



U.S. ENVIRONMENTAL PROTECTION AGENCY

OFFICE OF INSPECTOR GENERAL

Wells Band Council Needs to Improve Its Accounting System to Comply With Federal Regulations

Report No. 14-2-0316

July 14, 2014



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Report Contributors:

David Kim
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Abbreviations

CFR	Code of Federal Regulations
Council	Wells Band Council
EPA	U.S. Environmental Protection Agency
FFR	Federal Financial Report
GAP	General Assistance Program
OIG	Office of Inspector General
OMB	Office of Management and Budget

Cover photo: The Wells Band Council Environmental Program Office in Wells, Nevada.
(EPA OIG photo)

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At a Glance

Why We Did This Review

The U.S. Environmental Protection Agency (EPA), Region 9, requested assistance from the Office of Inspector General (OIG) due to concerns about the financial practices and internal controls of the Wells Band Council (Council). The financial practices and internal controls involved equipment and travel costs, and timekeeping methods and procedures.

This report addresses the following EPA goal or cross-agency strategy:

- *Working to make a visible difference in communities.*

For further information, contact our public affairs office at (202) 566-2391.

The full report is at:
www.epa.gov/oig/reports/2014/20140714-14-2-0316.pdf

Wells Band Council Needs to Improve Its Accounting System to Comply With Federal Regulations

What We Found

The Council did not timely submit Federal Financial Reports (FFRs) to support cash draws of \$390,000, which were made by the Council under EPA grant 00T39801. By not submitting FFRs within the period reviewed under this engagement, the Council had not claimed any costs; therefore, we could not evaluate travel and equipment costs incurred under their EPA grant.

The Council's timekeeping methods and procedures were not in compliance with the Code of Federal Regulations (CFR), through 2 CFR Part 225, Appendix B. The Council did not maintain personnel activity reports or equivalent documentation as required by the regulation.

The Council's financial management system did not meet the standards established under 40 CFR § 31.20(b). The regulation requires that a grant recipient's financial management system provide accurate, current and complete disclosure of financial results; compare actual expenditures with budgeted amounts; and relate financial information to performance or productivity data. The Council did not meet these requirements.

As a result of the issues noted above, we questioned \$390,000 drawn under the grant as unsupported.

The Wells Band Council's accounting system did not comply with federal regulations, which resulted in \$390,000 of questioned costs and proposed high-risk designation for the grantee.

Recommendations

We recommend that the Regional Administrator for EPA Region 9 recover \$390,000 drawn under the grant, unless the Council can provide adequate documentation to support eligible costs incurred under the grant. We also recommend that the Regional Administrator designate the Council a high risk grantee, as was previously recommended in the Council's Office of Management and Budget Circular A-133 audits.

Agency and Auditee Response

EPA Region 9 program officials concurred with our findings and recommendations, and said they will work with the Council to resolve the findings.

The Council generally agreed that its accounting system may not have met federal requirements. The Council submitted the required FFRs to Region 9 in March 2014, after the completion of our audit testing. The OIG has not reviewed these FFRs for compliance with federal regulations. The Council expressed concerns about being designated high risk and how this designation might impact their ability to obtain future federal grants.



UNITED STATES ENVIRONMENTAL PROTECTION AGENCY
WASHINGTON, D.C. 20460

THE INSPECTOR GENERAL

July 14, 2014

MEMORANDUM

SUBJECT: Wells Band Council Needs to Improve Its Accounting System to
Comply With Federal Regulations
Report No. 14-2-0316

FROM: Arthur A. Elkins Jr.

A handwritten signature in black ink, appearing to read "Arthur A. Elkins Jr.", is positioned to the right of the "FROM:" line.

TO: Jared Blumenfeld, Regional Administrator
Region 9

The attached attestation report represents the results of the Office of Inspector General's (OIG's) agreed-upon procedures engagement. This report is intended solely for your information and use, and should not be used by those who have not agreed to the procedures or taken responsibility for the sufficiency of the procedures for their purposes.

