



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

AUDIT REPORT

WEST RIVER/LYMAN-JONES
RURAL WATER SYSTEM,
MNI WICONI RURAL
WATER SUPPLY PROJECT,
BUREAU OF RECLAMATION

REPORT NO. 99-I-519
MAY 1999



United States Department of the Interior

OFFICE OF INSPECTOR GENERAL
Washington, D.C. 20240

JUN 1 1993

AUDIT REPORT

Memorandum

To: Assistant Secretary for Water and Science

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

Subject: Audit Report on West River/Lyman-Jones Rural Water System, Mni Wiconi Rural Water Supply Project, Bureau of Reclamation (No. 99-I-5 19)

INTRODUCTION

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

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 provide 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 Supply System to serve the Oglala Sioux Tribe on the Pine Ridge Reservation and the West River and Lyman-Jones Rural Water Systems, which were merged into one system in 1994, known as the West River/Lyman-Jones Rural Water System, to serve the

¹The System is being constructed by West River/Lyman-Jones Rural Water Systems, Inc., which is a nonprofit entity established under the laws of the State of South Dakota.

residents of seven counties in South Dakota.’ The Mni Wiconi Act Amendments of 1994 (Title 8 of Public Law 103-434) added the construction of the Rosebud Sioux and the Lower Brule Sioux Rural Water Systems to serve the respective reservations, thereby increasing the number of Project sponsors to four. The Amendments also raised the authorized appropriation ceiling for the Mni Wiconi Project from \$87.5 million to \$263.2 million, subject to indexing,³ and provided that the Project would generally be constructed in accordance with the Project’s “Final Engineering Report,” dated May 1993.

The Act, as amended, authorized the Secretary to enter into cooperative agreements with the three tribes, subject to the provisions of the Indian Self-Determination and Education Assistance Act (Public Law 93-638), as amended, to provide funds for planning, designing, constructing, operating, maintaining, and replacing their respective water systems. Section 4 of the amended Act also authorized the Secretary to enter into cooperative agreements and provide funds for planning, designing, and constructing the West River/Lyman-Jones Rural Water System and provided that Systems, Inc., is responsible for a 20 percent share of these costs. In addition, Systems, Inc., is solely responsible for the costs of operating, maintaining, and replacing the System. The Bureau of Reclamation serves as the oversight agency for the Project, with the authority and responsibility to enter into cooperative agreements and to provide the technical and administrative oversight necessary to complete the planning, design, and construction of the Project.

The overall Project includes a water treatment plant, 4,500 miles of pipeline, 60 booster pump stations, and 35 water storage reservoirs. The Project will ultimately serve more than 50,000 people, including more than 40,000 Indians on the three reservations.

In its May 1998 “Master Plan,”⁴ the Bureau estimated that the total cost to complete the Project would be \$387 million, or \$60 million more than the indexed Project cost of \$327 million. The projected overrun was attributable to the Oglala Sioux and the Lower Brule Sioux Rural Water Systems. In the “Master Plan,” the Bureau also estimated that at current funding levels,⁵ the \$327 million would not be fully appropriated until 2006. However, the authorization to appropriate funds for the Project expires in 2003. According to Bureau data, as of September 30, 1998, the Bureau had allocated Federal funds of

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

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

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

⁵In fiscal years 1996 through 1998, Federal funding levels for the Project averaged about \$25 million.

\$107.5 million to Project sponsors, including \$4.3 million for Bureau administrative and oversight charges.

The West River/Lyman-Jones Rural Water System as authorized includes more than 2,700 miles of pipeline. The cost of the System, originally estimated at \$64.5 million, was indexed in the "Master Plan" to \$81.9 million (October 1999 dollars), which consisted of a Federal share of \$66.1 million and Systems, Inc.'s contributions of \$15.8 million. As of September 30, 1998, about \$17 million (26 percent of the \$66.1 million Federal share) had been allocated, about \$12 million of which had been expended, with an additional \$8 million expended as Systems, Inc.'s contribution, for total expenditures of \$20 million.

