



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

# **AUDIT REPORT**

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

**REPORT NO. 99-I-588  
JUNE 1999**



# United States Department of the Interior

OFFICE OF INSPECTOR GENERAL  
Washington, DC. 20240

JUN 24 1999

## Memorandum

To: Assistant Secretary for Water and Science

From: Robert J. Williams *Robert J. Williams*  
Assistant Inspector General for Audits

Subject: Audit Report on the Lower Brule Sioux Rural Water System, Mni Wiconi Rural Water Supply Project, Bureau of Reclamation (No. 99-I-588)

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

Based on our review, we found that a cost overrun of \$7.1 million is projected for the Lower Brule System and that the actual overrun could be substantially higher if expenditures for noncontract activities are not controlled. An overrun is projected because the cost estimate for the System was not based on a thorough assessment of the Tribe's municipal, rural, and industrial water needs and related construction costs and the Bureau of Reclamation approved construction of additional items that were not included in its May 1993 Final Engineering Report, which was the criterion for construction of the Project. In addition, the Bureau, the Tribe, and the Tribe's engineering firm incurred noncontract costs at a rate significantly higher than the 39.2 percent rate stipulated in the Report and in the 1995 cooperative agreement between the Bureau and the Tribe. As a result, additional funding authorization will be needed to complete the System as currently designed by the Tribe's engineering firm.

We reviewed costs of \$1,596,304, or approximately 71 percent, of the costs of \$2252,630 charged to construction of the Lower Brule System through September 30, 1998, and found that the costs incurred for construction of the System were generally expended in accordance with Federal law, regulations, and terms of the cooperative agreement. However, we identified operation and maintenance and administrative expenditures that were not classified or charged in accordance with the terms of the agreement or Office of Management and

Budget Circular A-87, "Cost Principles for State, Local, and Indian Tribal Governments." We also identified other administrative costs that were not adequately supported. In addition, we found that the Tribe had not established procedures and controls to ensure that costs were charged to the proper accounts and that the Bureau had not ensured that the costs charged and reported were reasonable and in accordance with the purposes and terms of the agreement. As a result, of the \$1,596,304 reviewed, we questioned costs of \$253,525, which consisted of cost exceptions of \$155,451 and unsupported costs of \$98,074.

To address the cost overruns, we recommended that the Bureau (1) ensure that costs for future rural water systems are based on analyses of participating entities' municipal, rural; and industrial water needs; (2) determine the amount of additional funding needed to construct the System as revised by the Tribe's engineer; (3) request the funding needed to construct the revised System or negotiate with the Tribe to determine how the System can be modified to keep costs within the legislatively authorized amount; and (4) work with the Tribe and the Tribe's engineering firm to determine how future noncontract costs can be controlled or reduced. To address the questioned costs, we recommended that the Bureau (1) instruct the Tribe to correct the improper charges for operation and maintenance expenditures of \$155,451. (2) instruct the Tribe to reimburse the Bureau or provide support for the unsupported costs of \$98,074, (3) work with the Tribe to improve controls to ensure that System charges are in accordance with the terms of the cooperative agreement, and (4) negotiate with the Tribe to institute accounting and administrative procedures that enable costs to be monitored more effectively.

In the May 25, 1999, response (Appendix 5) to the draft report from the Commissioner, Bureau of Reclamation, the Bureau concurred with Recommendations A.2, A.3, A.4, B. 1, B.2, B.3, and B.4 and partially concurred with Recommendation A. 1. Based on the response, we consider Recommendations A.2, A.3, A.4, B.1, B.2, B.3, and B.4 resolved but not implemented. Accordingly, these recommendations will be referred to the Assistant Secretary for Policy, Management and Budget for tracking of implementation. Also based on the response, the Bureau is requested to provide additional information for Recommendation A. 1 (see Appendix 6).

In accordance with the Departmental Manual (360 DM 5 3), we are requesting a written response to this report by July 26, 1999. The response should provide the information requested in Appendix 6.

The legislation, as amended, creating the Office of Inspector General requires semiannual reporting to the Congress on all audit reports issued, the monetary impact of audit findings (Appendix 1), 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 this audit.

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# INTRODUCTION

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## BACKGROUND

The Mni Wiconi Project Act of 1988 (Public Law 100-516) 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 South Dakota. The Act authorized construction of the Oglala Sioux Rural Water System to serve the Oglala Sioux Tribe on the Pine Ridge Indian Reservation and the West River and Lyman-Jones Rural Water Systems to serve residents in seven counties<sup>1</sup> in southwestern South Dakota. In 1994, the West River Rural Water System and the Lyman-Jones Rural Water System were incorporated into a single 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 the construction of the Rosebud Sioux Rural Water System and the Lower Brule Sioux Rural Water System to serve the respective reservations. The Amendments also raised the construction authorization ceiling for the Project from \$87.5 million to \$263.2 million, subject to indexing,<sup>2</sup> and provided that the Project would generally be constructed in accordance with the Project's May 1993 Final Engineering Report.

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 of 1975 (Public Law 93-638), as amended, and provide funds for planning, designing, constructing, operating, maintaining, and replacing the tribal portions of the Project. A separate cooperative agreement was authorized for the planning, design, and construction of the West River/Lyman-Jones System, with the Project sponsor responsible for 20 percent of these costs. In addition, the Project sponsor was solely responsible for the cost of operating, maintaining, and replacing the System. As the agent for the Secretary, the Bureau of Reclamation provides oversight for the Project and has 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, which includes a water treatment plant, 60 booster pump stations, 35 water storage reservoirs, and approximately 4,500 miles of pipeline, will ultimately serve more than 50,000 people, including more than 40,000 Indians on the three reservations. In

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<sup>1</sup>The seven counties are Haakon, Jackson, Jones, Lyman, Mellette, Pennington, and Stanley.