This report contains findings that the OIG identified and corrective actions that the OIG recommends. The report does not necessarily represent the final position of the U.S. Environmental Protection Agency (EPA). Managers at the EPA will make final determinations on matters in this report.

Action Required

In accordance with EPA Manual 2750, you will need to provide your proposed final determination letter for our review and concurrence prior to issuing the final determination, since there are monetary findings in excess of \$250,000. The proposed final determination is due to our office within 120 days of report issuance, or by November 12, 2014. To expedite the resolution process, please email an electronic version of your proposed management decision to adachi.robert@epa.gov.

Your staff should review the findings, recommendations and recipient's response, and provide us documentation regarding the resolution of the findings. If the recipient is unable to provide adequate documentation to support the \$390,000, the EPA should recover these costs accordingly.

Your response will be posted on the OIG's public website, along with our memorandum commenting on your response. Your response should be provided as an Adobe PDF file that complies with the accessibility requirements of Section 508 or the Rehabilitation Act of 1973, as amended. The final response should not contain data that you do not want to be released to the public. If your response contains such data, you should identify the data for redaction or removal, along with corresponding justification.

We will post this report to our website at <http://www.epa.gov/oig>.

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Independent Auditor's Report on Applying Agreed-Upon Procedures

In response to an August 14, 2013, request from the U.S. Environmental Protection Agency (EPA), Region 9, we applied the agreed-upon procedures to EPA grant 00T39801 awarded to the Wells Band Council of Wells, Nevada.

We performed the procedures enumerated below, which were agreed to by the Office of Inspector General (OIG) and Region 9 on January 23, 2014. We performed these procedures solely to assist the region in determining:

1. Whether the equipment and travel costs claimed under the EPA grant are reasonable, allocable and allowable in accordance with applicable laws, regulations and grant conditions.
2. Whether the timekeeping methods and procedures at the Wells Band Council are in compliance with applicable laws, regulations and grant conditions.

The period under review for this agreed-upon procedure engagement was from October 1, 2010, through December 31, 2013.

By receiving the grant award, the recipient has accepted responsibility for complying with the requirements of the Code of Federal Regulations (CFR), through 2 CFR Part 225; 40 CFR Part 31; 40 CFR Part 35, Subpart B; and the terms and conditions of the grant.

We performed these agreed-upon procedures in accordance with the *Government Auditing Standards* issued by the Comptroller General of the United States, and the attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of Region 9. Consequently, we make no representation regarding the sufficiency of the procedures described below, either for the purpose for which this report has been requested or for any other purpose.

We conducted our audit work from February 4, 2014, through July 14, 2014. Our agreed-upon procedures included:

1. Reviewing claimed travel and equipment costs and supporting documents to determine whether the costs are reasonable, allocable, and allowable in accordance with the applicable federal laws, regulations and grant conditions.
2. Quantifying any unreasonable, unsupported or unallowable travel and equipment costs claimed.

3. Performing walk-throughs and interviews to obtain an understanding of the auditee's policies and procedures for timekeeping and obtaining written procedures.
4. Reviewing a sample of payroll transactions, to ensure auditee compliance with its timekeeping procedures and federal laws and regulations.
5. Quantifying unreasonable, unsupported or unallowable personnel costs claimed.

Results of these procedures are presented in the following sections of this report.

We were not engaged to and did not perform an examination, the objective of which would be the expression of an opinion on management's assertions. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of EPA. It is not intended to be, and should not be, used by anyone other than these specified parties.



Robert K. Adachi
Director of Forensic Audits
July 14, 2014

Introduction

Purpose

On August 14, 2013, EPA Region 9, Communities and Ecosystems Division, requested assistance from the OIG due to concerns about grants awarded to certain tribes in Nevada, including the Wells Band Council (Council). After meeting with regional staff, it was decided that an agreed-upon procedures engagement would be performed to review equipment and travel costs claimed under EPA grant 00T39801, and evaluate the Council's timekeeping procedures.

