

# INDIAN AFFAIRS DIRECTIVES TRANSMITTAL SHEET

(modified DI -416)

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FOR FURTHER INFORMATION AS-IA Office of Internal Evaluation & Assessment (OIEA)		DATE NOV 6 2012

**EXPLANATION OF MATERIAL TRANSMITTED:**

The *Management Accountability – Single Audits* chapter, 5 IAM 2, and corresponding Handbook provide the policies, procedures and templates for initiating, resolving and closing single audit reports.

This policy chapter applies to all IA management and employees.

  
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Acting Deputy Assistant Secretary – Indian Affairs  
(Management)

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**FILING INSTRUCTIONS:**

Remove: 5 IAM 2, #71, Issued 10/20/05  
Handbook is New

Insert: 09-32

# INDIAN AFFAIRS MANUAL

Part: 5 Management Accountability  
Chapter: 2 Single Audits

Page 1

**1.1 Purpose.** The purpose of this chapter is to provide policies and procedures for initiating, resolving and closing out Single Audit reports.

**1.2 Scope.** This policy applies to the processing of all Single Audit reports and all related functions under the authority of the Assistant Secretary-Indian Affairs (AS-IA), including all applicable offices under the AS-IA, Bureau of Indian Affairs (BIA), Bureau of Indian Education (BIE) and the Office of Self-Governance (OSG).

Tribal governments or tribal organizations operating Indian Affairs (IA) programs under grants, contracts or compacts authorized by the Indian Self-Determination and Education Assistance Act (ISDEAA), as amended (25 U.S.C. §450 *et seq.*) may be required to comply with policies and procedures if required by statute or regulation. Any policies which are applicable to tribal sub-recipients will clearly state the statutory or regulatory basis requiring compliance.

**1.3 Policy.** It is the policy of IA to:

- A. Ensure that Single Audit reports are submitted in a timely manner,
- B. Issue management decisions in a timely manner, and
- C. Ensure that Federal funds are properly safeguarded and are used only for the purposes authorized in the award.

**1.4 Authority.**

**A. Statutes and Regulations.**

- 1) P.L. 95-452, Appendix, Inspector General Act, as amended
- 2) P.L. 93-638, Indian Self-Determination and Education Assistance Act, as amended
- 3) Title 25 U.S.C. §458aa *et seq.*, Tribal Self-Governance Act
- 4) Title 25 U.S.C. §2501 *et seq.*, Tribally Controlled Schools Act, as amended
- 5) Title 31 U.S.C., Chapter 75, Requirements for Single Audits
- 6) 25 CFR, Part 276, Uniform Administrative Requirements for Grants
- 7) 25 CFR, Part 900, Contracts under the Indian Self-Determination and Education Assistance Act
- 8) 43 CFR, Part 12, Administrative and Audit Requirements and Cost Principles for Assistance Programs

**B. Guidance.**

- 1) Office of Management and Budget (OMB) Circular A-50, Audit Follow-up
- 2) OMB Circular A-87, Cost Principles for State, Local, and Indian Tribal Governments

# INDIAN AFFAIRS MANUAL

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Part:	5	Management Accountability	
Chapter:	2	Single Audits	Page 2

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- 3) OMB Circular A-102, Grants and Cooperative Agreements with State and Local Governments
- 4) OMB Circular A-110, Uniform Administrative Requirements for Grants and Other Agreements with Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations
- 5) OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations
- 6) 360 Departmental Manual (DM), Departmental Audits
- 7) 361 DM, Audit Follow-up
- 8) Department of the Interior's (DOI) Office of the Solicitor Memorandum on the use of funds advanced to tribal organizations under compacts, contracts, and grants, February 4, 1998
- 9) AS-IA Memorandum dated June 25, 1998, on the use of funds provided by IA

## **C. Handbook.**

- 1) 5 IAM 2-H *Single Audit Reports Supplemental Handbook*, is available on the IA website. You can access this Handbook online:  
<http://www.bia.gov/WhatWeDo/Knowledge/Directives/Handbooks/index.htm>

