



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

AUDIT REPORT

**COMPLIANCE WITH LOCAL FINANCIAL PLANS
FOR THE 1997/1998 SCHOOL YEAR AT
SELECTED SCHOOLS OPERATED BY
THE BUREAU OF INDIAN AFFAIRS**

**REPORT NO. 01-I-235
MARCH 2001**

EXECUTIVE SUMMARY

**Compliance With Local Financial Plans for the
1997/1998 School Year at Selected Schools
Operated by the Bureau of Indian Affairs
Report No. 01-I-235
March 2001**

For the 1997/1998 school year (ending June 30, 1998), the Bureau of Indian Affairs (BIA) provided Indian School Equalization Program (ISEP) funding of approximately \$138 million to the 79 BIA-operated elementary and secondary education facilities serving about 22,900 students. The schools also receive separate BIA funding for student transportation and additional funds from the U.S. Departments of Education and Agriculture. The schools are required to expend allotted funds on the basis of local financial plans prepared by the local school supervisor and ratified by the local school board.

The objective of the audit was to determine whether four of the schools spent their allocated funds in accordance with their local financial plans for the 1997/1998 school year. The schools were located in the State of New Mexico, served a total of 1,670 students, and received funding totaling about \$13.7 million for the school year.

Overall, we found that the four schools did not fully comply with the requirements for preparing and executing local financial plans. Specifically, the plans did not include all funds available to the schools and/or did not contain budgets for individual programs; expenditures were not adequately monitored and funds were not always spent in accordance with the approved plans; and the plans were not revised and school board officials were not informed when expenditures varied significantly from the plans. As a result, BIA and school board officials lacked assurance that funds were spent in a prudent manner.

We found that one school overspent its ISEP and transportation funding by about \$115,000. To address this situation, the school used Department of Education funds of \$73,500 that had been programmed for the following school year (thus reducing the funds available for that year) and inappropriately transferred recorded expenditures of \$40,400 to the account of a different school. Another school had unspent ISEP funds totaling \$127,000 at year end and lost the use of those funds.

We recommended that the Assistant Secretary for Indian Affairs establish and implement adequate procedures and controls to ensure that financial plans are properly prepared, funds are spent in accordance with the plan, expenditures are monitored throughout the school year, and plans are properly revised or adjusted when necessary.

AUDITEE COMMENTS AND OFFICE OF INSPECTOR GENERAL EVALUATION

BIA concurred with or provided alternate solutions to the report's six recommendations and agreed to ensure that adequate procedures and controls would be implemented. Based on the response, the recommendations were considered resolved but not implemented.



United States Department of the Interior

OFFICE OF INSPECTOR GENERAL
Washington, D.C. 20240

March 30, 2001

AUDIT REPORT

Memorandum

To: Assistant Secretary for Indian Affairs

From: Roger La Rouché *Roger LaRouche*
Assistant Inspector General for Audits

Subject: Audit Report on Compliance With Local Financial Plans for the 1997/1998 School Year at Selected Schools Operated by the Bureau of Indian Affairs (No. 01-I-235)

INTRODUCTION

This report presents the results of our audit of compliance with local financial plans for the 1997/1998 school year at selected schools operated by the Bureau of Indian Affairs (BIA). The objective of the audit was to determine whether the schools spent their allocated funds in accordance with their local financial plans.

BACKGROUND

Title XI of the Education Amendments Act of 1978 (Public Law 95-561), as amended by the Improving American Schools Act of 1994 (Public Law 103-382), requires that for all BIA schools, allotted funds be expended on the basis of local financial plans prepared by the local school supervisor in active consultation with the local school board. The legislation further states that the local school board has the authority to ratify, reject, or amend the financial plan and "on its own determination or in response to the supervisor of the school, to revise such financial plan to meet needs not foreseen at the time of preparation [of] the financial plan."

For the 1997/1998 school year (July 1, 1997 through June 30, 1998), BIA provided Indian School Equalization Program (ISEP) funding of approximately \$138 million to the 79 BIA-operated elementary and secondary education facilities serving about 22,900 students. These facilities consisted of 35 day schools, 35 on-reservation boarding schools, 4 off-reservation boarding schools, and 5 dormitories for Indian students attending

schools. The schools also receive separate BIA funding for student transportation and additional funds from the U.S. Departments of Education and Agriculture.¹

Our review covered four schools located in the State of New Mexico that served a total of 1,670 students and received funding totaling \$13,656,036 for the 1997/1998 school year as follows:

| School | Location | Students | Funding* |
|-------------------------|-------------------|--------------|---------------------|
| San Felipe Elementary | San Felipe Pueblo | 350 | \$2,188,552 |
| Laguna Elementary | Laguna | 390 | 2,414,473 |
| Jones Ranch Community** | Vanderwagon | 250 | 2,039,475 |
| Wingate Elementary | Ft. Wingate | 680 | 7,013,536 |
| Total | | <u>1,670</u> | <u>\$13,656,036</u> |

*Specific fund allocations for each school are in Appendix 2.

