



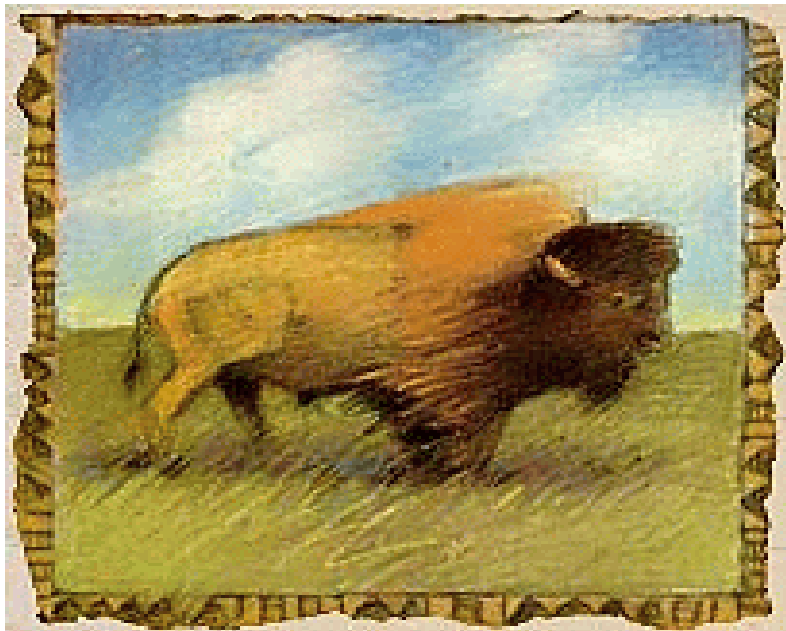
Office of Inspector General

Audit Report

EPA Grants Awarded to the Crow Tribe

Report No. 100370-2002-1-000098

March 27, 2002



Inspector General Resource Center

Conducting the Audit:

Central Audit and Evaluation Resource Center
Denver, Colorado Office

EPA Region Covered:

Region 8

Program Offices Involved:

Tribal Assistance Program
Grants, Audit, and Procurement Program

Audit Conducted by:

Larry Dare
Thomas Herrod

Cover: The illustration is part of an EPA poster that depicts Tribes' sovereign right to protect the water, land, and air. The cover illustration represents air.

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MEMORANDUM

SUBJECT: EPA Grants Awarded to the Crow Tribe
Report No. 100370-2002-1-000098

FROM: Jeff Hart
Branch Manager
Denver Office

TO: Jack McGraw
Acting Regional Administrator
Region 8

Attached is our report, *EPA Grants Awarded to the Crow Tribe*. This report includes our independent assessment of three Crow environmental grants and the Crow Tribe's general management of its environmental program.

ACTION REQUIRED

In accordance with Environmental Protection Agency (EPA) Order 2750, you, as the action official, are required to provide our office with a proposed draft management decision specifying the Agency's position on our recommendation on costs questioned and other recommendations in this report. The draft management decision is due within 120 calendar days of the date of this transmittal memorandum.

Our report includes an assessment of your draft report comments. We also included your written comments as Appendix I.

If you have any questions, please call me at (303) 312-6169 or Larry Dare at (303) 312-6969. Please refer to report number 100370-2002-1-000098 on any related correspondence.

Attachment

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Independent Auditor's Report

We have examined the costs claimed on the final Financial Status Report (Form 269A) and Request for Advance or Reimbursement (Form 270) for each of the grants listed in the Scope and Methodology section submitted by the Crow Tribe, Crow Agency, Montana (grantee). The preparation and certification of the claims are the responsibility of the grantee. Our responsibility was to express an opinion on the claims.

We conducted our examination in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the costs claimed by the grantee are free of material misstatement and are eligible under grant agreements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the final claims. An audit also includes assessing the accounting principles used and significant estimates made by management in preparing the claims. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the claimed costs referred to above and presented in Exhibits A through D do not present fairly the reasonable, allowable, and allocable costs claimed according to the law, regulations, assistance agreements, and other applicable Federal guidance.

