



U.S. ENVIRONMENTAL PROTECTION AGENCY
OFFICE OF INSPECTOR GENERAL

Catalyst for Improving the Environment

Audit Report

Oglala Sioux Single Audits – Corrective Actions Taken but Improvements Needed in Resolving Costs

Report No. 08-P-0213

July 28, 2008

Report Contributors:

Melinda Burks
Janet Kasper
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Abbreviations

EPA	U.S. Environmental Protection Agency
FY	Fiscal Year
MATS	Management Audit Tracking System
OIG	Office of Inspector General
OMB	Office of Management and Budget
OST	Oglala Sioux Tribe



At a Glance

Catalyst for Improving the Environment

Why We Did This Review

The Office of Inspector General (OIG) of the U.S. Environmental Protection Agency (EPA) is increasing its focus on following up to determine if audit report recommendations are being implemented. The objective of this audit was to determine whether the recommendations in the Fiscal Years (FYs) 2000-2003 single audit reports for the Oglala Sioux Tribe (OST) had been implemented.

Background

A single audit is one conducted in accordance with Office of Management and Budget (OMB) Circular A-133, which includes both the entity's financial statements and federal awards. The FY 2003 single audit report listed 43 repeat findings that remained unresolved since 2000. The OIG questioned the \$2.5 million EPA awarded to OST during the audited time frame.

For further information, contact our Office of Congressional and Public Liaison at (202) 566-2391.

To view the full report, click on the following link:
www.epa.gov/oig/reports/2008/20080728-08-P-0213.pdf

Oglala Sioux Single Audits – Corrective Actions Taken but Improvements Needed in Resolving Costs

What We Found

EPA Region 8 continues to take actions to resolve the internal control findings in the single audit reports. Region 8 identified OST as high risk, requested a corrective action plan, and reviewed OST accounting documentation. However, Region 8 did not monitor implementation of the corrective actions in the Agency's Management Audit Tracking System (MATS) until all actions were completed. As a result, the Agency was not accurately reporting on its status of implementing corrective actions resulting from audit reports.

Region 8 did not obtain sufficient documentation to support resolving \$2.5 million in questioned costs. The documentation for resolving the questioned costs was not from OST's official accounting system and did not reconcile to the costs claimed. Region 8 did not resolve these issues before concluding that the Tribe did incur the costs. Without sufficient documentation to support resolving questioned costs, the Region cannot ensure those costs were allowable under the EPA grants.

What We Recommend

We recommend that the EPA Region 8 Regional Administrator:

1. Track the remaining corrective action that OST has not implemented in MATS, or submit a revised corrective action plan to the OIG for evaluation.
2. When resolving the FY 2004 and future single audits, (1) obtain sufficient supporting documentation from the grantee's official accounting system to support resolving questioned costs, (2) fully reconcile the supporting documentation to the costs that were claimed, and (3) recover any unsupported costs from the grantee.

Region 8 did not agree that the corrective actions needed to be tracked in MATS and believes it took sufficient action to address the questioned costs. We acknowledge that Region 8 is continuing to work with OST to improve financial management, but EPA policy requires that corrective actions be tracked in MATS. In response to our draft report, Region 8 obtained from OST additional information to support the questioned costs. In the future, Region 8 needs to ensure costs are fully supported before making its final determination.



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

OFFICE OF
INSPECTOR GENERAL

July 28, 2008

MEMORANDUM

SUBJECT: Oglala Sioux Single Audits – Corrective Actions Taken
but Improvements Needed in Resolving Costs
Report No. 08-P-0213

FROM: Melissa M. Heist *Melissa M. Heist*
Assistant Inspector General for Audit

TO: Carol Rushin
Acting Regional Administrator, Region 8

This is our report on the subject audit conducted by the Office of Inspector General (OIG) of the U.S. Environmental Protection Agency (EPA). This report contains findings that describe the problems the OIG has identified and corrective actions the OIG recommends. This report represents the opinion of the OIG and does not necessarily represent the final EPA position. Final determinations on matters in this report will be made by EPA managers in accordance with established audit resolution procedures.

The estimated cost of this report – calculated by multiplying the project's staff days by the applicable daily full cost billing rates in effect at the time – is \$82,955.

Action Required

In accordance with EPA Manual 2750, you are required to provide a written response to this report within 90 calendar days. You should include a corrective actions plan for agreed upon actions, including milestone dates. We have no objections to the further release of this report to the public. This report will be available at <http://www.epa.gov/oig>.