## **1.6 Responsibilities.**

### **A. Office of Internal Evaluation and Assessment (OIEA) - Audit Liaison Office (ALO):**

- 1) Serves as the liaison office between applicable offices within IA and the DOI Offices of Financial Management (PFM) and Inspector General (OIG);
- 2) Establishes and maintains an automated tracking system to provide IA management with information on the status of Single Audits;
- 3) Notifies awarding officials (AOs) and IA management when recipients have failed to submit Single Audits;
- 4) Reviews all Single Audit reports submitted to the IA and the DOI's OIG, and assigns those reports to the applicable AO for resolution, highlighting potential misapplication of funds;
- 5) Provides technical assistance to recipients, AOs, IA management and the Solicitor's Office upon request;
- 6) Grants extensions, not to exceed 30 days, to AOs on management decisions due on audit reports. The requirement that a management decision must be rendered within 180 days of the receipt of the report will be strictly enforced;
- 7) Provides required reports to designated DOI officials on the status of unresolved audits and audit-related debt.

**B. The Directors of BIA, BIE, OSG and all applicable office Directors under the AS-IA are to ensure that their respective AOs:**

- 1) Issue management decisions on all Single Audit findings within 90 days (DOI requirement) from the day OIEA assigns the findings to them for resolution. A management decision must be rendered within a 180 days (OMB Circular A-133 requirement);
- 2) Take appropriate action when audit findings indicate significant problems or material weaknesses that put Federal resources in jeopardy or when disallowed costs have not been repaid;
- 3) Take appropriate action when an audit has not been submitted within the prescribed time frame.

**C. AOs:**

- 1) Ensure that all awards include a requirement that the recipient provide a copy of the audited financial statements and Single Audit report to the OIEA. If the recipient does not meet the threshold requirement for obtaining a Single Audit, the AO will obtain a certification from the recipient that the threshold is not met and that a Single Audit is not required (see Illustration 1 in 5 IAM 2-H, *Single Audit Reports Supplemental Handbook*);
- 2) Advise the recipients of the requirement to timely complete and submit their Single Audit reports;
- 3) Issue a findings and determination (F&D) memorandum within 90 days of the date he/she receives the audit report from the OIEA, which renders a management decision (reinstated or sustained) on all applicable findings and related costs in question;
- 4) Determine whether a misapplication of funds provided by IA may have occurred using the information contained in the recipient's financial statements, and additional records and supporting documents;
- 5) Request the National Business Center (NBC) to issue a bill for collection, if applicable;
- 6) Assist the recipient in developing a corrective action plan (CAP) upon request, if there are findings of non-compliance or internal control weaknesses;
- 7) Provide technical assistance upon request and/or assist the recipient with identifying another source of assistance.

**D. Director, NBC:**

- 1) Issues all bills for collection and performs other required debt collection tasks as necessary for audit related debt, which includes accurately recording the debt owed to IA in the IA Financial System;
- 2) Submits monthly reports on audit-related debts to the Director, OIEA; the Chief, Financial Reporting and Analysis Division, IA Office of the Chief Financial Officer (OCFO); the Director, OSG; the Chief, Division of Self-Determination Services (DSDS) Central Office; and the Assistant Deputy Director, Administration, BIE;

# INDIAN AFFAIRS MANUAL

Part: 5 Management Accountability  
Chapter: 2 Single Audits

Page 4

- 3) Negotiates on behalf of IA the repayment schedules and/or plans with the debtor, in accordance with the Federal Claims Collection Standards, see 31 U.S.C. § 31 U.S.C. 3701, et seq. and 31 CFR Parts 900-904. Copies of all properly authorized repayment plans and any related correspondence should be provided to the appropriate AO and the OIEA.

