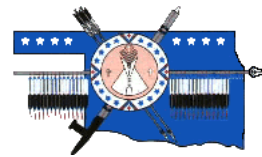


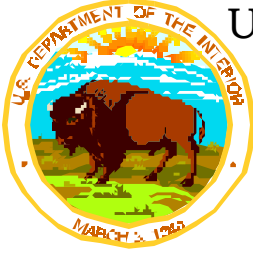
**U.S. Department of the Interior
Office of Inspector General**

**Management of
Federal Funds
Cheyenne and
Arapaho Tribes of
Oklahoma**



**Tribes and Bureau of
Indian Affairs
Working Together to
Improve Tribal Financial
and Program
Management Systems**

**Report No. 2002-I-0006
January 2002**



United States Department of the Interior

Office of Inspector General

Western Region

Federal Building
2800 Cottage Way, Suite E-2712
Sacramento, California 95825

January 11, 2002

7430

Memorandum

To: Assistant Secretary for Indian Affairs

From: Michael P. Colombo
Regional Audit Manager, Western Region

Subject: Final Audit Report, Management of Federal Funds by the Cheyenne and Arapaho Tribes of Oklahoma (Report No. 2002-I-0006)

The attached report presents the results of our review of the effectiveness of the Cheyenne and Arapaho Tribes of Oklahoma in managing federal funds. As requested by your office and by Senators Don Nickles and James M. Inhofe and Representative Frank D. Lucas, we reviewed the Tribes' management systems and internal controls to determine whether they were sufficient to ensure that these funds were properly managed, accounted for, and expended in accordance with federal laws and regulations and the terms of the funding agreements. The Tribes have experienced difficulty in complying with the terms of their funding agreements since at least 1992.

Results in Brief

We are pleased to report that although much work remains to be done, the Tribes are improving their management of federal programs. We believe that this improvement is the direct result of the decisive actions taken by the Bureau of Indian Affairs (BIA) and the U.S. Department of Health and Human Services (HHS). These agencies, which collectively account for the majority of the Tribes' federal funding, continue to take the steps necessary to address identified problems and ensure that federal funds are properly managed and expended. In September 1996, BIA classified the Tribes as a "high-risk" contractor, placed the Tribes on a cost-reimbursable basis, and increased its monitoring of Tribal contracts and grants with BIA. Similarly, in July 1999, HHS increased the monitoring of its contracts and grants with the Tribes and in June 2000 placed the Tribes on a cost-reimbursable basis. As a result, a majority of the Tribes' federal funding is now provided on a cost-reimbursable basis.

Our review confirmed BIA's determination that while the Tribes have made progress in improving their compliance with federal program requirements, they still needed to make significant improvements in the management of their financial systems and Social Services Program. The Tribes must now implement, and elected officials and Tribal management personnel must consistently enforce, the recommendations made by their auditors and federal funding agencies. If the Tribes do not take the necessary actions, BIA will be required to continue to closely monitor BIA programs into the foreseeable future. We also found that from 1997 through 1999, the Tribes had inappropriately used about \$614,000 of direct federal program funds to pay the overhead, or indirect, costs of administering their federal programs.

We recommended that you direct BIA to continue to work with Tribal officials to ensure that the Tribes (1) comply with their Accounting and Finance Manual in accounting for and administering federal funds, (2) properly determine and document in case files the eligibility and need of participants in the Social Services Program, (3) determine the amount of direct program funding used for indirect purposes applicable to each federal program, and (4) notify each federal agency of the reimbursable amount identified. In our opinion, these recommendations will assist BIA's continuing effort to work with the Tribes in implementing an effective financial management system and in further improving program management, specifically of the Social Services Program. If the Tribes do not improve their management of federal programs, we believe that BIA should consider installing a federal monitor or reassuming administration of the programs.

In your response to our draft report (Appendix 1), you concurred with Recommendations 1 and 2 and did not concur with Recommendations 3 and 4. We modified Recommendations 3 and 4 to address your concerns and believe that your proposed actions meet the general intent of the recommendations. Accordingly, we consider Recommendations 2, 3, and 4 resolved and are referring them to the Assistant Secretary for Policy, Management and Budget for tracking of implementation. We modified Recommendations 1 and 2 to include a provision for establishing a federal monitor. For Recommendation 1, we are requesting that BIA provide us with additional information: namely, an estimated date for either (1) the Tribe's compliance with the Accounting and Finance Manual or (2) BIA's installation of a federal monitor or reassumption of program administration.

