



U.S. ENVIRONMENTAL PROTECTION AGENCY
OFFICE OF INSPECTOR GENERAL

Catalyst for Improving the Environment

Quick Reaction Report

Internal Control Weaknesses under EPA Grant Nos. I004802070 and BG96483308, Awarded to the Eastern Band of Cherokee Indians, Cherokee, North Carolina

Report No. 10-4-0001

October 5, 2009

Report Contributors:

John Trefry
Phil Cleveland

Abbreviations

EBCI	Eastern Band of Cherokee Indians
EPA	U.S. Environmental Protection Agency
OIG	Office of Inspector General
SF 272	Federal Cash Transaction Report



At a Glance

Catalyst for Improving the Environment

Why We Did This Review

The Office of Inspector General (OIG) received a hotline complaint regarding U.S. Environmental Protection Agency (EPA) Assistance Agreement Numbers I004802070 and BG96483308, awarded to the Eastern Band of Cherokee Indians (EBCI), Cherokee, North Carolina.

Background

EPA Region 4 awarded EBCI Assistance Agreement Number I004802070 for \$259,964 (federal share) on June 20, 2007. The Region subsequently issued two amendments that increased the available funds by \$93,920 (total federal share of \$353,884). EPA awarded Assistance Agreement Number BG96483308 for \$152,000 (federal share) on September 24, 2007. The Region subsequently issued an amendment that increased the available funds by \$124,967 (total federal share of \$276,967).

For further information, contact our Office of Congressional, Public Affairs and Management at (202) 566-2391.

To view the full report, click on the following link:
www.epa.gov/oig/reports/2010/20091005-10-4-0001.pdf

Internal Control Weaknesses under EPA Grant Nos. I004802070 and BG96483308, Awarded to the Eastern Band of Cherokee Indians, Cherokee, North Carolina

What We Found

EBCI does not have a conflict of interest and its SF 272s are correct and prepared in compliance with federal requirements, EPA policies, and grant terms and conditions. However, during the course of our examination, we identified significant deficiencies in internal control concerning equipment purchases and segregation of duties that we believe require immediate attention. Regarding our concern with equipment purchases, we found that:

- Some purchase authorizations were dated the same day equipment was delivered.
- EBCI did not always obtain three quotes.
- The Asset Compliance Officer did not always authorize purchases.

Regarding our concern on segregation of duties, we found that one employee within the Office of Environment and Natural Resources – the Water Quality Section Supervisor – is authorized to write grant proposals; solicit funding to carry out the program goals; prepare budgets; oversee the expenditure of funds; and purchase, maintain, repair, and inventory all equipment.

What We Recommend

We recommend that the Regional Administrator, EPA Region 4, require EBCI to comply with its internal control policies and procedures with respect to equipment purchases, require all future purchases under these grants to be properly approved, and require that EBCI establish internal controls to ensure the proper segregation of duties for grant award and administration.




UNITED STATES ENVIRONMENTAL PROTECTION AGENCY
WASHINGTON, D.C. 20460

OFFICE OF
INSPECTOR GENERAL

October 5, 2009

MEMORANDUM

SUBJECT: Internal Control Weaknesses under EPA Grant Nos. I004802070 and BG96483308, Awarded to the Eastern Band of Cherokee Indians, Cherokee, North Carolina
Report No. 10-4-0001

FROM: Robert Adachi 
Director, Forensic Audits

TO: A. Stanley Meiburg
Acting Regional Administrator
EPA Region 4

Mr. Michell Hicks
Principal Chief
Eastern Band of Cherokee Indians

This is our report on the results of the Office of Inspector General (OIG) review of Grant Nos. I004802070 and BG96483308 awarded to the Eastern Band of Cherokee Indians (EBCI), located in Cherokee, North Carolina. Final determination on matters in this report will be made by the U.S. Environmental Protection Agency (EPA) managers in accordance with established resolution procedures.

The estimated cost of this report, calculated by multiplying the project's staff days by the applicable daily full cost billing rates in effect at the time, is \$38,221.

Action Required

We recommend the Regional Administrator require EBCI to comply with its internal control policies and procedures with respect to equipment purchases and require all future purchases under these grants to be properly approved, and require EBCI to establish internal controls to ensure the proper segregation of duties for grant award and administration.

In accordance with EPA Manual 2750, you are required to provide a written response to this report within 180 calendar days of the date of this report. Please follow the directions of EPA Manual 2750 for the report resolution process.

If you or your staff have any questions regarding this report, please contact me at (415) 947-4537 or adachi.robert@epa.gov; or John Trefry, Associate Director of Forensic Audits, at (202) 566-2474 or trefry.john@epa.gov.

