



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

FOLLOW-UP ON INTERNAL CONTROLS AT THE MORRIS K. UDALL AND STEWART L. UDALL FOUNDATION



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

SEP 24 2014

Eric D. Eberhard
Chair, Board of Trustees
Morris K. Udall and Stewart L. Udall Foundation
130 S. Scott Avenue
Tucson, AZ 85701

Subject: Inspection Report – Follow-Up on Internal Controls at the Morris K. Udall and Stewart L. Udall Foundation
Report No. C-FL-UDL-0041-2014

Dear Mr. Eberhard:

We performed this follow-up review to determine whether the Morris K. Udall and Stewart L. Udall Foundation's (Foundation) internal controls were consistent with accepted internal control standards and applicable laws and regulations in the areas of (1) personnel actions; (2) contracting actions; and (3) internal control monitoring and assessment processes under the Federal Managers' Financial Integrity Act (FMFIA). Although the Foundation is an independent agency, the Consolidated Appropriations Act, 2014 (Pub. L. No. 113-76, 128 Stat. 5, 217) gave us funds to audit and investigate the Foundation.

We found that internal controls were implemented in each area reviewed and appeared consistent with accepted standards. Our review was limited to the design of the internal controls at the Foundation and did not include a determination as to whether the internal controls were operating effectively.

During the course of our review, we issued a Notice of Potential Findings and Recommendations. The Foundation's response to that Notice is contained in Attachment 1.

Background

The Foundation is an independent agency within the executive branch of the U.S. Government, which is overseen by a 13-member Board of Trustees. The President appoints nine members of the Board, with the advice and consent of the U.S. Senate; the other four members serve by virtue of their positions within the Government. The Foundation was originally founded in 1992 to honor Morris K. Udall's 30 years of service in the U.S. House of Representatives. In 2009, Congress enacted legislation to honor Stewart L. Udall for his service as a member of Congress, Secretary of the Interior, author, and environmental lawyer, adding his name to the Foundation.

The Foundation has two overarching strategic goals, with associated objectives, that contribute to its efforts to meet its mission. Specifically, these are to (1) provide educational

opportunities to promote careers related to the environment and natural resources, Native American health care, and Native American tribal policy and (2) resolve environmental conflicts and improve environmental decision making through mediation, training, and related activities.

The Foundation's activities are supported by two distinct funds in the U.S. Treasury. Specifically, educational activities are supported primarily by interest generated on a trust fund established by Congress; the Foundation also accepts private donations for educational activities. The activities of the U.S. Institute for Environmental Conflict Resolution are supported by annual appropriations and fees charged for services.

In 2012, the Foundation's Board of Trustees became aware of some questionable actions by its employees that required an indepth review, but the Foundation does not have an internal audit function. Therefore, at the suggestion of the Deputy Secretary of the Interior, a Foundation trustee, the Board's Chair and Vice Chair requested we perform a review under an Economy Act Agreement.

We issued the results of our review to the Foundation Board on December 13, 2012, in the report titled "Audit of the Stewardship of the Morris K. Udall and Stewart L. Udall Foundation" (Report No. ZZ-IN-OSS-0011-2012). Overall, we found that the Foundation had not complied with FMFIA, which requires Federal agencies to evaluate the adequacy of their internal controls. In addition, the Foundation did not have key internal controls over several important areas examined during our review, including outside employment of Foundation staff, termination of staffs' employment with the Foundation, and the Foundation's contracting practices. We detected multiple issues resulting from this absence of controls; however, we did not complete the audit because of the potential violations identified. We chose to terminate our audit so that we would not inadvertently impede any future criminal or administrative investigation.