Jeff Hart
Branch Manager
Denver Office
Central Audit and Evaluation Resource Center
Office of Inspector General

Fieldwork End: March 7, 2002

Audit Results

In response to a December 7, 1999 allegation letter, we reviewed (1) the legality of Environmental Protection Agency (EPA) Region 8's Tribal Assistance Program grant awards, (2) the Tribal Assistance Program's internal management, and (3) grantee management of environmental programs and expenditure of grant funds. We reported on the first two issues in our September 29, 2000 report, *Increased Focus on Grant Management and Internal Relationships Would Improve Region 8's Tribal Assistance Program*. To address the third issue, we conducted financial audits of four grantees. We judgmentally selected the four tribes based on their significant involvement with EPA programs, past performance, and the fact that each had several recently closed grants for which we expected to find complete financial records. This report provides our findings at one of those grantees – the Crow Tribe, Crow Agency, Montana.

Objective

Our overall objective was to determine whether the grantee effectively managed its environmental grants. To accomplish this objective, we asked the following question: Were costs claimed for grants eligible, reasonable, and supported and were the costs in compliance with grant terms and conditions as well as applicable Federal statutes and regulations?

Scope and Methodology

The grantee claimed costs totaling \$429,982 under the following three assistance agreements:

Program	Grant No.	Financial Status Report Form 269A	Amount
Water Section 106	I998173-99	September 30, 2000	\$114,497
General Assistance Program	NI998122-02	March 31, 2000	\$258,824
Water Special Project	X988061-01	December 15, 2000	\$ 56,661
		Total	\$429,982

We selected these three grants to obtain a cross-section of the grantee's environmental program. Grant I998173-99 involved water quality projects from April 1999 through September 2000. Grant NI998122-02 involved activities from April 1996 through March 2000 for increasing tribal capacity and management capabilities to implement environmental programs. Grant X988061-01 was a special project grant from July 1999 through December 2000 to conduct workshops to educate reservation residents on water quality monitoring and

cleanup activities. EPA paid 100 percent of the costs claimed for grant NI998122-02 and 95 percent of eligible costs for the other two grants. The costs claimed for the three grants totaled \$429,982 and included EPA payments totaling \$356,520.

For each grant, the grantee certified on Standard Form 270, *Request for Advance or Reimbursement*, that the costs were in accordance with the grant terms. Subsequently, the grantee certified on Standard Form 269A, *Financial Status Report*, that all outlays and unliquidated obligations were for the purposes set forth in the award documents.

We visited the Crow Tribe Reservation during the week of March 19, 2001. We reviewed the three grants and related documents, detailed expense ledgers, accompanying receipts, and other supporting documentation, and met with Crow officials responsible for executing grant requirements.

Findings

We Questioned 72 Percent of Costs Claimed

We questioned 72 percent, or \$308,237, of all costs claimed under the three grants we audited. Of EPA payments made, the EPA share of questioned costs is \$237,683. The questioned costs primarily consist of unsupported payroll costs (salaries and fringe benefits) and related indirect costs. Specifically:

- We questioned all payroll and payroll-related costs because the grantee's payroll system did not meet Office of Management and Budget Circular A-87 requirements.
- We questioned all indirect costs because the grantee used payroll costs as the basis to determine indirect costs and, as noted above, the grantee's method of charging payroll costs did not meet Office of Management and Budget requirements.

Exhibit A shows overall costs claimed and questioned while Exhibits B through D provide detailed summaries for each of the four grants.

Internal Controls Did Not Support Good Grant Management

The General Accounting Office's *Standards for Internal Control in the Federal Government* (Standards) establish standards that should be part of any organization's management. According to the Standards, sufficient internal control helps provide reasonable assurance that an organization's operations are effective and efficient, financial reporting is reliable, and applicable laws and regulations are followed. A strong internal control structure includes five

components: (1) control environment, (2) risk assessments, (3) control activities, (4) information and communications, and (5) monitoring.

Even though our audit did not include a comprehensive review of the grantee's internal controls for managing its Federal grants, we observed two material weaknesses during our audit that raised serious concerns about the ability of the Crow Tribe to adequately manage environmental grants. Tribal leadership, management, and staff did not emphasize the importance of good internal controls and did not adequately communicate program or financial information.

Control Environment: Crow Tribe's leadership did not emphasize and, as a result, management and staff did not establish a positive control environment, the foundation for all other internal control standards. The Standards require that a positive control environment includes competent staff with high integrity and ethical values, strong management oversight of staff, clearly defined staff authority and responsibility, and strong human capital policies and practices. Management provided neither the discipline and structure nor the climate to positively influence the quality of internal controls. For example, management did not require staff to charge time to individual projects, nor did management ensure environmental staff complied with grant provisions. In addition, management did not establish an effective organizational structure and management did not implement effective oversight practices.