In their response, the Tribes generally concurred with our findings and recommendations, but expressed frustration at their "high-risk" classification and stated that more cooperation is needed between the Tribes and BIA. We agree that corrective actions are best accomplished in an atmosphere of cooperation and believe that the actions proposed in your response will assist the Tribes in correcting their financial and program deficiencies.

We commend the managers and staff of BIA's Southern Plains Regional Office and Concho Agency Office for their oversight of BIA programs. We also thank BIA and the Tribes for their assistance and cooperation during our audit. We will report the results of our review to the three Congressmen, as well as to the regional offices of the Inspectors General for the federal agencies providing significant funding to the Tribes.

Action Required

In accordance with the Departmental Manual (360 DM 5.3), we are requesting a written response to this report by March 15, 2002. The response should provide the information requested in Appendix 3.

The legislation, as amended, creating the Office of Inspector General requires us to report semiannually to Congress on all audit reports issued, actions taken to implement audit recommendations, and each significant recommendation that has not been implemented.

Attachment

cc: Mr. Jerry Fiely, Acting Director, Assistant Secretary for Indian Affairs, Office of Audit and Evaluation
Mr. Dan Deerinwater, Regional Director, Southern Plains Regional Office, Bureau of Indian Affairs
Ms. Galila Johnson, Superintendent, Concho Agency, Bureau of Indian Affairs
Audit Liaison Officer, Bureau of Indian Affairs

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Abbreviations

BIA	Bureau of Indian Affairs
CPA	Certified Public Accountant
HHS	Department of Health and Human Services
OIG	Office of Inspector General

Background

The headquarters office of the Cheyenne and Arapaho Tribes of Oklahoma is located in Concho, Oklahoma. The Tribes have about 11,500 enrolled members, of which about 5,000 live on or near the reservation. A business committee, composed of four representatives elected from the Cheyenne Tribe and four representatives from the Arapaho Tribe, administers the day-to-day operations of federal programs and Tribal enterprises, including a casino, bingo halls, smoke shops, and a farm and ranch.



Figure 1
Location Map

The Tribes' federal programs are funded through agreements executed with federal agencies, generally under the Indian Self-Determination and Education Assistance Act (Public Law 93-638 as amended). In fiscal year 1999,¹ the Tribes received \$7.3 million in federal funds, of which over 80 percent was received from BIA and HHS. To ensure that the funds are properly expended, federal agencies, in this case primarily BIA and HHS, periodically review Tribal financial and program management. The agencies also rely on annual audits of the Tribes' financial management system conducted by certified public accountants (CPA) under the Single Audit Act (Public Law 98-502 as amended) and Office of Management and Budget Circular A-133, *Audits of State, Local Governments, and Non-Profit Organizations*.²

Since at least 1992, the Tribes have had difficulty in complying with the terms and conditions of their federal contracts and grants and in maintaining the integrity of their financial and program management systems. As a result, by December 31, 1996, the Tribes had been advanced about \$2.9 million in federal monies that had not been spent on approved program purposes and were not covered by available Tribal resources.³ Of this amount, \$2.3 million was applicable to BIA. Figure 2 shows the recent history of deficiencies in the Tribes' financial and program management systems and the corrective actions taken by BIA and HHS.

¹The Tribes' fiscal year is the calendar year.

²Under the Circular, a single audit is an audit of an organization's financial statements, applicable internal controls, and federal contracts or grants conducted by an independent audit organization, generally a CPA firm.

³These advances, known as "deferred revenues," are normally covered by cash in the bank or investments. If not, they become unaccounted for deferred revenue. As such, they are reported as a deficiency in financial statements and are subject to reimbursement.

September 1996 - BIA Classifies Tribes As A “High-Risk” Contractor And Places Them On A Cost-Reimbursable Basis.

Acting Area Director of BIA’s Anadarko Area Office (now known as the Southern Plains Regional Office) based the decision, in part, on the inability of the Tribes to provide financial statement audits (single audits) and program and financial reports within required time frames and their failure to comply with contract terms and to address about \$2.3 million of deferred revenue applicable to BIA programs.