<sup>2</sup>Indexing is the process of updating the Congressionally authorized appropriation ceiling of a project for changes generally attributable to economic factors, usually inflation.

its May 1998 “Master Plan,”<sup>3</sup> the Bureau estimated that the total costs 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 the “Master Plan,” the Bureau also estimated that at current funding levels,<sup>1</sup> the \$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 Lower Brule Sioux Rural Water System as authorized was estimated to cost about \$6.2 million, or about 2.4 percent of the total cost of the Project. The System consists of about 197 miles of pipeline that enable water to be delivered to and within the boundaries of the Lower Brule Sioux Reservation; 2 booster pumps; and 1 water storage reservoir. The System will serve approximately 2,000 people on the Reservation. The May 1998 “Master Plan” indexed the cost of the System from \$6.2 million to \$8.1 million (October 1999 dollars). However, estimated costs for the System have increased to \$15.2 million, or about \$9 million more than the original estimate and \$7.1 million more than the \$8.1 million indexed amount determined by the Bureau. Funding for the System began in fiscal year 1995. As of September 30, 1998, the Tribe had received funds totaling about \$3.5 million (approximately 23 percent of the revised estimated cost for the System), and about \$2 million (13 percent of the revised estimated cost) had been expended.

## **OBJECTIVES AND SCOPE**

The objectives of the audit were to (1) identify the source of any actual or projected cost overruns and (2) determine whether the costs incurred by the Lower Brule Sioux Tribe to design and construct its portion of the Project were expended in accordance with Federal law, regulations, and funding agreements. Our audit of the Lower Brule Sioux Tribe was performed as part of our audit of the four non-Federal sponsors of the Project. The results of the audits of the other three sponsors of the Project will be presented in separate reports. The audit of the Mni Wiconi Project was requested by three members of the Congress.

Our audit was performed from September 1998 to March 1999 and included fieldwork at the Lower Brule Sioux Reservation in South Dakota. The scope of audit included a review of records and expenditures for the Lower Brule System from initial planning in fiscal year 1993 through fiscal year 1998. To accomplish our objectives, we interviewed personnel from the

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<sup>1</sup>The “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 “Master Plan” also enabled the Bureau and Project sponsors to estimate the effect of changes in annual appropriations and prices on the construction schedule. The “Master Plan” included a Project construction ceiling of \$327 million, indexed through October 1999, as presented in Bureau budget documents for fiscal year 2000. The “Master 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.

<sup>2</sup>In fiscal years 1996 through 1998, annual funding levels for the Project averaged about \$25 million.

Lower Brule Sioux Tribe and from 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 Mitchell, South Dakota, and the Tribe's certified public accounting firm in Chamberlain, South Dakota. We reviewed applicable legislation, including the Mni Wiconi Project 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 Bureau's December 1998 draft Mni Wiconi Rural Water Supply Project Cost Containment Report, the Project'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 initial August 1996 and the revised February 1997 Needs Assessment for the Lower Brule Rural Water System,<sup>5</sup> the cost reduction plan, and construction bid documents.

Our analysis of the financial status of the System was based on expenditures, cost estimates, and other financial and planning data available as of September 30, 1998. As such, 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 includes 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 for fiscal years 1996 and 1997 and the certified public accountant's working papers for the Tribe's fiscal year 1997 single audit and found that

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<sup>5</sup>The Needs Assessment determined the current and future municipal, rural, and industrial water needs of the Tribe and includes cost estimates for the alternatives proposed to meet those needs.

this documentation did not disclose any reportable condition<sup>6</sup> or material weaknesses' related to the System. We also reviewed the Tribe's internal controls related to the System to the extent necessary to accomplish our audit objectives and found weaknesses in the areas of accounting for and managing the Federal funds advanced to the Tribe for construction of the System. The internal control weaknesses are discussed in the Findings and Recommendations section of this report. The recommendations, if implemented, should improve the internal controls in these areas.

## 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.

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<sup>6</sup>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.

-Statement on Auditing Standards No. 60 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 their assigned functions.



## FINDINGS AND RECOMMENDATIONS

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### A. PROJECT COST OVERRUN

The Bureau of Reclamation has projected a \$7.1 million cost overrun for the Lower Brule Sioux Rural Water System. However, the actual overrun could be substantially higher unless expenditures for noncontract activities are controlled. The Mni Wiconi Rural Water Supply Act, as amended (Title 8 of Public Law 103-434), established the May 1993 Final Engineering Report as the criteria for planning, designing, and constructing the System. The Report's estimated costs for the System were \$6.2 million, subject to indexing, including noncontract costs of 39.2 percent. The indexed costs, as determined by the Bureau for fiscal year 2000, totaled \$8.1 million (October 1999 dollars). In addition, the cooperative agreement between the Bureau and the Lower Brule Sioux Tribe stipulated that the Bureau, as the oversight agency, ensure that the System was planned, designed, and constructed as generally described in the Final Engineering Report. However, the costs for the System are projected to exceed the Bureau's cost estimate because (1) the Tribe's cost estimate was not based on a thorough assessment of its municipal, rural, and industrial water needs and related construction costs; (2) the Bureau approved construction of additional items that were not included in the Final Engineering Report; and (3) the Bureau, the Tribe, and the Tribe's engineering firm incurred noncontract costs at a rate significantly higher than the 39.2 percent rate stipulated in the cooperative agreement. As a result, the Bureau will need to request from the Congress an increase in the costs authorized for the System of at least \$7.1 million to complete the System as currently designed.

### Needs Assessment

The Tribe did not ensure that the cost estimate for the System included in the May 1993 Final Engineering Report was reasonable. Specifically, the Tribe did not actively participate in Mni Wiconi Project meetings or hire an engineering firm to prepare a needs assessment during the planning phase of the Project. Instead, the \$6.2 million cost estimate\* included in the Final Engineering Report and subsequently incorporated into the Mni Wiconi Project Act was prepared by the engineering firm for the Oglala Sioux Tribe without the benefit of an assessment of the Lower Brule Sioux Tribe's funding and municipal, rural, and industrial

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\*The \$6.2 million estimate consisted of \$4,477,511 for construction field costs and \$1,755,184 for noncontract costs. The Final Engineering Report defined field costs as contract costs for a construction component, including 23.75 percent for appurtenant items and contingencies. The Report defined appurtenant items as "items that were not specifically identified in the cost estimating procedures because the item does not represent a significant cost [including] such things as valves along the pipeline, miscellaneous electrical wiring in the pump stations, tees, bends, and other necessary, but minor components of the constructed project." Contingencies were defined as costs incurred for "unforeseen circumstances during construction such as an unexpected excavation into rock along the pipeline route where no rock was anticipated or the need to build a stronger foundation at the treatment plant because unusual soil conditions were discovered." The Report defined noncontract costs as those costs incurred prior to and during construction that relate primarily to engineering and administration of construction.

