



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

# **AUDIT OF AGREEMENT No. AI3AP00009 BETWEEN THE BUREAU OF INDIAN AFFAIRS AND THE CHIPPEWA CREE TRIBE**

**This is a revised version of the report prepared for public release.**



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

Memorandum

AUG 21 2017

To: Weldon Loudermilk  
Director, Bureau of Indian Affairs

From: Chris Stubbs *Chris Stubbs*  
Director, Office of Financial and Contract Audits

Subject: Final Report – Audit of Agreement No. A13AP00009 Between the Bureau of Indian Affairs and the Chippewa Cree Tribe  
Report No. 2016-FIN-075

This memorandum transmits the results of our audit of the Chippewa Cree Tribe (CCT) interim incurred costs on Agreement No. A13AP00009 with the Bureau of Indian Affairs (BIA).

We identified \$1,503,191 in questioned costs and inadequate oversight by BIA. We made five recommendations to help BIA resolve the questioned costs and improve its oversight.

Please respond to this report by November 19, 2017. Your written response should provide detailed information on the actions you have taken, or plan to take, to address each recommendation, as well as target dates and titles of officials responsible for implementing these actions. It should also clearly indicate the dollar value of questioned costs that you plan to either allow or disallow. Please send your response to [aie\\_reports@doioig.gov](mailto:aie_reports@doioig.gov).

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

If you have any questions regarding this report, please call me at 202-208-5745.

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## Results in Brief

We audited interim costs incurred between October 2013 and March 2016 by the Chippewa Cree Tribe (CCT) on Agreement No. A13AP00009, a transportation-related agreement, with the Bureau of Indian Affairs (BIA) to determine if costs claimed by CCT were allowable, allocable, and reasonable; if BIA adequately oversaw the agreement; and if BIA conducted its oversight in accordance with applicable Federal laws and regulations and BIA guidelines.<sup>1</sup>

We found \$1,503,191 in questioned costs, which included unsupported payments to subcontractors and vendors, unsupported internal transactions in CCT's accounting system, unallowable out-of-period costs, and unallowable payments to vendors. In addition, we found that BIA did not adequately oversee the contracts in accordance with Federal laws and regulations and BIA guidelines, resulting in CCT claiming costs that were unsupported and unallowable.

We made five recommendations to help BIA resolve the questioned costs and improve its oversight activities of CCT. We sent notices of our findings and recommendations to CCT, but the Tribe did not respond to them. Consequently, the recommendations remain unresolved.

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<sup>1</sup> Our scope (see Appendix 1) included an audit of Agreement No. A16AP00078, also related to transportation programs; however, we could not complete that audit because the funds were released to CCT after March 2016, which fell outside of the timeframe of the audit.

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# Objectives

We focused on two objectives in our audit of the Chippewa Cree Tribe's (CCT) Agreement No. A13AP00009 with the Bureau of Indian Affairs (BIA):

1. Were the costs claimed by CCT allowable, allocable, and reasonable according to applicable Federal laws and regulations and BIA guidelines?
2. Did BIA oversee the agreement adequately and in accordance with applicable Federal laws and regulations and BIA guidelines?

Appendix 1 includes the details of our audit scope and methodology.

# Background

The Chippewa-Cree Indians of the Rocky Boy's Reservation, MT, (the Tribe) entered into the Tribal Transportation Program Agreement (the Agreement) with the Bureau of Indian Affairs (BIA) to plan, research, design, engineer, construct, and maintain highway, road, bridge, parkway, or transit facility programs or projects that are located on, or provide access to, the Tribe or its communities.

# Findings

We tested \$2,540,838 of \$3,770,485 in interim costs claimed by CCT from October 1, 2013, through March 31, 2016. We found that CCT claimed \$1,503,191 in costs that were not allowable or allocable, and that these questioned costs resulted from deficient internal controls. We also found that BIA did not adequately oversee the agreement in accordance with applicable Federal laws and regulations and BIA guidelines.