**The entire name is Chi-Ch'il-tah/Jones Ranch Community School.

Our review also covered the Southern Pueblos Agency in Albuquerque, New Mexico, and the Eastern Navajo Agency in Crownpoint, New Mexico.

Education line officers at BIA's agency offices are responsible for (1) reviewing the local financial plan for compliance with prescribed laws and regulations, (2) notifying the local school board and local school supervisor of any problems with the financial plan, and (3) assisting in correcting any problems with the plan. The education line officer is also required to coordinate, monitor, and, as appropriate, certify the validity of management information system data collected by the schools. The line officer at the Southern Pueblos Agency is responsible for six BIA-operated schools, including San Felipe Elementary and Laguna Elementary, and the line officer at the Eastern Navajo Agency is responsible for nine schools, including Jones Ranch Community and Wingate Elementary.

SCOPE OF AUDIT

Our review 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 objective, we reviewed applicable laws, regulations, and BIA guidance related to the requirements and procedures for financial plan development, implementation, and appeals; interviewed BIA officials at the schools and the agencies concerning the procedures related to the financial plan development, implementation, and

¹The schools' food service programs are funded, in part, by reimbursements from the states under a U.S. Department of Agriculture-funded program.

appeal processes; and reviewed school expenditures on a test basis to determine whether they were adequately supported and were incurred in accordance with the financial plan.

BIA's financial management system accounts for the ISEP funds and student transportation funds on a school-year basis. These funds, however, are available for obligation for a 15-month period, July 1 through September 30, the end of the following budget fiscal year. Accordingly, funds available at the end of a school year can be used for school operations of the first 3 months of the subsequent school year.

BIA's financial management system accounts for Department of Education funds on a budget fiscal-year basis rather than a school-year basis. Education funds, however, are available for a 2-year period from October 1 of the budget fiscal year for which they were appropriated through September 30 of the subsequent fiscal year. This 2-year period covers portions of 3 school years. Accordingly, to determine the obligations for a specific school year would require that BIA's accounting records be reconstructed for portions of multiple fiscal years and that cost transactions be analyzed in detail to determine whether the transactions were applicable to the school year. Accordingly, we did not review Department of Education fund transactions on a school-year basis to determine whether the schools complied with their financial plans for these funds. However, the cost transactions were included in our review of school expenditures to determine whether they were adequately supported.

As part of our audit, we evaluated the system of internal controls to the extent that we considered necessary to accomplish our audit objective. Our review identified internal control weaknesses that impact the reliability of the data recorded in BIA's financial management system. These weaknesses are presented in the Results of Audit section of this report. Our recommendations, if implemented, should improve the internal controls in this area.

We also reviewed the Departmental Report on Accountability for fiscal years 1997 and 1998, which included information required by the Federal Managers' Financial Integrity Act of 1982, and BIA's annual assurance statement for management controls for fiscal years 1997 and 1998 and determined that no material weaknesses were reported which directly related to the objective and scope of our audit.

PRIOR AUDIT COVERAGE

During the past 5 years, neither the Office of Inspector General nor the General Accounting Office has issued any reports on compliance with local financial plans at BIA-operated schools.

RESULTS OF AUDIT

Overall, we found that the four schools we reviewed did not fully comply with the requirements for preparing and executing local educational financial plans. Specifically, the plans did not include all funds available to the schools and/or did not contain specific budgets for individual programs, funds were not always spent in accordance with the approved plans, and plans were not modified when expenditures differed significantly from the approved plans. Title XI of the Education Amendments Act of 1978 (Public Law 95-561) requires that allotted funds be expended by BIA-operated schools in accordance with local financial plans prepared by the local school supervisor and approved by the local school board. We found, however, that the four schools and the two agencies reviewed had not established adequate controls over the preparation and execution of financial plans. As a result, school board officials did not have the opportunity to review and approve significant deviations from the approved plans; BIA and school board officials lacked assurance that funds were spent in a prudent manner; San Felipe Elementary School, as of June 30, 1998, spent \$52,287 more than its total funds available; and Laguna Elementary School, as of September 30, 1998, lost the opportunity to use funds totaling \$127,900 because the funds had expired.

School Financial Plans

Three of the four schools reviewed did not include all available funds in their school year 1997/1998 financial plans, which were submitted to and approved by the local school boards, as presented in the paragraphs that follow.