1997 - BIA’s Concho Agency Conducts Expenditure Reviews.

Agency staff performed expenditure reviews of the Tribes’ requests for reimbursements about once a month.

1998 And 1999 - BIA Reviews Note Some Improvement Since 1996, But Identify Continued Deficiencies.

June 1998 Review Of Law Enforcement Program. *This review reported a general failure to meet minimum Program requirements; specifically the review identified:*

- Missing law enforcement weapons.*
- Inadequate accountability for sensitive equipment.*
- Poor management practices in hiring, training, and directing employees and in conducting criminal investigations.*

October 1999 Followup Review Of Law Enforcement Program.

This review reported that many issues identified in the 1998 review had been corrected but that some personnel-related issues remained.

July 1998 Review Of Social Services Program. *This review questioned the allowability of assistance payments and noted that very little effort was made toward moving clients toward long-term self-sufficiency. Specifically:*

- Application forms were incomplete.*
- Case files did not have sufficient documentation to establish eligibility, support need and payment amounts, or to indicate verification of income or other resources available to applicant.*

Expenditure Reviews. *Five reviews, conducted to verify that expenditures were allowable and supportable, continued to identify deficiencies in payroll, travel, property management, and procurement.*

July 1998 - BIA’s Concho Agency Awarding Official Issues

Decisions To Disallow \$593,505. *The \$593,505 was funds advanced under completed federal contracts and grants with the Tribes. The Tribes had not provided documentation that these funds had been spent for approved purposes.*

'	September And December 1998 - BIA Issues Bills For Collection For \$593,505.
'	October And December 1998 - Tribes Appeal BIA Bills For Collection To Interior Board Of Contract Appeals. <i>(Awaiting Resolution)</i>
'	June 1999 - BIA's Concho Agency Awarding Official Issues Decision To Disallow \$2,277,748. <i>The amount represents the cumulative total of unaccounted for deferred revenue for BIA contracts and grants, including the \$593,505.</i>
'	July 1999 - Tribes Appeal June 1999 Agency Decision To Interior Board Of Contract Appeals. <i>(Awaiting Resolution)</i>
'	July 1999 - HHS Office Of Audit Services Advises That The Tribes Should Be Put On "Departmental Alert List." <i>This action increased HHS monitoring of Tribal contracts and grants.</i>
'	February 2000 - BIA Receives The Tribes' Single Audit Report For Calendar Year 1997 With Qualified Opinion. <i>The CPA firm conducting the audit issued a qualified opinion because interfund transfers to and from funding sources did not reconcile and because there were nine significant internal control deficiencies involving the Tribes' ability to administer federal funding in accordance with the terms of federal contracts and grants. In effect, the Tribes did not accurately record, process, document, and report financial and program information. (The 1997 report was due February 1, 1999.)</i>
'	June 2000 - HHS/Indian Health Service Places Tribes On Cost-Reimbursable Basis. <i>(Decision retroactive to March 1, 2000)</i>
'	March 2001 - BIA Receives Single Audit Report For Calendar Year 1998 With Qualified Opinion. <i>The CPA firm reported 18 significant internal control deficiencies affecting the Tribes' ability to account for and report financial data in accordance with federal contracts and grants. Overall, the deficiencies reported were similar to those identified in the 1997 single audit report and in BIA expenditure and program reviews. (The 1998 report was due February 1, 2000.)</i>

Figure 2
Chronology

Objective and Scope of Review

The Assistant Secretary for Indian Affairs and Senators Don Nickles and James M. Inhofe and Representative Frank D. Lucas requested that we review the Tribes' management systems and internal controls to determine whether they were sufficient to ensure that federal funds were properly managed, accounted for, and expended in accordance with federal laws and regulations and the terms of the funding agreements.

We conducted our review in accordance with the "Government Auditing Standards," issued by the Comptroller General of the United States and included such tests of records and other auditing procedures that were considered necessary to meet our objective. We also reviewed the system of internal controls over the Tribes' management of federal funds and administration of federal programs. We identified and confirmed CPA-reported control weaknesses related to the accurate and timely recording, processing, documenting, and reporting of financial information and the management of the Social Services Program. Our recommendations to correct the identified weaknesses should improve internal controls in these areas.