If you or your staff have any questions, please contact Janet Kasper, Director, Contracts and Assistance Agreement Audits, at 312-886-3059 or kasper.janet@epa.gov.

Purpose

The Office of Inspector General (OIG) of the U.S. Environmental Protection Agency (EPA) is increasing its focus on following up to determine if audit report recommendations are being implemented. As part of this increased focus, one of the audits selected for follow-up was a series of single audit reports issued in 2005 on the Oglala Sioux Tribe (OST). The objective of our audit was to determine whether the recommendations in the Fiscal Years (FYs) 2000 to 2003 single audit reports for OST had been implemented.

Background

A single audit is one conducted in accordance with Office of Management and Budget (OMB) Circular A-133, which includes both the entity's financial statements and federal awards. In 2005, the OIG identified and submitted to Region 8 for its review the single audit reports for OST for FYs 2000 to 2003. The 2003 audit report listed findings that remained unresolved from 2000 through 2002 and were repeated during the 2003 audit. The 43 audit findings included the lack of segregation of duties, account reconciliation, expenditure documentation, and subrecipient monitoring. Although none of the EPA programs were tested as major programs for these audits, the OIG believed that EPA programs were affected due to the crosscutting nature of the findings. The OIG questioned all EPA costs during the audited time frame of about \$2.5 million:

Table 1: OIG Questioned Costs

Audit Period	Single Audit Report No.	Questioned Costs
01/01/2000 – 12/31/2000	2006-3-00034	\$626,279
01/01/2001 – 12/31/2001	2006-3-00035	\$668,417
01/01/2002 – 12/31/2002	2006-3-00036	\$635,284
01/01/2003 – 12/31/2003	2006-3-00037	\$586,232
TOTAL		\$2,516,212

Source: OIG Single Audit Reports

Based on the extent and severity of the findings disclosed in the single audit reports, EPA designated OST as “high risk” in June 2006 as the OIG recommended in December 2005. According to EPA’s high risk designation letter, subsequent to this designation all grants and amendments that EPA awards will contain special conditions related to the high risk designation. EPA grants will be awarded on a reimbursement basis whereby reimbursement will not be made until EPA reviews the information that is submitted with reimbursement requests and authorizes payment based on a demonstration of programmatic progress and financial documentation. The letter also requested various supporting documentation for resolution of the single audit findings and related questioned costs.

According to the November 2006 final determination letter from Region 8 to the OIG, the Tribe took significant measures to provide EPA with the requested information. The letter stated that based on EPA’s review and analysis of the additional supporting documentation for drawdown activity on EPA grants, it had determined that the Tribe did legitimately incur costs against the

EPA grants selected. Since it found the Tribe's documentation to be adequate, EPA stated it did not plan to recover total questioned costs in the amount of \$2,516,212, and considered the audit findings closed as they relate to EPA programs.

EPA Manual 2750, EPA Audit Management Process, identifies Agency responsibilities for implementing audit report recommendations. The manual states that before the Action Official closes follow-up action on an audit report, the Action Official will assure that assistance recipients implement the corrective actions specified in the final Agency decision. EPA uses the Management Audit Tracking System (MATS) to compile annual performance and accountability reports to Congress and report on the number of open recommendations and completed actions.

Scope and Methodology

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

We conducted our audit field work from October 2007 to February 2008. We made a site visit to Region 8 and performed the following steps:

- Conducted interviews of Region 8 staff regarding the audit resolution, including their involvement in the Indian Health Service alternative dispute resolution process and their current efforts to work with OST and its cognizant agencies to address the systemic audit issues;
- Reviewed regional documentation related to the audit resolution, such as Region 8 internal meeting notes, e-mail correspondence, and letters between the Region and OST;
- Obtained and analyzed the supporting documentation OST provided as part of the resolution of the single audit findings;
- Obtained and analyzed the documentation OST provided to support the draws reviewed as part of the resolution of the questioned costs; and
- Evaluated the Region's current process for reviewing and approving payment requests, including review of awards made since the high risk-designation to verify the special conditions were included in the award documents.

Findings

Corrective Actions Taken but not Monitored in MATS

Region 8 continues to take actions to resolve the internal control findings. Region 8 identified the tribe as high risk, requested a corrective action plan, and reviewed OST accounting documentation. However, Region 8 did not monitor the implementation of corrective actions in MATS until all actions were completed. As a result, the Agency was not accurately reporting the status of implementation of corrective actions resulting from audit reports.