Information and Communications: Crow Tribe management did not adequately communicate program or financial information to either EPA or Tribal management. The Standards require pertinent information to be, "identified, captured, and distributed to the right people in sufficient detail and at the appropriate time to enable them to carry out their duties and responsibilities efficiently and effectively." Timely information should be available and in a form that allows Crow management and staff as well as EPA staff to ensure programs operate effectively and efficiently. Timely Financial Status Reports help Tribal and EPA managers determine whether funds are sufficient to complete required tasks and program performance progress reports highlight accomplishments and areas that need extra attention. However, Crow Tribe staff, in some cases, could not locate accounting records necessary to support claimed costs and did not ensure Tribal management and EPA staff were provided adequate information to monitor program progress. Crow staff did not regularly communicate their difficulty completing tasks on one grant and did not seek advice about how the grant could have been successfully completed.

Recommendations

We recommend that the Acting Regional Administrator, Region 8:

1. Recover \$237,683 in payments made to the grantee for which we questioned costs.
2. Designate the grantee as high risk until the grantee develops and implements written procedures and controls to ensure that its:
 - (a) financial management system can adequately account for and support all claimed costs;
 - (b) payroll system meets Office of Management and Budget Circular A-87 requirements; and
 - (c) oversight procedures are sufficient to help ensure project tasks are completed and products delivered.
3. Suspend all current and new grants if, after 6 months, the grantee has not met the requirements of recommendation 2.
4. Discuss the importance of strong internal controls, including meaningful, timely program performance reporting, with Crow Tribe managers.
5. Work with the Tribe to help it develop and implement policies and procedures to protect EPA grant funds and strengthen environmental program performance.

Agency Comments and OIG Evaluation

Region 8 officials generally agreed with the findings and recommendations. Regional staff provided comments to clarify portions of the report and we have incorporated those comments and modified the report as appropriate. We have included the Region's complete response in Appendix I.

We reviewed the documentation the grantee sent to the Region regarding questioned costs and agree with the Region that the materials the grantee provided support \$26,263 of the costs questioned in our February 1, 2002 draft report. We reviewed the additional information provided by the grantee, analyzed the sufficiency of that information, accepted certain items of cost, and modified our report as appropriate. As a result we have changed recommendation 1 to read: "Recover \$237,683 in payments made to the grantee for which we questioned costs."

The Region agreed to designate the grantee as high risk. In order to fully comply with EPA Order 2750, the Region must request from the grantee a corrective action plan describing how it will comply with recommendation 2. The grantee's corrective action plan should include milestone dates and specific actions it will take in order to correct the issues noted in recommendation 2.

The Region substantially agreed with recommendation 3. We agree that the Region should reevaluate the grantee's financial management system after 6 months to determine whether the grantee has made substantial progress correcting deficiencies. We also agree that if the grantee has fully complied the Region should remove the grantee's high risk designation. We believe, however, that the Region should recognize that if the grantee has made little or no progress, the Region should withhold future grants until the grantee complies with Office of Management and Budget Circular A-87.

The Region agreed that it would emphasize the importance of strong internal controls during its next visit to the Tribe.

Exhibit A

Summary of Balance Due EPA

Water Section 106 Grant I998173-99 (See Exhibit B) <ul style="list-style-type: none"> • \$114,497 Claimed • \$70,889 Questioned • \$43,608 Total Allowable 	EPA Payments as of 7/6/2001	\$62,140
	EPA Share (95% of allowable) ¹	\$41,428
	Balance Due EPA	\$20,712
General Assistance Program Grant NI998122-02 (See Exhibit C) <ul style="list-style-type: none"> • \$258,824 Claimed • \$195,245 Questioned • \$63,579 Total Allowable 	EPA Payments as of 9/6/2000	\$258,824
	EPA Share (100% of allowable)	\$63,579
	Balance Due EPA	\$195,245
Water Special Project Grant X988061-01 (See Exhibit D) <ul style="list-style-type: none"> • \$56,661 Claimed • \$42,103 Questioned • \$14,558 Total Allowable 	EPA Payments as of 11/1/2001	\$35,556
	EPA Share (95% of allowable)	\$13,830
	Balance Due EPA	\$21,726

