

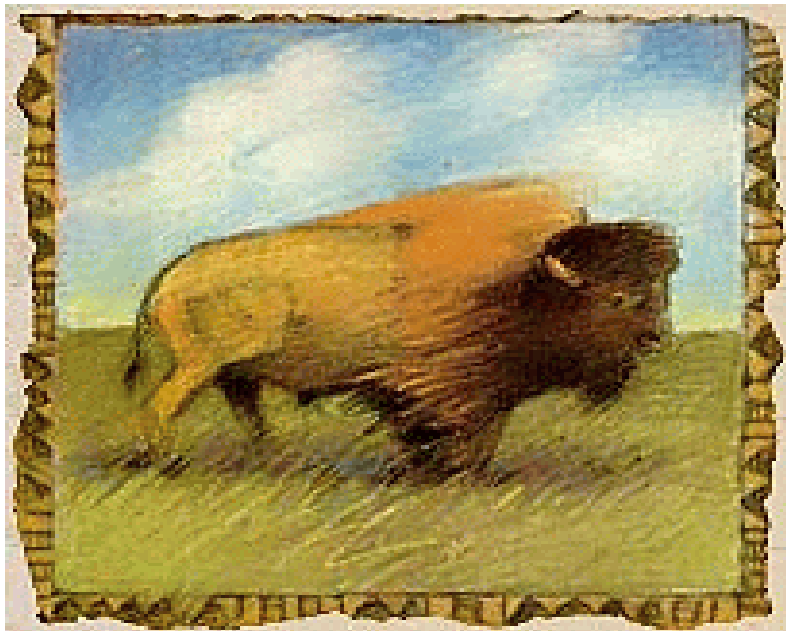


Office of Inspector General
Briefing Report

Increased Region 8 Involvement Would Improve Tribal Program Results

Report No. 100370-2002-1-000100

March 29, 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.

UNITED STATES ENVIRONMENTAL PROTECTION AGENCY

OFFICE OF INSPECTOR GENERAL

CENTRAL AUDIT AND EVALUATION RESOURCE CENTER

901 NORTH 5TH STREET
KANSAS CITY, KANSAS 66101
913-551-7878
FAX: 913-551-7837

BRANCH OFFICES:

1445 Ross Avenue, Suite 1200
Dallas, Texas 75202-2733
214-665-6621
FAX: 214-665-6589

March 29, 2002

999 18th Street Suite 300
Denver, Colorado 80202-2405
303-312-6872
FAX: 303-312-6063

MEMORANDUM

SUBJECT: Briefing Report: *Increased Region 8 Involvement Would Improve Tribal Program Results*
Briefing Report No. 100370-2002-1-000100

FROM: Jeff Hart
Branch Manager
Denver Office

TO: Jack McGraw
Acting Regional Administrator
EPA Region 8

This is our briefing report titled *Increased Region 8 Involvement Would Improve Tribal Program Results*. As you know, we held a briefing with you and your staff on March 25, 2002. We have made changes to the draft briefing report we sent you on February 15, 2002, based on your comments during our briefing and on your written response. A copy of the presentation slides is included as Appendix I and your complete response is included as Appendix II.

We recently issued separate financial audit reports for each of the four Tribes we audited (Northern Cheyenne, Rosebud, Crow, and Lower Brule). See Appendix III for report titles, numbers, and dates. This report presents our performance audit findings and recommendations for Region 8 based on our audits of those four Tribes.

Action Required

In accordance with Environmental Protection Agency (EPA) Order 2750, you, as the action official, are required to provide this office with a proposed Management Decision within 90 days of the report date. For corrective actions planned but not yet completed, providing a corrective action plan with specific milestone dates will assist us in deciding whether to close this report.

**Increased Region 8 Involvement
Would Improve Tribal Program Results**

We have no objection to the release of this report to any member of the public. This report contains findings that the Office of Inspector General (OIG) has identified and corrective actions OIG recommends. This report represents the opinion of OIG and the findings in this report do not necessarily represent the final EPA position. Final determinations on matters in this report will be made by EPA managers in accordance with established EPA audit resolution procedures.