Introduction

Purpose

The Office of Inspector General (OIG) received a hotline complaint regarding U.S. Environmental Protection Agency (EPA) Assistance Agreement Numbers I004802070 and BG96483308, awarded to the Eastern Band of Cherokee Indians (EBCI), Cherokee, North Carolina. The complainant expressed concerns about an apparent conflict of interest involving EBCI contracts with previous employees. The purpose of our examination was to determine whether a conflict of interest existed within EBCI's Office of Environment and Natural Resources and whether EBCI complied with federal requirements, EPA policies, and grant terms and conditions.

Background

On June 20, 2007, EPA Region 4 awarded EBCI Assistance Agreement Number I004802070 for \$259,964 (federal share). The grant project period was from October 1, 2006, through September 30, 2008, and was for developing and implementing a strategy to monitor the quality of tribal waters. The Region subsequently issued two amendments that increased the available funds by \$93,920 (total federal share of \$353,884) and extended the project period to September 30, 2009.

On September 24, 2007, EPA Region 4 awarded EBCI Assistance Agreement Number BG96483308 for \$276,967(federal share). The grant project period was from October 1, 2007, through September 30, 2009, for work in several areas including regulatory development and compliance, responding to underground storage tank leaks or spills, and operating and maintaining ozone and fine particulate matter monitors.

Independent Attestation Report

As part of our continued oversight of the grants awarded by EPA, we have examined a hotline complaint regarding Assistance Agreement Numbers I004802070 and BG96483308, awarded to EBCI, Cherokee, North Carolina. The purpose of our examination was to determine whether a conflict of interest existed within EBCI's Office of Environment and Natural Resources and whether EBCI complied with federal requirements, EPA policies, and grant terms and conditions. By signing the award documents, EBCI has accepted responsibility for complying with these requirements, and by signing the Federal Cash Transaction Report (SF 272) EBCI certifies "...that all disbursements have been made for the purpose and conditions of the grant or agreement." Our responsibility is to express an opinion on EBCI's compliance based on our examination.

We examined the complainant's assertion concerning the apparent conflict of interest involving EBCI contracts with previous employees. Further, we examined management's assertion that its SF 272s are adequately supported and prepared in compliance with federal requirements, EPA policies, and grant terms and conditions. EBCI's management is responsible for preparing SF 272s. Our responsibility is to express an opinion based on our examination.

Our examination was conducted in accordance with generally accepted government auditing standards issued by the Comptroller General of the United States. Our review was also conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence supporting management's assertion and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Field work was completed between January 5, 2009, and February 5, 2009.

We made site visits to EPA's Region 4 office in Atlanta, Georgia, and performed the following steps:

- Reviewed EPA Assistance Agreement Numbers I004802070 and BG96483308 and modifications to determine criteria relevant to our objectives.
- Reviewed all payments made under these grants to determine whether there was a history of suspended or disallowed costs.
- Conducted interviews with and reviewed files maintained by EPA's Project Officers to gather information concerning any apparent conflict of interest and assess EBCI's performance under the subject grants.

We made site visits to EBCI's Cherokee, North Carolina, offices and performed the following steps:

- Reviewed EBCI's accounting records and supporting documentation for costs associated with Assistance Agreement Numbers I004802070 and BG96483308.
- Traced labor and other direct costs to time sheets, invoices, and labor distribution reports.

- Conducted interviews with EBCI managers and staff to gather information concerning any apparent conflict of interest.
- Made inquiries of EBCI's Legal Counsel to acquire legal opinions related to potential conflicts of interest.
- Verified that EBCI's Water Quality Section Supervisor satisfied the educational and experience requirements for the labor category for which he was billed.
- Gained an understanding and assessed the effectiveness of the internal controls applicable to EBCI's Department of Water Quality.

In our opinion, EBCI does not have a conflict of interest and its SF 272s are correct and prepared in compliance with federal requirements, EPA policies, and grant terms and conditions. However, during the course of our examination, we identified significant deficiencies in internal controls concerning equipment purchases and segregation of duties that we believe require immediate attention. Generally accepted government auditing standards define a significant deficiency in internal controls as "a deficiency...that adversely affects the entity's ability to initiate, authorize, record, process, or report data reliably in accordance with the applicable criteria or framework such that there is more than a remote likelihood that a misstatement of the subject matter that is more than inconsequential will not be prevented or detected."



Robert K. Adachi
Director, Forensic Audits
February 5, 2009

Results of Examination

We identified significant deficiencies in internal control concerning equipment purchases and segregation of duties that we believe require immediate attention.

Equipment Purchases

EBCI's internal controls over equipment purchases do not operate as designed. EBCI policy and procedures for equipment purchases require a purchase authorization for any proposed capital acquisition exceeding \$1,000, quotes from three vendors, and authorization by the Asset Compliance Officer. A second authorization is required for purchases over \$5,000.

