



**U.S. DEPARTMENT OF THE INTERIOR
OFFICE OF INSPECTOR GENERAL**

AUDIT REPORT

**BUREAU OF INDIAN AFFAIRS
CONTRACT WITH THE NAVAJO
NATION FOR SOCIAL SERVICES**



REPORT NO. Q-IN-BIA-0098-2003

SEPTEMBER 2004



United States Department of the Interior

OFFICE OF INSPECTOR GENERAL

Central Region
134 Union Blvd., Suite 510
Lakewood, Colorado 80228

September 30, 2004

Memorandum

To: Assistant Secretary for Indian Affairs

From: Anne L. Richards *Keith R Clark Acting For*
Regional Audit Manager

Subject: Final Audit Report on the Bureau of Indian Affairs Contract with the Navajo Nation for Social Services (Report No. Q-IN-BIA-0098-2003)

This report presents the results of our audit of the Bureau of Indian Affairs (BIA) contract with the Navajo Nation for social services. The objective of our audit was to determine whether BIA's oversight of the Navajo Nation social services contract was adequate to ensure that the Navajo Nation's management systems are sufficient to properly manage its program. We concluded our audit at the end of the audit survey for the reasons detailed in the body of the report.

Although our audit work was limited, we identified areas concerning the Navajo Nation's program administration and the BIA's contract oversight that need strengthening. This report contains one recommendation to strengthen the oversight process.

In the September 9, 2004, response to the draft audit report, the Assistant Secretary for Indian Affairs agreed with the audit findings in the report. We consider the recommendation resolved but not implemented. Accordingly, we are requesting that BIA provide us with the information indicated in Appendix 2 to the report. We would appreciate receiving the response to this report by November 1, 2004.

The legislation, as amended, creating the Office of Inspector General requires that we report to the U.S. Congress semiannually on all audit reports issued, actions taken to implement our audit recommendations, and recommendations that have not been implemented.

If you have any questions regarding this report, please do not hesitate to call me at (303) 236-9243.

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INTRODUCTION

This report presents the results of our audit of the Bureau of Indian Affairs' (BIA) Public Law 93-638¹ contract with the Navajo Nation for social services. During our audit survey, we reviewed various aspects of the Navajo Nation's performance under the contract, contract funding, and BIA oversight.

We concluded our audit at the end of the survey phase of the audit because of a dispute between the Navajo Nation and BIA over revisions to the Federal regulations for Social Services for Indians, the Navajo Nation's planned conversion to a new accounting system, and the Navajo Nation Division of Social Services (Division) reorganization and changes in internal policy and procedures.

Although our audit work was limited, we identified areas where improvements could be made to the social services program performance, most notably in financial and management controls. Improved monitoring and technical assistance from BIA in these areas could be beneficial to enhance the effectiveness and efficiency of the program.

Background

BIA has contracted with the Navajo Nation for the delivery of social services including welfare assistance for eligible participants. The welfare assistance program provides for the basic needs of eligible Indians who have no access to such assistance from state or local governments.

Under the contract provisions, the Division is responsible for providing welfare assistance payments, adult and elderly institutional and in-home care services, and Child Protective Services (CPS). CPS is provided to children who require protection from abuse, neglect, abandonment, or exploitation. The Navajo Nation is responsible for carrying out the provisions of the contract in accordance with all applicable federal standards including necessary management controls. The Navajo Nation received \$29.6 million and \$31.4 million in fiscal years 2002 and 2003, respectively, for its social services program.

¹ Indian Self-Determination and Education Assistance Act.

According to the Code of Federal Regulations (25 CFR part 900.45), which establishes minimum financial management requirements for Indian Self Determination contracts, an Indian tribe's financial management system should provide for accurate and current financial reports. Also, the financial management system should maintain effective control and accountability for all self-determination contract funds and accounting records should be supported by source documentation. BIA has the responsibility to facilitate the efforts of tribes to plan, conduct, and administer programs and services.

Contract Renewal

BIA had not renegotiated its contract with the Navajo Nation for the social services program in a timely manner. The original four-year contract period expired on December 31, 2000, and as of October 2003, the program was still operating under contract extensions and outdated regulations. BIA attributed the delay in renegotiation of the contract to disputed changes in Federal regulations.

Specific regulations for the operation of social service programs are contained in the Code of Federal Regulations (25 CFR part 20). On October 20, 2000, a final rule was published in the Federal Register to amend the existing regulations. The Navajo Nation disagreed with some of the changes and submitted written waiver requests in July 2001. After the conclusion of our survey work, BIA issued final responses to 26 consolidated waiver requests.

