



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

AUDIT REPORT

**ROSEBUD SIOUX
RURAL WATER SYSTEM,
MNI WICONI RURAL WATER SUPPLY PROJECT,
BUREAU OF RECLAMATION**

**REPORT NO. 99-I-499
MAY 1999**



United States Department of the Interior

OFFICE OF INSPECTOR GENERAL
Washington, D.C. 20240

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AUDIT REPORT

Memorandum

To: Assistant Secretary for Water and Science

From: Robert J. Williams

Assistant Inspector General for Audits

Subject: Audit Report on Rosebud Sioux Rural Water System, Mni Wiconi Rural Water Supply Project, Bureau of Reclamation (No. 99-I-499)

INTRODUCTION

This report presents the results of our audit of the Rosebud Sioux Rural Water System,¹ which is part of the Mni Wiconi Rural Water Supply Project, located in South Dakota. The objectives of the audit were to (1) determine whether the costs incurred by the Rosebud Sioux Tribe to plan, design, and construct its portion of the Project were expended in accordance with Federal law, regulations, and funding agreements and (2) identify the source of any incurred or projected cost overruns. The audit was performed as part of our audits of the four non-Federal sponsors of the Mni-Wiconi Project, including the Rosebud Sioux Tribe. The results of the audits of the other Project sponsors will be presented in separate reports. The audit of the Mni-Wiconi Project was requested by three members of the Congress.

BACKGROUND

The Mni Wiconi Project Act of 1988 (Public Law 100-5 16) authorized and directed the Secretary of the Interior to construct the Mni Wiconi Rural Water Supply Project to ensure a safe and adequate municipal, rural, and industrial water supply for both Indian and non-Indian residents of southwestern South Dakota. The Act authorized construction of the Oglala Sioux Rural Water Supply System to serve the Oglala Sioux Tribe on the Pine Ridge Reservation and the West River and Lyman-Jones Rural Water Systems to serve residents of

¹The Rosebud Sioux Tribe also refers to the Water System as the Sicangu Mni Wiconi Project. However, for purposes of this report, the term Rosebud Sioux Rural Water System is used.

seven counties' in South Dakota. In 1994, the West River and Lyman Jones Systems were merged into one system, known as the West River/Lyman-Jones Rural Water System. The Mni Wiconi Act Amendments of 1994 (Title 8 of Public Law 103-434) added construction of the Rosebud Sioux Rural Water System and the Lower Brule Sioux Rural Water System to serve the respective reservations, thereby increasing the number of Project sponsors to four. The Amendments also raised the authorized appropriation ceiling for the Project from \$87.5 million to \$263.2 million, subject to indexing,³ and provided that the Project would generally be constructed in accordance with the Project's Final Engineering Report, dated May 1993.

The Act, as amended, also authorized the Secretary to enter into cooperative agreements with the three tribes subject to the provisions of the Indian Self-Determination and Education Assistance Act (Public Law 93-638), as amended, to provide funds for planning, designing, constructing, operating, maintaining, and replacing their respective systems. Separate cooperative agreements were authorized for planning, designing, and constructing the West River/Lyman-Jones System, with the project sponsor responsible for 20 percent of these costs and for the entire cost of operating, maintaining, and replacing the System. The Bureau of Reclamation serves as the oversight agency for the Project, with the authority and responsibility to enter into cooperative agreements and to provide the technical and administrative oversight necessary to complete the planning, design, and construction of the Project. The Bureau's oversight included review and approval of reports, construction plans, specifications, work schedules, fund requests, and change orders.

The overall Project includes a water treatment plant, 4,500 miles of pipeline, 60 booster pump stations, and 35 water storage reservoirs. The Project will ultimately serve more than 50,000 people, including more than 40,000 Indians on three reservations. In its May 1998 Master Plan,⁴ the Bureau estimated that the total cost to complete the Project would be \$387 million, or \$60 million more than the indexed Project costs of \$327 million. The projected overrun was attributable to the Oglala Sioux and Lower Brule Sioux Systems. In

²The seven counties are Haakon, Jackson, Jones, Lyman, Mellette, Pennington, and Stanley.

³Indexing is the process of updating the Congressionally authorized appropriation ceiling of a project for changes generally attributable to economic factors, usually inflation.

⁴The Master Plan established the construction schedule for each segment of the Project and documented historical and projected costs to enable the Bureau and Project sponsors to track the status of the Project. The Plan also enabled the Bureau and Project sponsors to estimate the effect of changes in annual appropriations and prices on the construction schedule. The Plan projected a Project construction ceiling of \$327 million, indexed through October 1999, as presented in Bureau budget documents for fiscal year 2000. The Plan also included a breakdown of this ceiling for individual Project sponsors. The total estimated Project costs of \$387 million were based on information provided by Project sponsors. The Bureau said that it plans to update the Master Plan periodically.

the Master Plan, the Bureau also estimated that at current funding levels,' the Federal share of \$327 million would not be appropriated until 2006. However, the authorization to appropriate funds for the Project expires in 2003. As of September 30, 1998, the Bureau had allocated Federal funds of \$107.5 million to Project sponsors, including \$4.3 million for Bureau administration and oversight expenses charged to the sponsors.

