



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

Why GAO Did This Study

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

What GAO Recommends

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

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

U.S. INSULAR AREAS

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

What GAO Found

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

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

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