The corrective action plan, dated July 2006, included activities, with some milestone dates, such as those shown in Table 2. In evaluating the corrective actions, Region 8 reviewed OST's operations manual that included descriptions of internal controls and contained detailed step-by-step descriptions of how to properly document accounting activities.

Table 2: OST Corrective Action Plan

Corrective Action	Milestone Date	Status
Revise line authority and organization chart	7/31/2006	Complete
Establish full-time position and hire accountant supervisor		Position established, but supervisor not hired until January 2008.
Tribal Council to develop and enact a Code of Ethics	12/31/2006	Complete
Arrange for ongoing training and technical assistance for the accounting staff	12/31/2006	On-going
Operations manual completed	Completed	Complete
Retain an accounting firm to review trial balances for 1999-2004	9/30/2006	Complete
Establish a line item in indirect cost budget for internal auditing services	9/30/2006	Still outstanding
Establish new system of accounts	Completed	Complete

Source: OST Corrective Action plan and discussion with Region 8 staff

While Region 8 staff stated that they did monitor the implementation of the corrective action plan, it did not monitor corrective actions in MATS after November 2006. At that time, there were still corrective actions with future milestone dates. One corrective action, hiring an accountant supervisor, was not implemented until January 2008.

OST has been working with Indian Health Service to resolve long-standing systemic accounting and financial issues. OST entered into an alternative dispute resolution agreement with the Indian Health Service in 2005. The dispute resolution process is an informal process to resolve issues that resulted in identifying the tribe as high risk. Region 8 is participating in the process. As of July 2008, the process was still continuing.

In discussing this review with Region 8 staff, they mentioned that because of the continuing activities with the tribe, the corrective actions identified in response to the audit report may no longer be needed or the appropriate action. When they are changes to the corrective action plan, EPA Manual 2750 requires the action official to notify the OIG of the changes and to provide the OIG with an opportunity to review the revised corrective action.

Region 8's Resolution of Questioned Costs Was Not Based on Sufficient Documentation

The Region did not obtain sufficient documentation to allow \$2.5 million of federal funds that were questioned in the audit reports. Documentation is sufficient if it allows for verifying that the costs are allowable, reasonable, and allocable to the federal grant. Although the Region requested supporting documentation for eight draws so it could resolve the questioned costs, the Region only reviewed supporting documentation for three draws. According to the Region, at

the time of the resolution, turmoil occurred within OST. OST's administrative office had been taken over by some tribal members, who would not provide the financial documentation Region 8 requested to the environmental office. The U.S. Department of Justice attorneys also removed OST financial records from February 2000 to October 2003. These actions impacted the Tribe's ability to maintain general ledger and expenditure reports. As a result, the Region agreed to review documentation for just three of the requested draws.

Some of the documentation for the three draws the Region relied upon to close the questioned costs was from an *ad hoc* system, as opposed to the Tribe's official accounting system. Because OST's environmental office could not get the administrative office to cooperate, the environmental office maintained its own "cuff accounts" to track the financial status of grants. These accounts tracked information such as costs incurred and claimed, and remaining grant balances. Much of the documentation provided for the three draws the Region analyzed for the audit resolution came from the environmental office's records.

Although some discrepancies occurred between the costs claimed and supported for the three draws reviewed, the Region did not recover any of the unsupported costs. For example, the indirect costs for one draw significantly exceeded historical rates, OST did not have a negotiated indirect cost rate agreement for the period the request covered, and the support for a portion of the indirect costs indicated some of the costs were related to another grant program. Differences also occurred between the supporting documentation and claimed amount for fringe benefit and travel costs. For the second draw, OST provided supporting documentation for an amount in excess of the actual draw, and we noticed unusual time charging patterns. For example, employees were charging 100 percent of their time for a pay period to the grant, yet they did not charge all pay periods covered by the draw request to the grant. For the third draw, OST provided supporting documentation for an amount in excess of the actual draw, and differences occurred between the supporting documentation and claimed amount for salary and fringe benefit costs. We could not clearly determine from the documentation provided how these discrepancies were resolved.