The U.S. Government Accountability Office (GAO) performed a follow-up on our review and issued its results on December 6, 2013, in a report titled "Corrective Actions Under Way to Address Control Deficiencies at the Morris K. Udall and Stewart L. Udall Foundation" (Report No. GAO-14-95). GAO found that the Foundation had developed a corrective action plan to address our findings and that the corrective action plan included steps to address deficiencies in the Foundation's (1) internal control monitoring and assessment processes, (2) internal control related to personnel issues, and (3) internal control related to contracting. For those actions that were sufficiently documented at the time of its review, GAO found that the design was consistent with accepted internal control standards and applicable laws and regulations. A number of the Foundation's planned actions to improve its internal controls were not finalized at the time of GAO's review; therefore, it was too soon for GAO to assess the design of the actions and whether they were consistent with accepted internal control standards and applicable laws, regulations, and guidance.

Since it was too soon for GAO to assess the Foundation's actions at the time of its review, we performed this follow-up review in 2014.

Previously Reported Findings

The Foundation had completed the documentation and implementation of its internal controls in the areas of concern identified in our initial review. We assessed the design of the controls and found it consistent with accepted standards and applicable regulations in all areas reviewed.

Personnel Actions

The Foundation's internal policies related to personnel actions appeared adequate. Specifically, the Foundation issued eight updated policies on outside employment, operating procedures, pay setting flexibilities, personnel matters, dress code guidance, hours of duty, leave, and telework. Notably, the policy related to outside employment activities specifically addressed concerns raised in our 2012 report.

In addition, the operating procedures implemented by the Board of Trustees included reporting guidelines and more frequent meetings with senior management to, among other things, ensure proper and consistent implementation of employee performance and discipline standards, another concern raised in our 2012 report. Therefore, we determined that the design of this control is consistent with accepted internal control standards and applicable guidance for Federal executive agencies.

Further, the new policies had been signed and distributed to Foundation staff. The staff was then formally trained on the new policies, and the new policy requirement was reiterated in seven separate staff meetings. Therefore, we determined that the Foundation had implemented the internal controls.

Contracting Actions

The Foundation's internal policies related to contracting actions were consistent with accepted standards. As indicated by GAO, the Foundation entered into an interagency agreement with the Interior Business Center (IBC) for environmental conflict resolution contract services, including mediation, facilitation, convening, and assessment services. The Foundation has since expanded its interagency agreement with IBC to include administrative services contracts that exceed the micro-purchase threshold. The agreement was an appropriate strategy to address our prior concern that the Foundation did not follow good contracting practices.

During our initial review, we reported one case in which a Foundation employee violated the Standards of Conduct for Employees of the Executive Branch and may have violated criminal statute 18 U.S.C. § 208(a) by participating substantially on a contract that was awarded to his wife's company. In addition, the Foundation potentially violated the Anti-Deficiency Act by billing agencies in violation of the bona fide need rule, which states that appropriations may be obligated only to meet a legitimate need during the fiscal year for which they were made, and by paying contractors more than the amounts obligated to the contract.

Monitoring and Assessment Processes

The Foundation's monitoring and assessment processes appeared to meet FMFIA requirements. Specifically, an internal control review conducted in 2013 by an independent contractor examined 34 control processes and found that 25 were adequate, 7 had operational deficiencies, and 2 had design deficiencies.

The seven operational deficiencies were contracting, charge card purchasing, records administration, data integrity, overtime and compensatory time policy, safety procedures, and food and refreshment policy for meetings. The two design deficiencies were delegation of authority and property disposition. A follow-up review conducted by the independent contractor, and issued in February 2014, found that all seven operational deficiencies and the property disposition design deficiency had been corrected. The delegation of authority design deficiency had not been corrected but compensating controls were put in place that adequately compensated for any weakness caused by the control deficiency. Therefore, based on the internal control reviews conducted, the 34 control processes were adequate as of February 2014.

In addition, the Foundation had a plan in place to conduct ongoing assessments moving forward. Therefore, we determined that the design of this control is consistent with accepted standards.

Conclusion

Internal controls were implemented in each area reviewed, in a manner that appeared consistent with accepted standards and applicable regulations. However, as pointed out by GAO in its report, the extent to which the new internal controls help the Foundation successfully comply with applicable laws and regulations will require the continued involvement and rigorous oversight of the Foundation's Board.