water needs. An adequate needs assessment upon which to plan and design the System was not available until March 1 997.<sup>9</sup>

We found that except for the pump stations, the costs for all other construction items for the System were underestimated. Based on our review and a comparison of the original construction field cost estimate of \$4,477,511 and the Tribe's engineering firm's estimate of \$9,936,580, we determined that construction field costs were underestimated by \$5,459,069, or an increase of 122 percent over the original field cost estimate (see Appendix 2). The underestimated costs resulted primarily from a combination of two factors: (1) changes in the estimated feet of pipe, the diameter of the pipe required, and/or the estimated cost per linear foot of pipe and (2) the addition of distribution system service connections that, if included, were not specifically identified in the original field cost estimate. For example:

- The costs to construct the four segments of the "core" system necessary to convey Mni Wiconi Project water to the Lower Brule Sioux Reservation were underestimated by \$1,624,838, or 100 percent.

- The costs to construct the pipeline to distribute water throughout the Reservation were underestimated by \$2,705,531, or 220 percent.

## **Additional Construction Items**

After issuance of the May 1993 Final Engineering Report, the Tribe and the Bureau agreed to the need for an administration/operations and maintenance building and a new water treatment plant. Funding, in whole or in part, was approved by Bureau officials, who believed that the items were necessary for the efficient operation of the System (see Appendix 2). The estimated costs for these additional items were \$1,270,000 as follows:

- The Bureau and the Tribe determined that an administration/operations and maintenance building, estimated to cost \$1,044,000, including noncontract costs, was needed to plan, construct, operate, and maintain the System. According to Bureau officials, the exclusion of the cost of this building from the \$6.2 million cost estimate in the Final Engineering Report was an "oversight."

- In 1995 and in 1997, the U.S. Environmental Protection Agency determined that the Tribe's existing water treatment plant, the primary source of water for the System, did not

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<sup>9</sup>A needs assessment submitted to the Bureau in August 1996 was not approved. A revised needs assessment submitted to the Bureau in February 1997 was approved in March 1997.

<sup>10</sup>The four Tribal "core" system segments allowed for Project water to be delivered to or near the Lower Brule Sioux Reservation, whereas the distribution system pipelines transport the water within the boundaries of the Reservation to homes and ranches.

<sup>11</sup>The Tribe's February 1997 Needs Assessment stated that the plant provided about 300 gallons of the 498 gallons of water per minute necessary to meet the needs of the Lower Brule System.

meet safe drinking water standards and that a new water treatment plant was needed. In response, the Tribe entered into agreements with several Federal agencies, including the Bureau, to provide funding for the construction of a new treatment plant. The estimated costs for constructing and outfitting the new plant were about \$1.6 million, with the Bureau/Mni Wiconi Project portion estimated to be \$226,000, including noncontract costs, of which \$90,000 was formally approved by the Bureau. The need to replace the plant was not foreseen when the Final Engineering Report was prepared in 1993. However, we determined that if the plant is not replaced, the quantity of safe drinking water available from the System will be inadequate to meet the needs of the Reservation.

## **Noncontract Costs**

The cooperative agreement for the design and construction of the System designates the Bureau as the oversight agency and requires the Tribe to “make every effort to keep its administrative [noncontract] costs within the estimates shown in the [Final Engineering] Report,” which provided for a noncontract cost rate of 39.2 percent of construction field costs. However, for the 3-year period ending September 30, 1998, the Tribe incurred noncontract costs of \$1,353,187, or about \$450,000 annually, which represented 150 percent of the construction field costs of \$899,443 incurred during that period (see Appendix 3) and approximately \$1 million more than would have been expected based on the noncontract rate of 39.2 percent to construction field costs.

Bureau officials and the Tribal engineer told us that noncontract costs, especially those for planning, design, and administration, were normally high at the beginning of a project because of the “high start-up costs.” In the case of the System, the high costs resulted from completing the engineering planning work required prior to construction and from coordinating project activities with multiple sponsors. We agree that noncontract costs are higher at the beginning of a project but believe that the noncontract costs incurred for the System exceeded a level that could be sustained. We also believe that these costs have to be controlled if they are to approximate the 39.2 percent rate provided for in the Final Engineering Report. Since the Tribe did not account for noncontract costs on the basis of the nine categories<sup>12</sup> provided in the Final Engineering Report, we were not able to directly compare proposed with actual noncontract costs by category. However, for the purposes of our analysis, we grouped noncontract costs into three categories: tribal-related costs, engineering-related costs, and Bureau oversight and technical review charges.

**Tribal-Related Costs.** For the 3-year period ending September 30, 1998, the Tribe incurred Tribal-related noncontract costs of \$792,831, which were more than half of the noncontract costs incurred and about 88 percent of construction field costs. Of the \$792,831, costs of approximately \$503,174 were incurred in fiscal years 1996 and 1997, prior to the start of construction in September 1997. In fiscal year 1998, Tribal-related noncontract costs

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<sup>12</sup>The nine categories and corresponding rates in the May 1993 Final Engineering Report were contract administration (13.2 percent), easements (1.25 percent), geotechnical (50 percent), archeological (1.25 percent), design surveys (1 percent), investigations/Bureau oversight and technical review (4 percent), design (6 percent), construction observation (10 percent), and training (2 percent).

totaled \$289,657. However, we found that a high percentage of these costs were fixed; that is, they did not vary with the level of construction. Of the \$289,657, costs of \$151,427, or 52 percent, consisted of salaries and fringe benefits for permanent employees<sup>13</sup> and vehicle and general office costs, all of which were fixed costs. Given the high percentage of fixed costs, we believe that the Tribal-related rate of noncontract costs will remain high unless the level of funding received by the Tribe increases. We also found that of the \$792,831 incurred by the Tribe during the 3-year period, costs of \$253,525 were not related to construction of the System or supported with adequate documentation (see Finding B).