We understand that the circumstances were unusually difficult at the time of the audit resolution in terms of obtaining the requested documentation. However, the Region should have held the audits open until it could obtain all of the requested documentation from OST's official accounting system. Where the documentation did not reconcile to the costs claimed, the Region should have taken action to recover the costs. The FY 2004 single audit report contains similar findings to previous reports, and the OIG transmittal memorandum for the report will question all costs OST claimed in FY 2004.

Recommendations

We recommend that the EPA Region 8 Regional Administrator:

1. Track the remaining corrective action that OST has not implemented in MATS, or submit a revised corrective action plan to the OIG for evaluation.
2. When resolving the FY 2004 and future single audits, (1) obtain sufficient supporting

documentation from the grantee's official accounting system to support resolving questioned costs, (2) fully reconcile the supporting documentation to the costs that were claimed, and (3) recover any unsupported costs from the grantee.

Agency Response

Region 8, in responding to the draft report, stated that the OIG reviewed Region 8's audit resolution letter and related supporting documentation in November, 2006, agreed that Region 8's actions were sufficient to close the matter, and that the OIG would also close out the report in MATS. Region 8's understanding of MATS is that it should reflect the results of the work to address the specific findings in OST single audits of FYs 2000-2003. There were no specific findings related to EPA grants, but they performed a review of costs as summarized in the background section of this memo. By maintaining these reports as open in MATS, the system reflects not just responses to specific audit findings, but also Region 8's long-term oversight and monitoring of a high risk grantee. The Agency already uses an existing system for this purpose, the Grantee Compliance and Recipient Activity Summary Database. At the exit conference, Region 8 staff mentioned that the remaining corrective action may no longer be the appropriate action based on the continuing activities that Region 8 has been taking to improve OST financial management.

Region 8's continuing actions regarding OST are extensive and are focused on the long-term needs of the Tribe. The issues confronting OST reach across the entire government and will take a government-wide solution. Region 8's intention is to continue to work with OST and other federal entities as necessary to reach an effective government-wide solution that works for OST and its federal partners. They are working with these partners to identify OST's historical and current performance limiting factors, such as resource limitations, management issues, internal controls, and ongoing monitoring. They are working with these partners to ensure these considerations are appropriately addressed in the corrective action plan.

In regard to the questioned costs, Region 8 stated in responding to the draft report that it worked closely with the OIG to develop an approach to review the questioned costs. The OIG concurred with the approach, and implementation was proper and complete. In reviewing the draft report, Region 8 obtained additional information from OST's general ledger. Region 8 performed a subsequent analysis and resolved most of the discrepancies we identified for the three draws in the draft report. Region 8 concluded the three draw requests were documented in all material respects.

OIG Evaluation

Regarding the tracking of the recommendation in MATS, the OIG, in its closeout letter for the audit, stated it would close the assignment in the OIG's system, and not MATS. EPA Manual 2750 states that the action official is to track the corrective action plan in the management tracking system until all corrective actions are completed. The corrective actions should have been tracked in MATS, even if the actions are part of the long-term oversight of the grantee. We recognize that Region 8 continues to take action to improve financial management at the tribe. To the extent that those actions are also part of the corrective action plan to address the OST

single audit reports, Agency policy requires that they be tracked in MATS. This information is needed so that the EPA can prepare accurate reports on the status of audit recommendations. The recommendation has been updated to give Region 8 the alternative of submitting a revised corrective action plan if the remaining corrective actions are no longer appropriate.

Regarding Region 8's review of questioned costs, the OIG agreed with the plan to review a sample of eight cash draws. However, Region 8, in implementing the plan, did not resolve discrepancies that were found in reviewing the questioned costs. The additional actions Region 8 took when responding to the draft report should have been taken before it concluded all costs were supported. In the future, EPA needs to ensure all costs are fully reported before making its final determination on costs the OIG questions.

In responding to the draft report, Region 8 included some comments about the FY 2004 single audit report. The OIG will take the comments into consideration when it issues the FY 2004 single audit in August 2008.