Scope and Methodology

We conducted our follow-up review in June and July 2014 in accordance with the Quality Standards for Inspections and Evaluations as put forth by the Council of the Inspectors General on Integrity and Efficiency. We believe that the work performed provides a reasonable basis for our conclusions.

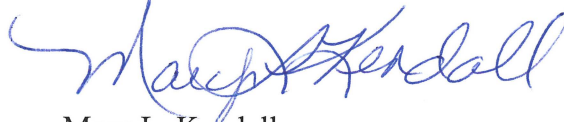
Our review was limited to the design of the internal controls at the Foundation and did not include determining whether the internal controls were operating effectively. This is because internal controls, once implemented, must operate in the environment for a period of time before they can be tested to determine whether they are operating effectively.

To address our objective, we (1) obtained and reviewed documentation related to the Foundation's actions to improve internal controls and its FMFIA assessment processes and (2) interviewed Foundation staff members.

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 about this report, please contact me at 202-208-5745.

Sincerely,



Mary L. Kendall
Deputy Inspector General

cc: Dr. Anne J. Udall, Vice Chair, Board of Trustees

(Attachment)



July 22, 2014

Ms. Loralee Bennett
Team Lead
Office of the Inspector General
U.S. Department of the Interior
Audits, Inspections, and Evaluations
12345 West Alameda Parkway, Suite 300
Lakewood, CO 80228

BOARD OF TRUSTEES

Eric D. Eberhard
CHAIR

Dr. Anne J. Udall
VICE CHAIR

R. Lance Boldrey
Michael A. Butler
Michael L. Connor
Dr. Ann Weaver Hart
William Mendoza
Dr. Stephen M. Prescott
D. Michael Rappoport
Bradley Udall

TRUSTEES EMERITI

Terrence L. Bracy
CHAIR EMERITUS

Herbert R. Guenther
David J. Hayes
Matt James
Dr. Peter W. Likins
P. Lynn Scarlett

Philip J. Lemanski
EXECUTIVE DIRECTOR

Dear Ms. Bennett:

The Udall Foundation's Board and senior staff have reviewed the Notice of Potential Findings and Recommendations (NPFR) dated July 21, 2014. The Udall Foundation proposes no changes to the factual information contained in the NPFR.

Since 2012, when the IG audited the Udall Foundation's internal controls at the Board's request and found deficiencies, the Board of Trustees and staff have worked diligently to correct these deficiencies. As noted in the report, the Udall Foundation has issued new personnel policies; implemented improved Board Operating Procedures to improve its internal governance, compliance with ethics laws and improve its ability to carry out its stewardship duties; entered into an interagency agreement with the Interior Business Center for all contracting above the micro-purchase threshold and implemented internal control improvements recommended by an independent contractor. It is also worth noting that an organizational assessment was completed; a new organizational structure has been implemented; a new strategic plan written, approved and implemented; three senior managers with extensive federal experience were hired to replace vacated positions; the process has begun to re-write position descriptions for all staff; issues identified in an audit by the Office of Government Ethics have been satisfactorily resolved; staff have received ethics and internal controls training and an improved framework for testing and documenting the Udall Foundation's internal controls is in process.

We are very pleased that the latest findings in the NPFR build upon the work that GAO has completed, and confirm the progress the Udall Foundation has made in strengthening internal controls. We are especially pleased that the report concludes that "Internal Controls were implemented in each area reviewed and appeared consistent with accepted control standards and applicable laws and regulations."

Ms. Lorelee Bennett
July 22, 2014
Page Two

The Board appreciates the efforts made by the IG to help the Udall Foundation improve its internal controls. The Udall Foundation is committed to continuous improvement to the reliability of its data and internal controls while meeting the legislative goals that the Congress has mandated for the Udall Foundation programs.

Sincerely,

A handwritten signature in black ink, appearing to read "E. Eberhard", is written over a light blue rectangular background.

Eric D. Eberhard
Chair, Board of Trustees

EDE:eem