## Questioned Costs – \$1,503,191

The questioned costs we identified included:

- \$570,652 in unsupported payments to subcontractors and vendors
- \$394,114 in unsupported internal transactions
- \$536,765 in unallowable out-of-period costs
- \$1,660 in unallowable payments (see Figure 1)

Description	Claimed Costs Sampled	Questioned Costs	Revised Claimed Costs
<b>Unsupported Payments</b>			
<b>Subcontractors</b>	\$509,111	\$508,966	\$145
<b>Vendors</b>	\$595,193	\$61,686	\$533,507
<b>Subtotal</b>	<b>\$1,104,304</b>	<b>\$570,652</b>	<b>\$533,652</b>
<b>Unsupported Internal Transactions</b>			
<b>Adjusting journal entries</b>	\$629,114	\$385,200	\$243,914
<b>Indirect costs</b>	\$268,995	\$8,914	\$260,081
<b>Subtotal</b>	<b>\$898,109</b>	<b>\$394,114</b>	<b>\$503,995</b>
<b>Unallowable Out-of-Period Costs</b>			
<b>Out-of-Period Costs</b>	\$536,765	\$536,765	
<b>Unallowable Payments</b>			
<b>Unallowable per FAR 31.205-15*</b>	\$1,660	\$1,660	
<b>Total Cost to BIA</b>	<b>\$2,540,838</b>	<b>\$1,503,191</b>	<b>\$1,037,647</b>
<b>Total Questioned Costs</b>		<b>\$1,503,191</b>	

\*Federal Acquisition Regulation 31.205-15, "Fines, Penalties, and Mischarging Costs."

Figure 1. Questioned costs associated with BIA Agreement No. A13AP00009.

### **Unsupported Payments to Subcontractors and Vendors – \$570,652**


CCT could not provide support for \$570,652 in payments to subcontractors and vendors. Unsupported payments are payments for goods and services without documentation that describes how the money was spent. We identified \$508,966 in unsupported payments to subcontractors and \$61,686 in unsupported payments to vendors.

#### *Payments to Subcontractors*

We sampled 9 of 143 payments that CCT made to subcontractors for engineering and subcontracting work, for a total sampled of \$509,111 in transactions. In that sample, we identified \$508,966 in unsupported costs.

We found that transactions in excess of \$25,000 for major equipment and contractor service did not have any agreements or contracts in place as required by CCT's finance manual. The policies and procedures for the purchase of major equipment and contractor services have been established to ensure that CCT avoids purchasing unnecessary items and, where appropriate, has analyzed lease and purchase options to determine which would be most economical and practical for the Tribe.

Further, CCT could not provide us with adequate support for the entire \$508,966 in subcontractor invoices. Each invoice (see Figure 2 for an example) shows a total amount or part of a total amount paid to a subcontractor for a project or part of a project completed; however, none of the invoices describe the projects' deliverables or purposes, nor do they indicate the contract with which that project is associated. We question all of these payments because they do not provide the necessary support documentation.



**DOWL HKM**

**Invoice**

April 05, 2014  
Invoice No: 4722.11365.01 - 1

Rocky Boy Health Board  
RR #1, Box 664  
Box Elder, MT 59621

Project Manager [REDACTED]  
Project 4722.11365.01 Chippewa Cree Tribe Long Range Transportation Plan  
Professional Services from February 22, 2014 to March 28, 2014

Total Fee	40,000.00		
Percent Complete	20.00	Total Earned	8,000.00
		Previous Fee Billing	0.00
		Current Fee Billing	8,000.00
		Total Fee	8,000.00
			<b>TOTAL THIS INVOICE</b>
			<b>\$8,000.00</b>

All invoices are due upon receipt. A late charge of 1.0% will be added to any unpaid balance after 30 days.

Please Remit Payment to:  
DOWL HKM  
P.O. Box 3588  
Butte, MT 59702

Figure 2. Invoice to a subcontractor that does not describe the project's deliverables or indicate the associated contract for the project.

### Payments to Vendors

We identified \$61,686 of \$595,193 in unsupported costs paid to vendors for goods and services related to the tribal transportation program. CCT did not provide adequate supporting documentation for these goods and services. Adequate support documentation means the invoices would have included the direct costs associated with the contract for each invoice. Each invoice should have costs that are allocable, allowable, and reasonable. Figure 3 shows a representative example of CCT's vague payment invoices: it does not indicate what specifically the Tribe purchased or the contract with which that purchase is associated. Likewise, none of the unsupported payments to vendors that we identified had necessary supportive information.

