At the Crossroads of a Total Breakdown’”** (OIG Report No. HI-EV-OIA-0001-2008). The report identified challenges facing Insular Areas in providing comprehensive health care services to their citizens. One of the report’s highlights was the state-of-the-art hemodialysis unit in CNMI funded by OIA that has been standing vacant since its completion. The report acknowledged that there are no simple answers to improve the state of healthcare in these geographically remote communities but recommended that five priority areas be addressed should any form of relief, aid, or assistance become available.
- **June 2008, “Compact of Free Association: Micronesia Faces Challenges to Achieving Compact Goals”** (GAO Report No. GAO-08-859T). GAO found that OIA has carried out various duties as administrator of the amended compacts agreement grants but has not addressed the FSM’s worsening compliance with Compacts reporting requirements and that several challenges continue to hamper its Compacts oversight. In addition, GAO reports that OIA has generally failed to hold the FSM accountable for not submitting required reports, including 2006 and 2007 quarterly performance reports and the annual report to the U.S. President and for not meeting requirements imposed as grant conditions. In addition, GAO states that OIA’s oversight continues to be constrained by time-consuming demands associated with poor compact implementation and that the FSM State and national Government budgets are not presented in unified format or linked to performance measures.
- **June 2007, “Evaluation of Office of Insular Affairs Oversight of Capital Improvement Projects, Commonwealth of the Northern Mariana Islands”** (OIG Report No. P-GR-NMI-0004-2005). OIG found that OIA failed to properly oversee the development of the Saipan Public Health Facility Project, which was one of the largest and most significant capital improvement projects in the CNMI. Warning signs were clearly present throughout the life of the Project but did not prompt OIA to step up its oversight. Had OIA provided adequate oversight and heeded early warning signs, it could have mitigated the problems that surfaced and helped to ensure that the CNMI had qualified and experienced officials to administer the Project.
- **December 2006, “U.S. Insular Areas: Economic, Fiscal and Financial Accountability Challenges”** (GAO Report No. GAO-07-119). GAO reports that the four U.S. territories over which OIA has jurisdiction face serious economic, fiscal, and financial accountability challenges. Efforts to meet formidable fiscal challenges and build

strong economies are hindered by delayed and incomplete financial reporting that does not provide timely and complete information to management and oversight officials for decision making. Greater coordination among the federal agencies would increase effectiveness of their efforts to improve financial accountability. The report included recommendations to OIA to coordinate with other grant-making federal agencies and to develop a framework for conducting site visits for OIA employees to use in grants oversight.

- **September 2005, “American Samoa: Top Leadership Commitment Needed to Break the Cycle of Fiscal Crisis”** (OIG Report No. P-IN-AMS-0117-2003). OIG found that American Samoa’s fiscal situation continued to deteriorate after the American Samoan Government failed to fully implement a 1995 recovery plan. The report discusses OIA’s role as providing technical assistance and advising American Samoa rather than playing a leadership role. Based on OIG’s findings, OIA classified American Samoa as a “high risk” grantee. The report recommends that OIA make greater use of its existing authority to ensure that American Samoa strengthens management controls and practices.
- **September 2003, “Report on Grants Administered by the Office of Insular Affairs”** (OIG Report No. 2003-I-0071). OIG discloses in this report that, although OIA had properly processed awards and distributed grant funds, improvements are needed for the monitoring of those grants. The report identified specific examples of grants that were ineffectively monitored, including Guam’s Ordot landfill, the U.S. Virgin Islands’ St. Croix Detention Center, the St. Croix health facility, and the Commonwealth of Northern Mariana Islands’ Rota Health Center. To more effectively monitor the grants, OIA needs to improve its management framework and control environment. Principal areas that needed to be addressed were 1) a centralized grants-tracking system, 2) accountability, and 3) management oversight.

Report Fraud, Waste, and Mismanagement



Fraud, waste, and mismanagement in government concern everyone: Office of Inspector General staff, Departmental employees, and the general public. We actively solicit allegations of any inefficient and wasteful practices, fraud, and mismanagement related to Departmental or Insular Area programs and operations. You can report allegations to us in several ways.



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