



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

AUDIT OF BUREAU OF LAND MANAGEMENT COOPERATIVE AGREEMENT No. LI0AC20002 WITH THE PINEY WOODS SCHOOL

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



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

Memorandum

To: Karen Mouritsen
State Director, Eastern States

FEB 14 2017

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

Subject: Final Report – Audit of Bureau of Land Management Cooperative Agreement No. L10AC20002 With The Piney Woods School
Report No. 2016-CG-006

At the request of the Bureau of Land Management (BLM), we audited cooperative agreement no. L10AC20002 between BLM and the Piney Woods School (PWS). BLM entered into the 5-year agreement, totaling \$524,478, with PWS on March 30, 2010, for PWS to support BLM's Wild Horse and Burro Program, to include horse and burro adoptions. In addition, PWS provided opportunities for hands-on learning for students and introduced them to career choices within the BLM and Wild Horse and Burro Program and related scientific fields.

Our audit questioned \$524,478 in unsupported costs because PWS' accounting system and lack of internal controls made it impossible to determine the allowability, allocability, and reasonableness of PWS' claimed costs. While PWS did provide value during the agreement, we found the absence of these controls made it impossible to determine the allowable reimbursable expenses owed to PWS. We identified five issues related to PWS' claimed costs, the amount owed on the agreement, PWS' compliance with the agreement terms and conditions, and BLM's compliance with the agreement terms and conditions. We made four recommendations to BLM to resolve these issues.

Objectives

In response to BLM's request, we audited cooperative agreement no. L10AC20002 between BLM and PWS. Our objective was to determine whether BLM owed PWS Federal funds at the close of the cooperative agreement.

Audit Results

We reviewed BLM's and PWS' records related to the cooperative agreement, and we identified problems in five areas:

1. PWS' incomplete and inadequate financial management system resulted in \$524,478 in questioned costs because it was impossible to determine the allowability, allocability, or reasonableness of PWS' claimed costs.
2. BLM and PWS disagreed on the amount of money owed under the agreement because PWS believed it was entitled to the original budgeted amount.
3. PWS did not fully comply with the agreement's requirements.
4. We found no evidence that BLM damaged PWS' property when it removed its materials and equipment, as alleged by PWS.
5. BLM used more of PWS' property than the agreement allowed.

1. PWS' Incomplete and Inadequate Financial Management System Resulted in \$524,478 in Questioned Costs

We questioned the entire \$524,478 in costs claimed because PWS' accounting system and lack of internal controls made it impossible to determine the allowability, allocability, and reasonableness of PWS' claimed costs.

PWS did not record accurate information or maintain adequate support in its financial management system as required by Federal regulations (2 C.F.R. 215.21, "Standards for Financial Management Systems"). According to the regulations, grant recipients must maintain records that identify the source and use of funds provided for each grant-funded activity. These records must contain information documenting each grant's authorizations, obligations, unobligated balances, assets, liabilities, expenditures, and income.

PWS stated that this occurred because of staff turnover, resulting in a loss of expertise and corporate knowledge regarding appropriate accounting processes. In addition, some of the required grant information entered into PWS' financial management system used in the past was inaccessible. As a result, PWS did not have access to the information required to keep accurate records in its financial management system.

PWS' Incomplete and Inadequate Internal Controls

PWS had incomplete internal policies and procedures. The written policies and procedures submitted to us for review did not identify who was responsible for monitoring and overseeing agreements once awarded. PWS' Chief Operating Officer, however, did identify who had been monitoring and overseeing awarded agreements. PWS also did not have internal controls for determining if costs were allowable, allocable, or reasonable. We requested 35 samples of invoices to test the internal controls and review direct costs. PWS was unable to locate support for seven of the requested items. Of the remaining 28 samples we reviewed, we found that:

- five of the invoices were mathematically incorrect;
- fourteen invoices did not have proper approval; and
- twelve invoices did not have evidence of payment.