SCOPE OF AUDIT

Our fieldwork included a review of Systems, Inc.'s expenditures from November 12, 1993, through September 30, 1998, and was performed at the offices of Systems, Inc., in Murdo, South Dakota, and Systems, Inc.'s accounting firm in Rapid City, South Dakota. To meet our audit objectives, we reviewed the Mni Wiconi Act, as amended; three cooperative agreements and the water service agreement between the Bureau and Systems, Inc.; construction contracts; the contract between the National Park Service and Systems, Inc.; minutes of Board of Directors meetings; and engineering and single audit reports. In addition, we interviewed officials from the Bureau's field office in Pierre, South Dakota; Systems, Inc.; Systems, Inc.'s accounting firm and engineering consulting firm; the National Park Service's Office of Operations Engineering in Denver, Colorado; and Badlands National Park in South Dakota.

Our analysis of the financial status of the System was based on a review of expenditures, cost estimates, and other financial and planning data available as of September 30, 1998. As such, our conclusions regarding any actual or projected cost overrun 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 Systems, Inc., 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 these reviews, we determined that no material weaknesses were reported which directly related to the objectives and scope of our audit.

We also reviewed the single audit reports for Systems, Inc.'s fiscal years 1994 through 1997 and the certified public accountant's working papers for fiscal year 1997. The 1997 single audit report identified a material internal control weakness relating to "a lack of segregation of duties resulting from the size of the staff"⁶ and recommended that Systems, Inc., continue its review of the monthly financial statements and "attain as much segregation of duties as feasible." The manager of Systems, Inc., stated that expenses are approved by the Board of Directors, all checks require two signatures, and monthly financial statements are reviewed by him and by the Board. We concluded that this explanation was reasonable, considering the small size of Systems, Inc.'s staff.

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. However, an Office of Inspector General audit report issued in May 1995 addressed grants for rural water projects administered by the Bureau of Reclamation's Great Plains Region. The audit included an evaluation of transactions executed under the cooperative agreements between the Bureau and Systems, Inc. The report "Grants for Rural Water Projects, Great Plains Region, Bureau of Reclamation" (No. 95-I-947) stated that the Bureau needed to improve its processes for monitoring project costs to preclude funding activities that are ineligible for Federal reimbursement. The report did not contain any recommendations but suggested that the Bureau review the costs charged to rural water projects, including Systems, Inc., to ensure that only costs allowable under the regulations were charged to the Mni Wiconi Project.

In August 1996, the Bureau completed an on-site review of the three cooperative agreements between the Bureau and Systems, Inc., which included a review of the propriety of non-Federal costs and overhead allocations. The Bureau reported that the non-Federal costs and the overhead allocations were properly accounted for. However, during our audit, we found that Systems, Inc.'s general and administrative expenses, which should have been allocated between System construction and operations and maintenance, were assigned solely to System construction, thus resulting in System construction costs being overstated. This condition is addressed in the Results of Audit section of this report, and our recommendations, if implemented, should correct this condition.

⁶The office staff consists of the manager, a bookkeeper/secretary, and a billing clerk.

⁶According to Part 31, Section 001, of the Federal Acquisition Regulation, a general and administrative expense is any management, financial, and other expense that is incurred by or allocated to a business unit for the general management and administration of the business unit as a whole.

RESULTS OF AUDIT

We found that costs incurred by West River/Lyman-Jones Rural Water Systems, Inc., for planning, designing, and constructing the West River/Lyman-Jones Rural Water System were generally expended in accordance with the Mni Wiconi Act of 1988, as amended; Federal regulations; and the terms of the cooperative agreements between the Bureau of Reclamation and Systems, Inc. We also found that no cost overrun was projected for the System. However, we found that Systems, Inc.'s charges to the cooperative agreements included (1) general and administrative expenses which should have been assigned to operations and maintenance or were overstated and (2) construction costs which were reimbursed by the National Park Service. The Mni Wiconi Act, as amended, and the cooperative agreements require that Systems, Inc., pay a 20 percent share of the cost of its System and that operations and maintenance costs not be reimbursed or used to meet the 20 percent cost-sharing requirement. In addition, the agreements incorporate, by reference, Office of Management and Budget Circular A-110, "Uniform Administrative Requirements for Grants and Agreements With Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations," which states that funds received by an entity under another Federal grant or other agreement cannot be used to meet that entity's non-Federal cost-sharing requirement, and Office of Management and Budget Circular A-122, "Cost Principles for Nonprofit Organizations," which states that for a cost to be allowable it "must not be included as a cost of any other federally financed program in either the current or a prior period." The manager and the consulting engineer of Systems, Inc., stated that (1) all general and administrative expenses were assigned to System construction because they both believed that the administrative expenses allocable to operations and maintenance were minimal and (2) funds reimbursed by the Park Service were considered to be "late sign-up fees." As a result, we classified costs totaling \$938,899 as cost exceptions (see Appendix 1). Specifically, we estimated that recorded System expenditures were overstated by \$319,956 for 1996 and 1997 (see Appendix 2) for general and administrative expenses that should have been allocated to operations and maintenance, by \$63,000 for general and administrative expenses that were reimbursed by a related entity (West River Water Development District), and by \$555,943 for costs that were reimbursed by the Park Service.