Contract Funding

The original 1997 contract stated that, in general, payments to the contractor shall be made as expeditiously as practicable. Historically, the BIA policy for distributions of welfare assistance funds had been that the initial distribution equals 75 percent of the previous year's funding. However, the BIA funded the Navajo Nation social services contract in a piecemeal fashion because of the contract renewal issues. From October 2002 to May 2003, BIA issued a total of nine funding allocations for the contract. As a result, the Division has been limited in its ability to properly plan and budget for program activities. In addition, welfare assistance payments for July 2003 were delayed because the needed funding was not provided in a timely manner by BIA.

Scope and Methodology

The scope of our audit was generally limited to program costs and welfare payments during fiscal years 2002 and 2003. However, we expanded our scope as necessary to evaluate actions taken by the Division for long-standing deficiencies it identified in subcontractor evaluations and case file quality assurance reviews.

We reviewed the laws, regulations, contract provisions, and Division policy and procedures applicable to the Navajo Nation's social services programs. We discussed the policy and procedures with BIA and Division personnel and reviewed social worker case files and subcontractor invoices to evaluate compliance with the applicable laws and regulations. We selected 30 CPS cases and 17 welfare assistance cases for our review. In addition, we selected and reviewed amounts invoiced by 8 subcontractors for 75 clients.

To accomplish our audit, we visited the BIA's Navajo Regional Office in Gallup, New Mexico, and the Navajo Nation Division of Social Services' administrative offices in Window Rock, Arizona. We also visited the Division's Fort Defiance, Chinle, and Eastern (Crownpoint/Gallup) regional offices.

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RESULTS OF AUDIT

We identified areas where improvements could be made to the Navajo Nation's administration of the social services program pertaining to financial management, subcontractor operations, caseload reporting and residential care activities. Also, we believe that strengthened oversight by BIA and the provision of technical assistance to the Navajo Nation will facilitate better contract performance. These areas are discussed below.

Financial and Information Management

We identified weaknesses in financial and case file management as follows:

- Monthly financial reports did not always agree to the supporting general assistance database, manual spreadsheets, or the Navajo Nation Financial Reporting System. In addition, the Navajo Nation did not perform reconciliations to match financial and client data to the information reported on monthly and quarterly reports.
- Required Financial Status Reports and Annual Audits under the Single Audit Act were not completed and submitted in a timely manner.
- At two of the three Division regional offices we visited, payroll costs for work performed on state-funded programs were incorrectly charged to the BIA funded contract.
- Subcontractors to the Navajo Nation were not always required to apply the proper amount of client income to the cost of care. A review of subcontractor invoices for 75 clients showed that the full amount of eligible client income was not applied against the cost of care for 12 adult clients. Additional funds could be available for the social services program by requiring that subcontractors apply the proper amount of client income to the cost of care.
- Information in the case files was not always sufficient to verify invoiced amounts and/or client income. Due to inadequate case file documentation,

we were unable to verify rates charged for level of care and/or client income for 23 of the 75 clients invoiced.

Subcontractors

Deficiencies identified by the Division in its evaluations of subcontractor performance were not adequately tracked or corrected. The Division has agreements with private subcontractors to provide specialized services such as child emergency shelters and non-medical care of adults. These agreements specify that the Division is to evaluate the subcontractor's performance annually and require that the subcontractor promptly correct any deficiencies identified in the evaluation report. However, in our review of selected evaluation reports, we found that corrective action plans addressing prior year deficiencies had not been submitted by five of nine subcontractors. One subcontractor had not submitted corrective action plans for three years and another for two years. These deficiencies continue to exist and include issues that could result in clients unnecessarily exposed to health and safety risks.

Actively tracking report recommendations through to resolution is important for the timely and effective correction of identified deficiencies. A series of follow-up letters to subcontractors could be beneficial when response due dates are missed. Such a control system would provide evidence that the Division is exercising due diligence in its fiduciary responsibility towards its clients. A control system would also support any adverse action against subcontractors for failure to take corrective action.

Worker Caseload Reporting

At the three Division regions we visited, social worker caseloads were inconsistently and inaccurately reported. For example, the Division implemented the "Continuum of Services Model" about two years ago which specified that case files would be maintained on the basis of a family unit versus individual children. However, this procedure was not followed at Fort Defiance or Crownpoint. As a result, the caseload statistics may be skewed due to the inconsistencies between regions and caseworkers in tracking caseloads.

Case assignments based on accurate worker caseloads and consistency in reporting caseloads between the regions is important to ensure adequate time is allowed for

caseworkers to effectively plan, provide, and evaluate case management tasks.