**Engineering-Related Costs.** Through September 30, 1998, the Tribe paid \$407,423 to its engineering firm for general project assistance and design and construction services,<sup>14</sup> or 45 percent of construction field costs. An official of the engineering firm said that the engineering-related costs have been higher than anticipated because of (1) problems and delays in reaching agreement among the four sponsors on pipeline routes and construction schedules, which necessitated design changes; (2) the addition of the new water treatment plant and the administration/operation and maintenance building; and (3) the need for the firm to be more involved in coordinating activities among the Tribe, the Bureau, and the other sponsors and Federal agencies and in assisting the Tribe in preparing System-related documents, such as work plans and budgets, since the Tribe did not have staff with the expertise to perform these duties. The engineer also stated that although several portions of the System had been designed, only one portion of the System had been constructed. The engineer stated that while he expected the 45 percent rate for engineering-related services to decrease as construction increased, the engineer did not believe that the Tribe would be able to meet the overall 39.2 percent noncontract cost rate.

**Bureau Oversight and Technical Review Costs.** Through September 30, 1998, the Bureau charged \$152,933, or an overall rate of 17 percent, of construction field costs for oversight and technical review. A Bureau engineer stated that the rate for Bureau costs has been higher than the 4 percent rate anticipated in the Final Engineering Report because of the limited construction costs for the System against which to apply Bureau charges. The engineer also stated that higher Bureau charges resulted from the additional work required by Bureau engineering and contracting personnel to contract with the Tribe's construction enterprise. Since the Tribe has required that construction of the System be performed by the construction enterprise and not be bid competitively, the Bureau has had to negotiate the prices for each construction item rather than to accept a competitive bid for a total contract

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<sup>13</sup>For fiscal year 1998, salaries for permanent employees consisted of \$36,480 for one-half the salary and related fringe benefits for the program director and the secretary, \$67,646 for the salaries and fringe benefits for two inspectors and an easement coordinator, \$42,559 for office-related costs, and \$1,712 for vehicle operation costs.

<sup>14</sup>According to the Tribe's engineering firm, general project assistance services included providing Tribal officials with engineering advice and consultation to assist them in the performance of their duties and the preparation of work plans, budgets, needs assessments, water conservation plans, and other services necessary to assist the Tribe in developing the System. Design and construction services included providing the civil, structural, mechanical, and electrical engineering services needed to develop the System.

price. The Bureau engineer stated that the Bureau's portion of the noncontract cost rate should decrease as construction costs increase.

Regarding the high rate of noncontract costs, the Bureau, in its December 1998 draft Cost Containment Report, stated that the Tribe was "not on an equal footing" with the other sponsors with respect to noncontract costs and that the Tribe would have a "difficult time staying within the limit of 39.2 percent for non-contract costs" because of the limited amount of annual funding received. Under an agreement among Mni Wiconi Project sponsors, only about 2.37 percent of the Project's annual appropriation would be allocated to the Tribe based on the percentage of the costs of the System to total Project costs (\$6,232,000 divided by \$263,241,000). With annual Project appropriations averaging about \$25 million for fiscal years 1996 through 1998, the Tribe could expect to receive only about \$593,000 annually.<sup>15</sup> If the Tribe continues to spend about \$450,000 annually on noncontract activities, it will exceed the 39.2 percent rate for noncontract costs provided for in the Final Engineering Report unless it receives annual funding of about \$1.6 million.

We believe that given the limited amount of funding received, the Bureau and the Tribe need to work together to identify areas where cost savings can be achieved, particularly for noncontract activities. In that regard, we believe that the Tribe, the Tribe's engineering firm, and the Bureau need to review those noncontract costs over which they have direct control and determine what actions can be taken to maintain current levels or reduce these costs. Without a reduction in noncontract costs, it is doubtful that the System can be constructed within the revised cost estimate of \$15.2 million.

## **Recommendations**

We recommend that the Commissioner, Bureau of Reclamation:

1. Implement corrective actions to ensure that the estimated costs for future rural water systems are based on a thorough analysis and review of the participating entities' municipal, rural, and industrial water needs.
2. Determine the amount of additional funding needed to construct the Lower Brule Sioux Rural Water System, as revised by the Lower Brule Sioux Tribe's engineer, based on reasonable estimates of the amount of annual funding the Tribe can expect to receive and the level of future noncontract costs.
3. Request the additional funding needed to construct the revised Lower Brule Sioux Rural Water System or negotiate with the Lower Brule Sioux Tribe to determine what features or segments of the System will be modified or eliminated so that the costs of the System are within the legislatively authorized amount.

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<sup>15</sup>The amounts received by the Tribe for the past 2 years have exceeded the amounts provided for in the agreement among the Project sponsors. The Tribe received allotments of \$690,521 in fiscal year 1997 and \$987,037 in fiscal year 1998. The Tribe also received transfers from West River/Lyman-Jones Systems, Inc., of \$500,000 in fiscal year 1997 and \$800,000 in fiscal year 1998 to help fund construction work.

4. Work jointly with the Lower Brule Sioux Tribe and the Tribe's engineering firm to determine the corrective actions that can be taken to control or reduce future noncontract costs.

## **Bureau of Reclamation Response and Office of Inspector General Reply**

In the May 25, 1999, response (Appendix 5) to the draft report from the Commissioner, Bureau of Reclamation, the Bureau concurred with Recommendations 2, 3, and 4 and partially concurred with Recommendation 1. Based on the response, we consider Recommendations 2, 3, and 4, resolved but not implemented and request that the Bureau provide additional information for Recommendation 1 (see Appendix 6).

Regarding Recommendation A. 1, the Bureau stated:

Many of the single-purpose rural water projects that [the Bureau of] Reclamation has recently become involved with, including the Mni Wiconi Project, have not been advanced for congressional authorization through the Administration. Pre-authorization planning of these projects has been undertaken by project sponsors, States or tribes, with little or no Reclamation planning involvement. Hence, Federal standards for water resource project planning, including the determination of municipal, rural, and industrial needs, are rarely met. Reclamation's involvement in rural water project planning, design, and construction will be an ongoing dialogue within the Department of the Interior and the Administration. It will also likely be a focal point at an oversight hearing to be held by the House Resources Committee, Water and Power Subcommittee. Reclamation will continue to base its involvement in rural water development on the direction of the Congress as established by law.

The Bureau further stated that it could not provide a target date for implementing the recommendation because "this issue is potentially subject to action by both the Administration and the Congress and not within Reclamation's influence."