General Compliance

We found that Systems, Inc., generally complied with the Act, as amended, and the terms of the cooperative agreements. Specifically, as of September 30, 1998, Systems, Inc., had contributed \$8 million for its share of the System's costs, which represented 40 percent of the \$20 million expended as of that date. As such, Systems, Inc., was on schedule to meet its overall 20 percent cost-sharing requirement. In addition, Systems, Inc., had established a group of accounts to segregate operations and maintenance costs (which are not funded under the cooperative agreements) from construction costs and generally had not included operations and maintenance costs in requests for funds except as discussed in the section "General and Administrative Expense Allocation." Further, the Bureau, based on information provided by Systems, Inc., projected that the System's total costs would be \$78.9 million or \$3 million less than the indexed costs of \$81.9 million. Based on our analysis of expenditures

for completed construction, contracts for construction in progress, and projected changes, we estimated that if the System is completed as currently designed and within the revised cost estimates as determined by our audit, the System's costs would be approximately \$72.3 million, or about \$9.6 million less than its indexed costs of \$81.9 million and \$6.6 million less than the \$78.9 million cost projected by the Bureau (see Appendix 3).

General and Administrative Expenses

Although Systems, Inc., generally did not include direct maintenance costs in its charges to the System, it inappropriately charged the System for all general and administrative expenses, some of which should have been assigned to operations and maintenance. Cooperative Agreement No. 0-FC-60-01550, dated May 18, 1990, and Cooperative Agreement No. 4-FC-60-04090, dated March 11, 1994, state that Systems, Inc., "may incur such reasonable administrative costs that are allocable to work pursuant to. [the] agreement[s]." However, Systems, Inc., assigned all of its general and administrative expenses (\$3 14,578 in 1996 and \$374,289 in 1997) to the System and none to the operations and maintenance function, even though construction had been completed for several segments of the System. Both the manager of Systems, Inc., and the consulting engineer stated that they thought that the costs allocable to operations and maintenance would be minimal and that only the salary of the employee who billed the water users should be assigned to operations and maintenance. They also stated that as more construction was completed, the costs assignable to operations and maintenance would increase. Based on our review, we believe that additional costs are allocable to operations and maintenance. For example, all salary and expenses for the manager of Systems, Inc., and per diem and other expenses for the Board of Directors are charged to general and administrative expenses, which are charged to the System, even though the manager's and the Board of Directors' responsibilities are not all construction related. Systems, Inc.'s General Policy states:

The Manager's primary functions are to provide adequacy of the physical system in relation to the needs of existing and potential consumers, the budgeting of all resources, developing and maintaining an operating program designed to keep the Corporation service to its members at maximum efficiency through the maintenance of lines and services and adequate power supply.

Systems, Inc., had not developed a method for allocating general and administrative expenses. Accordingly, we used two different bases for estimating general and administrative expenses applicable to operations and maintenance for fiscal years 1996 and 1997 (see Appendix 2). Using salaries as a basis for allocation, we estimated that general and administrative expenses of \$3 19,956 would have been allocated to operations and maintenance for this period. Using total construction costs and total operations and maintenance costs as a basis for allocation, we estimated that general and administrative expenses of \$328,068 would have been allocated to operations and maintenance for this period. Accordingly, we classified general and

administrative expenses of \$3 19,956⁸ as cost exceptions. An allocation was not made for 1998 because the 1998 costs were not available at the completion of our fieldwork. In addition, an allocation was not made for years prior to 1996 because Systems, Inc., had not established separate accounts for construction and operations and maintenance.

Further, general and administrative expenses were overstated by \$63,000 for the period 1994 through 1997 for expenses erroneously charged to the System. Systems, Inc., provided services to and was reimbursed by the West River Water Development District, but Systems, Inc., did not reduce the charges to the System.