Total Costs Claimed:	\$429,982
Total Costs Questioned:	\$308,237
Total Allowable:	\$121,745
Total EPA Payments Made:	\$356,520
Total EPA Share Allowable:	\$118,837
Balance Due EPA:	\$237,683

Note

1. EPA share represents EPA's portion of allowable project costs.

Exhibit B

**Summary of Audit Results for
Water Section 106 Grant I998173-99**

Categories	Costs Claimed	Costs Questioned as:			
		Ineligible	Unreasonable	Unsupported	Total
Payroll	\$55,091			\$55,091	\$55,091 ¹
Travel	5,809				
Lease Vehicle	6,668				
Supplies	831	\$188			188 ²
Contracted Svcs	18,149			495	495 ³
Mileage	28				
Rental/Office	2,400				
Equipment	7,400				
Utilities	247				
Indirect Cost	15,115			15,115	15,115 ⁴
Telephone	2,758				
Total	\$114,497⁵	\$188		\$70,701	\$70,889
Total Allowable (Claimed less Questioned)					\$43,608
Summary of Balance Due EPA					
EPA Payments as of 7/6/2001		\$62,140			
EPA Share (95% of allowable)		\$41,428			
Balance Due EPA		\$20,712			

Notes

1. We questioned \$55,091 of salaries and related fringe benefit costs as unsupported because the grantee did not use an acceptable basis for charging salaries. The grantee neither maintained an after-the-fact accounting of time charges nor certified that any employees worked solely on the water grant. Office of

Management and Budget Circular A-87 requires that when employees work on more than one activity or cost objective, their salary or wage distribution must be supported by documentation that reflects an after-the-fact distribution of the actual activity of each employee. Specifically, the Circular provides that, “Budget estimates or other distribution percentages determined before the services are performed do not qualify as support for charges to Federal awards” The Circular further requires that when employees are expected to work solely on a single Federal award, “charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification” Certifications must be prepared at least semi-annually and signed by the employee or a supervisor having first-hand knowledge of the work performed. The Circular provides that “substitute systems,” such as quantifiable measures of employee effort, may be used instead of an after-the-fact distribution of an employee’s actual activity.

2. We questioned \$188 of supply costs as ineligible. The \$188 was for an “EPA luncheon.” Although we were unable to find the support for the expense, we considered the cost ineligible because Office of Management and Budget Circular A-87 provides that, “Costs of entertainment . . . such as . . . meals. . . are unallowable” and therefore ineligible.
3. We questioned \$495 of contractual costs as unsupported because the grantee was unable to locate the supporting documentation for the costs.
4. We questioned all indirect costs as unsupported because we questioned all of the payroll costs (salary and fringe benefits), as discussed in Note 1, and the grantee used salaries as the basis for indirect costs.
5. Does not add due to rounding.

Exhibit C

**Summary of Audit Results for
General Assistance Program Grant NI998122-02**

Categories	Costs Claimed	Costs Questioned as:			
		Ineligible	Unreasonable	Unsupported	Total
Payroll	\$168,163			\$168,163	\$168,163 ¹
Contracted Svcs	5,170				
Equipment	6,360				
Vehicle Rent	19,011				
Office Supplies	4,307	\$195			195 ²
Other Supplies	54				
Miscellaneous	14,620				
Travel Off Res.	13,252				
Utilities	1,000				
Indirect Cost	26,887			26,887	26,887 ³
Total	\$258,824⁴	\$195		\$195,050	\$195,245
Total Allowable (Claimed less Questioned)					\$63,579
Summary of Balance Due EPA					
EPA Payments as of 9/6/2000		\$258,824			
EPA Share (100% of allowable)		\$63,579			
Balance Due EPA		\$195,245			

Notes

1. We questioned \$168,163 of salaries and related fringe benefit costs as unsupported because the grantee did not use an acceptable basis (as outlined in Office of Management and Budget Circular A-87) for charging salaries. See Exhibit B, Note 1.