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	4	Track the remaining corrective action that OST has not implemented in MATS, or submit a revised corrective action plan to the OIG for evaluation.	U	Regional Administrator, EPA Region 8			
2	4	In resolving the FY 2004 and future single audits, (1) obtain sufficient supporting documentation from the grantee's official accounting system to support resolving questioned costs, (2) fully reconcile the supporting documentation to the costs that were claimed, and (3) recover any unsupported costs from the grantee.	U	Regional Administrator, EPA Region 8			

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

Appendix A***Agency Response***

June 11, 2008

MEMORANDUM

SUBJECT: Assignment No. 2008-6
Oglala Sioux Single Audits – Corrective Actions Taken But Improvements
Needed in Resolving Costs

TO: Janet Kasper, Director, Assistance Agreement Audits

FROM: Wayne Anthofer, Director
Grants, Audit and Procurement Program Office (8TMS-G)

This is submitted in response to your April 14, 2008 memorandum concerning the Office of Inspector General's (OIG) follow-up on the Oglala Sioux Tribe's (OST) Single Audits for OST's Fiscal Years 2000 thru 2003. In 2007, the OIG chose to review the process and results of Region 8's follow-up to the OST single audits. Two auditors reviewed our files and conducted interviews. Your April 14, 2008, memo provides the results of their review and this memo is our response.

Background

The OIG previously reviewed OST's Single Audits for these fiscal years and issued four memorandums to Region 8 in December, 2005. The four memos conveyed the OIG action to question all listed EPA expenditures (approximately \$2.5 million) based on the severity of the overall single audit findings for 2000, 2001, 2002, and 2003. The OIG took this action while recognizing that the EPA programs were not considered major programs, were not audited in any of these years and consequently, did not contain any questioned costs related to EPA funds. In its review of the single audit reports, the OIG did not conduct any additional testing that identified previously unreported questioned costs.

Through subsequent discussions between Region 8 and the OIG, it was agreed that Region 8 could take an approach that differed from the originally recommended review of all documentation for all expenditures for the years in question. This was done in recognition of the fact that none of the EPA programs had questioned costs in the Single Audit and that other Federal entities were working with OST to resolve the audit findings and develop and implement corrective action plans.

As described in a correspondence in September and November of 2006, between Region 8 and the OIG, Region 8 had completed or proposed completing the following:

- classified OST as a "high risk" grant recipient under 40CFR §31.12 on June 21, 2006, and began monitoring support documentation for all grant reimbursement requests to gain

assurances that all costs are properly supported and needed for program activities before any reimbursement will be made,

- reviewed support data for an example draw down and determined that OST incurred the costs,
- proposed to review and analyze additional support on a sample basis to determine if it appears other grant funds were properly supported,
- reviewed OST's Corrective Action Plan dated July 13, 2006 and pertinent policies and procedures manuals for accounting, procurement, records management and personnel and determined that they appeared adequate,
- reviewed a copy of the CPA firm engagement letter for the FY2004 and 2005 audits noting expected start date in late fiscal year 2006,
- proposed reviewing the FY 2004 and 2005 Single Audits to determine if corrective measures were taken findings were resolved, and
- reviewed and recognized the work completed by the U.S. Department of the Interior, Bureau of Indian Affairs undertaken to resolve the ongoing audit issues.

Region 8 submitted its audit resolution letter to the OIG describing the action taken and the determinations made to close the audit findings as they related to EPA programs. This was done in recognition that (1) future audits were forthcoming that would give Region 8 the opportunity to readdress the issues, as needed, and that (2) Region 8 classified OST as a high risk grantee and would review all requests for disbursements to determine their adequacy and work closely with OST to monitor programmatic and financial activities until the perceived risks were sufficiently reduced.

Upon review of the audit resolution letter and related supporting documentation, the OIG notified the Region that the actions were sufficient and the reports were being closed out in the OIG tracking system as of November 30, 2006.

The Region continues to designate OST as a high-risk grantee and is working with them to provide proper support for all reimbursements requested.

Findings/Responses

Below are specific findings of the OIG's follow-up report and our responses.

Finding:

Corrective Actions Taken but not Monitored in MATS - Region 8 continues to take actions to resolve the internal control findings. Region 8 identified the tribe as high risk, requested a corrective action plan, and reviewed OST accounting documentation. However, Region 8 did not monitor the implementation of corrective actions in MATS until all actions were completed. As a result, the Agency was not accurately reporting the status of implementation of corrective actions resulting from audit reports.

Response:

The OIG reviewed Region 8's audit resolution letter and related supporting documentation in November, 2006, agreed that Region 8's actions were sufficient to close the matter, and that the OIG would also close out the report in MATS. The audit resolution letter clearly stated that the audit findings would be closed. This was done in recognition of the Region's advanced monitoring under OST's high risk designation and the knowledge that future Single Audit reports would provide the Region with the opportunity to revisit OST's corrective action plans related to government-wide and, perhaps, EPA-specific issues.