PWS' General Ledger Did Not Accurately Reflect Costs Associated With the Agreement

PWS could not identify specific costs with this cooperative agreement from other agreements it had at the same time. In addition, the general ledger PWS provided did not include any entries related to labor costs. Instead, PWS commingled labor costs with other organizational costs. PWS told us that it could separate the BLM cooperative agreement direct-labor costs from other organizational costs using timesheets it maintained specifically for the agreement. We determined the timesheets were insufficient because they did not include details of the work employees performed or codes to associate that work with the BLM agreement.

The support PWS provided on the Federal Financial Report (SF 425) required by the agreement did not agree with costs PWS recorded in its general ledger. When testing our sample of 35 invoices, we found PWS did not record 5 of the invoices listed on the SF 425 support, totaling \$29,697, in the general ledger. Likewise, PWS did not record 16 of the invoices listed in the general ledger, totaling \$17,135, in the SF 425 support. For example, PWS recorded a [REDACTED] pallet fork in the general ledger that was not included in the SF 425 support. Neither PWS nor BLM could account for this piece of equipment, and PWS did not respond to our inquiry when we asked it to identify the pallet fork.

PWS Did Not Maintain Support for Its Drawdown of Federal Funds

PWS did not maintain supporting documentation for drawdowns, as required by Federal regulations (2 C.F.R. 215.21(b) (7) and 2 C.F.R. 230, Appendix A, A.2 (g)). We requested five sample drawdowns to review, and PWS could not provide support for any of them. We further requested if PWS could provide support for any drawdowns. PWS provided support for one drawdown, but upon review, we found that the support included cost estimates based on the budget, as opposed to actual costs as required by the agreement.

PWS Did Not Use an Approved Indirect Cost Rate

The agreement indicated that PWS should use a 20-percent indirect cost rate, but PWS did not obtain approval of the 20-percent indirect cost rate used in this agreement from a cognizant or oversight agency as required by Federal regulations (2 C.F.R. 230, Appendix A, E.2, "Negotiation and Approval of Rates"). The regulations state that if a contractor does not have an approved rate when an agreement is signed, it has to submit the indirect cost proposal within 3 months; PWS did not do so and should not have used any indirect cost rate without obtaining the proper approval.

2. BLM and PWS Disagreed on the Amount of Money Owed Under the Cooperative Agreement

BLM and PWS disagreed on the total amount of the 5-year cooperative agreement. PWS believed it was entitled to the original budgeted amount of \$549,151. BLM, however,

only obligated \$524,478, a difference of \$24,673. BLM was only required to pay up to the obligated amount, and PWS did not revise its budget to match the obligation. We also found that PWS requested additional reimbursement it was not entitled to receive. For example, in its 2011 performance report to BLM, PWS indicated a scope change that included, among other items, fencing, renovating the dairy barn, and re-grading the gravel roadways. The original agreement, however, indicated that PWS was responsible for everything claimed in the scope change, except the dairy barn renovations, which we concluded was outside the scope of work and non-reimbursable.

3. PWS Did Not Fully Comply With the Agreement's Requirements

PWS did not fully comply with the agreement's requirements because it did not file all of the required financial or performance reports. We found that PWS did fulfill the agreement's educational requirement through 2011, but we could not confirm whether PWS fulfilled the requirement after 2011 because it did not submit the required performance reports. Upon review of the agreement, we found that BLM could withhold or recover funds for noncompliance with agreement terms, but BLM did not exercise the noncompliance provision of the agreement when PWS did not comply with the requirements.

PWS Did Not File All of the Required Reports

The agreement required PWS to file quarterly performance reports in accordance with 43 C.F.R., Subpart F, Section 12.951, to monitor and report program performance. The agreement also required PWS to detail the percentage of work completed and the number of horses or burros adopted. We found documentation of only one report, dated March 2011. This report did not include a percentage of work completed, nor did it include the number of horses or burros adopted. The agreement also required PWS to file quarterly financial reports. Our review found that PWS submitted only 5 of the 20 quarterly financial reports required.