The Rosebud Sioux Rural Water System as authorized consists of about 450 miles of pipeline, 18 booster pump stations, and 18 water storage reservoirs, all of which will serve approximately 17,000 people on the Rosebud Indian Reservation. Construction, operation, and maintenance of the Rosebud System are managed by the Tribe's Office of Water Resources. The cost of the Rosebud System, originally estimated at \$47.2 million in the Final Engineering Report, was indexed in the Master Plan to \$61.8 million (October 1999 dollars). As of September 30, 1998, about \$15.3 million (25 percent of the estimated cost) had been appropriated, and about \$10 million (16 percent of the estimated cost) had been expended.

SCOPE OF AUDIT

Our fieldwork was performed at the Rosebud Indian Reservation in South Dakota and the offices of the Tribe's accounting firm in Sioux Falls, South Dakota. The scope of the audit included a review of records and expenditures for the Rosebud System from initial planning in fiscal years 1992⁶ through 1998. To accomplish our audit objectives, we interviewed personnel from the Rosebud Sioux Tribe and the Bureau's offices in Billings, Montana; Bismark, North Dakota; and Pierre, South Dakota. We also interviewed personnel from the Tribe's engineering firm in Billings. We reviewed applicable legislation, including the Mni Wiconi Act of 1988; Title 8 (Mni Wiconi Act Amendments) of the Yavapai-Prescott Indian Tribe Water Rights Settlement Act of 1994 (Public Law 103-434) and related Congressional hearings; and the Indian Self-Determination and Education Assistance Act (Public Law 93-638), as amended. In addition, we reviewed the Bureau's May 1998 Master Plan, the System's quarterly financial reports, the cooperative agreement between the Bureau and the Tribe, and the Project's May 1993 Final Engineering Report. We also reviewed the Tribe's financial statements and supporting documentation; procurement procedures; annual workplans; the Municipal, Rural, and Industrial Water Needs Assessment Final Report,⁷ dated July 1993; a cost reduction plan; and construction bid documents.

Our analysis of the financial status of the System was based on a review of expenditures, cost estimates, and other financial and planning data available as of September 30, 1998. As such,

⁶In fiscal years 1996 through 1998, annual funding levels for the Project averaged about \$25 million.

⁷Prior to authorization of the Rosebud System in 1994, the Tribe received funds totaling \$461,000 for initial planning, including Project funds of \$266,000 and non-Project funds of \$195,000.

⁸The Tribe's July 1993 Needs Assessment identified the current and future municipal, rural, and industrial water needs of the Tribe and included cost estimates for the alternatives proposed to meet those needs.

our conclusions regarding any actual or projected cost overruns may be affected by subsequent events concerning the cost and design of the System. These events include modifications to, additions to, and deletions of construction components; revisions of cost estimates based on current data; increases in authorized project costs attributable to cost indexing; and efforts by the Bureau and the Tribe to implement cost-saving measures. In that regard, the Bureau issued a draft Cost Containment Report in December 1998, which included various options for reducing Project costs,

Our audit was conducted in accordance with the "Government Auditing Standards," issued by the Comptroller General of the United States. Accordingly, we included such tests of records and other auditing procedures that were considered necessary under the circumstances to accomplish our audit objectives. As part of our audit, we reviewed the Secretary's Annual Statement and Report to the President and the Congress, required by the Federal Managers' Financial Integrity Act, for fiscal years 1994 and 1995; the Departmental Reports on Accountability for fiscal years 1996 and 1997, which include information required by the Act; and the Bureau's annual assurance statements on management controls for fiscal years 1997 and 1998. Based on those reviews, we determined that no material weaknesses were reported that directly related to the objectives and scope of our audit. In addition, we reviewed the Tribe's single audit reports and the certified public accountant's working papers for fiscal years 1994 through 1997 and found that this documentation did not disclose any reportable conditions* or material weaknesses⁹ related to the Rosebud System. We also reviewed the Tribe's internal controls related to the Rosebud System to the extent necessary to accomplish our audit objectives and did not identify any material weaknesses. We did not review the administrative costs incurred by the Bureau to oversee the planning, design, and construction of the Rosebud System.

PRIOR AUDIT COVERAGE

During the past 5 years, neither the Office of Inspector General nor the General Accounting Office has issued any reports on the Mni Wiconi Rural Water Supply Project.