2. We questioned \$195 of office supply costs as ineligible because the costs were incurred outside of the grant period. Regulations at 40 CFR Section 31.23 do not permit the grantee to charge costs to the grant resulting from expenses incurred outside the grant period.
3. We questioned all indirect costs as unsupported because we questioned all of the payroll costs (salary and fringe benefits), as discussed in Note 1, and the grantee used salaries as the basis for indirect costs.
4. Does not add due to rounding.

Exhibit D

**Summary of Audit Results for
Water Special Project Grant X988061-01**

Categories	Costs Claimed	Costs Questioned as:			
		Ineligible	Unreasonable	Unsupported	Total
Payroll	\$33,774			\$33,774	\$33,774 ¹
Travel	6,766	\$938			938 ²
Telephone	550				
Supplies	125				
Rent/Office	2,400				
Equipment	1,945				
Contractual	3,710				
Indirect Cost	5,048			5,048	5,048 ³
In Kind Match	2,343			2,343	2,343 ⁴
Total	\$56,661	\$938		\$41,165	\$42,103
Total Allowable (Claimed less Questioned)					\$14,558
Summary of Balance Due EPA					
EPA Payments as of 11/1/2001		\$35,556			
EPA Share (95% of allowable)		\$13,830			
Balance Due EPA		\$21,726			

Notes

1. We questioned \$33,774 of salaries and related fringe benefit costs as unsupported because the grantee did not use an acceptable basis (as outlined in Office of Management and Budget Circular A-87) for charging salaries. See Exhibit B, Note 1.

2. We questioned \$938 in travel costs as ineligible because the project coordinator claimed higher than allowable and/or actual lodging costs for four trips and did not return the money to the Tribe.
3. We questioned all indirect costs as unsupported because we questioned all of the payroll costs (salary and fringe benefits), as discussed in Note 1, and the grantee used salaries as the basis for indirect costs and those costs were unsupported.
4. We questioned all match as unsupported because the grantee did not provide documentation for the amount of match claimed.

Appendix I

Region 8 Response



UNITED STATES ENVIRONMENTAL PROTECTION AGENCY

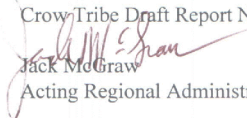
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MAR 27 2002

Ref: 8TMS-G

MEMORANDUM

SUBJECT: Crow Tribe Draft Report No. 2001-08-000370-CR

FROM: 
Jack McGraw
Acting Regional Administrator

TO: Jeff Hart
Branch Manager
Denver Office

This draft audit report of four Crow Tribe grants recommends disallowing a large amount of costs. The Tribe has provided materials to us that we have reviewed, along with your office, and which appear to adequately document \$26,263 of costs questioned in the draft report. We have provided these documents to you. As a result, we believe recommendation #1 should read: Recover \$237,683 of questioned costs.

The Region agrees with the recommendation to designate the Crow Tribe as a "high risk" grantee. We have previously used such a designation for a grantee that had serious problems complying with grant requirements. The Tribe will need to take strong action to address their financial management and payroll system deficiencies, including the development of procedures to track and support all costs claimed and ensure Crow's payroll system meets OMB requirements.

While we substantially agree with recommendation #3, we would prefer to reevaluate Crow's financial management system after six months and, if they are making substantial progress to comply with recommendations #2(a), #2(b), and #2(c), continue to work with them to ensure compliance. If they have fully complied, we would remove their "high risk" designation.

Finally, we agree with Recommendations #4 and #5 and will reiterate the importance of strong internal controls during our next site visit with Crow management and financial staff.

Thank you for the opportunity to review and comment on this draft audit report. We look forward to working with your office to resolve these important financial management issues.



Appendix II

Distribution

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Inspector General

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Comptroller (2731A)

Director, Grants Administration Division (3903R)

Agency Audit Followup Coordinator (2724A)

Associate Administrator for Congressional and Intergovernmental Relations
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Associate Administrator for Communications, Education, and Media Relations
(1101A)

Region 8 Office

Regional Counsel

Assistant Regional Administrator, Office of Partnerships and Regulatory
Assistance

Associate Assistant Regional Administrator, Office of Partnerships and
Regulatory Assistance

Director, Tribal Assistance Program

Assistant Regional Administrator, Office of Technical and Management Services

Director, Grants, Audits, and Procurement Program

Director, Financial Management Program

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Director, Office of Communication and Public Involvement

Crow Tribal Program Manager, Tribal Assistance Program

Crow Tribe

Chairman