PWS also did not file a single audit report as required by terms of the agreement and the Single Audit Act. PWS hired an accounting firm in 2010 to perform the single audit, but PWS never certified the form. As a result, neither PWS nor the accounting firm could submit the report to the Clearinghouse. In addition, PWS did not know whether it was responsible or whether the accounting firm was responsible to file the form with the Clearinghouse. The Office of Management and Budget Circular A-133.C (e) requires the recipient, not the accounting firm, to submit the report to the Clearinghouse.

PWS Fulfilled the Agreement's Educational Requirement Through 2011

PWS fulfilled the agreement's educational requirement through 2011, but we could not confirm that PWS fulfilled this requirement for the length of the agreement because it did not submit the required performance reports. The objective of the agreement was to "provide opportunities for hands-on learning for students, introducing them to career

choices within the BLM and Wild Horse and Burro Program and related scientific fields.” Our review of the 2011 annual performance report determined that PWS fulfilled these requirements. PWS selected 10 students to participate in an academic program. As participants, the students obtained membership in the Minority in Agriculture, Natural Resources and Related Sciences Organization as dictated in the agreement and observed mentors feed and care for the horses. PWS indicated that it planned to integrate the academic program into the following year’s curriculum, but we could not confirm if this occurred because PWS did not submit any subsequent performance reports.

4. No Evidence That BLM Damaged PWS’ Property When It Removed Materials and Equipment

We found no evidence that BLM damaged PWS’ property when it removed materials and equipment after the agreement expired. The agreement ended March 30, 2015, and BLM removed all equipment and materials (fencing panels, load shoots, feed mangers, etc.) from PWS’ property by July 6, 2015. PWS alleged that BLM damaged PWS’ property during the removal process. PWS stated that BLM left the posts for the fences because they had cemented them into the ground, and claimed that trucks removing BLM equipment had damaged a drain gully under the dirt access road.

We had no prior knowledge of the land condition; BLM provided us with before and after photographs of the equipment removal, and we did not identify any property damage. PWS claimed that a student had taken photographs of the damage, but we never received copies of those photographs.

When we asked BLM officials about the fence posts, they told us that PWS wanted the posts to remain for future cow and cattle operations. During our site visit, we did observe erosion around the edges of the drain gully under the dirt access road, but we found no evidence to support that BLM caused this damage.

5. BLM Used More of PWS’ Property Than the Agreement Allowed

BLM used more of PWS’ property than the agreement allowed without executing modifications for the changes in acreage and without appropriately compensating PWS. The agreement stated that PWS would provide 100 acres for use by BLM. PWS stated that BLM used 136 acres of the property. BLM admitted it used 108 acres of the property. PWS and BLM disagree because of specific use of different areas of the property. While BLM admitted to using more land than the agreement allowed, we could not determine the total acreage that BLM used because we did not visit the site before BLM removed all materials and equipment.

Conclusion and Recommendations

We could not determine the full value of services PWS provided because PWS’ financial management system made it impossible for us to determine the allowability, allocability, or

reasonableness of PWS' claimed costs. In addition, we concluded that BLM and PWS disagreed on the amount of money owed under the agreement because PWS believed it was entitled to the original budgeted amount, while BLM was only required to pay the obligated amount. We also found PWS did not fully comply with the agreement's requirements, no evidence that BLM damaged PWS' property when it removed its materials and equipment, and BLM used more of PWS' property than the agreement allowed.

We recommend that BLM:

1. Resolve the unsupported costs of \$524,478;
2. Identify and determine the ownership of the [REDACTED] pallet fork;
3. Obtain a final performance report from PWS that meets the requirements of 43 C.F.R., Subpart F, Section 12.951; and
4. Determine the amount of acreage actually used under the agreement and compensate PWS accordingly.

In response to our draft report, dated December 27, 2016 (see Attachment 2), BLM concurred with recommendations 1, 3, and 4. BLM stated that it will work with PWS to take appropriate action to address the findings. It also said it will work with PWS to determine the acreage used during the agreement and compensate PWS accordingly. BLM stated that it considered recommendation 2 resolved because it does not dispute PWS' ownership of the pallet fork.