We believe that the Bureau should work with Systems, Inc., to develop an equitable basis for allocating general and administrative expenses and should monitor the costs reimbursed under the agreements to ensure that general and administrative expenses are properly allocated between construction and operations and maintenance.

National Park Service Reimbursement

In December 1993, the National Park Service contracted with Systems, Inc., to design and construct a water line to the nearby Badlands National Park in South Dakota. The contract as modified contained 10 modifications, including 7 modifications that involved **funding** increases totaling \$555,943 as of September 18, 1996. The other three modifications did not provide additional **funding** but cumulatively extended the contract term to September 30, 1999, while the National Park Service awaited funding to complete the work. Systems, Inc., included costs of the work completed for the Park Service as part of the construction of the Creighton and Kadoka segments of the System. The Creighton segment included about 4.5 miles of additional pipeline to extend the water line to Badlands National Park, while the Kadoka segment increased the size of the lines to accommodate service to the Park. Systems, Inc., received payments totaling \$555,943 from the Park Service between December 1993 and April 1997 for the work performed.

The cooperative agreements require that all payments made by the Bureau to Systems, Inc., be in accordance with **Office** of Management and Budget Circulars A-110 and A-122. Subpart C.23(a)(5) of Circular A-110 states that an entity receiving **funds** under another Federal grant or other agreement cannot use these **funds** to meet non-Federal cost-sharing requirements. In a May 19, 1994, letter to the Bureau, Systems, Inc., requested approval to use the funds paid by the Park Service to help meet the non-Federal cost-sharing requirements. In its July 11, 1994, response, the Bureau stated that these funds could not be used for cost sharing because the construction would be **funded** by the Park Service and not under the cooperative agreement. Circular A-122 states that for a cost to be allowable, it “must not be included as a cost . of any other federally financed program in either the current or a prior period.” However, the cost of work completed for the Park Service was recorded in the System’s costs. As a result, the System’s costs were overstated by \$555,943, and we classified this amount as a cost exception.

⁸The amount classified as a cost exception represents the lower of the two estimates.

We discussed the inclusion **of these** costs with the engineering consultant, who stated that the Park Service's costs were recorded as the System's costs because, although not funded under the cooperative agreement, these costs were part of the costs of Systems, Inc.'s rural water systems. However, the engineering consultant agreed that these costs should not have been included as costs to be reimbursed by the Bureau. Bureau personnel said that the information provided by Systems, Inc., was not sufficient for the Bureau to determine whether the Park Service's costs were included in the requests for funds made by Systems, Inc. We also discussed the inclusion of the Park Service's costs with the manager of Systems, Inc., who stated that he considered the revenues from the Park Service to be "late sign-up fees."⁹ The engineering consultant said that he and the manager agreed that the System's costs would be reduced by the amount received from the Park Service.

Recommendations

We recommend that the Commissioner, Bureau of Reclamation:

1. Instruct officials of West River/Lyman-Jones Rural Water Systems, Inc., to determine an equitable method for allocating past and future general and administrative expenses between System construction and operations and maintenance.
2. Instruct officials of West River/Lyman-Jones Rural Water Systems, Inc., to reallocate to operations and maintenance an equitable share of general and administrative expenses and adjust their accounting records accordingly.
3. Instruct officials of West Rivet-Lyman-Jones Rural Water Systems, Inc.. to reduce recorded System expenditures for the amount of the reimbursement received from the West River Water Development District and from the National Park Service.
4. Monitor costs reported by West River/Lyman-Jones Rural Water Systems, Inc., to ensure that corrective actions are taken so that future System construction costs claimed are eligible for Federal funding under Federal law, regulations, and cooperative agreements.

Bureau of Reclamation Response and Office of Inspector General Reply

In the May 25, 1999, response (Appendix 4) 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. Accordingly. the unimplemented recommendations will be referred to the Assistant Secretary for Policy, Management and Budget for tracking of implementation.

⁹Systems, Inc.'s policy was to charge a fee. which it termed a "late sign-up fee." to customers who contracted for water service after the System had been designed. The fee included the cost of the additional construction required to accommodate the customer.

Since the report's recommendations are considered resolved, no **further** response to the Office of Inspector General is required (see Appendix 5).

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 Systems, Inc., personnel in the conduct of our audit.