## **E. Chief, Financial Reporting and Analysis Division, IA OCFO:**

- 1) Reviews the monthly list of bills of collection recorded in the IA Financial System for disallowed costs (provided by NBC);
- 2) Reviews the copy of the OIEA-provided Disallowed Costs in Tracking Report and reconciles it with the data in the IA Financial System to ensure that all disallowed costs are being properly being tracked in the IA Financial System.

## **F. DSDS:**

- 1) Monitors and tracks the monthly OIEA-issued Single Audit Status Report for BIA overdue management decisions, management decisions that are within 90 days of being due, potential disallowed costs in jeopardy of being “time barred” from collection, and delinquent audit submissions and sanctions imposed;
- 2) Contacts responsible AO to obtain the status and provide technical assistance regarding overdue management decisions, management decisions coming due, and delinquent audit submissions;
- 3) Assists AOs in the development of management decisions and the disposition of any questioned costs involved in the audit;
- 4) Reviews and/or assists in the development of CAPs to ensure the plans address the non-compliance or internal control deficiency findings;
- 5) Contacts responsible AO regarding delinquent audit submissions and ensures that proper warning letters and/or sanctions are being imposed and followed;
- 6) Upon request, performs Tribal Financial Management reviews, and provides findings and corrective recommendations regarding the financial condition of the tribe;
- 7) Performs A-123 internal control reviews at Regional and Agency levels to ensure proper controls are in place, and policies and procedures are being followed to provide reasonable assurance that government resources are protected from fraud, waste, mismanagement and misappropriation;
- 8) Provides status reports and statistical information to DOI officials regarding delinquent management decisions, questioned costs and delinquent audit submissions.

## **1.7 Definitions.**

- A. Tribe/Tribal Organization** includes Federally recognized Indian tribes, Alaska Native Villages, Indian health and welfare associations, schools operated pursuant to P.L. 93-638 contracts, and tribally-controlled grant schools.
- B. Awarding Official (AO)** includes IA AOs; Grant Officers; Education Line Officers

# INDIAN AFFAIRS MANUAL

Part: 5 Management Accountability  
Chapter: 2 Single Audits

Page 5

(ELOs); and others who have delegated authority to award Self-Determination contracts, Self-Governance funding agreements, tribally-controlled school grants, or other grant assistance on behalf of the Secretary of the Interior.

- C. Disallowed Cost** (sometimes referred to as “sustained cost”) is a questioned cost identified by the auditor that the AO determines should not have been charged to the Federal financial assistance program.
- D. Federal Financial Assistance** includes assistance that recipients receive or administer in the form of ISDEAA contracts, grants, funding agreements, loans, loan guarantees, property (including donated surplus property), cooperative agreements, interest subsidies, insurance, direct appropriations, and other assistance.
- E. Findings and Determination (F&D) memorandum** is an AO’s written decision as to whether the audit findings have been addressed satisfactorily and whether questioned costs have been disallowed (sustained) or reinstated.
- F. Management Decision** is the determination by an AO that actions taken, or proposed to be taken, by the recipient will correct the deficiencies cited in the audit.
- G. Misapplication of Funds** is the expenditure of funds provided by IA for any purpose other than to pay costs for programs included in an IA funding agreement.
- H. Office of Internal Evaluation and Assessment (OIEA)** is the IA office designated as the Audit Liaison Office (ALO) to receive all Single Audit reports on behalf of the AS-IA.
- I. Office of Financial Management (PFM)** is the DOI oversight office that is responsible for tracking the collection of all Single Audit reports’ related disallowed costs.
- J. Office of the Inspector General (OIG)** is designated as the National Single Audit Coordinator for the Department. This office is responsible for ensuring that the Single Audit reports meet the applicable auditing standards.
- K. Division of Self-Determination Services (DSDS)** is the IA office that provides audit oversight, training and technical assistance to AOs and other governmental and tribal entities regarding A-133 Single Audit related issues.
- L. Questioned Cost** is a cost that is questioned by the auditor or the OIEA because:
  - 1) of a violation or possible violation of a provision of a law, regulation, contract, grant, cooperative agreement, or other agreement or document governing the use of Federal funds, including funds used to match Federal funds;
  - 2) the cost, at the time of the audit, was not supported by adequate documentation; or
  - 3) the cost incurred appears unreasonable and does not reflect the actions a prudent person would take in the circumstances; or
  - 4) of a deferred revenue deficit issue.
- M. Recipient** as used in this chapter, includes Indian tribes, tribal organizations, tribal consortia, elementary, secondary and post secondary schools and school boards that receive funding from IA under a Self-Determination contract or grant, a Self-