Rocky Mountain Tribal Transportation Association  
P.O. Box 1252  
Harden, MT 59525

Invoice No. 1

**INVOICE**

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**Customer**

Name: Chippewa Cree Tribe, Attn: [REDACTED] Roads Department  
 Address: 31 Agency Square  
 City: Box Elder State MT ZIP 59521  
 Phone: \_\_\_\_\_ Fax: \_\_\_\_\_

**Misc**

Date: 3/18/2014  
 Order No. 1  
 Rep \_\_\_\_\_  
 FOB \_\_\_\_\_

Qty	Description	Unit Price	TOTAL
1	To Assist with the 2013 Rocky Mountain Region Tribal Transportation Symposium Meeting expenses: ie: meeting room expenses, break items, Backpacks, Lanyards, banner, copies etc.		\$ 14,000.00

**Payment** Select One:...

Comments: \_\_\_\_\_  
 Name: \_\_\_\_\_  
 CC #: \_\_\_\_\_  
 Expires: \_\_\_\_\_

Authorized Signature: [REDACTED]

Tax Rate(s): \_\_\_\_\_

SubTotal \$ 14,000.00  
 Shipping \_\_\_\_\_

**TOTAL \$ 14,000.00**

Office Use Only: \_\_\_\_\_

Figure 3. One example of the meeting expenses amounts without documenting the allocation.

CCT had no supporting documentation for the remaining \$47,686 paid to vendors to show that the costs were associated with the contract or the tribal transportation program. CCT did not provide any invoices to support these expenses.

### Unsupported Internal Transactions – \$394,114

CCT could not provide support for \$394,114 in internal transactions. Unsupported internal transactions are transactions in the accounting system that do not have corresponding documentation that show why they were made.

We found that CCT recorded the adjusted journal entries totaling \$629,114 to indicate a move of expenses from one account to another. Of that amount, CCT

was unable to provide the original invoice or adequate support for \$385,200 of direct costs (including payroll) claimed. (The remaining \$8,914 is the miscalculation of the indirect cost rate.) The supporting documentation CCT provided were journal entries (see Figure 4 for examples of some of the ledger adjustments) showing the direct and indirect costs moved from one cost account to another cost account. We considered this inadequate supporting documentation for the internal transactions because there was no support showing why the expenses were transferred from one program to another program. The support documents would be the original invoices that were charged to the original program.

Chippewa Cree Tribe Unposted General Ledger Transactions CP15JULY04JVS - CONSOLIDATING ALL ROADS EXPENSES PER LETTER						
Effective Date	Document Description	Agency Code	Program Code	GL Code	Debit	Credit
7/1/2015	CONSOLIDATING ALL ROADS EXPENSES PER LETTER	10000	15288	5210	9,387.22	
7/1/2015	CONSOLIDATING ALL ROADS EXPENSES PER LETTER	10000	15288	5230	5,644.59	
7/1/2015	CONSOLIDATING ALL ROADS EXPENSES PER LETTER	10000	15288	5240	20,221.15	
7/1/2015	CONSOLIDATING ALL ROADS EXPENSES PER LETTER	10000	15403	5210		9,387.22
7/1/2015	CONSOLIDATING ALL ROADS EXPENSES PER LETTER	10000	15403	5230		5,644.59
7/1/2015	CONSOLIDATING ALL ROADS EXPENSES PER LETTER	10000	15403	5240		20,221.15

Figure 4. Example of the journal entry support for internal transactions.

### Unallowable Out-of-Period Costs – \$536,765

We questioned \$536,765 of costs associated with the referenced funding agreement<sup>1</sup> A13AP00009 for fiscal year (FY) 2014. This funding agreement for FY 2014 had a line item for \$536,765 for 2013. These costs were incurred before the agreement was signed and are unallowable.

In addition, we inquired about the support for the costs associated with the FY 2013 funds within the referenced funding agreement, but CCT did not provide detailed expense records within the general ledger for the costs.

### Unallowable Payments to Vendors – \$1,660

CCT made \$1,660 in unallowable payments to vendors. Unallowable payments are payments for goods and services that the Federal Acquisition Regulation (FAR) or governing policy does not permit.

CCT paid late fees for late payments on equipment rentals that are unallowable per Federal Acquisition Regulation 31.205-15, “Fines, Penalties, and Mischarging Costs,” which states that cost of fines and penalties resulting from violations of,

or failure of, the contractor to comply with Federal, State, local, or foreign laws and regulations are unallowable except when incurred as a result of compliance with specific terms and conditions of the contract or written instructions from the contracting officer. As a result, we questioned \$1,660.

## **Significant Deficiencies in the Internal Controls**

In summary, these questioned costs occurred because BIA did not have effective monitoring procedures over the contractor's invoice and payment process, and CCT did not provide the documentation needed to support the total costs it billed to this agreement. More specifically, CCT did not have effective internal controls to prevent and detect significant deficiencies:

- CCT paid subcontractor and vendor invoices without documentation on how the money was spent.
- CCT did not have adequate controls over awarding contracts so that the deliverables are spelled out in the contract.
- CCT did not have adequate internal controls over recording and processing journal entries.
- CCT did not have adequate supporting documentation for the claimed costs for these Federal funds.
- CCT did not identify unallowable expenses.