Division-Operated Residential Facilities

The method of funding the five Division-operated youth home facilities, based on capacity rather than actual occupancy, should be reevaluated. Division officials told us that this method of funding allows these facilities to be able to provide services as needed at any given time. A Division official further stated that local facilities are needed, but that the occupancy rate fluctuates. For example, services at the Chinle Youth Home were suspended last year due to a low occupancy rate. Division personnel stated that only two of the six beds were regularly filled. The cost to subsidize the facility for the unfilled beds was \$441 for each day that the youth home was at only one third of capacity. As of October 2003, the youth home was scheduled to be reopened with nine staff positions allocated.

A reassessment of service population needs and a possible revision of the scope of work for elderly and youth residential services would allow for a more efficient use of available funding for temporary care services.

BIA Oversight

BIA's oversight is performed by individuals knowledgeable about administering social services. However, the individuals are not familiar with the requirements or best practices for financial and information management systems for such programs. A responsible BIA official said that current BIA oversight did not include monitoring financial reports or allocation of costs to various programs. The official stated that oversight personnel would need additional training to understand financial reports and to monitor financial processes and controls.

Recommendation

We recommend that the Assistant Secretary for Indian Affairs take steps to strengthen the oversight process for the Navajo Nation social services contract to include monitoring, by personnel with the requisite knowledge to perform the oversight, and technical assistance to help the Navajo Nation improve financial and program management controls.

BIA Response

In its September 9, 2004, response to the draft audit report (Appendix 1), BIA concurred with the recommendation. BIA has already completed some corrective actions and identified additional planned corrective actions in their

response. BIA is strengthening its contract oversight by establishing ongoing processes for program evaluation and management controls for not only the Navajo Nation Social Services contract, but also other Public Law 93-638 contracted programs as well.

OIG Conclusion

OIG considers this recommendation resolved but not implemented. The recommendation will be referred to the Assistant Secretary for Policy, Management and Budget for tracking of implementation.



United States Department of the Interior

OFFICE OF THE SECRETARY

Washington, D.C. 20240

SEP 09 2004

Memorandum

To: Assistant Inspector General for Audits
Office of the Inspector General

From: Assistant Secretary - Indian Affairs

Subject: Draft Audit Report on the Bureau of Indian Affairs Contract with the Navajo Nation for Social Services (Audit No. Q-IN-BIA-0098-2003)

The Bureau of Indian Affairs (BIA) appreciates the opportunity to comment on the subject draft audit report. The Navajo Regional Office reviewed the report and concurs with the audit findings and recommendation. The Regional Office's internal assessment found essentially the same weaknesses in its contract oversight activities. The Regional Office has been meeting and working with the Navajo Nation since October 2003 to develop a plan and implementation schedule to address contract administration issues, including contract monitoring.

It should be recognized that there are significant challenges in administering a Public Law 93-638 Social Services contract within the Navajo Nation. These challenges include a large tribal population; a vast service area covering three states, each with their own social service programs and accompanying standards and requirements; the large number of tribal elders who speak only the Navajo language that require assistance; a 42.1% tribal member unemployment rate; an average annual per capita income of \$6,625 for tribal members; most Navajo families living in physical isolation without the most basic needs, which most take for granted, such as, running water, electricity or maintained road access; and the relatively low or inadequate revenues available to the Navajo Nation to address the matter. These demographics make it clear that the needs are there. For successful program implementation, a strong organizational structure, processes and systems are necessary. The BIA and the Navajo Nation recognize that improvements are needed and have been cooperatively working on such improvements.

The Navajo Nation, Division of Social Services (Division), is a large organization with over 700 employees working in a central office in Window Rock and in six field offices and eleven sub-offices. The Division is responsible for overseeing thirty subcontracted facilities and eight group homes (adult and youth) and administering four Indian Child Welfare Act satellite programs and five Navajo Child Sexual Abuse Programs. Currently the Division is reorganizing and adapting to the revised BIA Social Services rules and regulations.

Conversely, there are only two social workers in the Regional Office and no social workers at the Region's five Agency offices. Recently the two staff were assigned oversight responsibility for over 240 Supervised Individual Indian Monies Accounts in addition to overseeing the BIA's largest P.L. 93-638 Social Services contract.

Public Law 93-638 implementing regulation (25 CFR Part 900.36) states, "When carrying out self-determination contracts, **Indian tribes and tribal organizations shall develop, implement and maintain systems that meet these minimum standards, unless one or more have been waived, in whole or part, under section 107(e) of the Act and Subpart K**" (emphasis added). Prior to P.L. 93-638, the **Navajo Nation developed and implemented its own systems** including financial management, procurement and property.