Based on BLM's response, we consider recommendations 1, 3, and 4 to be resolved but not implemented and recommendation 2 as resolved and implemented.

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 contact me at 202-208-5745.

Background

The Bureau of Land Management (BLM) entered into the cooperative agreement with the Piney Woods School (PWS) on March 30, 2010. The agreement ended March 30, 2015, and BLM removed all materials and equipment from PWS' property by July 6, 2015. BLM requested we conduct a financial assistance audit because they could not accurately determine the location and purpose of funds, and there was a dispute about the amount of money owed to PWS.

This cooperative agreement was part of BLM's Wild Free-Roaming Horses and Burros Program (Public Law 92-195). We conducted three reviews of this Program in the last 4 years: Wild Horse and Burro Off-Range Holding Facilities (Report No. 2016-WR-027). Investigative Report: Bureau of Land Management Wild Horse Buyer dated October of 2015; and Final Audit Report- Cooperative Agreement No. JSA071001/L08AC13913 between Utah Correctional Industries and Bureau of Land Management (Report No WR-CA-BLM-0013-2013). We did not address any of the issues at PWS in these reports.

Scope and Methodology

Our audit focused on the reasonableness of the \$524,478 in costs claimed by PWS on cooperative agreement L10AC20002. The agreement was effective from March 30, 2010, through March 30, 2015. We reviewed PWS' compliance with applicable Federal regulations, the terms of the agreement, and its policies and procedures. We conducted our audit fieldwork from December 8, 2015, through March 17, 2016.

We conducted this audit in accordance with Generally Accepted Government Auditing Standards. The 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 determined 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 BLM agreement officer, BLM personnel, PWS personnel, and other appropriate individuals;
- reviewed a sample of claimed costs;
- reviewed required reports;
- reviewed the terms of the agreement;
- reviewed the Code of Federal Regulations pertaining to claimed costs;;
- reviewed PWS' internal controls for monitoring the agreement;
- reviewed PWS' response to the internal control questionnaire sent by our office;
- reviewed computer-generated documentation; and
- conducted a site visit at The Piney Woods School located in Piney Woods, MS.

We also evaluated the internal controls over transactions recorded in PWS' financial management system and tested their operation and reliability. We did not project the results of the tests to the total population of recorded transactions.

PWS provided us with a computer general ledger and support for the SF 425, Federal Financial Report. To test the veracity of the computer-generated documentation provided, we performed several analytical tests on the data. We obtained both a hard copy and an Excel spreadsheet of general ledger costs. We compared the hard copy general ledger, the Excel copy of the general ledger, and the support for the SF 425 to verify if the amounts represented captured all agreement costs. We used the computer-generated data to test labor costs, other direct costs, and drawdowns.

The Bureau of Land Management's Response to Draft Report

BLM's response to our draft report follows on page 10 of Attachment 2.



United States Department of the Interior



BUREAU OF LAND MANAGEMENT

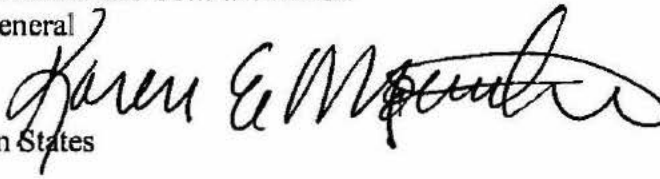
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In Reply Refer To:
1245/1313(ESSO/950)

DEC 27 2016

Memorandum

To: Chris Stubbs
Director, Office of Financial and Contract Audits
Office of Inspector General

From: Karen E. Mouritsen 
State Director, Eastern States

Subject: Draft Audit of Bureau of Land Management Cooperative Agreement No. L10AC20002 With The Piney Woods School (2016-CG-006)

Thank you for the opportunity to comment on the Office of Inspector General (OIG) Draft Audit Report titled, Audit of Bureau of Land Management Cooperative Agreement No. L10AC20002 with the Piney Woods School (2016-CG-006), which the OIG conducted at the request of the Bureau of Land Management (BLM).