CLASSIFICATION OF MONETARY AMOUNTS

<u>Finding</u>	<u>Questioned Costs (Cost Exceptions)</u>
General and Administrative Expense	
Allocation*	\$3 19,956
District Reimbursement	63,000
National Park Service	<u>555,943</u>
Total	<u><u>\$938,899</u></u>

*We used two different bases for estimating general and administrative expenses applicable to operations and maintenance for fiscal years 1996 and 1997 (see Appendix 2). The questioned costs represent the lower of the two estimates. However, as recommended in the report, Systems, Inc., needs to determine an equitable method for allocating general and administrative expenses and adjust its records accordingly.

**GENERAL AND ADMINISTRATIVE EXPENSE ALLOCATION
BASED ON CONSTRUCTION AND OPERATIONS AND
MAINTENANCE SALARIES AND ON TOTAL CONSTRUCTION
AND OPERATIONS AND MAINTENANCE COSTS**

Allocation Based on Salaries¹

Fiscal Year	General and Administrative Expenses To Be Allocated ²	Construction		Operations and Maintenance	
		Percent To Be Allocated	Amount Allocated	Percent To Be Allocated	Amount Allocated
1996	\$296,578	59.14	\$175,396	40.86	\$121,182
1997	356,289	44.21	157,515	55.79	198,774
Two-year Total	\$652,867		\$332,911		\$3 19,956

**Allocation Based on Total Construction Costs and
Operations and Maintenance Costs³**

Fiscal Year	General and Administrative Expenses To Be Allocated ²	Construction		Operations and Maintenance	
		Percent To Be Allocated	Amount Allocated	Percent To Be Allocated	Amount Allocated
1996	\$296,578	63.24	\$187,556	36.76	\$109,022
1997	356,289	38.52	137,243	61.48	2 19,046
Two-year Total	\$652,867		\$324,799		\$328.068

¹Percentages used For cost allocations based on salaries were obtained by adding construction salaries and operations and maintenance salaries obtained from Systems. Inc.'s general ledgers for fiscal years 1996 and 1997 and dividing each category by the total.

²General and administrative expenses to be allocated were based on the total general and administrative expenses remaining for each year after excluding expenses of \$18,000 for which Systems. Inc. was reimbursed by the West River Water Development District.

³Percentages used for allocations based on total costs were obtained by adding total construction costs, except for contract costs, and total operations and maintenance costs obtained from Systems, Inc.'s general ledgers for fiscal years 1996 and 1997 and dividing each category by the total.

WEST RIVER/LYMAN-JONES RURAL WATER SYSTEM
ESTIMATED COST PER AUDIT
BASED ON MAY 1998 "MASTER PLAN"*

Description	Estimated System Cost Per Master Plan	Additions Per Audit	Deletions Per Audit	Revised Estimates Per Audit	Comments
Creighton Service Area	\$2,936,876		\$243,948	\$2,692,928	Creighton Area construction costs included \$243,948 that was reimbursed by the Park Service.
Elbon Service Area	3,719,312	\$2,809		3,722,121	Completed construction costs were more than estimated.
Kadoka and Grindstone North	3,511,731		203,174	3,308,557	Kadoka Area construction costs included \$203,174 that was reimbursed by the Park Service.
Grindstone South Service Area	1,884,210	18,721		1,902,931	Completed construction costs were more than estimated.
Reliance North and South	1,325,000		5,554	1,319,446	Completed construction costs were less than estimated.
Ft. Pierre-Vivian/Vivian North	1,451,000	364,353		1,815,353	Vivian and Vivian North were combined into one contract for \$1,815,353.
Administration and Maintenance Building	839,000	42,500		881,500	Still under construction.
Mellette County West	4,582,000		2,613,950	(968,050)	Some Mellette County West customers declined service. In addition, Parmalee North and South and Cedar Butte were combined and bid as one contract.
Mellette County East	5,835,337			5,835,337	Scheduled for construction in fiscal years 1998-2000.

*The Bureau of Reclamation estimated construction and noncontract costs of \$78.9 million, indicating that the System could be constructed for \$3 million less than indexed System costs of \$81.9 million. Based on our audit of completed construction and updated costing information obtained from Systems, Inc.'s manager and the consulting engineer, we estimated System costs to be about \$72.3 million, or 39.6 million less than the indexed cost. The reduction results in a revised Federal share of \$57.8 million. Because the "Master Plan" was prepared by the Bureau, the fiscal year schedule for construction ends September 30.