We reviewed six programs (Community Health Representative, Child Care and Development, Higher Education, Social Services, Law Enforcement, and Housing Improvement) to determine the adequacy of file documentation, verify applicant or recipient eligibility, and test general compliance with contract provisions. We selected these programs because they were considered major programs (programs over \$300,000) or because agency reviews or other audits had identified material problems with the programs. These programs received a total of \$2.7 million, or 37 percent of the federal funds received in 1999.

We also analyzed the financial status of the Tribes' federal programs by testing program revenues and expenditures and other financial and planning data available for the Tribes' fiscal year ending December 31, 1999. We confirmed the validity of federal funds reported and reviewed the propriety of payroll, procurement, travel, and property management expenses, which accounted for about 64 percent of total expenditures. With the exception of our review of the Tribes' indirect cost charges, we did not test accounting periods prior to January 1999 because the Tribes' 1997 records had just been audited and the Tribes' CPA firm was auditing Tribal records for calendar year 1998.

Tribes Have Made Progress But Further Improvement Is Needed

Our review confirmed BIA's determination that the Tribes had made progress in developing management systems and internal controls to administer their federal programs. We believe that the Tribes' progress was primarily the result of BIA's increased oversight. We agree with BIA that further improvements are needed in implementing and enforcing these systems and controls. We believe that enforcing compliance with the Tribes' Accounting and Finance Manual and ensuring the eligibility of individuals who apply for benefits from the Social Services Program would significantly improve Tribal compliance with the terms of federal funding agreements and help ensure that federal funds are spent only for approved purposes.

Enforce Existing Financial Management Controls

The Tribes' Accounting and Finance Manual provides for the systematic processing and reporting of financial transactions, including procedures to review both active and inactive programs that had not been officially closed out. Tribal officials, however, did not consistently enforce these policies and procedures, which significantly contributed to accounting-related problems similar to those identified by BIA during its 1997 and 1998 expenditure and program reviews and by the Tribes' CPA firm during its 1997 audit. Specifically, the Tribes did not accurately and timely record, process, document and report financial information, as shown in the following examples.

- ' Tribal officials did not require employees to produce monthly or quarterly financial statements, close accounting records, or make year-end adjusting and closing entries. Instead, management allowed these functions to be performed during the Tribes' single audit process months or even years after the end of the accounting period. In July 2000, for instance, we found that staff were still making adjustments to 1998 financial data.
- ' Tribal officials allowed nearly every finance department employee to adjust financial data, resulting in some data being adjusted more than once and without supervisory review or approval.
- ' Tribal officials did not always require employees to reconcile differences between accounts, such as interfund transfers. In addition, the Controller or other designated official did not always analyze the reconciliations that were made to determine the reasons for differences and to reduce or prevent their reoccurrence.

- ' Tribal officials did not require employees to close out federal contract/program accounts in a timely manner. We found that as of July 2000, accounts for 16 inactive contracts were still open in the Tribes' accounting records, thus allowing for unapproved adjustments to accounts.
- ' Tribal officials did not consistently require employees to use the budgetary features of the accounting software, which is designed to measure financial performance and thereby reduce or prevent the over-expenditure of federal program funds.

Ensure Eligibility of Applicants for Social Services Program Benefits

Of the six programs reviewed, we found that, with the exception of the Social Services Program, the Tribes generally expended contract funds for the purposes allowable under the contracts. In the Social Services Program,⁴ however, officials still were not adequately documenting applicant eligibility and allowed ineligible applicants to receive assistance. Of the 470 participants receiving general assistance payments totaling \$212,607 in 1999, we randomly selected and reviewed case files for 48 participants. Of these, we could verify the eligibility of only two participants, based on file documentation. See Figure 3.

<u>Participants</u>	<u>Assistance Provided</u>	<u>Eligibility</u>
36	\$18,460	Unverifiable
10	\$7,449	Not Eligible
<u>2</u>	\$586	Eligible
<u>48</u>		

Figure 3
General Assistance Payments

We also reviewed 6 of 163 homeless assistance payments made in 1999 to ascertain the eligibility of program participants and found that none were sufficiently documented to determine eligibility. We limited our testing because a June 2000 BIA review had determined that participants for 40 of the 49 cases reviewed were not eligible. Our review confirmed BIA's determination that the lack of adequate documentation to establish participant eligibility was and continues to be a significant problem for the Social Services Program.