Our understanding of MATS is that it should reflect the results of the work to address the specific findings in OST single audits of 2000 – 2003. There were no specific findings from EPA but we performed a review of costs as summarized in the background section of this memo. Maintaining these open in MATS changes MATS to reflect not just responses to specific audit findings, but to long-term oversight and monitoring that is necessary for high risk grantees. The Agency already uses an existing system for this purpose, the Grantee Compliance and Recipient Activity Summary Database (GCAI). There seems to be no advantage for the Agency to update actions in two separate systems for the same situation.

Region 8's continuing actions regarding OST are extensive and are focused on the long-term needs of the Tribe. We have increased our involvement with OST and other Federal entities in order to help resolve the ongoing difficulties OST is having with its accounting and management systems. Region 8 is participating in ongoing "Alternative Dispute Resolution" talks between OST and the Department of Interior's (DOI) Bureau of Reclamation (BOR) and Bureau of Indian Affairs (BIA) and the U.S. Health and Human Service's (HHS) Indian Health Service (IHS). Alternative Dispute Resolutions are currently being used by these Federal entities to resolve audit findings from the fiscal years 2000 – 2003, and to form the basis for an effective and lasting corrective action plan. We have also been working with other Federal entities as necessary, such as the Department of Labor, the Department of Justice, HHS, and the DOI's Office of Inspector General.

The issues confronting the Oglala Sioux Tribe reach across the entire government and will take a government-wide solution. Our intention is to continue to work with OST and other Federal entities as necessary to reach an effective government-wide solution that works for OST and its Federal partners. We are working with these partners to identify OST's historical and current performance limiting factors, such as resource limitations, management issues, internal controls, and ongoing monitoring. We are working with these partners to ensure these considerations are appropriately addressed in the corrective action plan. We are working with these partners to breath life and purpose into the corrective action plan so that it is workable and sustainable. As we work towards solutions with these Partners, it is much preferred to be working with an information system that reflects the most recent issues facing OST, rather than maintaining an older, less relevant version.

Finding:

Region 8's Resolution of Questioned Costs Was Not Based on Sufficient Documentation
- The Region did not obtain sufficient documentation to allow \$2.5 million of Federal funds that were questioned in the audit reports. Documentation is sufficient if it allows for verifying that the costs are allowable, reasonable, and allocable to the Federal grant.

Response:

Region 8 worked closely with the OIG to develop an approach to review the questioned costs. Our overall approach, explained below, received concurrence from the OIG. The implementation of this approach was proper and complete, as we explain below.

As mentioned in the OIG report, the OST administrative staff was displaced from their offices when the building was taken over by dissidents in 2000 and 2001. The U.S. Department of Justice (DOJ) took custody of financial records during the takeover and for some time thereafter. The administrative staff did not have access to the records during that time.

After OST's administrative staff was able to reenter the building and, later, obtain the information previously held by DOJ, it was difficult for them to find specific records. However, the Environmental Department had been maintaining its own records of expenditures and reimbursement requests ("cuff accounts"), copies of transactions, and copies of general ledgers, that they were able to use help identify and submit supporting documentation to the Region. The Region also received and used reports from OST's general ledger.

In light of the difficulties facing the administrative and environmental staffs, the Region selected three draws to test for supporting documentation, as follows:

Program	Date of Draw	Amount
GAP	11/06/02	\$ 38,340
Brownfields	02/09/04	47,253
Clean Water §106	12/14/04	121,372

GAP Draw

The OIG report states "For example, the indirect costs for one draw significantly exceeded historical rates, OST did not have a negotiated indirect cost rate agreement for the period the request covered, and the support for a portion of the indirect costs indicated some of the costs were related to another grant program. Differences also occurred between the supporting documentation and claimed amount for fringe benefit and travel costs." This appears to reference the GAP draw on 11/6/02 for \$38,340.

This grant, originally dated June 7, 2000, included funding for indirect costs using a 32% indirect cost rate. This was the provisional rate negotiated by OST in August, 1996. At the time of the award, Region 8 accepted budgets utilizing the most recent negotiated indirect rate. This was a defacto approach used by most EPA grant offices at the time. (Current policy is to fund indirect

costs only if there is a current effective rate negotiated before or during the grant period.) Indirect rates fluctuated over the 7 years, as follows:

1996	32.00%
1997	31.70
1998	25.60
1999	28.60
2000	20.96
2001	25.83
2002	26.40

By the time the grant was amended on May 22, 2002, the indirect cost budget was 26.2% of total direct charges. Per the summary expenditure reports provided by OST with the 11/06/02 request, indirect costs totaled \$124,524, or 26.52% of total direct costs from inception to date. Since this is a continuing grant, subsequent draws can be adjusted for the difference of \$1,513.