Findings

Although Region 8 has taken some important steps to help Tribes comply with grant requirements during the last several years, three of the four Tribes we visited had difficulty supporting costs claimed and managing their environmental grants during the period covered by our audit (1996 through 2000). The Region has recently taken some additional positive, proactive steps to help Tribes improve performance and has shown a willingness to take strong steps when it deems necessary. Even so, three of the four Tribes we visited had difficulty managing their environmental grants.

Region 8's positive, proactive steps have included improving communication with and support for some Tribal environmental staff, raising performance issues with Tribal Chairpersons, holding its third annual training session for Tribal grant managers, and conducting 24 on-site reviews during the past 6 years. The Region has also taken strong steps to bring Tribes into compliance with grant requirements. The Region has withheld grant payments for some grants, terminated four grants, demanded repayment of grant funds, designated two Tribes as high risk, and required one Tribe to implement a financial management action plan.

However, three of the four Tribes we visited still had significant internal control and accounting system weaknesses, did not always comply with grant regulations, and did not consistently accomplish grant objectives. We questioned approximately \$1.37 million of the approximately \$1.97 million we audited primarily for three reasons: (1) Tribal accounting systems could not produce a complete, accurate list of costs charged to the grant, (2) Tribal payroll systems did not meet Office of Management and Budget Circular A-87 requirements, and (3) Tribes could not support costs claimed. Generally, three of the four Tribes we visited did not file required financial and program progress reports timely, two Tribes did not understand or did not follow recipient match requirements, and two Tribes used General Assistance Program grant funds inappropriately. Additionally, some programs did not fully accomplish grant objectives. For example, one Tribe's General Assistance Program coordinator completed the Tribe's water project but charged her time to the General Assistance Program grant; another Tribe produced no final product under its General Assistance Program; and a third Tribe hired and paid a General Assistance Program coordinator who was not physically present at the reservation and produced virtually no work.

Recommendations

We recommend that the Acting Regional Administrator, Region 8:

1. Continue to actively participate with the National EPA Grants and Debarment Tribal workgroup to develop an EPA/Tribal compliance or review guide for Management Assistance Program reviews that provides a comprehensive approach to assessing Tribal grant management capabilities to help improve Tribes':
 - A. Accounting skills and accounting systems,
 - B. Record keeping systems (to support costs claimed on environmental grants),
 - C. Understanding of grant requirements, and
 - D. Compliance with grant requirements.
2. Continue to actively participate with the National EPA Grants and Debarment Tribal workgroup to formulate a strategy to address long-standing, systemic issues associated with Tribal grant management.
3. Continue to work with the Tribes to help improve their:
 - A. Ability to identify, hire, and train a more skilled workforce;
 - B. Understanding and appreciation of the value of strong internal controls; and
 - C. Understanding of the value of a more organized environmental department management structure.
4. Develop an approach to address noncompliance on program reporting requirements including the possibility of not making new grant awards until the grantee achieves compliance.
5. Regularly review sources of information such as other agencies' high risk designations and Tribes' single audits to help identify Tribes that would benefit most from assistance.
6. Continue to take appropriate actions when grant requirements are not met, including grant termination and designating grantees as high risk.

Agency Comments and OIG Evaluation

Region 8 generally agreed with our findings and recommendations. Regional staff provided additional information regarding actions the Region has taken to help improve Tribal grants management and actions taken when Tribes are unable to comply with grant requirements. Region 8 and EPA Grants and Debarment managers offered suggestions that, if implemented, we believe will benefit Tribes nationally as well as in Region 8. The Region also committed to continue its ongoing training and oversight programs.

Based on the Region's comments, we modified our report and the accompanying briefing slides where appropriate. Specifically, we added additional examples of best practices and strong actions taken by Region 8 to improve Tribal grants management and protect EPA grant funds. We also modified our recommendations to recognize Region 8's participation on the National EPA Grants and Debarment Tribal workgroup and the Region's willingness, through the workgroup, to help address longstanding, systemic Tribal grants management issues by soliciting the help of other Federal agencies.

Objectives

Our overall objective was to determine the validity of allegations regarding the effectiveness of the Region's and Tribes' grants management. Specifically, our performance audit objectives were to answer the following three questions:

- Are Tribes' internal/management controls sufficient to provide reasonable assurance that assets are protected?
- Have Tribes substantially complied with legal and grant requirements?
- Have the completed projects accomplished the objective(s) for which grant funds were awarded?