⁴We reviewed General Assistance and Homeless Assistance, the two largest segments of the Social Services Program.

The Social Services Program Director stated that ineligible Tribal members received assistance because of high staff turnover, heavy workload, and lack of staff training. Notwithstanding these problems, the Tribes' Social Services Program contract, which incorporates Part 20 of Title 25 of the Code of Federal Regulations, requires limiting applicant eligibility to persons who are at least one-quarter Indian; live in the area served by the Tribes; lack basic food, shelter, or clothing; do not receive financial assistance from the Aid To Families With Dependent Children or the Supplemental Security Income Programs; and complete an application for local, state, and federal assistance.

Accordingly, we believe that both BIA and the Tribes should continue to monitor the Social Services Program carefully to ensure that case files are properly documented and that only eligible applicants receive assistance. If necessary, BIA should consider either installing a federal monitor to administer the Social Services Program or reassuming administration of the Program.

Tribes Used Direct Federal Program Funds for Indirect Costs

We also found that from 1997 through 1999, the Tribes inappropriately used about \$614,000 of federal program funds to pay overhead, or indirect, costs.⁵ We did not determine how much of the \$614,000 applied to each federal agency because such a determination would have required an analysis of the revenues and expenditures for all funding sources for the entire 3-year period. We believe, however, that the \$614,000 is money "borrowed" from federal funds which was not covered by cash in the bank or investments and which is therefore "unaccounted for" deferred revenue. BIA should coordinate with the Tribes to determine the amount of direct costs that are reimbursable to each federal program. In our opinion, the unaccounted revenue occurred because the Tribes supplemented direct federal program funding without funding their proportionate share of indirect costs.

⁵Under federal contracts, Tribes incur (1) direct costs—those that are specifically identified with a particular program purpose, such as Higher Education—and (2) indirect costs—those that benefit all programs, such as administrative salaries, providing for payroll or procurement services, or operating and maintaining facilities.

Recommendations To assist the BIA and the Tribes in addressing identified problems and issues, we recommend that the Assistant Secretary for Indian Affairs direct appropriate BIA officials to work with the Tribes to:

1. Ensure that Tribal management and elected officials enforce compliance with the Tribes' Accounting and Finance Manual in accounting for and administering federal funds to forestall establishing a federal monitor and/or reassuming administration of the programs.
2. Ensure that the eligibility and need of participants in the Tribes' Social Services Program are properly determined and documented in case files so that only eligible applicants receive federal assistance. Such assurance could include BIA's installing a federal monitor, reassuming administration of the Program, or taking other action as appropriate.
3. Determine the amount of direct funding used for indirect purposes that is reimbursable to each federal program.
4. Notify each affected federal agency of the reimbursable amount determined.

**Agency and
Tribal
Response and
OIG Reply**

In his October 31, 2001 response (Appendix 1), the Assistant Secretary for Indian Affairs generally concurred with Recommendations 1 and 2 and did not concur with Recommendations 3 and 4. We modified Recommendations 3 and 4 to address the Assistant Secretary's concerns and believe that BIA's proposed actions meet the general intent of these recommendations. The response stated that BIA would (1) ask the Tribes to require their CPA firm to prepare an analysis of the direct program funding used for indirect cost purposes as part of the Tribes' next single audit and (2) leave the decision as to whether to recover the costs to each of the federal agencies involved. We agree and are providing copies of this report to the regional offices of the Inspectors General of the agencies providing significant federal funding to the Tribes.

We consider Recommendations 2, 3, and 4 resolved and are referring them to the Assistant Secretary for Policy, Management and Budget for tracking of implementation. We modified Recommendations 1 and 2 to include a provision for establishing a federal monitor and are requesting additional information for Recommendation 1. Although BIA concurred with that recommendation, it stated that it could not provide a target date for completing the corrective action since

ultimate resolution of the recommendation was up to the Tribes. BIA did not address the second part of Recommendation 1, which was to reassume administration of the programs if the Tribes did not enforce compliance with their Accounting and Finance Manual in accounting for and administering federal funds. We are asking BIA, after meeting with the Tribes, to provide an estimated date for either (1) Tribal compliance with the Accounting and Finance Manual or (2) BIA's establishment of a federal monitor or reassumption of program administration.