# INDIAN AFFAIRS MANUAL

Part: 5 Management Accountability

Chapter: 2 Single Audits

Page 6

Governance funding agreement, tribally-controlled school grant, or any other authorized grant program, such as the Indian Child Welfare Act or the Tribally Controlled College or University Assistance Act.

- N. Reinstated Cost** is a questioned cost that an AO has determined is an allowable charge to a Federal financial assistance program.
- O. Resolved Audit** means that the OIEA has accepted the management decision concerning the audit findings.
- P. Single Audit** is an audit which is conducted by an independent public accountant, (audit firm) of a non-Federal recipient that includes the recipient's financial statements and Federal awards under the Single Audit Act.

**1.8 Sanctions.** Single Audit reports are due within nine months after the end of the recipient's fiscal year (FY). The Single Audit Act and OMB Circular A-133 provide the authority for imposing sanctions when recipients are delinquent in submitting their Single Audit reports. Consistent with the ISDEAA and the Tribally Controlled Schools Act, IA recipients who fail to submit a Single Audit report by the due date will be subject to the sanctions described below.

- A. Reminder Letter.** If an audit has not been received by OIEA within six months of the end of the recipient's FY, the AO will send the recipient a reminder letter similar to that shown in Illustration 2 in 5 IAM 2-H. If an audit has been filed with the Federal Audit Clearinghouse but has not been sent to OIEA, the AO will send the recipient a letter similar to that shown in Illustration 3 in 5 IAM 2-H.
- B. Level 1 Sanction.** If the recipient fails to submit the Single Audit report by the due date, the AO will place the recipient on Level 1 sanctions. Level 1 sanctions are imposed in the contracting period following the audit report due date. The recipient will be limited to monthly advance payments of all contract funds, including contract support funds; see Illustration 4 in 5 IAM 2-H.
- C. Level 2 Sanctions.** If the recipient fails to comply with the audit requirements by the close of the recipient's following FY, the AO will place the recipient on Level 2 sanctions. Level 2 sanctions are imposed in the 2<sup>nd</sup> contracting period after the Single Audit report due date. The Indian tribe or tribal organization will continue to receive monthly advance payments of all contract funds, and all contract support payments will be withheld until the recipient is current with its Single Audit report submissions; see Illustration 5 in 5 IAM 2-H.
- D. Level 3 Sanctions.** If the recipient has failed to submit the required Single Audit report by the end of the year in which Level 2 sanctions were imposed, the AO will place the recipient on Level 3 sanctions. Level 3 sanctions will result in the nonemergency re-assumption of the contracted programs; see Illustration 6 in 5 IAM 2-H.