In FY 2003, the Navajo Nation began improving its Financial Management Information System (FMIS). The Nation contracted with PeopleSoft, a software company, to develop and implement the new FMIS. While the Nation has experienced some significant implementation problems, the new system has created significant benefits including:

- Improved checks and balances. With FMIS, a user cannot push a transaction through the system.
- More detailed information. Users can now navigate from summary to detailed information for each transaction.
- Expanded access. Almost 800 tribal employees have access to FMIS, which is more than the prior system.
- Improved workflow. Redundant work has been eliminated.
- Future expansion. FMIS can eventually be used to consolidate all financial information for the Navajo Nation.

The Navajo Nation reports that the "bugs" have, for the most part, been worked out of FMIS and it is now fully functional. Training of the Nation's employees on FMIS is ongoing.

Office of Inspector General Recommendation.

[The OIG] recommend[s] that the Assistant Secretary for Indian Affairs take steps to strengthen the oversight process for the Navajo Nation social services contract to include monitoring, by personnel with the requisite knowledge to perform the oversight, and technical assistance to help the Navajo Nation improve financial and program management controls.

BIA Response.

The BIA concurs with the recommendation.

Completed Corrective Actions.

The Navajo Regional Office and the Navajo Nation have been working cooperatively to address the issues identified within the draft audit report. Between November 2003 and August 2004, the Regional Office, primarily through its Self-Determination office, has held ten formal meetings and provided other technical assistance to the Nation's Department of Justice, the Office of Contracts and Grants, Contract Accounting, and the Office of Management and Budget. The meetings were to discuss term contracts, contract closeout and attendant procedures, contract monitoring, GPRA [Government Performance and Results Act] requirements, PART [Program Assessment Rating Tool], financial reconciliations, the Nation's annual Single Audit and records management. The Regional Office has held at least eleven meetings with the Nation's Division to discuss and negotiate waiver requests for the new social services contract, the revised social services regulations, the Division's manual, and reporting requirements.

The Regional Social Services staff, with guidance and assistance from the Self-Determination office, completed in March 2004 a contract-monitoring plan for the social services contract. The monitoring plan addresses submission of required financial, narrative, GPRA reports, and other contract deliverables and applicable laws and regulations for all of the Navajo Nation's Social Service sites, including sub-contracted facilities.

In August 2003, the Regional Office provided a P.L. 93-638 training session on "Indirect Costs" and "Advanced Contract Administration" with emphasis on contract monitoring. For the BIA, participants included awarding officials and the awarding official's technical representatives (AOTR). For the Navajo Nation, participants included representatives from the Office of Management and Budget, Office of Contracts and Grants, P.L. 93-638 contracted programs and other Navajo tribal organization staff.

Planned Corrective Actions.

Training. The Regional Office, through the Self-Determination office, will offer training in financial management to the Navajo Nation, Navajo tribal organizations and BIA staff in FY 2005. The scope of the training has not been finalized. However, the Self-Determination office will consider the financial and information management comments contained in the draft report in developing the training.

Monitoring. The Regional Social Services staff will be monitoring the Navajo Nation's CY-2004 contract from August 30, 2004 through September 29, 2004. This monitoring effort will specifically include a review of General Assistance and Child Welfare Services client case files to determine the allowability/propriety of costs and of the Tribe's process for entering and retrieving information from FMIS. Future monitoring of the Navajo Nation Social Services contract will be conducted annually.

Reporting and Followup. Upon completion of the monitoring visit, the Awarding Official and the Navajo Social Services AOTR (program staff) will send a formal letter of any review findings to the Navajo Nation. Throughout the process, both the Awarding Official and the AOTR (program staff)

will offer technical assistance as necessary, including addressing any findings that require corrective action. A final annual monitoring report for the contract year will be completed by January 31, 2005.

The Navajo Regional Director through the Deputy Regional Director for Indian Services will be responsible for assuring timely completion of these corrective actions.

The Navajo Regional Office is and has been strengthening its contract oversight by establishing ongoing processes for program evaluation and management controls for not only the Navajo Nation Social Services contract, but also other P.L. 93-638 contracted programs as well. In addition, and probably most importantly, the meetings with the Navajo Nation have been extremely cooperative and very productive with discussions of addressing common needs in contract administration. We fully anticipate a continuation of this positive working relationship, which will fully address the findings within the draft audit report.

If you have any questions regarding the BIA response, please contact Mr. Timothy D. DeAsis, Deputy Regional Director for Indian Services, Navajo Region, at (505) 863-8264.

cc: Director, Navajo Region, Bureau of Indian Affairs

STATUS OF AUDIT RECOMMENDATION

<u>Recommendation</u>	<u>Status</u>	<u>Action Required</u>
1	Resolved; not implemented.	No further response to the Office of Inspector General is required. The recommendation will be referred to the Department's Focus Leader for Management Accountability and Audit Follow-up for tracking of implementation.

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