In their October 31, 2001 response (Appendix 2), the Tribes generally concurred with our findings and recommendations, although the Tribes were critical of BIA's monitoring and oversight prior to placing the Tribes on "high-risk" status in September 1996. Specifically, the Tribes stated that "an atmosphere and spirit of working together to resolve the causes that prompted the "high risk" designation or which resulted from the designation does not exist between the Bureau and the Tribes" and requested that we make a recommendation for BIA and the Tribes to work together.

We appreciate the Tribes' response and understand their frustration with being on "high risk" for the past 5 years. We believe, however, the situation is equally frustrating for BIA because of the extensive monitoring and oversight it has continued to provide to ensure that federal funds are properly managed and accounted for. In addition, the Tribes still have not adequately addressed several of the conditions that gave rise to BIA's designating the Tribes as a "high-risk" contractor. These conditions were reported in the Tribes' single audit reports for 1996, 1997, and 1998; BIA's monitoring reports; and our audit report. Further, based on discussions with BIA personnel and BIA's response to the draft report, BIA has been and continues to be willing to work with Tribal officials and personnel to develop, implement, and enforce the corrective actions necessary to address many of the conditions that are the basis for the Tribes' "high risk" designation. We are particularly interested in BIA's statement that it would offer to assist the Tribes in creating and adopting a "Compliance Code" applicable to all staff, including actions to be taken for incidences of noncompliance.

We agree that progress toward resolving the system and program changes necessary to address the Tribes' "high risk" status is best accomplished in an atmosphere of cooperation. The Tribes, however, are ultimately responsible for ensuring that federal funds are properly managed and accounted for and must take the steps necessary to again assume full responsibility for administering programs and services to their members.

Appendix 1

Bureau of Indian Affairs Response



United States Department of the Interior

OFFICE OF THE SECRETARY

Washington, D.C. 20240

OCT 31 2001

Memorandum

To: Regional Audit Manager, Western Region Audits
Office of Inspector General

From: Assistant Secretary - Indian Affairs

Subject: Office of Inspector General Draft Audit Report on the Management of Federal Funds by the Cheyenne and Arapaho Tribes of Oklahoma (Assignment No. W-IN-BIA-007-00-R)

We appreciate the opportunity to review the draft audit report and to provide our comments as requested in your September 21, 2001, memorandum. Staff from the Southern Plains Regional Office and the Concho Agency, which serve the Cheyenne and Arapaho Tribes of Oklahoma, have reviewed the report and are available to provide any additional information you require.

Based upon their review, the following comments and responses to the four recommendations are provided.

General Comment

The BIA generally concurs with the findings noted in the draft audit report. We agree that the ongoing measures and classification of the Tribes as a "High Risk Contractor/Grantee" have not been sufficient to prevent the ineffective accounting weaknesses noted. The Concho Agency staff, with support of the Regional Office and the cooperation of the Tribes, has worked diligently to assist the Tribes in making the improvements which have occurred since 1996. We appreciate your report commenting on this assistance.

The Southern Plains Regional Office and Concho Agency officials met with five members of the Tribal Business Committee and other administrative personnel on October 25, 2001, to discuss the issues identified in the draft audit report and the BIA's response. The Tribes were receptive to making administrative changes to continue to improve their management systems.

Comments on Result of Review

Comments are provided as presented in the audit report: Financial Management, Program Management, and Inappropriate Use of Federal Funds.

Financial Management. As noted in the draft report, the BIA's frequent reviews have identified and reported findings related to the financial management system. With the support of this report, we will continue the "High Risk Contractor/Grantee" designation and our efforts to work with the Tribes on improving their financial management system.

Program Management. BIA will conduct in November a progress review of current program operations. The results of that review will determine the actions to be taken. If significant progress has been made, other actions as listed in the audit report (installation of a federal monitor or reassumption of all or the administrative portion of the program) will not be necessary.

Inappropriate Use of Federal Funds. We recognize that there is a high probability that Federal funds have been and continue to be used for purposes other than those for which they were intended. However, we firmly believe that because of the restrictions placed on the Tribes as a result of the high risk determination made in 1996, BIA's funding, for the most part, is not a part of the \$614,000 noted in the report. The Concho Agency has identified and disallowed BIA's share of the unaccounted for deferred revenue through the resolution of the Tribes' single audits for the years ended December 31, 1997 and December 31, 1998. The Agency has taken action to disallow and collect \$29,318 as a result of the 1997 single audit, and is in the process of addressing an additional \$34,853 for possible disallowance from the 1998 single audit. We will take similar action, if warranted, upon receipt of the 1999 single audit.

