



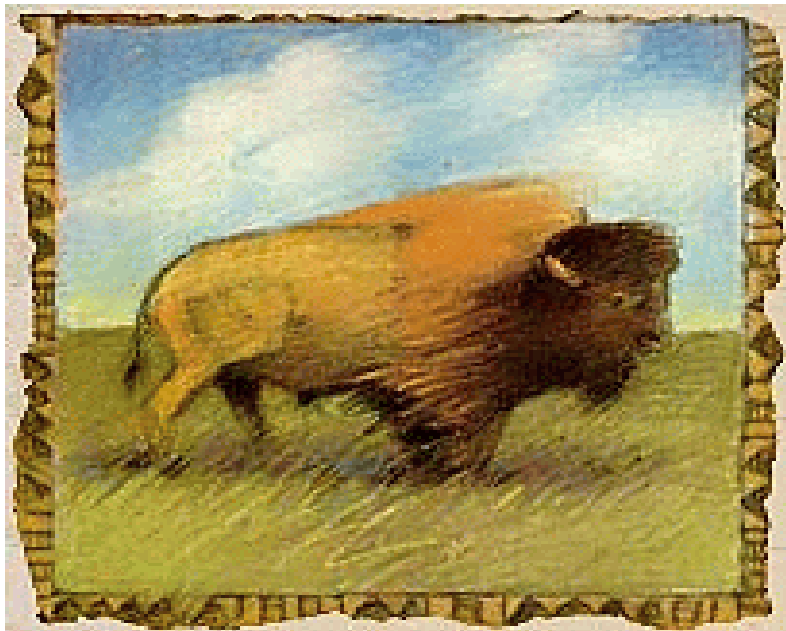
Office of Inspector General

Audit Report

EPA Grants Awarded to the Lower Brule Sioux Tribe

Report No. 100370-2002-1-000099

March 29, 2002



Inspector General Resource Center

Conducting the Audit:

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Denver, Colorado Office

EPA Region Covered:

Region 8

Program Offices Involved:

Tribal Assistance Program
Grants, Audits, and Procurement Program

Audit Conducted by:

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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 Lower Brule Sioux Tribe
Report No. 100370-2002-1-000099

FROM: Jeff Hart
Branch Manager
Denver Office

TO: Jack McGraw
Acting Regional Administrator
Region 8

Attached is our report, *EPA Grants Awarded to the Lower Brule Sioux Tribe*. This report includes our independent assessment of three Lower Brule Sioux environmental grants and Lower Brule Sioux'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 100370-2002-1-000099 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, as submitted by the Lower Brule Sioux Tribe, Lower Brule, South Dakota (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 claims submitted by the grantee are free of material misstatement and 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 and B 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 26, 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 tribal 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 Lower Brule Sioux Tribe, Lower Brule, South Dakota.

Objective

Our overall objective was to determine whether the grantee effectively managed its environmental grants. To accomplish this objective, we asked the following question: Are 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 total outlays for the three grants totaling \$659,927 under the following assistance agreements:

| Program | Grant No. | Financial Status Report Form 269A | Amount |
|----------------------------|-------------|-----------------------------------|-----------|
| Water Special Studies | X998854-01 | September 30, 1999 | \$33,565 |
| General Assistance Program | NI998224-02 | March 31, 2000 | \$429,190 |
| Spill Prevention | X998422-01 | December 31, 1999 | \$197,172 |
| Total | | | \$659,927 |

We selected these three grants to obtain a cross section of the Tribe's environmental program and because the Tribe had received final payment from EPA for each grant. Grant X998854-01 involved water quality projects from October 1998 through September 1999. Grant NI998224-02 involved activities from March 1996 through March 2000. This grant was intended to increase tribal capacity and its management capability to implement environmental programs. Grant X998422-01 was provided to develop a spill prevention program. The project period was from October 1997 through December 1999. EPA funded 100 percent of grant NI998224-02. EPA paid 95 percent of the costs associated with the other two grants and the grantee paid the

remaining 5 percent. The outlays claimed for the three projects totaled \$659,927, which included total EPA payments of \$652,127.

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 Lower Brule Sioux Tribe Reservation during the week of April 2, 2001. We reviewed the three grants, detailed expense ledgers, and accompanying receipts and other supporting documentation.