*Statement on Auditing Standards No. 60. "Communication of Internal Control Structure Related Matters Noted in an Audit," issued by the American Institute of Certified Public Accountants, states that "reportable conditions" are matters coming to the auditor's attention that, in the auditor's judgment, should be communicated to agency management. These matters relate to **significant** deficiencies in the design or operation of the agency's internal control structure that could **adversely** affect the agency's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

⁹Statement on Auditing Standards No. 60 also states that a material **weakness** is a reportable condition in which the design or operation of one or more of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts which would be material to the financial statements being audited may occur and not be detected within a timely period by employees in the **normal** course of performing then assigned functions.

RESULTS OF AUDIT

We found that the costs of \$10 million incurred by the Rosebud Sioux Tribe as of September 30, 1998, for planning, designing, and constructing the Rosebud Sioux Rural Water System were expended in accordance with the Mni Wiconi Project Act of 1988, as amended; Federal regulations; and the terms of the cooperative agreement between the Bureau of Reclamation and the Tribe. We also found that a cost overrun was not projected for the Rosebud System.

Cost Compliance

The Act, as amended, established the general parameters of the System, and Federal regulations and cooperative agreements provide criteria governing the allowability and reasonableness of the Tribe's costs. Our conclusions that the costs incurred by the Tribe were in compliance with these requirements were based on a review of the financial statements, general ledger, subsidiary reports, and supporting records of the Tribe's Office of Water Resources for fiscal years 1994 through 1998 and the working papers of the Tribe's certified public accountant for fiscal years 1994 through 1997. Our review included both construction and noncontract¹⁰ costs. Specifically, we reviewed all construction contract payment vouchers and all payment vouchers to the Tribe's engineering firm for planning and design, which totaled \$8,032,931. In addition, we tested costs of \$96,914 recorded for Tribal personnel, vehicles, rights-of-way, and easements to determine whether these costs were allowable, reasonable, and necessary. The amounts reviewed made up 81 percent (\$8,129,845) of the recorded Rosebud System's costs through September 30, 1998. We also reviewed the working papers of the Tribe's certified public accountant to verify that the Tribe's system of accounting and internal controls was adequate to safeguard and properly account for funds for the Rosebud System. Based on our review of the Tribe's records and the certified public accountant's working papers, we did not identify any material amounts of unsupported or questioned costs.

Changes to the Rosebud System

The Mni Wiconi Act, as amended, limits the costs for the Rosebud System to the amount cited in the May 1993 Final Engineering Report for the Mni Wiconi Project, subject to indexing. The indexed costs for the Rosebud System as determined by the Bureau for fiscal year 2000 totaled \$61.8 million. The Tribe's consulting engineering firm estimated the costs to construct the Rosebud System to be \$59.6 million (excluding non-Project funds of \$195,000) based on changes to the System. As a result, the estimated costs to construct the

¹⁰The May 1993 Final Engineering Report defined noncontract costs as those costs incurred prior to and during construction that relate primarily to engineering and administration of construction.

Rosebud System are approximately \$2.2 million less than the indexed costs determined by the Bureau; consequently, a cost overrun is not projected for the Rosebud System.

The latest estimate by the Tribe's engineering consulting firm resulted from changes in the design of the Rosebud System. The Final Engineering Report and the Tribe's July 1993 Municipal, Rural, and Industrial Water Needs Assessment Final Report are planning documents that generally describe the system to be constructed. However, according to representatives of the Tribe's engineering firm, design and engineering changes made during field-level planning, which we confirmed, resulted in numerous additions, deletions, and other revisions to the System. These revisions, which were approved by the Bureau, included the addition of an administrative/operation and maintenance building and shop, the elimination of four booster pumps/stations, and six changes to System storage reservoirs. We found that the net effect of the changes was that the estimated cost of constructing the Rosebud System was less than the Bureau's computed indexed amount.

Other Matters

We found that, through September 30, 1998, the Rosebud Sioux Tribe incurred noncontract costs at an overall rate of 57 percent of System construction costs, which exceeds the 41.2 percent rate provided for in the Tribe's July 1993 Needs Assessment. Bureau officials stated that noncontract costs are usually higher in the beginning phases of a construction project because of higher "front-end" costs for planning and design and that noncontract costs generally decrease as construction progresses, which has occurred for the Rosebud System. Specifically, the overall rate of 57 percent through September 30, 1998, is lower than the 94 percent rate through September 30, 1997, and the 130 percent rate through September 30, 1996. While the rate is decreasing as expected, we believe that the Bureau and the Tribe need to monitor the System's noncontract costs to ensure that the System can continue to be constructed within the indexed amount of \$6 1.8 million.

Since this report does not contain any recommendations, a response is not required

The legislation, as amended, creating the Office of Inspector General¹ requires semiannual reporting to the Congress on all audit reports issued, actions taken to implement audit recommendations, and identification of each significant recommendation on which corrective action has not been taken.

We appreciate the assistance of Bureau and Tribal personnel in the conduct of our audit.

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