**1.9 Single Audit Reports Referred to IA For Resolution.**

**A. AOs are to:**

- 1) Review available information provided in the recipient's response (i.e. CAP) to the Single Audit report, or in contract or grant files, or in reports of on-site IA reviews, or any other relevant data to determine if the audit report findings can be resolved with the information available. In some cases, the AO may be able to make determinations and a management decision about audit findings and questioned costs based on the recipient's CAP.
- 2) Request additional information if the Single Audit report lacks a CAP from the recipient or if the AO determines that additional supporting material is necessary.
- 3) Issue a management decision within six months after receipt of the audit report from OIEA (DOI requirement is 90 days). The failure of the recipient to provide documents supporting the expenditure of Federal funds for questioned items does not relieve the AO of the responsibility for issuing a timely management decision on the allowableness of such questioned costs.
  - (a) If all questioned costs are reinstated and all findings are resolved, the AO will notify the recipient, as appropriate, by letter, including an F&D. Copies of the recipient letter and F&D should be provided to OIEA with a memorandum recommending that the Single Audit report be closed; see Illustration 7 in 5 IAM 2-H.
  - (b) If there are disallowed costs, the AO will issue a formal notice (letter) of the decision to the recipient, by certified mail. The letter must also include the recipient's appeal rights under 25 CFR 2, 25 CFR 900, and 43 CFR 4; see Illustration 8 in 5 IAM 2-H. A copy of the AO's F&D memorandum should also be attached, if applicable.

At the same time, a request to issue a Bill for Collection should be sent to the NBC; see Illustration 10 in 5 IAM 2-H. In the event that a recipient appeals the decision, the AO must notify NBC in writing to immediately cease all collection efforts; see Illustration 11 in 5 IAM 2-H. Additionally, the OIEA must be notified by memorandum of all management decisions and determinations, to include copies of the F&D and all correspondence to the recipients and NBC; see Illustration 9 in 5 IAM 2-H.

- B. The Office of the Deputy Bureau Director, Indian Services, BIA and the Office of the Assistant Deputy Director, Administration, BIE, may make a management decision and issue an F&D on behalf of IA for BIA/BIE when a decision has not been issued by the principal AO within six months after the receipt of the report. In such a case, they should provide copies of all correspondence to the recipients, the original AO, and the OIEA.**

**1.10 Collection of Disallowed Costs.**

- A. Debts Owed to the Government.** Once the AO has determined that certain costs are disallowed, these amounts are debts owed by the recipient to the Secretary of the Interior. The Single Audit report cannot be closed until the disallowed costs are either repaid or reinstated.
- B. Delinquent Debts.** Debts that are 180 days delinquent will be referred by NBC to the Department of the Treasury (Treasury) for further collection action. If payment is not received within 120 days from the Collection Due Date and no request to set up a payment plan, appeal, or dispute of the debt is received, the debt will be referred to Treasury. However, if it is determined that the debt may be collectible or that payment is anticipated before the 180 day limit, the referral of the debts may be deferred but cannot exceed the 180 day limit.
- C. Time Limitation.** Disallowed costs may not be billed or collected if the F&D is issued more than 365 calendar days after the date that the Single Audit report was received by the OIEA.

**1.11 Reinstatement of Previously Disallowed Costs.** After the AO's decision to disallow costs, the recipient may provide additional information that is sufficient for the AO to determine that some or all of the previously disallowed costs should be reinstated. In situations such as this, the AO should issue a revised management decision memorandum to the recipients including a revised F&D, if applicable.

Copies of all correspondence should be provided to the OIEA and a memorandum should be sent to NBC requesting that they suspend the collection efforts if appropriate; see Illustration 11 in 5 IAM 2-H.

**1.12 Suspend, Terminate or Compromise Audit Related Debt.**

- A. IA OCFO** has re-delegated authority from the Secretary of the Interior to suspend, terminate or compromise collection actions on debts owed to the IA when the principal balance does not exceed \$100,000 and the requirements in the Federal Claims Collection Standards (31 CFR Parts 900-904) are met. The OCFO exercises this authority in consultation with the DOI Solicitor's Office.
- B. Department of Justice (DOJ)** has sole jurisdiction to compromise, suspend or terminate debts in excess of \$100,000. The referral of said debts is made by the Solicitor with the concurrence of the OCFO.
- C.** Copies of all correspondence pertaining to actions initiated and/or decisions made by the OCFO or DOJ regarding suspensions, terminations or compromises of debt should be provided to NBC and OIEA.

**1.13 Closure of Single Audit Reports.**

- A. Single Audit Reports with No Outstanding Disallowed Costs.**
  - 1) If management decisions, including F&Ds, on Single Audit report

# INDIAN AFFAIRS MANUAL

Part: 5 Management Accountability

Chapter: 2 Single Audits

Page 9

findings/issues are acceptable, OIEA will close the audit.