The BLM's Eastern States State Office (ESSO) generally agrees with the findings and concurs with 3 of the 4 recommendations. BLM considers recommendation 2 to be resolved.

The attachments provide comments to the report and a summary of the actions taken or planned by the BLM to implement the recommendations, as well as the contact information for the responsible official and the target dates of implementation.

If you should have any questions regarding this response, please contact Monique McDonald-Harris, Deputy State Director, Support Services, at 202-██████; Eric Pagal, Bureau Procurement Chief, at 202-██████; Maria Gochis, BLM Grants Policy Manager, at 801-██████; or LaVanna Stevenson, BLM Audit Liaison Officer, at 202-██████.

Attachments

Attachment 1

Comments to Specific Sections of the Report

1. Page 1, Memorandum addressed to Eric Pagal
Paragraph 2, Sentence 2

In order to clearly communicate that this is a cooperative agreement and not a contract for services, we recommend including the underlined clause.

“While PWS did provide value during the agreement, we found the absence of these controls made it impossible to determine the allowable reimbursable expenses owed to PWS.”

Attachment 2

Response to the Recommendations included in the Office of Inspector General Draft Report – Audit of Bureau of Land Management Cooperative Agreement No. L10AC20002 With The Piney Woods School (2016-CG-006)

Recommendation 1: Resolve the unsupported costs of \$524,478.

Response: The Eastern States Associate State Director has reached out to PWS representatives to schedule dates for onsite collaboration to attempt resolution of the unsupported costs of \$524,478. The BLM will work closely with PWS representatives to facilitate the review of any additional substantiating documents relating to the OIG findings. The BLM will take appropriate action to address findings in accordance with 43C. F. R. Subpart F, Section 12.951.

Responsible Official: Karen E. Mouritsen, State Director

Recommendation 2: Identify and determine the ownership of the [REDACTED] pallet fork.

Response: This item is resolved. On July 6, 2015, BLM ES staff inventoried all equipment and implements and resolved the ownership of each item. BLM does not dispute the PWS ownership of the pallet fork. PWS is the owner of the pallet fork.

Responsible Officials: Karen E. Mouritsen, State Director

Recommendation 3: Obtain a final performance report from PWS that meets the requirements of 43 C.F.R., Subpart F, Section 12.951.

Response: The Eastern States Associate State Director has reached out to PWS representatives to schedule dates for onsite collaboration to resolve this item. BLM will work closely with PWS representatives to review any additional substantiating documents related to the OIG findings that are submitted to the BLM. The BLM will also request a final performance report and review as required. In the absence of sufficient data to complete a final performance report, BLM will take appropriate action in accordance with 43 C.F. R. Subpart F, Section 12.951.

Responsible Official: Karen E. Mouritsen, State Director

Recommendation 4: Determine the amount of acreage actually used under the agreement and compensate PWS accordingly.

Response: BLM Eastern States will work with Piney Woods School representatives and utilize GIS data to approximate the actual acreage used during the time of the cooperative agreement and compensate PWS accordingly. BLM will also ensure all financial review findings are taken into consideration when determining the amount of compensation due.

Responsible Official: Karen E. Mouritsen, State Director

cc:

ESO (M Street)

WO-800 (5624 MIB)

WO-850 (M Street)

WO-830 Official Copy (M Street)

WO-830 rf/hold (M Street)

WO-830:LStevenson:12/19/16:912-7077:DOC-ID:revised_Response to OIG Draft Audit_BLM
Coop Agreement No. L1 OAC20002 With The Piney Woods School_2016-CG-006

Status of Recommendations

Recommendation	Status	Action Required
1, 3, and 4	Resolved but not implemented	We will refer these recommendations to the Office of Policy, Management and Budget to track implementation.
2	Resolved and implemented	None.

Monetary Impact

Issue	Amount
Questioned costs: We questioned all of the costs claimed because PWS' accounting system and lack of internal controls made it impossible to determine the allowability, allocability, and reasonableness of PWS' reimbursable expenses owed.	\$524,478
Total	\$524,478

Report Fraud, Waste, and Mismanagement



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