## **Recommendations**

We recommend that BIA:

1. Resolve the \$570,652 in unallowable costs for unsupported payments to subcontractors and vendors.
2. Resolve the \$394,114 in unsupported internal transactions.
3. Resolve the \$536,765 in unallowable out-of-period costs.
4. Resolve the \$1,660 in unallowable payments to vendors.

## **Inadequate Oversight by BIA**

We found deficiencies in BIA's internal controls regarding the post-award process for agreement A13AP00009. The agreement file was incomplete: the agreement stated that CCT must provide BIA with semiannual progress and financial reports, but CCT did not submit the required reports to BIA for this agreement, and they were not included in the file. Every 6 months, the Tribe must submit a Standard Form (SF)-425 (a Federal financial report) to BIA showing program activity, including income and expenditures, for every agreement awarded. BIA uses these

reports to assist in its monitoring of agreement activities. BIA did not have any copies of all of the SF-425s submitted for this agreement. Further, the SF-425 for the FY 2013 funds did not have a final SF-425 for the expenses, CCT provided incomplete SF-425s to BIA, and the SF-425s did not match the referenced funding agreement showing the total amount funded for the transportation program.

### **Recommendation**

We recommend that BIA:

5. Develop and implement a process and procedures for reviewing the SF-425s and their supporting documentation.

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# Conclusion and Recommendations

## Conclusion

We identified deficiencies throughout our testing of CCT's claimed costs, and found that CCT claimed costs that were unallowable and unallocable. In addition, BIA did not adequately oversee the contract in accordance with Federal Acquisition Regulations and BIA and tribal guidelines. BIA did not have effective monitoring procedures over the contractor's invoice and payment process, and CCT did not provide the documentation needed to support the total costs it billed to the agreements. As a result, we identified \$1,503,191 in questioned costs that leave CCT vulnerable to fraud and misuse of funds.

Our recommendations will help BIA account for and monitor the funds awarded by the Federal Government.

## Recommendations Summary

We recommend that BIA:

1. Resolve the \$570,652 in unallowable costs for unsupported payments to subcontractors and vendors.
2. Resolve the \$394,114 in unsupported internal transactions.
3. Resolve the \$536,765 in unallowable out-of-period costs.
4. Resolve the \$1,660 in unallowable payments to vendors.
5. Strengthen internal controls over post-award monitoring.

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# Appendix 1: Scope and Methodology

## Scope

We focused on the Chippewa Cree Tribe's (CCT) claimed costs incurred under Agreement Nos. A13AP00009 and A16AP00078 with the Bureau of Indian Affairs (BIA). Though we intended to, we could not audit Agreement No. A16AP00078 because the funds were released to CCT after March 2016, which fell outside of the timeframe of the audit. CCT costs totaled \$3,770,485 for October 1, 2013, through March 31, 2016, the time period we selected for review. We tested \$2,540,838 of the costs claimed in that timeframe. Our audit included CCT's compliance with applicable Federal regulations, BIA policies and procedures, and agreement/contract terms and conditions. We conducted our fieldwork from September 2016 through February 2017.

## Methodology

We conducted this audit in accordance with Generally Accepted Government Auditing Standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. To accomplish our objectives, we—

- interviewed the BIA awarding official's technical representative
- interviewed CCT employees and other appropriate individuals
- reviewed required reports and cash management practices
- reviewed the Code of Federal Regulations pertaining to claimed costs
- reviewed support for CCT's claimed costs, including direct costs, indirect costs (overhead), and general and administrative expenses
- reviewed CCT's four most recent Office of Management and Budget single audit reports
- reviewed CCT's response to an internal control questionnaire sent by our office
- reviewed the agreements for compliance requirements
- reviewed the support related to CCT compliance
- reviewed CCT's policies and procedures for its management and accounting system
- conducted a site visit to the Tribe's location in Box Elder, MT

We also evaluated the internal controls over transactions recorded in CCT's accounting and payroll systems and tested their operation and reliability. We did not project the results of the tests to the total population of recorded transactions.

To test the accuracy of the computer-generated general ledger provided by CCT, we performed several analytical tests on the data. We relied on computer-

generated data to test other direct costs and payroll costs, and to verify amounts drawn down by CCT.

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## Appendix 2: Status of Recommendations

Recommendation	Status	Action Required
I, 2, 3, 4, and 5	All recommendations unresolved.	We will refer these recommendations to the Assistant Secretary for Policy, Management and Budget for resolution and tracking implementation.

# **Report Fraud, Waste, and Mismanagement**



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