We acknowledge the difficulties inherent in the Bureau's assuming oversight authority over projects that are in various stages of planning, design, and construction at the time of Bureau involvement and recognize that such difficulties occurred in the Lower Brule System. However, we believe that once the Bureau assumes responsibility for a project, it should take prompt action to ensure that the project cost estimate is supportable and based on a thorough analysis of the project sponsor's water needs. For the Lower Brule System, the Bureau did not obtain documentation regarding the basis for the original \$6.2 million cost estimate and therefore did not notify the sponsors and the Congress of probable overruns. However, we believe that the Bureau, in the future, should obtain and review all pertinent planning and design documents upon which estimated costs are based. These reviews are within the Bureau's oversight responsibilities, which include the timely notification to project sponsors

and the Congress of planning, design, or engineering deficiencies that could result in cost overruns.

We did not review the Bureau's involvement with the Lower Brule Tribe before the Lower Brule System was authorized. However, we found that the Bureau provided Project and non-Project funding totaling \$461,000 to the Rosebud Tribe for Project planning-related activities before the Rosebud Rural Water System was authorized. Although the Rosebud Sioux Water System was authorized at the same time as the Lower Brule System, similar funding was not provided to the Lower Brule Tribe. We believe that to the extent permissible, the Bureau should provide assistance to project sponsors during the planning phases of a project. We request that the Bureau identify what actions it will take to ensure that project cost estimates are reasonable and supportable for future rural water systems.

purposes is not an allowable cost and may not be charged to the grant.” Accordingly, the Bureau may not authorize the use of construction funds for maintenance and operation of the System. Of the \$1,596,304 reviewed, we questioned operation and maintenance costs of \$155,451 that had been charged to construction of the System as follows:

**Vehicle-Related Costs.** We took exception to vehicle-related costs of \$72,629, which consisted of \$46,527 for the purchase in April 1996 (approximately 1 1/2 years before construction began) of two pickup trucks that were used exclusively by the Tribe’s Rural Water Office Operations and Maintenance Branch and \$26,102 for gasoline, insurance, and maintenance costs for Operations and Maintenance Branch vehicles. The costs of the two trucks had been charged to the Equipment Repair and Maintenance Account and not to a vehicle or equipment purchase account.

**Personnel-Related Costs.** We took exception to personnel-related costs of \$61,480, which consisted of (1) \$38,398 for salaries of two construction inspectors, (2) \$20,501 for 50 percent of the Office of Rural Water Director’s salary and fringe benefits for fiscal year 1997, (3) \$1,831 for travel costs of Operations and Maintenance Branch personnel for fiscal years 1996 and 1997, and (4) \$750 for Christmas bonuses paid to Operations and Maintenance Branch personnel in fiscal year 1997. Tribal personnel told us that the construction inspectors who were hired in August 1996 performed operation and maintenance work until construction began in September 1997. In addition, the Tribe allocated 50 percent of the Director’s salary to operation and maintenance in fiscal years 1996 and 1998 but charged the Director’s total salary to construction in fiscal year 1997. Because there was no documentation to support that all of the Director’s time was construction related in fiscal year 1997, we believe that half of the Director’s salary should have been allocated to operation and maintenance.

**Office Equipment and Operating Costs.** We took exception to office equipment and operating costs of \$18,342. Of this amount, \$8,942 was half of the costs for two computers and a copier that were used jointly by the Operations and Maintenance and the Design and Construction Branches but that were charged entirely to construction. The amount questioned was based on the Tribe’s 50 percent allocation of personnel-related costs to operation and maintenance. We also took exception to \$4,331 for furniture, consisting of \$1,727 for items that could not be located and \$2,604 for items used by the Tribal Administration Office; \$3,384 for a printer **used** exclusively by the Tribe’s alcoholism program; and \$1,685 for Operations and Maintenance Branch supplies.

**Administrative Costs.** We took exception to \$3,000 charged to the construction of the System that was paid to the Tribe for accounting services provided to the Operations and Maintenance Branch for fiscal year 1995.

## **Unsupported Costs**

Office of Management and Budget Circular A-87, Attachment A. Section C, states that to be allowable under Federal awards, costs “must be adequately documented.” We identified costs



of \$98,074 that were not documented to show how the amounts charged related to the construction of the System as follows:

**Cultural Resource Officer.** We could not locate and the Tribe did not provide documentation for costs of \$73,074 for the salary and fringe benefits of the former Cultural Resource Officer that identified the work performed and how it related to the System.

**Water Management Committees.** The Tribe did not have adequate documentation showing that payments totaling \$25,000, \$22,000 for stipends and \$3,000 for related secretarial services, were for work related to the System. These costs included \$18,000 for stipends to Mni Wiconi Steering Committee members and \$3,000 for related secretarial services for the period February 1995 to April 1996, during which time the Steering Committee conducted its business during Tribal Council meetings: We could not find, and the Tribe did not provide, separate minutes of meetings for the Steering Committee showing that business related to the System was conducted to just@ the payment of stipends. We also questioned Water Advisory Board stipends of \$4,000. Tribal personnel told us that the Tribal Council established the Board, which was paid stipends for all of fiscal year 1996. However, the Tribe did not provide minutes of Board meetings from October 1995 to January 1996 and from June to September 1996 indicating that meetings were held and the nature of the business conducted at the meetings.

## **Classification and Documentation of Costs**

Neither the Tribe nor the Bureau adequately reviewed System expenditures to ensure that costs were properly classified, allowable, necessary: and adequately documented. We also noted that the Tribe did not have adequate written procedures or instructions regarding the classification, allowability, reasonableness, and documentation of costs. Further, the Bureau was not provided with, and did not formally request, sufficiently detailed information to enable it to readily evaluate System expenditures. We found that neither the cooperative agreement, which incorporates by reference Office of Management and Budget Circular A-87, nor the Tribal Fiscal Management Policy” provided detailed instructions on classifying and accounting for System costs to ensure consistency. For example, the Policy did not include a chart of accounts or detailed descriptions of the types of costs to be charged to each account. In addition, the Policy did not address adequate separation of duties. We noted that the members of the Mni Wiconi Steering Committee who reviewed the costs and the members of the Tribal Council” who approved the costs were the same individuals.” We also noted that there were no written procedures describing the duties and responsibilities of the Steering Committee and the Tribal Council for reviewing and approving the costs to ensure that they

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‘-The Tribe’s undated Fiscal Management Policy was in effect until August 1998. when it was superseded by the Tribal Financial Management Policies and Procedures.