Background

The Wells Band Council is the governing body within the Wells Colony located in Wells, Nevada. The Wells Colony is one of four separate colonies of the Te-Moak Tribe of Western Shoshone Indians.

EPA grant 00T39801 was awarded to the Council under the agency's Indian Environmental General Assistance Program (GAP) on June 8, 2010. The grant period is from October 1, 2010, through September 30, 2014, and the total grant award amount is \$532,334. The GAP grant provides financial assistance for the Council to plan, develop and establish an environmental protection program. Activities funded under the grant include community outreach, environmental education and workshops, community clean-ups, and coordination with federal agencies and other entities on environmental issues.

Summary of EPA Grant 00T39801:

Grant number	Total award amount	Performance period	Amount drawn as of December 31, 2013
00T39801	\$532,334	10/1/10 – 09/30/14	\$390,000

Source: EPA grant file and EPA compass data warehouse.

Prior Audits

On August 21, 2013, the OIG transmitted the Council's fiscal year (FY) 2008, 2011 and 2012 Office of Management and Budget (OMB) Circular A-133 (single audit) audit reports to EPA Region 9 for review and audit resolution. As a result of the single audit findings, the OIG recommended that the region recover \$361,027 in unsupported questioned costs. The OIG also recommended that the Council be considered high risk, in accordance with 40 CFR Part 31.12, and that appropriate grant restrictions be placed on the Council.

Of the \$361,027 questioned, \$248,642 was for FYs 2011 and 2012, which fall within the period covered by EPA grant 00T39801. Resolution of these reports was suspended, pending the results of the agreed-upon procedures engagement.

Results of Agreed-Upon Procedures Engagement

We could not review travel and equipment costs claimed under grant 00T39801, because the Wells Band Council had not submitted any Federal Financial Report (FFR) at the time of this engagement and had not yet claimed any costs under the grant. Timekeeping procedures at the Council were not in compliance with applicable regulations. Furthermore, we determined that the accounting system in place at the Council also was not in compliance with applicable regulations. As a result, we questioned as unsupported \$390,000 in total cash draws made by the Council under the EPA grant.

Travel Costs

We could not determine whether travel costs claimed under grant 00T39801 were reasonable, allocable and allowable in accordance with applicable federal laws, regulations and grant conditions due to following reasons:

1. At the time of this engagement, the Council had not yet submitted any FFRs. An FFR is an assertion from a grantee claiming how much of the federal grant fund was spent for grant purposes during the period covered by the FFR. Although the Council has drawn federal funds under grant 00T39801, the Council had not yet claimed any travel costs by submitting an FFR. Therefore, we could not review claimed travel costs.
2. The Council also could not identify total travel costs incurred under the EPA grant. The Council's accounting system was coded to identify costs by only two categories—personnel costs and all other costs. The Council could not readily provide accounting records of all travel costs incurred.
3. The Council did not provide adequate supporting documentation for the travel costs that it was able to identify. Many of the travel cost transactions were missing programmatic supporting documents showing the travel costs were incurred for grant purposes.

Equipment Costs

We could not determine whether equipment costs claimed under grant 00T39801 were reasonable, allocable and allowable in accordance with applicable federal laws, regulations and grant conditions due to following reasons:

1. As discussed previously, at the time of this engagement the Council had not yet submitted any FFRs. Although the Council has drawn federal funds under grant 00T39801, the Council had not yet claimed any

equipment costs by submitting an FFR. Therefore, we could not review claimed equipment costs.

2. The Council did not provide adequate procurement documents related to the equipment costs identified in the Council's general ledger. The Council identified two equipment costs in its general ledger. However, the Council could not provide procurement documents for the two equipment purchases. The Council explained that the purchases were managed by an employee who was no longer with the Council, and that the employee did not make the procurement documents available before leaving.