Findings

We Questioned 97 Percent of Costs Claimed

We questioned 97 percent, or \$639,388, of all costs claimed under the three grants we audited. EPA's share of questioned costs is \$632,615. The questioned costs primarily consist of all costs associated with grant numbers NI998224-02 and X998422-01 because the grantee could not provide a reasonably complete and accurate list of expenses. We questioned 39 percent, or \$13,026, of costs associated with grant X998854-01. The questioned costs for grant X998854-01 primarily consist of all payroll, travel, indirect, and recipient match costs. Details on questioned costs for grant X998854-01 are in Exhibit B. We have not provided separate exhibits on the other two grants because we questioned all costs associated with those grants.

Financial Management System Inadequate

Lower Brule Sioux Tribe's financial management system is inadequate. For two of the three grants, the Tribe's list of expenses from its general ledger did not match the total program expenditures on its final Financial Status Reports. Specifically, the Tribe (1) could not adequately identify the source and application of funds for two of the three grants audited, (2) could not provide supporting documentation for some costs claimed, (3) did not compare actual expenditures to budgeted amounts in its progress reports, (4) did not comply with applicable Office of Management and Budget cost principles, and (5) did not provide accurate, current, and complete disclosure of financial results.

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 controls help 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 assessment, (3) control activities, (4) information and

communication, and (5) monitoring.

Even though our audit did not include a comprehensive review of the grantee's internal controls for managing its Federal grants, two material weaknesses came to our attention during our audit that raised serious concerns about the ability of the Lower Brule Sioux Tribe to adequately manage environmental grants.

Control Environment: Lower Brule Sioux 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 state 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 the actual project on which they worked, 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. Finally, key staff did not possess adequate knowledge of grant requirements.

Information and Communication: Lower Brule Sioux 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 Lower Brule management and staff as well as EPA staff to ensure programs operate effectively and efficiently. Timely Financial Status Reports help EPA and Tribal managers determine whether funds are sufficient to complete required tasks, and program progress reports highlight accomplishments and areas that need extra attention. However, Lower Brule Sioux Tribe staff submitted Financial Status Reports and quarterly status reports late or not at all and, in many cases, could not locate accounting records necessary to support claimed costs. In addition, many quarterly progress reports contained only superfluous information and did not provide the information necessary to assess program accomplishments.

Recommendations

We recommend that the Acting Regional Administrator, EPA Region 8:

1. Recover \$632,615 of payments made to Lower Brule Sioux Tribe for which we questioned costs.
2. Maintain the grantee's “high risk” designation 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;
and
 - (b) payroll system meets Office of Management and Budget Circular A-87 requirements.
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 Lower Brule Tribal managers.

Agency Comments and OIG Evaluation

Region 8 generally agreed with our findings and recommendations. The Region 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.

The Region noted that it did not have sufficient time to evaluate all the information provided by the Tribe to support the costs associated with grant number X998854-01. However, we reviewed the documentation the grantee sent to the Region and concluded that the materials provided by the grantee support \$6,923 of the costs questioned in our February 1, 2002, draft report. We analyzed the sufficiency of the additional information, accepted certain items of cost, and modified our report as appropriate. As a result we have changed recommendation 1 to read: "Recover \$632,615 of payments made to Lower Brule Sioux Tribe for which we questioned costs."

The Region agreed to maintain the grantee's high risk designation. 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 to correct the issues discussed 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 when 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 with recommendation 4 and indicated that it would emphasize the importance of strong internal controls during its next visit to the Tribe.

**EPA Grants Awarded to
the Lower Brule Sioux Tribe**

Exhibit A

Summary of Balance Due EPA

| | | |
|--|---|------------------|
| Water Special Studies Grant X998854-01 (See Exhibit B) <ul style="list-style-type: none"> • \$33,565 Claimed • \$13,026 Questioned • \$20,539 Total Allowable | EPA Payments as of 10/18/00 | \$31,135 |
| | EPA Share (95% of allowable) ¹ | \$19,512 |
| | Balance Due EPA | \$11,623 |
| General Assistance Program Grant NI998224-02 <ul style="list-style-type: none"> • \$429,190 Claimed • \$429,190 Questioned² • \$0 Total Allowable | EPA Payments as of 7/20/00 | \$429,190 |
| | EPA Share (100% of allowable) | \$0 |
| | Balance Due EPA | \$429,190 |
| Spill Prevention Grant X998422-01 <ul style="list-style-type: none"> • \$197,172 Claimed • \$197,172 Questioned² • \$0 Total Allowable | Total EPA Payments as of 6/23/00 | \$191,802 |
| | EPA Share (95% of allowable) | \$0 |
| | Balance Due EPA | \$191,802 |

| | |
|----------------------------|------------------|
| Total Costs Claimed: | \$659,927 |
| Total Costs Questioned: | \$639,388 |
| Total Allowable: | \$20,539 |
| | |
| Total EPA Payments Made: | \$652,127 |
| Total EPA Share Allowable: | \$19,512 |
| Balance Due EPA: | \$632,615 |