- 2) Notification to the AO who made the management decision and/or issued the F&D will be made via OIEA's monthly Single Audit Status Report.

## **B. Single Audit Reports with Disallowed Costs.**

- 1) OIEA provides monthly notifications to PFM on all audit reports that have been resolved but remain open for debt collection tracking purposes.
- 2) All correspondence related to collections, compromises, reinstatement of disallowed costs, or transfer of delinquent debts either to the DOJ for litigation or to Treasury for collection actions must be provided to OIEA, which then conveys the information to PFM.

## **C. Single Audit Reports Lacking a Timely Management Decision.**

- 1) Single Audit reports for which the AO has not made a management decision within 90 calendar days of issuance by the OIEA are considered overdue.
- 2) PFM will be notified by OIEA of all reports with overdue responses. PFM will contact the Director of BIA/BIE for an official explanation on the delay of each management decision. PFM will also require that a management decision be rendered on all outstanding audit reports within 30 days. If there are outstanding disallowed costs, the audit is tracked for collection as described above.

**1.14 Unresolved Single Audit Reports.** While the responsibility for determining the resolution of questioned costs rests with the AO, the resolution of compliance or internal control findings requires positive action on the part of the recipient. In a situation where the recipient fails to take action necessary to resolve material audit findings and the Single Audit report remains unresolved, the AO will offer technical assistance to the recipient. In serious situations, the AO may also consider the option of designating the recipient as "high risk". Recipients identified as high risk are subject to additional monitoring and restricted payments. If the AO determines that there has been gross negligence or mismanagement in the handling or use of contract funds, trust funds, trust lands, or interests in trust lands, the AO may initiate re-assumption procedures.

**1.15 Safeguarding of Advanced Federal Funds.** Funds advanced by IA must be:

- A.** Invested in "obligations of the United States" or those guaranteed by the United States; or,
- B.** Invested in registered mutual funds that invest exclusively in the types of securities discussed in A; or,
- C.** Deposited into accounts that are insured by an agency of the United States; or,
- D.** Deposited into accounts that are fully collateralized to ensure the protection of the funds.

Note: If a Single Audit report indicates that the recipient has failed to comply with the above requirement, the AO will write to the recipient requesting evidence that the funds are properly deposited or invested. If the recipient fails to provide such evidence within 30

days, the AO will place the recipient on a quarterly payment schedule until the recipient provides evidence that the funds are secured as required by law.

**1.16 Misapplication of Federal Funds.** A review of the recipient's financial statement will occasionally disclose one or more of the following conditions: a deficit cash balance in the general fund; insufficient balances in cash and investments to cover deferred revenue in the special revenue fund; or amounts "due from" other funds to the special revenue fund. Each of these situations warrants further scrutiny and deficit balances or amounts "due from" other funds should be considered for potential misapplication of funds. If it is determined that IA funds have been misapplied, the AO will document the misapplication of funds by issuing an F&D to take the following actions:

- A. Recovery of Misapplied Funds.** If cash provided for IA awards has been used for any other purpose by the recipient, the AO should recover the IA funds that have been misapplied. If a recipient has multiple IA awards, the total available cash and investment balances for IA awards should be compared to the total IA deferred revenue, so long as the recipient has not exceeded the total costs allowed under any of the awards.

In some instances, recipients have advanced funding from more than one Federal agency and may claim that there is sufficient cash to cover the IA awards, just not enough to cover all of the advanced funding. Unless the recipient provides evidence that IA funds are maintained in totally separate checking or savings accounts or investments, the AO will determine the proportionate share of the cash deficiency that is applicable to IA awards and recover that amount.

- B. Limit Allowances.** The AO will place the recipient on no less than quarterly allowances until a subsequent financial statement audit shows that the cash discrepancies have been corrected.