“Tribal regulations require at least two Council members to approve an expenditure

“On February 22, 1995, the Tribal Council established itself as the Mni Wiconi Steering Committee to “oversee the Mm Wiconi Rural Water Supply System Project on the Lower Brule Reservation.”

were allowable and related to the purposes of the System. As a result of the inadequate accounting and review procedures and the inadequate separation of duties between the Steering Committee and the Council, the former Director of the Tribe's Office of Rural Water was able to charge operation and maintenance costs to the System's construction program without Tribal officials taking exception to the charges.

The Bureau also did not detect the inappropriate charges. Prior to January 1997, the Bureau was provided only with summary financial data that were not sufficient to allow it to determine the appropriateness and allocability of the costs reported. Although more detailed quarterly financial data were provided to the Bureau as of January 1997, these data were not summarized by budget item or on the basis of the noncontract cost categories in the Final Engineering Report. However, Bureau employees did not formally request sufficient clarifying information to enable them to readily analyze or compare the costs with the amounts budgeted and to identify which activities were contributing to the high level of noncontract costs and bring this matter to the attention of Tribal officials.

We believe that both the Tribe and the Bureau need to negotiate on the level of financial information to be provided to serve the needs of both the Tribe and the Bureau. The information provided should allow the Tribe and the Bureau to review System expenditures to ensure that (1) only necessary costs are charged to construction, given the limited amount of funding for the System; (2) problem areas are identified and addressed quickly; and (3) areas where savings can be achieved, particularly savings in noncontract costs, are identified. In that regard, we believe that the Tribe, the Tribe's engineering firm, and the Bureau need to review those noncontract costs over which they have direct control and determine what actions can be taken to maintain current levels or reduce these costs. Without a reduction in noncontract costs, we do not believe that the System can be constructed within the revised estimated costs of \$15.2 million.

## **Recommendations**

We recommend that the Commissioner, Bureau of Reclamation:

1. Instruct the Lower Brule Sioux Tribe's Rural Water System Operations and Maintenance Branch to reimburse the Design and Construction Branch for operations and maintenance expenditures of \$155,451 that were charged improperly.
2. Instruct the Lower Brule Sioux Tribe to reimburse the Bureau or provide support for the unsupported costs of \$98,074 identified by our review.
3. Work with the Lower Brule Sioux Tribe to improve controls over costs charged to construction of the Lower Brule System to ensure that amounts charged for reimbursement are allowable and necessary and in accordance with the terms of the cooperative agreement.
4. Institute accounting and review procedures through negotiation with the Lower Brule Sioux Tribe to enable both the Tribe and the Bureau to account for and monitor System costs more effectively.

## **Bureau of Reclamation Response and Office of Inspector General Reply**

In the May 25, 1999, response (Appendix 5) to the draft report from the Commissioner, Bureau of Reclamation, the Bureau concurred with the four recommendations. Based on the response, we consider the recommendations resolved but not implemented (see Appendix 6).

**CLASSIFICATION OF MONETARY AMOUNTS**

<u>Finding</u>	<u>Questioned costs</u>
Cost Compliance	
Cost Exceptions	\$155,451
Unsupported Costs	<u>98,074</u>
Total	<u><u>\$253,525</u></u>

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\*The questioned costs are detailed in Appendix 4

## SUMMARY OF COSTS CONTRIBUTING TO OVERRUN

	Original Estimate	Tribal Engineer's Estimate	Difference	Percent Increase/ (Decrease)
Lower Brule System "Core" System				
Pipeline Segments:				
Vivian to Reliance	\$1,254,503	\$2066,276	\$811,773 <sup>1</sup>	65%
Reliance to West Brule	170,953	5 16,299	345,346 <sup>2</sup>	202%
Kennebec to Reservation	207,662	255,106	52,444 <sup>3</sup>	26%
Highway 83/County Line Road		415.275	415.275 <sup>4</sup>	
Subtotal	\$1,628,118	\$3,252,956	\$1,624,838	100%
Distribution System Pipelines	\$1,230,073	\$3,935,604	\$2,705,531 <sup>5</sup>	220%
Pump Stations	660,000	421,000	(239,000) <sup>6</sup>	(36%)
Reservoirs	100.000	420.000	320.000 <sup>7</sup>	320%
Subtotal	\$1,990,073	\$4,776,604	\$2,786,531	140%
Cumulative Subtotal	\$3,618,191	\$8,029,560	\$4,411,369	122%
Appurtenant Items @ 12.5 Percent	452.274	1,003,695	55 1.421	
Subtotal	\$4,070,465	\$9,033,255	\$4,962,790	
Contingencies @ 10 Percent	407.046	903.325	496.279	
Subtotal Field Costs	\$4,477,511	\$9,936,580	\$5,459,069	122%
Noncontract Costs @ 39.2 Percent	1,755.184	3,895,139	2,139,955	
Subtotal	\$6,232,695	\$13,831,719	\$7,599,024	
Additional Items Not in Final Engineering Report				
1. Water Treatment Plant		226,000 <sup>8</sup>	226,000	
2. Administration Building/Shop		1,044,000 <sup>9</sup>	1,044,000	
Subtotal		1,270,000	1,270,000	
Adjustment to Reconcile to Bureau "Master Plan" Amount		\$72,281	\$72,281	
Total	\$6,232,695	\$15,174,000	\$8,941,305	

<sup>1</sup>Differences in pipe size and pipe prices and a 17.670 foot reduction in the quantity of pipe.

<sup>2</sup>Differences in pipe size and pipe prices and 33.460 additional feet of pipe.

<sup>3</sup>Differences in pipe size and pipe prices and a 23.632 foot reduction in the quantity of pipe.

<sup>4</sup>No separate amount cited in original estimate. The \$115.275 is the engineer's estimated cost for installing 73.500 feet of 6-inch pipe adjacent to County Line Road in exchange for West River/Lyman-Jones System, Inc., installing about 7 miles of 8-inch pipe in the Fort Hale area.

<sup>5</sup>Differences in pipe size and pipe prices and 388,318 additional feet of pipe.