Scope and Methodology

We initiated this review as a result of a December 7, 1999, anonymous letter addressed to the EPA Region 8 Regional Administrator alleging grant mismanagement and other issues in the Regional Tribal program. With Region 8's support, we reviewed allegations in that letter as well as OIG hotline complaints regarding the Region's Tribal program. We conducted our audit in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States.

We reported on the legality of Region 8's Tribal Assistance Program grant awards and the Tribal Assistance Program's internal management in our September 29, 2000 report, *Increased Focus on*

**Increased Region 8 Involvement
Would Improve Tribal Program Results**

Grant Management and Internal Relationships Would Improve Region 8's Tribal Assistance Program (Report No. 2000-P-000615-00021).

To accomplish our objectives, we audited grants at four Tribes. We selected these Tribes because each had significant and meaningful involvement with EPA programs, their past performance indicated they would benefit from an audit, and each Tribe had recently closed grants. We audited grants covering the period 1996 through 2000. We conducted our fieldwork between March 2001 and March 2002. For each transaction we selected to test, we reviewed data from the Tribe's accounting system and supporting documentation. We discussed the Tribe's management system with Tribal environmental and accounting staff. We also interviewed program staff at each Tribe.

If you have any questions, please call me at (303) 312-6169 or Larry Dare at (303) 312-6969. Please refer to report number 100370-2002-1-000100 on all correspondence.