Notes

1. EPA share represents that portion of allowable project cost for which EPA is responsible.
2. We questioned all costs claimed because the grantee could not provide a complete and accurate list of costs claimed.

Exhibit B

**Summary of Audit Results for
Water Special Studies Grant X998854-01**

| Categories | Costs Claimed | Costs Questioned as: | | | |
|---|-----------------|----------------------|--------------|-----------------|----------------------|
| | | Ineligible | Unreasonable | Unsupported | Total |
| Payroll | \$6,636 | | | \$6,636 | \$6,636 ¹ |
| Travel | 1,500 | | | 1,500 | 1,500 ² |
| Office Supplies | 1,249 | \$789 | \$460 | | 1,249 ³ |
| Equipment | 10,145 | | | | |
| Contractual | 10,394 | | | | |
| Indirect Cost | 1,273 | | | 1,273 | 1,273 ⁴ |
| Recipient Match | 2,368 | | | 2,368 | 2,368 ⁵ |
| Total | \$33,565 | \$789 | \$460 | \$11,777 | \$13,026 |
| Total Allowable (Claimed less Questioned) | | | | | \$20,539 |
| Summary of Balance Due EPA | | | | | |
| EPA Payments as of 10/18/00 | | \$31,135 | | | |
| EPA Share (95% of allowable) | | \$19,512 | | | |
| Balance Due EPA | | \$11,623 | | | |

Notes

1. We questioned all payroll costs because the grantee's payroll system did not comply with Office of Management and Budget Circular A-87 requirements. The grantee neither maintained an after-the-fact accounting of time charges nor certified that any employees worked solely on this 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 states 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 states 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 all travel costs because the grantee entered the amount charged to the grant for travel by journal voucher and the grantee could not locate the supporting documentation and/or explain the purpose of the travel.
3. We questioned \$789 of office supplies as ineligible because the documentation provided by the grantee indicated the supplies were purchased to support another grant. We questioned \$460 of supplies as unreasonable because although the grant period was for one year, the grantee did not purchase these supplies until the last seven days of the grant period.
4. We questioned all indirect costs charged to the grant because the grantee could not provide adequate documentation to support the charge. The grantee could not provide an approved indirect cost rate for the grant period and was unable to explain how the charges were calculated.
5. We questioned all recipient match charged to the grant because the documentation provided by the grantee was inadequate. The documentation provided was a one-page sheet that listed “Purchase of maps” for \$2,368. The grantee could not produce an invoice for the purchase nor did the grantee record the transaction in its accounting system.

**EPA Grants Awarded to
the Lower Brule Sioux Tribe**

Region 8 Comments



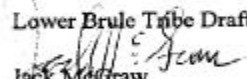
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MAR 28 2002

MEMORANDUM

SUBJECT: Lower Brule Tribe Draft Report No. 2001-08-000370-LB
FROM: 
Jack McGraw
Acting Regional Administrator
TO: Jeff Hart
Branch Manager
Denver Office

This draft audit report of three Lower Brule Tribe grants recommends disallowing a large amount of costs. The Tribe provided materials to us by March 22, 2002, but the Region has not had the time to fully review them because of your deadline of March 29, 2002 to issue the final audit report. The Region will continue working with the Tribe to review the disallowed costs.

The Region has already designated Lower Brule as a "high risk" grantee. We are using this designation to require Lower Brule to submit financial and program information to support each payment request. 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 Lower Brule's payroll system meets OMB requirements.

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

Finally, we agree with Recommendation #4 and will reiterate the importance of strong internal controls during our next site visit with Lower Brule 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.



Distribution

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Inspector General

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Director, Grants, Audits, and Procurement Program

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Lower Brule Sioux Tribe Program Manager, Tribal Assistance Program

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