Timekeeping Procedures

We determined that timekeeping methods and procedures implemented at the Council were not in compliance with 2 CFR Part 225, Appendix B, 8.h(4) and (5) regarding personnel activity reports or equivalent documentation. There was no personnel activity report or equivalent documentation at the Wells Band Council as required by the regulation.

Title 2 CFR Part 225, Appendix B, 8.h(4) requires a distribution of employees' salaries or wages to be supported by personnel activity reports or equivalent documentation when employees work on multiple activities or cost objectives. Appendix B, 8.h(5) states that such personnel activity reports or equivalent documentation must meet the following standards:

- (a) They must reflect an after-the-fact distribution of the actual activity of each employee.
- (b) They must account for the total activity for which each employee is compensated.
- (c) They must be prepared at least monthly and must coincide with one or more pay periods.
- (d) They must be signed by the employee.

The Council's Financial Management Policy also states:

Labor Distribution - All staff members will record their time on weekly time sheets. After supervisors approve these time sheets, Accounting will enter the labor distribution data into the Band's automated timekeeping module time sheets.

However, the Council did not have such a labor distribution system in place. Council employees used timecards to punch in and out for the hours they worked. Each employee kept separate timecards for each project or department for which

they worked. The employees prepared separate bi-weekly timesheets for each of their timecards. The timesheets were reviewed by supervisors then by the tribal Chairwoman. Approved timesheets were then routed to the Council's finance manager. The finance manager recorded the approved labor hours to the appropriate program, according to the timesheets.

However, there was no personnel activity report or its equivalent that gave an account of the total distribution of the actual activity of each employee. As such, the Council cannot review employees' distribution of labor hours in order to manage the workforce and ensure compliance with applicable regulations, laws and policies. Therefore, there was no assurance that the total hours are accounted for and claimed properly.

Other Matters – Inadequate Accounting System

The Council's accounting system is inadequate and not in compliance with the provisions of 40 CFR Part 31.20. The Council's accounting system did not identify costs by categories other than personnel costs. All other types of expenses incurred (travel, supplies, equipment, etc.) are recorded simply as an expense without further categorization. Lack of cost categorization does not allow the Council to compare actual expenditures to budgeted amounts; or to match financial records to performance or productivity data, both of which are required under 40 CFR Part 31.20(b)(4).

The lack of financial data that support performance or productivity data prevents the tracing of funds to a level of expenditures adequate to establish that such funds have not been used in violation of the restrictions and prohibitions of applicable statutes as required under 40 CFR Part 31.20(a)(2). Ultimately, the accounting system in place at the Council does not allow for accurate, current and complete disclosure of financial results as required under 40 CFR Part 31.20(b)(1).

As a result of the Council's inadequate accounting system, the Council had not filed any interim FFRs for EPA grant 00T39801 during the period under review. An annual submission of an FFR is an administrative grant condition. However, the lack of FFRs limited the EPA's financial oversight of the grant.

The Council submitted FFRs for the EPA grant in March 2014. Because the reports were submitted after initiation of fieldwork and not in time to be considered for review under this engagement, we did not review the FFRs submitted. However, we do have concerns about the validity of the FFRs submitted due to the unaddressed issue of the Council's inadequate accounting system.

Recommendations

We recommend that the Region 9 Regional Administrator:

1. Require the Council to provide adequate documentation to support the \$390,000 in total cash draws made by the Council between October 1, 2010, and December 31, 2013. If the Council is unable to provide adequate supporting documentation, the region should recover these costs accordingly. The amount of costs recovered as a result of the resolution of this report should be offset by any questioned costs recovered as part of the resolution of OIG Report No. 13-3-0350, *Single Audit Reports for the Wells Band Council*, August 21, 2013.
2. Complete the resolution of OIG Report No. 13-3-0350, in order to resolve \$361,027 in questioned unsupported costs (of which \$248,642 pertained to EPA grant 00T39801); and implement the recommendation to identify the Council as high risk, in accordance with 40 CFR Part 31.12, and place appropriate grant restrictions and grant conditions on the grantee.