Appendices

Appendix I: Briefing Slides

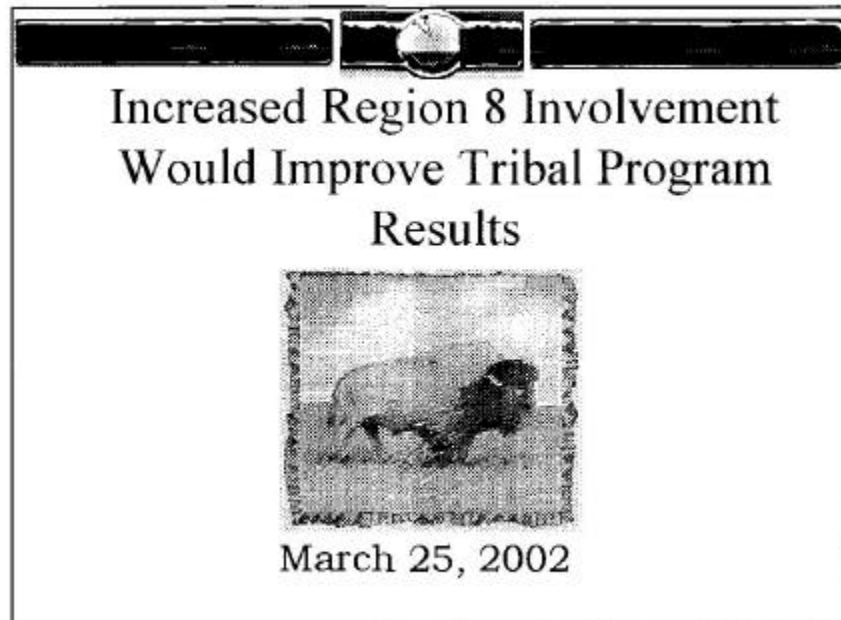
Appendix II: Region 8 Response

Appendix III: Tribal Financial Audit Reports Issued


Appendix IV: Distribution

**Increased Region 8 Involvement
Would Improve Tribal Program Results**

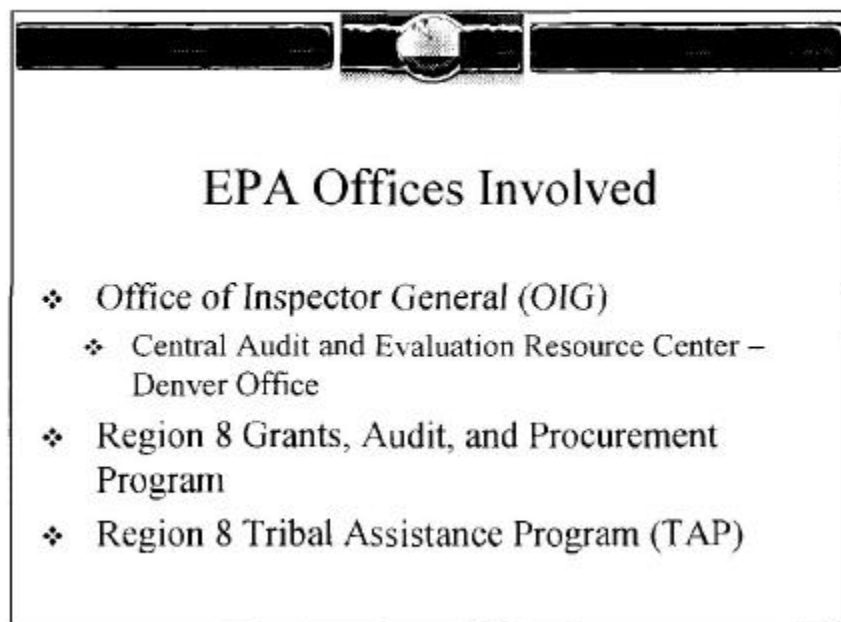
Briefing Slides



Increased Region 8 Involvement
Would Improve Tribal Program
Results




March 25, 2002



EPA Offices Involved


- ❖ Office of Inspector General (OIG)
 - ❖ Central Audit and Evaluation Resource Center – Denver Office
- ❖ Region 8 Grants, Audit, and Procurement Program
- ❖ Region 8 Tribal Assistance Program (TAP)

Briefing Slides (continued)



Purpose


- ❖ In Response to a December 7, 1999 Allegation Letter We Reviewed:
 - Phase I*
 - ❖ Legality of TAP Grant Awards
 - Phase II*
 - ❖ TAP Internal Management
 - Phase III*
 - ❖ Tribal Environmental Program Management and Expenditures



Phase III Financial Scope and Methodology

- ❖ Tribes Visited
 - ❖ Northern Cheyenne - March 8-12, 2001
 - ❖ Crow - March 15-19, 2001
 - ❖ Lower Brule - April 2-6, 2001
 - ❖ Rosebud - April 30-May 4, 2001
- ❖ Period Audits Covered: fiscals 1996-2000
- ❖ Number of Grants Audited: 13
- ❖ Total Dollar Value of Grants: \$1,969,858

Briefing Slides (continued)



Phase III Financial Scope and Methodology (cont.)


- ❖ Judgmental Transaction Testing
- ❖ In Accordance with Government Auditing Standards
- ❖ Phase III Fieldwork Conducted March 2001 – March 2002



Phase III Briefing Report Distribution


- ❖ Region 8 Regional Administrator and Staff
- ❖ Office of Inspector General Staff
- ❖ EPA Headquarters Staff

Briefing Slides (continued)



Reporting


- ❖ Phase I and Phase II Reported September 29, 2000
- ❖ Phase III Financial Reports
 - ❖ Northern Cheyenne-March 5, 2002
 - ❖ Rosebud-March 19, 2002
 - ❖ Crow-March 27, 2002
 - ❖ Lower Brule-March 29, 2002
- ❖ Phase III Briefing Report
 - ❖ Briefing-March 25, 2002
 - ❖ Memorandum to Acting Region 8 Administrator



Phase I and II Conclusions


- ❖ *Increased Focus on Grant Management and Internal Relationships Would Improve Region 8's Tribal Assistance Program, September 29, 2000*
 - ❖ Region 8 Chose to Focus Its Tribal Program on External Relationships and Policy Development
 - ❖ Region 8 Legally Awarded Tribal Grants, but Grant Management Needed Improvement
 - ❖ Imbalanced Tribal Program Management Focus

Briefing Slides (continued)



Phase III Performance Objectives


- ❖ Are Tribes' Internal/Management Controls Sufficient to Provide Reasonable Assurance That Assets Are Protected?
- ❖ Have Tribes Substantially Complied With Legal and Grant Requirements?
- ❖ Have the Completed Projects Accomplished the Objective(s) for Which Grant Funds Were Awarded?