Responses to Recommendations

Each recommendation is restated along with the BIA response.

Recommendation 1. Ensure that Tribal management and elected officials enforce compliance with the Tribes' Accounting and Finance Manual in accounting for and administering federal funds to forestall continued federal monitoring and/or re-assuming administration of the programs.

Response. The BIA concurs with the recommendation. The BIA will continue the "High Risk Contractor/Grantee" status. Our discussion with the Tribes resulted in positive communications. We believe the Tribes' Business Committee will support our efforts to assist Tribal personnel with compliance of their tribal policy and procedure's manuals. This will be a lengthy process because the Tribes' own finance staff view their policy manuals as "outdated" and at times choose to disregard them. Also, prior efforts by the finance staff to enforce the policies and procedures were not always supported by Tribal administration and the Business Committee.

Our first step will be to require the Tribes to set up a separate checking account for BIA funds. We will no longer allow BIA funds to be included in the "sweep account."

In addition, we will offer to work with the Tribes to develop internal policy and procedures for the finance office which identifies each tribal employee's duties and responsibilities. Further, the BIA will offer to assist the Tribes in creating a Compliance Code to be adopted by the Business Committee that will apply to all staff, including program coordinators/directors, and will include

Appendix 1 (continued)

actions to be taken when personnel do not comply with the Code or the revised policy and procedures.

The target date for initiating discussions with the Tribe is December 2001/January 2002, and the Concho Agency Superintendent is the responsible official. Since final actions are the responsibility of the Tribes, it is not possible to identify a target date for completing the corrective action.

Recommendation 2. Ensure that the eligibility and need of participants in the Tribes' Social Services Program are properly determined and documented in case files so that only eligible applicants receive federal assistance. Such assurance could include BIA's installing a federal monitor, re-assuming administration of the Program, or taking other action as appropriate.

Response. The BIA concurs with the finding. The BIA provided 6 months (August 2000 through February 2001) of on-site technical assistance to the Tribes' Social Service program staff which resulted in their restructuring of the program. The BIA will conduct, in November 2001, a program review of case files from 2000 and 2001 to determine whether improvements have been made. If the review does not disclose that the Tribes have made significant improvements in program administration, the Regional and Agency managers along with program personnel will take the necessary and appropriate action which may include a partial reassumption of the contract to allow for direct oversight of program services or reassumption of the entire contract.

The target date for making the determination on whether the Tribes have made sufficient progress to continue contracting the program will be December 2001/ January 2002. The Concho Agency Self-Determination Specialist is the responsible official with the assistance of the Southern Plains Regional Office Supervisory Social Worker.

Recommendations 3 and 4. Determine the amount of direct program funding that should be reimbursed to each federal program. (Recommendation 3.) Coordinate repayment of the reimbursable amount with each affected federal agency (Recommendation 4.)

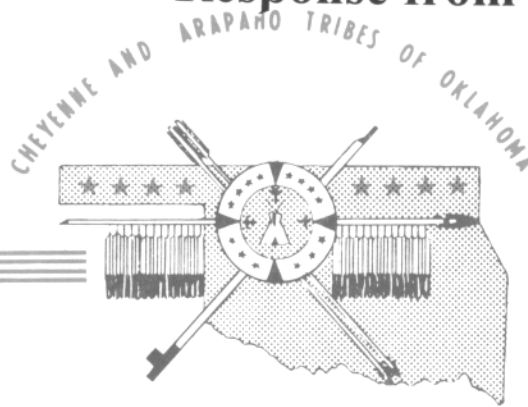
Response. The BIA does not concur with the recommendations. As previously discussed, the Agency has taken actions to recover that portion of the unaccounted for deferred revenue applicable to the BIA programs and will continue to do so in the future as necessary. To assist in the effort to resolve this finding, we will request the Tribes to require their CPA firm to prepare an analysis and breakdown of the \$614,000 as part of their next single audit report. Since this effort will benefit all Federal agencies, we believe that it should be paid for by Tribes and recovered through the application of the indirect cost rate. The determination of whether to recover the costs must be made by the individual Federal agencies.