Agency and Grantee Comments

The OIG presented the findings and recommendations of this engagement and received verbal comments from EPA Region 9 program officials on April 24, 2014, and from the grantee on April 23, 2014.

Region 9 program officials concurred with the findings and the recommendations and said they will work with the Council to resolve the findings.

A summary of the Council's comments concerning the findings and recommendations follow:

1. The Council submitted three FFRs for EPA grant 00T39801 in March 2014—one for each fiscal year covered by the grant.
2. Regarding the travel cost supporting documents, the Council said it has all the programmatic documents and can provide them if necessary.
3. Regarding the procurement documents related to equipment costs, the Council said it can try to obtain the procurement documents if necessary.
4. The Council does conduct a monthly budget review. The Council prepares a monthly spreadsheet that shows the total amount of expenses incurred for the month and the accumulated total expense for the fiscal year, along with the budgeted amount for the year. However, the spreadsheet does not provide budget comparisons by cost categories.

5. The Council noted that most key employees, including the Tribal Chairwoman and the finance director, were not employed by the Council during some of the period covered by the single audit reports.
6. Regarding the finding of inadequate accounting system and the related recommendations, the Council recognized that it may not have been in compliance. The Council emphasized that it is already taking steps to ensure future compliance. However, the Council is also concerned that the high-risk designation might make it particularly difficult for the Council to obtain future federal grants.

OIG Response

We verified that the Council has submitted FFRs for the EPA grant. However, the Council's submission of FFRs and other comments did not resolve issues with the Council's timekeeping procedures or the accounting system. Furthermore, although we did not review the FFRs submitted, we have concerns about the validity of the FFRs due to the unaddressed issue of the Council's accounting system. Therefore, our findings and recommendations remain unchanged.

Status of Recommendations and Potential Monetary Benefits

RECOMMENDATIONS						POTENTIAL MONETARY BENEFITS (in \$000s)	
Rec. No.	Page No.	Subject	Status ¹	Action Official	Planned Completion Date	Claimed Amount	Agreed To Amount
1	8	Require the Council to provide adequate documentation to support the \$390,000 in total cash draws made by the Council between October 1, 2010, and December 31, 2013. If the Council is unable to provide adequate supporting documentation, the region should recover these costs accordingly. The amount of costs recovered as a result of the resolution of this report should be offset by any questioned costs recovered as part of the resolution of OIG Report No. 13-3-0350, <i>Single Audit Reports for the Wells Band Council</i> , August 21, 2013.	U	Region 9 Regional Administrator		\$390	
2	8	Complete the resolution of OIG Report No. 13-3-0350, in order to resolve \$361,027 in questioned unsupported costs (of which \$248,642 pertained to EPA grant 00T39801); and implement the recommendation to identify the Council as high risk, in accordance with 40 CFR Part 31.12, and place appropriate grant restrictions and grant conditions on the grantee.	U	Region 9 Regional Administrator			

¹ O = Recommendation is open with agreed-to corrective actions pending.
 C = Recommendation is closed with all agreed-to actions completed.
 U = Recommendation is unresolved with resolution efforts in progress.

Distribution

Regional Administrator, Region 9
Agency Follow-Up Official (the CFO)
Agency Follow-Up Coordinator
Director, Grants and Interagency Agreements Management Division,
Office of Administration and Resources Management
Deputy Regional Administrator, Region 9
Director, Communities and Ecosystems Division, Region 9
Project Officer, EPA Grant 00T39801, Region 9
Grants Specialist, EPA Grant 00T39801, Region 9
Audit Follow-Up Coordinator, Region 9
Tribal Chairperson, Wells Band Council