Phase III Performance Scope & Methodology

- ❖ December 7, 1999 Allegation Letter
- ❖ September 29, 2000 Report
- ❖ Four Financial Reports
- ❖ Four Tribes Selected:
 - ❖ Significant Involvement with EPA Programs
 - ❖ Past Performance
 - ❖ Recently Closed Grants

Briefing Slides (continued)



Findings

- ❖ Insufficient Internal/Management Controls
 - ❖ Internal Control Weakness
 - ❖ Accounting System Weaknesses
- ❖ Grant/Legal Requirements Not Consistently Met
- ❖ Projects Did Not Consistently Accomplish Their Objectives
 - ❖ Lack of Meaningful, Timely Progress Reports
 - ❖ Other



Weak Controls


- ❖ One Tribe Had Good Controls
- ❖ Three Tribes Need Improvement
 - ❖ Tribal Management Issues
 - ❖ Lack of Oversight
 - ❖ No Clear Line of Authority
 - ❖ Staff Competencies Under-Developed
 - ❖ Programs Did Not Focus on Results
 - ❖ Importance of a Good Control Program Needs to Be Recognized

Briefing Slides (continued)



Causes of Weak Controls


- ❖ Lack of Understanding of What Good Internal Controls Are
- ❖ Lack of Appreciation of the Benefit of Controls
- ❖ Inadequate Accounting Knowledge/Skills
- ❖ Lack of Appreciation of the Need for a More Organized Management Structure
- ❖ Region 8 Did Not Provide Enough Technical Assistance



Accounting System Weaknesses


- ❖ One Tribe Had Consistent and Orderly System
- ❖ Three Tribes Had Varying Degrees of Inadequate Structure Within Accounting System
- ❖ Three Tribes Had Inconsistent Supporting Documentation
 - ❖ Tribal Staff Could Not Find Supporting Documentation
 - ❖ Supporting Documentation Did Not Include All Information Necessary to Understand How Cost Was Allocated to Grant
 - ❖ Tribal Staff Did Not Adequately Document All Journal Vouchers and Adjustments

Briefing Slides (continued)



Accounting System Weaknesses (cont.)


- ❖ Accounting System Inadequate - Should Be Capable of Maintaining Accurate/Separate Accounting for All Grants
- ❖ Shifting of Money from Different Grants and Between Budget Items Caused Confusion



Causes of Accounting System Weaknesses


- ❖ Lack of Understanding of Federal Grant Requirements for an Adequate Accounting System
- ❖ Inadequate Record-keeping Systems
- ❖ Inadequate Accounting Skills and Systems
- ❖ TAP Did Not Consider Financial Technical Assistance as Part of Their Responsibilities

Briefing Slides (continued)



Grant/Legal Requirements Not Consistently Met


- ❖ Payroll Systems Did Not Meet OMB Circular A-87 Requirements
- ❖ One Tribe Awarded Contract Inappropriately at Region's Direction
- ❖ General Assistance Program (GAP) Grant Used Inappropriately



Causes of Not Meeting Requirements


- ❖ Lack of Familiarity With or Knowledge of Federal Grant/Legal Requirements
- ❖ Lack of Appreciation of the Need to Meet Grant/Legal Requirements or Consequences of Not Meeting Them

Briefing Slides (continued)



Causes of Not Meeting Requirements (cont.)


- ❖ Region 8 Encourages Tribes to Stretch Limits of GAP Funding Beyond What is Allowed
- ❖ Region 8 Did Not Provide Adequate Technical Assistance



Projects Did Not Consistently Accomplish Their Objectives


- ❖ One Tribe's Reports Were Meaningful, Timely, and Indicated Project Objectives Were Achieved
- ❖ Three Tribes Lacked Adequate Progress Reports Contributing to Non or Untimely Achievement of Some Objectives
 - ❖ Lack of Meaningful Content
 - ❖ Not Meeting Deadline for Program Performance Reports
 - ❖ Inconsistent Progress Reporting

Briefing Slides (continued)



Causes of Inadequate/Untimely Progress Reports


- ❖ Lack of Knowledge and Understanding of Importance of Reporting Requirements
- ❖ Lack of Appreciation of the Need for Meaningful, Timely Progress Reports and How They Can Benefit the Tribes' Achievement of Objectives
- ❖ Lack of Good Writing Skills



Region 8 Best Practices/Actions Taken

- ❖ Examples of Good Communication and Support
- ❖ Met with Tribal Chairman to Discuss Seriousness of Issues
- ❖ Withheld Grant Payments for At-Risk Grants at Some Tribes
- ❖ Continued Region 8 Tribal Grants Training for Tribes


Briefing Slides (continued)



Region 8

Best Practices/Actions Taken (cont.)