Per the grant workplans, a portion of the GAP funds were to be used for development of a hazardous waste program. Related charges, including indirect, were to be charged to the GAP grant. OST set up a separate fund to account for hazardous waste program development expenditures. However, it was acceptable and expected for OST to charge these development charges to the GAP grant.

There was a \$947.97 difference between estimated fringe benefit costs calculated by the Region and that charged by OST. A subsequent analysis of OST's general ledger and payroll records supports OST's charges.

OST did not originally provide the Region with enough documentation supporting \$775.97 in travel costs. A subsequent transmittal included the support needed, including a travel authorization, travel report, hotel invoices, meeting agenda, and a copy of the check. Additionally, a reversing journal entry for an apparent double billing of this amount was made on 12/31/03.

Our conclusion is that this grant draw was sufficiently documented.

Brownfield's and §106 Draws

The OIG report states that "For the second draw, OST provided supporting documentation for an amount in excess of the actual draw, and we noticed unusual time charging patterns. For example, employees were charging 100 percent of their time for a pay period to the grant, yet they did not charge all pay periods covered by the draw request to the grant. For the third draw, OST provided supporting documentation for an amount in excess of the actual draw, and differences occurred between the supporting documentation and claimed amount for salary and fringe benefit costs."

Per an analysis of the detail general ledger obtained by the Region for these draws, the period of time covered by the support documents provided overlapped with the period of time covered by

the draw requests. A subsequent review and analysis noted that OST's requests were documented in all material respects. It appears this information was available to the Region at the time of the resolution.

FY2004 Audit

In our follow up for OST's fiscal year 2004 Single Audit, we were concerned about the nature of the questioned costs attributable to the EPA programs. In finding 04-52, the auditor questioned \$1,693,011 in EPA funded costs based on underfunded deferred revenue. This did not appear to be reasonable since, according to the Schedule of Expenditures of Federal Awards, the Tribe only had \$1,158,903 in expenditures. Also, deferred revenues are not expected for EPA programs since EPA funds are provided on a reimbursement basis.

At our request, the Department of Interior's Inspector General reviewed the audit support for the finding and, in discussions with the auditor, found that an error was made. The auditor and the DOI OIG determined that these costs should not have been questioned, at least for the stated reason. We request that the EPA OIG work with the Tribe, the DOI OIG, EPA Region 8, and/or otherwise follow up on this finding before questioning all the costs.

Summary

Region 8 continues to be concerned with the issues facing OST. We have made the Tribe a high risk grantee and are reviewing the general ledgers and supporting documents for all funding requests prior to disbursement of funds. We are working with the Tribe, its cognizant agency and others to help the Tribe address entity-wide accounting and management issues. We would welcome your interaction with the cognizant agency as well as the Tribe's auditors to help determine how EPA funded programs are impacted by the Tribal-wide issues; the level of audit coverage EPA programs receive in a Single Audit; and that audits are correctly identifying questioned costs.

We believe we were in agreement with the OIG with our resolution of the Single Audits for 2001 – 2003. We reviewed a sample of disbursements and found that they were supported in all material respects and, as a result, determined that we did not need to question all program costs. Subsequent review of the Tribe's detailed general ledgers has reaffirmed that determination.

I would like for us to be in agreement on this issue as we work towards a long-term resolution with the Oglala Sioux Tribe and would welcome the opportunity to discuss our response with you further. I appreciate this opportunity to have your review of our efforts to appropriately address and resolve single audit findings for EPA grantees. In particular, the dialogue with your staff, both as we conducted the original resolution, and now through this follow-up report, has been very valuable for us. This is a very challenging function and we recognize how important it is for it to be carried out effectively.

Appendix B

Distribution

Regional Administrator, EPA Region 8
Assistant Administrator for Administration and Resources Management
Agency Follow-up Official (the CFO)
Agency Follow-up Coordinator
Director, Grants and Interagency Agreements Management Division
Director, Office of Regional Operations
Audit Follow-up Coordinator, Region 8
Audit Follow-up Coordinator, Office of Administration and Resources Management
Deputy Inspector General