<sup>6</sup>Increase in number of pump stations from two to three, but reductions in size and estimated costs.

<sup>7</sup>Increase in number of reservoirs from one to two, increasing one reservoir from 100,000 gallons to 450,000 gallons, and paying the Oglala Sioux Tribe \$50,000 to increase another reservoir by 100,000 gallons.

<sup>8</sup>Of the estimated water treatment plant costs of \$1,579,000, costs of \$226,000, consisting of construction costs of \$162,356 and noncontract costs of \$63,644 (\$162,356 x .392), will be charged to the Lower Brule System.

<sup>9</sup>This amount includes estimated construction costs of \$750,000 and noncontract costs of \$294,000 (\$750,000 x .392).

### ACTUAL NONCONTRACT COST RATES FOR FISCAL YEARS 1996 TO 1998

	1996	1997	1998	Total
Noncontract Costs				
Tribal-Related Costs	\$194,684	\$308,490	\$289,657 <sup>1</sup>	\$792,831
Engineering-Related Costs	40,082	235,234	132,107	407,423
Bureau Oversight and Technical Review Costs	20,375 <sup>2</sup>	83,521	49,037	152,933
Subtotal	<u>\$255,141</u>	<u>627,245</u>	<u>470,801</u>	
Cumulative Total		<u><u>\$882,386</u></u>	<u><u>\$1,353,187</u></u>	
Annual Construction Costs		61,186	838,257	
Cumulative Total		<u><u>\$61,186</u></u>	<u><u>\$899,443</u></u>	
Noncontract Cost Rates		1,442% <sup>3</sup>	150% <sup>4</sup>	

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<sup>1</sup>Amount consists of \$151,127 for salaries and fringe benefits for permanent employees and office and vehicle costs, \$72,991 for salary and fringe benefits for the Cultural Resource Officer and consultant costs, \$40,624 for Mni Wiconi Steering Committee and other advisory committee stipends, \$20,097 for equipment, and \$4,518 for clerical expenses.

<sup>2</sup>Includes Bureau fiscal year 1995 charges of \$10,266.

<sup>3</sup>The actual noncontract rate of 1.442 percent through fiscal 1997 was determined by dividing total noncontract costs of \$882,386 by total construction costs of \$61,186.

<sup>4</sup>The actual noncontract rate of 150 percent through fiscal year 1998 was determined by dividing total noncontract costs of \$1,353,187 by total construction costs of \$899,413.

## SUMMARY OF QUESTIONED COSTS

Title/Description	Questioned Costs			Balance
	costs Incurred	cost Exceptions	Unsupported costs	
Office of Rural Water Program Costs				
Office of Rural Water Program Director	\$87,060	\$20,501 <sup>1</sup>		\$66,559
Cultural Resource Officer	73,074		\$73,074 <sup>2</sup>	
Pipe Inspectors	84,765	38,398 <sup>3</sup>		46,367
Steering Committee and Advisory Board	99,423		25,000 <sup>4</sup>	74,424
Other Salaries	83,443			83,443
Other Fringe Benefits	14,918			14,918
Cultural Resource Consulting and Vehicles	161,878	72,629		89,249
Travel and Training	38,171	2,581 <sup>5</sup>		35,590
Legal Fees and Rent	19,185			19,185
Office Equipment and Supplies	83,498	18,342		65,156
Office Costs	38,547			38,547
Administrative Costs	8,868	3,000		5,868
Subtotals	\$792,830	\$155,451	\$98,074	\$539,306
Design and Engineering Costs	407,423			407,423
Construction	899,443 <sup>6</sup>			899,443
Subtotals	\$2,099,697			\$1,846,172
Bureau of Reclamation Facilitation Costs	152,933			152,933
Total Costs	<u>\$2,252,630</u>	<u>\$155,451</u>	<u>\$98,074</u>	<u>\$1,999,105</u>

<sup>1</sup> Amount consists of salary plus fringe benefits for fiscal year 1997.

<sup>2</sup> Amount consists of salary plus fringe benefits for fiscal years 1997 and 1993

<sup>3</sup> Amount consists of salaries plus fringe benefits for fiscal years 1996 and 1997

<sup>4</sup> Amount consists of \$18,000 of Steering Committee stipends, \$4,000 of Water Advisory Board stipends, and \$3,000 of secretarial services.

<sup>5</sup> Amount consists of \$1,831 for travel-related costs and \$750 for Christmas bonuses.

<sup>6</sup> Amount includes \$61,186 of construction mobilization costs.



IN REPLY REFER TO:  
D-501 0

# United States Department of the Interior

## BUREAU OF RECLAMATION

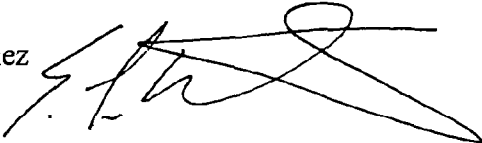
Washington, D.C. 20240

MAY 25 1996

APPENDIX 5  
Page 1 of 5

### MEMORANDUM

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

From: Eluid L. Martinez  
Commissioner 

Subject: Draft Audit Report on "Lower Brule Sioux Rural Water System,  
Mni Wiconi Rural Water Supply Project, Bureau of Reclamation,"  
Assignment No. W-IN-BOR-004-99(C)-R

The Bureau of Reclamation offers the following comments in response to the recommendations in the subject report.

We recommend that the Commissioner, Bureau of Reclamation:

#### Recommendation A. 1

Implement corrective actions to ensure that the estimated costs for future rural water systems are based on a thorough analysis and review of the participating entities' municipal, rural, and industrial water needs.

#### Response

Partially Concur. Reclamation's continued role in rural water development has been the point of ongoing debate in the Congress and within the Administration. Many of the single-purpose rural water projects that Reclamation has recently become involved with, including the Mni Wiconi Project, have not been advanced for congressional authorization through the Administration. Pre-authorization planning of these projects has been undertaken by project sponsors, States, or tribes, with little or no Reclamation planning involvement. Hence, Federal standards for water resource project planning, including the determination of municipal, rural, and industrial needs, are rarely met. Reclamation's involvement in rural water project planning, design, and construction will be an ongoing dialogue within the Department of the Interior and the Administration. It will also likely be a focal point at an oversight hearing to be held by the House Resources Committee, Water and Power Subcommittee. Reclamation will continue to base its



involvement in rural water development on the direction of the Congress as established by law.