We found that: (1) some purchase authorizations were dated the same day equipment was delivered, (2) EBCI did not always obtain three quotes, and (3) the Asset Compliance Officer did not always authorize purchases. Specifically:

- Our examination found three invoices from a specific vendor that violated EBCI internal control policies. One invoice did not contain a purchase authorization as required. The other two invoices contained purchase authorizations but the authorizations were not prepared until after the equipment was invoiced. EBCI did not obtain three bids for any of the purchases nor were proper authorizations obtained prior to purchase.
- On September 26, 2007, EBCI ordered a meter costing \$2,143.16. The vendor billed EBCI for the meter on October 9, 2007, and was paid on October 26, 2007. EBCI records for this transaction showed that no purchase authorization was completed. The purchase was processed without quotes from three vendors or authorization by the Asset Compliance Officer. The Water Quality Section Supervisor authorized payment of this purchase. Further, the Water Quality Section Supervisor would have been responsible for placing an inventory tag on the meter, as well as maintaining and inventorying the meter. We found that this meter was not tagged and was still unopened in its original box and considered a spare. EBCI officials could offer no explanation as to why this transaction was not processed in compliance with its policies and procedures.

We believe EBCI is not consistently following its internal control procedures related to equipment purchases because too much authority has been given to the Water Quality Section Supervisor.

Despite this internal control weakness, nothing came to our attention that led us to believe that equipment purchases were either unreasonable in price or not applicable to the grant.

Segregation of Duties

EBCI's internal controls are not properly designed to allow proper segregation of duties. One employee within the Office of Environment and Natural Resources, the Water Quality Section Supervisor, is authorized to write grant proposals; solicit funding to carry out the program goals; prepare budgets; oversee the expenditure of funds; and purchase, maintain, repair, and inventory all equipment.

Government Accountability Office Standards for Internal Control in the Federal Government state that key duties and responsibilities need to be divided or segregated among different people to reduce the risk of error or fraud. This separation should include the responsibilities for authorizing transactions, processing and recording them, reviewing the transactions, and handling any related assets. No one individual should control all key aspects of a transaction or event.

EBCI, by allowing the Water Quality Section Supervisor to perform these tasks, circumvents sound internal control practices as described above. EBCI officials assert its Water Quality Section Supervisor knows what equipment is required under the grant. EBCI defers to the Water Quality Section Supervisor's expertise when ordering equipment with respect to whether it is needed or authorized under the grant.

Recommendations

We recommend that the Regional Administrator, EPA Region 4:

1. Require EBCI to comply with its internal control policies and procedures with respect to equipment purchases and require all future purchases under these grants to be properly approved. The Project Officer should monitor all grant purchases closely and conduct periodic unannounced site visits to review EBCI property records.
2. Require that EBCI establish internal controls to ensure the proper segregation of duties for grant award and administration.

Region 4 and Auditee Comments

On September 14, 2009, an exit conference was held with the Region. The Region concurred with our report findings and recommendations. Based on this report, the Region agreed to take steps to inform the EBCI and assist it with ensuring its internal control policies are sufficient and being followed. The Region also noted that in its annual training held with grant and contract officials, of which the OIG participates, internal controls will be emphasized.

On September 17, 2009, the grantee notified us that it had no comments to provide with the report. As a result, the final report is being issued without the grantee's comments on our recommendations.

Status of Recommendations and Potential Monetary Benefits

RECOMMENDATIONS						POTENTIAL MONETARY BENEFITS (in \$000s)	
Rec. No.	Page No.	Subject	Status ¹	Action Official	Planned Completion Date	Claimed Amount	Agreed To Amount
1	5	Require EBCI to comply with its internal control policies and procedures with respect to equipment purchases and require all future purchases under these grants to be properly approved. The Project Officer should monitor all grant purchases closely and conduct periodic unannounced site visits to review EBCI property records.	O	Regional Administrator, EPA Region 4			
2	5	Require that EBCI establish internal controls to ensure the proper segregation of duties for grant award and administration.	O	Regional Administrator, EPA Region 4			

¹ O = recommendation is open with agreed-to corrective actions pending
C = recommendation is closed with all agreed-to actions completed
U = recommendation is undecided with resolution efforts in progress

Appendix A

Distribution

Regional Administrator, Region 4
Director, Office of Wastewater Management, Office of Water
Director, Office of Grants and Debarment
Director, Grants and Interagency Agreements Management Division
Agency Follow-up Official (the CFO)
Agency Follow-up Coordinator
Associate Administrator for Congressional and Intergovernmental Relations
Associate Administrator for Public Affairs
Region 4 Audit Follow-up Coordinator
Region 4 Public Affairs Office
Acting Inspector General