- ❖ On Site Technical Assistance Reviews at 24 Tribes During Past 6 Years
- ❖ Withheld Grant Payments
- ❖ Terminated Four Tribal Grants
- ❖ Demanded Repayment of Grant Funds
- ❖ Designated Two Tribes as “High Risk”
- ❖ Required Implementation of Tribal Financial Management Action Plan



Effects


- ❖ Less Time to Help Improve Tribal Grant Management Skills
- ❖ Grant Projects Were Not As Successful As They Could Have Been in Accomplishing Their Objectives
- ❖ Tribes Did Not Benefit As Much or As Soon As They Would Have from Improved Environmental Conditions
- ❖ Questionable Expenditures Could Have Been Used to Improve Tribal Environmental Conditions

Briefing Slides (continued)



Recommendations

- ❖ Continue to Actively Participate With Grants and Debarment Workgroup to:
 - ❖ Develop an EPA/Tribal Compliance or Review Guide to Improve Tribes':
 - ❖ Accounting Skills and Systems
 - ❖ Record Keeping Systems to Support Costs Claimed on Environmental Grants
 - ❖ Understanding of Grant Requirements
 - ❖ Compliance with Grant Requirements



Recommendations (cont.)

- ❖ Continue to actively participate with Grants and Debarment Workgroup to:
 - ❖ Formulate a Strategy to Address Long-Standing, Systemic Issues Associated with Tribal Grant Management

Briefing Slides (continued)

Recommendations (cont.)

- ❖ Continue to Work with Tribes to Improve Their:
 - ❖ Ability to Identify, Hire, and Train a More Skilled Work Force
 - ❖ Understanding and Appreciation of the Value of Strong Internal Controls
 - ❖ Understanding the Value of a More Organized Environmental Management Structure

Recommendations (cont.)

- ❖ Develop an Approach to Address Noncompliance on Program Reporting Requirements
- ❖ Regularly Review Other Sources of Information to Help Identify Tribes Most in Need of Assistance
- ❖ Continue to Take Appropriate Actions When Grant Requirements Are Not Met

Briefing Slides (continued)



Region 8 Response



UNITED STATES ENVIRONMENTAL PROTECTION AGENCY

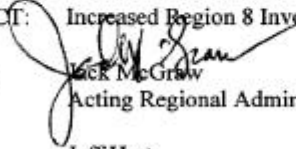
REGION 8
999 18TH STREET - SUITE 300
DENVER, CO 80202-2466
Phone 800-227-8917
<http://www.epa.gov/region08>

MAR 27 2002

Ref: 8TMS-G

MEMORANDUM

SUBJECT: Increased Region 8 Involvement Would Improve Tribal Program Results

FROM: 
NICK MCGRAW
Acting Regional Administrator

TO: Jeff Hart
Branch Manager
Denver Office

Thank you for your draft briefing report titled *Increased Region 8 Involvement Would Improve Tribal Program Results*. We recognize the significant efforts you and your staff have undertaken over the last two years in your reviews of the Region's tribal program.

We share your concerns regarding the findings of the four Tribal financial audit reports. All grantees must adhere to the Federal grant requirements. The Region's experience with our Tribal grantees generally parallels the observations you make, which is that a number of Tribes need to focus immediate attention to internal control problems, accounting weaknesses, and grant reporting requirements.

The Region has taken many specific and significant actions as a result of this situation. Your briefing report acknowledges some of the best practices/actions taken by the Region, but we ask that your report reflect a number of other Regional efforts. Each of the past three years the Region has provided a grants training program for Tribes, covering two full days, with typically thirty or more attendees. Your office participated in this training offered last fall. Over twenty Tribes have had on-site technical assistance reviews over the past six years, which has included observations from the Region concerning grants management weaknesses. Regional Tribal program managers have stressed to the Tribal environmental directors in recent Regional Operations Council (ROC) meetings the importance of their attention in the area of financial management requirements.