<u>Description</u>	<u>Estimated System Cost Per Master Plan</u>	<u>Additions Per Audit</u>	<u>Deletions Per Audit</u>	<u>Revised Estimates Per Audit</u>	<u>Comments</u>
Kennebec North	2,022,696			2,022,696	Scheduled for construction in fiscal year 2000.
Draper Area	4,409,237			4,409,237	Scheduled for construction in fiscal years 2000-2001.
Okaton Area	2,698,490			2,698,490	Scheduled for construction in fiscal years 2001-2002.
Presho Area	6,361,741			6,361,741	Scheduled for construction in fiscal years 2002-2003.
Four Corners Area	4,523,070			4,523,070	Scheduled for construction in fiscal years 2003-2004.
Midland Area	3,344,026			3,344,026	Scheduled for construction in fiscal years 2004-2005.
Midland/Philip Area	2,848,007			2,848,007	Scheduled for construction in fiscal year 2005.
Philip/Wall Main	3,427,015			3,427,015	Scheduled for construction in fiscal year 2006.
City Connections	5,500,000		2,500,000	3,000,000	Current estimates for city connections are less than originally estimated.
Subtotal/System Construction	<u>\$61,218,748</u>	<u>\$428,383</u>	<u>\$5,566,626</u>	<u>\$56,080,505</u>	
Non-contract Costs	\$17,712,364	\$123,931	\$1,610,425	\$16,225,870	Adjustments are based on applying the rate used by Systems, Inc., in the "Master Plan." The rate used is 28.93 percent.
Total Costs	<u>\$78,931,112</u>	<u>\$552,314</u>	<u>\$7,177,051</u>	<u>\$72,306,375</u>	
Federal Share	\$64,110,561			\$57,845,100	The \$57.8 million was calculated based on 80 percent of the revised estimates.
Systems, Inc.'s Share	\$14,820,550			\$14,461,275	The \$14.5 million was calculated based on 20 percent of the revised estimates.



United States Department of the Interior

APPENDIX 4
Page 1 of 3

BUREAU OF RECLAMATION

Washington, D.C. 20240

IN REPLY REFER TO:
D-5010

MAY 25 1999

MEMORANDUM

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

From: **Eluid L. Martinez**
Commissioner 

Subject: Draft Audit Report on "West River/Lyman-Jones Rural Water System, Mni Wiconi Rural Water Supply Project, Bureau of Reclamation," Assignment No. W-IN-BOR-004-99(D)-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 1

Instruct officials of West River/Lyman-Jones Rural Water Systems, Inc., to **determine** an equitable method for allocating past and future general and administrative expenses between System construction and operations and maintenance.

Response

Concur. Reclamation will instruct West River/Lyman-Jones to determine an acceptable method of allocating general and administrative expenses between construction and operation and maintenance.

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

Recommendation 2

Instruct officials of West River/Lyman-Jones Rural Water Systems, **Inc.**, to reallocate to operations and maintenance an equitable share of general and administrative expenses and adjust their accounting records accordingly.

Response

Concur. Reclamation will instruct West River/Lyman-Jones to reallocate to operation and maintenance an equitable share of general and administrative expenses and to adjust the accounting records accordingly.

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

Recommendation 3

Instruct officials of West River/Lyman-Jones Rural Water Systems, Inc., to reduce recorded System expenditures for the amount of the reimbursement received from the West River Water Development District and from the National Park Service.

Response

Concur. Reclamation agrees that the amounts received **from** West River Water Development District and the National Park Service should be removed **from** the recorded System expenditures and will instruct the project sponsor to reduce the appropriate recorded expenditures.

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

Recommendation 4

Monitor costs reported by West River/Lyman-Jones Rural Water Systems, Inc., to ensure that corrective actions are taken so that future System construction costs claimed are eligible for Federal funding under Federal law, regulations, and cooperative agreements,

Response

Concur. Reclamation will require more detailed information be submitted in support of fund requests to enable Reclamation to more closely monitor costs to ensure the project sponsor is eligible for Federal funding.

The responsible official is the Area Manager, Dakotas Area Office. More detailed schedules will be required by the Dakotas Area Office commencing with the fund request for the first quarter of fiscal year 2000. The target date for implementing the corrective action for this recommendation is September 30, 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

<u>Finding/Recommendation Reference</u>	<u>Status</u>	<u>Action Required</u>
1, 2, 3, and 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**

Internet/E-Mail Address

www.oig.doi.gov

Within the Continental United States

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