A target date for completion of this recommendation has not been identified as this issue is potentially subject to action by both the Administration and the Congress and not within Reclamation's influence.

#### Recommendation A.2

Determine the amount of additional funding needed to construct the Lower Brule Sioux Rural Water System, as revised by the Lower Brule Sioux Tribe's engineer, based on reasonable estimates of the amount of annual funding the Tribe can expect to receive and the level of future noncontract costs.

#### Response

Concur. Reclamation intends to finalize the "Mni Wiconi Rural Water System Cost Containment Report" in June 1999. This report provides a wide range of options for addressing additional funding needs. Reclamation will work closely with the South Dakota congressional delegation and the project sponsor to identify and request the appropriate funding levels.

The responsible official is the Area Manager, Dakotas Area Office. Target dates are:

- June 30, 1999 - Finalize "Mni Wiconi Rural Water System Cost Containment Report."
- August 31, 1999 - Identify additional ceiling request that Reclamation can support and provide information to the South Dakota congressional delegation.

#### Recommendation A.3

Request the additional funding needed to construct the revised Lower Brule Sioux Rural Water System or negotiate with the Lower Brule Sioux Tribe to determine what features or segments of the System will be modified or eliminated so that the costs of the System are within the legislatively authorized amount.

#### Response

Concur. Reclamation intends to finalize the "Mni Wiconi Rural Water System Cost Containment Report" in June 1999. This report provides a wide range of options for addressing additional funding needs. Included in the report is an option which identifies how the cost ceilings for each project sponsor would need to be adjusted if the Congress does not authorize an increase in the construction ceiling. Reclamation will work closely

with the South Dakota congressional delegation and the project sponsor to identify and request the appropriate funding levels.

The responsible official is the Area Manager, Dakotas Area Office. Target dates are:

- June 30, 1999 - Finalize "Mni Wiconi Rural Water System Cost Containment Report."
- August 31, 1999 - Identify additional ceiling request that Reclamation can support and provide the information to the South Dakota congressional delegation.
- September 30, 1999 - Consult with the Lower Brule Tribe and South Dakota congressional delegation in amending the legislation to increase the cost ceiling.

#### Recommendation A.4

Work jointly with the Lower Brule Sioux Tribe and the Tribe's engineering firm to determine the corrective actions that can be taken to control or reduce future noncontract costs.

#### Response

Concur. Reclamation will work jointly with the Lower Brule Sioux Tribe and the Tribe's engineering firm to establish a process to control or reduce future noncontract costs. Reclamation will negotiate with the Lower Brule Sioux Tribe to establish annual budgets which identify the types and amounts of allowable noncontract costs. The noncontract costs will be based on the noncontract allowances established in the Final Engineering Report, 2-year work plans, project master plans, and noncontract allowance analysis presented in Reclamation's Cost Containment Report.

The responsible official is the Area Manager, Dakotas Area Office. The target date to establish a process to control future noncontract costs is September 30, 1999.

#### Recommendation B. 1

Instruct the Lower Brule Sioux Tribe's Rural Water System Operations and Maintenance Branch to reimburse the Design and Construction Branch for operations and maintenance expenditures of \$155,451 that were charged improperly.

#### Response

Concur. Reclamation will instruct the Tribe to reimburse the Systems construction account for any of the improperly charged portions of the \$155,451.

The responsible official is the Area Manager, Dakotas Area Office. The target date to provide a letter instructing the Tribe to reimburse any improperly charged portions of the \$155,451 is June 30, 1999.

#### Recommendation B.2

Instruct the Lower Brule Sioux Tribe to reimburse the Bureau or provide support for the unsupported costs of \$98,074 identified by our review.

#### Resuonse

Concur. Reclamation will instruct the Tribe to reimburse any unsupported portion of the \$98,074.

The responsible official is the Area Manager, Dakotas Area Office. The target date to provide a letter to the Tribe is June 30, 1999.

#### Recommendation B.3

Work with the Lower Brule Sioux Tribe to improve controls over costs charged to construction of the Lower Brule System to ensure that amounts charged for reimbursement are allowable and necessary and in accordance with the terms of the cooperative agreement.

#### Resnonse

Concur. Reclamation will meet with the Tribe to discuss controls over costs and options for improving those controls to ensure that amounts charged for reimbursement are allowable and necessary. Reclamation will also perform on-site reviews as necessary to include a review of controls used in charging costs to the System.

The responsible official is the Area Manager, Dakotas Area Office. The Dakotas Area Office will meet with the Tribe to discuss these issues by August 31, 1999.

#### Recommendation B.4

Institute accounting and review procedures through negotiation with the Lower Brule Sioux Tribe to enable both the Tribe and the Bureau to account for and monitor System costs more effectively.

#### Resnonse

Concur. Reclamation will meet with the Tribe to discuss accounting and review procedures and options for improving those procedures. Reclamation will also work with

the Tribe to provide more detailed financial information to Reclamation to enable both the Tribe and Reclamation to account for and monitor System costs more effectively.

The responsible official is the Area Manager, Dakotas Area Office. The Dakotas Area Office will meet with the Tribe to discuss these issues by August 31, 1999.

We appreciate the opportunity to comment on the audit recommendations. If you have any questions or require additional information, please contact Luis Maez at (303) 445-2793.

cc: Assistant Secretary - Water and Science, Attention: Laura Brown

## STATUS OF AUDIT REPORT RECOMMENDATIONS

Finding/Recommendation Reference	Status	Action Required
A. 1	Management concurs; additional information needed.	The Bureau should provide a plan identifying actions to be taken to ensure that cost estimates are reasonable and supportable for future rural water system projects. The plan should include target dates and titles of officials responsible for implementation.
A.2, A.3, A.4, B.1, B.2, B.3, and B.4	Resolved; not implemented.	No further response to the Office of Inspector General is required. The recommendations will be referred to the Assistant Secretary for Policy, Management and Budget for tracking of implementation.

**ILLEGAL OR WASTEFUL ACTIVITIES  
SHOULD BE REPORTED TO  
THE OFFICE OF INSPECTOR GENERAL**

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