The Concho Agency Self-Determination Specialist is responsible for preparing the letter to the Tribes by December 2001/ January 2002.

cc: Regional Director, Southern Plains Regional Office
Agency Superintendent, Concho Agency

Response from Cheyenne and Arapaho Tribes

JAMES PEDRO
CHAIRMAN



P.O. Box 38
Concho, Oklahoma 73022
(405) 262-0345
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October 31, 2001

Mr. Michael P. Columbo
Regional Audit Manager
U.S. Dept. of the Interior
Office of Inspector General
Western Region Audits
2800 Cottage Way, Room E-2712
Sacramento, California 95825

Dear Mr. Columbo:

In compliance with your letter of September 21, 2001 requesting the Tribes to provide a written response to the draft audit report issued as an attachment to subject letter, the Tribes are submitting the following responses and comments.

In general, the Tribes agree with the findings and recommendations contained in the draft audit report. That is to say that the findings and recommendations pertaining to the Tribes' financial systems and Social Services Program were and, to an extent, are still pertinent today as they existed at the time of the 1999 audit. However, we believe that there has been some progress demonstrated in the area of the procedures that are identified in the 1999 audit report. Specifically, while this will not affect the audit report, we want you to know that the Tribes have already taken steps to address the deficiencies that are identified as procedural problems in the Finance Department. It is our understanding that at this time, we are only to comment on the report and that we are not to supply specific responses to the audit recommendations until after the final report is issued.

To that end, our only comment is relative to the general assessment of the report regarding the capabilities of the Bureau of Indian Affairs as the oversight agency. As was noted in the report, the Tribes have been on high risk status since September of 1996, a period of five years. While the Tribes have been the recipients of increased monitoring of our financial transactions by the BIA over the past five years, the fact remains that the BIA had monitoring and oversight responsibility since the inception of the Self-Determination era. The Tribes have accepted and recognized the errors of the past and have worked diligently to correct and improve our management systems and procedures. The striking fact is that after five years, with increased

Appendix 2 (continued)

BIA monitoring, the Tribes remain on high risk. Throughout these five years, the Bureau, unlike the Tribes, has refused to recognize that any part of this situation could be the Bureau's lack of awareness and responsiveness to the circumstances that eventually determined that the Tribes should be placed on high risk. As a result, the concept of Self-Determination is being compromised while the Bureau, with high risk as a defense, questions insignificant day-to-day transactions. Such action infringes on the premise of Self-Determination. Program Directors and management staff are placed in the position of using valuable time and effort in addressing these questions or trying to second guess if an activity or expenditure will be allowed by the Bureau. This delays and hinders any meaningful planning. It seems that the Bureau, in an effort to make-up for past performance, is intent on keeping the Tribes on high risk by seizing on irrelevant issues and overlooking those situations that are significant. For example, the Social Services Program should have been a focal point and now can no longer be ignored. Within the past eighteen months, the Tribes have been denied competitive grants from other federal agencies that were initially approved but subsequently denied due to our high risk status. This deprives our tribal members of needed services and benefits.

In summary, an atmosphere and spirit of working together to resolve the issues that prompted the high risk designation or which resulted from the designation does not exist between the Bureau and the Tribes. We would like to see such a recommendation included in the Inspector General's audit report.

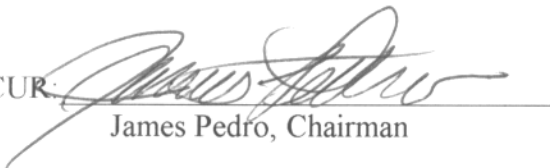
Thank you for allowing us the opportunity to present these comments.

Sincerely,



Gary Baker
Controller

CONCUR:


James Pedro, Chairman

Appendix 3

Status of Recommendations

<u>Recommendation</u>	<u>Status</u>	<u>Action Required</u>
1	Management Concur Additional Information Is Needed	Provide an estimated date for (a) Tribal compliance with the Accounting and Finance Manual or (b) BIA's establishment of a federal monitor or re-assumption of program administration.
2, 3, and 4	Resolved; Not Implemented	No further response to the OIG is required. We will refer the recommendations to the Assistant Secretary for Policy, Management and Budget for tracking of implementation.



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