Further, we ask that the report acknowledge the actions we have taken when financial systems have been found deficient and/or grant requirements have not been met by Tribes. We



Region 8 Response (continued)

have two Tribes currently designated as "high risk" due to financial management problems, and we have not made new awards to one of these Tribes. Another Tribe is implementing an action plan that Tribal leadership developed to resolve financial management weaknesses, which we insisted upon as a condition for receiving further EPA grants. We have terminated a total of six Tribal grants over the past three years due to a variety of performance issues. Further, we have had five situations in which the Region demanded repayment of grant funds. We previously provided this information for your Phase I report, and we will separately provide to you an update to that list of actions.

I know that our commonality is the sincere desire to have Tribal programs in Region 8 that effectively address the very serious environmental problems that exist on Indian lands. EPA unequivocally has the responsibility to oversee compliance with Federal grant requirements for grants that we award. This is a particularly difficult and complicated challenge as it pertains to some of our Tribal grantees. It is for exactly this reason that the Region initiated assistance from EPA Headquarters, and why an agency-wide workgroup has been formed to address tribal financial grantee compliance. The fundamental parts of this issue are being examined by the workgroup, including reaching out to the Bureau of Indian Affairs (BIA) to explore ways for us to work together on these issues. The workgroup is identifying existing actions and training provided to Tribes regarding financial management, and plans to seek new, and possibly yet untried approaches that are promising. As you know, the Inspector General's Office is represented on this workgroup.

The set of recommendations in the briefing report states that the solution is "more meaningful oversight and training for Tribes". The Region is committed to taking all the actions it can effectively address the issue of Tribal financial management of EPA grants and to address those areas where we can make a difference. Specifically, we would ask that your recommendations reflect the following Regional actions:

- The Region will implement Tribal assistance approaches in the area of financial management that have been successfully proven and/or approaches that show particular promise. These actions will be based on the findings of the Headquarters workgroup that is now underway.
- The Region will continue to perform on-site financial reviews of Tribal grantees. The number undertaken will be four or five per year.
- We have several Tribes which the Tribal Assistance Office and the Grants Office are coordinating regular reviews of grant requirements due to past unsatisfactory performance. This monitoring has improved Tribal compliance. There may be additional Tribes for which this extra effort is appropriate. Further, the Tribal Assistance Program will develop an approach to address noncompliance regarding program reporting requirements. This approach will include the possibility of suspending new grant awards until compliance with these requirements is achieved.

Region 8 Response (continued)

- The Region will continue to take appropriate actions when grant requirements are not met, including disallowance of costs, termination of grants, "high risk" designations, etc.

The challenges identified by your report are large and very serious. We know that you understand and appreciate that this is an area which demands attention from many parts of the Agency, including the IG's Office. The Regional Office is very committed to the efforts we have outlined here in order to continue to have a very successful partnership with the Region 8 Tribes concerning the environmental problems faced on Tribal lands.

Tribal Financial Audit Reports Issued

EPA Grants Awarded to the Northern Cheyenne Tribe (Report No. 1000370-2002-1-000089)
dated March 5, 2002

EPA Grants Awarded to the Rosebud Sioux Tribe (Report No. 1000370-2002-1-000096)
dated March 19, 2002

EPA Grants Awarded to the Crow Tribe (Report No. 100370-2002-1-000098)
dated March 27, 2002

EPA Grants Awarded to the Lower Brule Sioux Tribe (Report No. 100370-2002-1-000099)
dated March 29, 2002

Distribution

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Inspector General

EPA Headquarters Office

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(1301A)

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

Comptroller (2731A)

Director, American Indian Environmental Office (4104)

Director, Office of Grants and Debarment (3901R)

Director, Grants Administration Division (3903R)

Director, Office of Regional Operations (1108A)

Agency Followup Official (2710A)

Agency Audit Followup Coordinator (2724A)

Region 8 Office

Assistant Regional Administrator, Office of Technical and Management Services

Assistant Regional Administrator, Office of Partnerships and Regulatory
Assistance

Regional Counsel

Associate Assistant Regional Administrator, Office of Partnerships and
Regulatory Assistance

Director, Tribal Assistance Program

Director, Grants, Audits, and Procurement Program

Director, Financial Management Program

Director, Office of Communication and Public Involvement

Audit Followup Coordinator