San Felipe Elementary School. San Felipe's financial plan of \$2.1 million did not include net funds totaling \$77,977 that were in the school's initial allocations. The Bureau Manual (41 BIAM, Supplement 4, Chapter 4) states that estimated reimbursements are to be considered budgetary resources available for obligation. However, the plan did not include estimated reimbursements totaling \$95,000 that had been allocated to the school for its food service program. Also, the amount in the plan for the Title I, II, and IV Programs funded by the Department of Education exceeded the amounts allocated to the School for these programs by \$17,023. Thus, the available resources in the plan were understated by a net amount of \$77,977 (see Appendix 3). We were unable to determine why the omissions and errors occurred because, at the time of our review, school officials responsible for the development of the school year 1997/1998 financial plan were no longer employed by the school and current school officials could not provide an explanation.

Laguna Elementary School. Laguna's financial plan of \$2.3 million was understated by a net amount of \$82,945. The plan did not include funds totaling \$142,200, consisting of ISEP funds of \$62,200 and estimated reimbursements totaling \$80,000 that had been allocated to the school for its food service program. Also, the amount in the plan for the Title I, II, and IV Programs funded by the Department of Education exceeded the amount allocated to the School for these programs by \$59,255 (see Appendix 4). At the time of our review, Laguna officials could not explain why the funds were not included in the financial plan but noted that the Agency had reviewed and approved the financial plan without making any adjustments to or comments on the plan.

Jones Ranch Community School. Jones Ranch's financial plan of \$1.5 million did not include a budget for funds totaling \$547,375, consisting of \$225,000 for the School's Early Childhood Program and \$322,375 for programs funded by the U.S. Department of Education. In addition, the plan included only a lump-sum amount for ISEP funds (\$1,246,600) with no budgets for the seven individual programs such as basic instruction and bilingual education (see Appendix 5). Jones Ranch officials responsible for the development of the school year 1997/1998 financial plan said that they were new at that time and did not have knowledge of the process for preparing the financial plan. Therefore, Jones Ranch and the Agency, on April 17, 1998, jointly prepared a financial plan 10 1/2 months after the start of the school year.

School Compliance With Local Financial Plans

The Code of Federal Regulations (25 CFR Ch. 1, Part 39, "Indian School Equalization Program") requires the responsible fiscal agent to (1) expend funds solely in accordance with the local financial plan as ratified by the school board and (2) recommend changes in budget amounts as required for the effective management of resources to carry out the local financial plan and incorporate such changes in the budget as are ratified by the local school board. In addition, the Departmental Manual (328 DM 1.5G) requires that each bureau ensure that designated officials are charged with individual responsibility for any overobligations or any expenditures in excess of allocations and ensure that obligations or expenditures are not made in excess of the amount actually available for obligation. We found that San Felipe and Laguna exceeded their financial plan budgets because the budgets did not include all funds allocated to the schools and that San Felipe, as of June 30, 1998, also exceeded its funds available for the 1997/1998 school year. We also found that San Felipe, Laguna, and Wingate substantially exceeded their financial plan budgets for some programs and/or object classes while spending significantly less than their budgets for others. (As discussed in the section "Financial Plans," Jones Ranch did not prepare budgets for individual programs.) In addition, neither San Felipe nor Laguna amended its financial plan or properly informed the respective school boards of these deviations from their plans, while Wingate amended its financial plan in some instances but not in others. We noted, however, that BIA had not established criteria for determining when a plan should be modified.

San Felipe Elementary School. We found that, as of June 30, 1998, San Felipe's recorded ISEP obligations for the 1997/1998 school year exceeded the financial plan funds available to the School by \$238,764 and the total recorded ISEP and Department of Education obligations exceeded total funds available to the school by \$52,287. In addition, on October 5, 1998, the Southern Pueblos Agency education line officer notified the school principal that, as of September 25, 1998, San Felipe's ISEP funds were overobligated by \$117,000, which the line officer attributed to "overstaffing, transportation costs are overbudget, and that . . . school held an extended school session when it should not have done so."

To address the overobligation of funds, the Agency's education line officer on September 30 and October 2, 1998 inappropriately transferred obligations totaling \$113,900. This amount consisted of \$40,400, which was transferred from San Felipe's ISEP accounts to the ISEP

account of another BIA-operated school (Laguna), and \$73,500, which was transferred from San Felipe's ISEP and Student Transportation Program accounts to its Department of Education fund account for the 1998/1999 school year. These transfers, which resulted in a distortion of the cost data for the operations of both schools, were made without the formal approval of the school boards of either school. According to the education line officer, these transfers would reduce the amount of funds available to the school for the 1998/1999 school year. After the transfers, San Felipe's recorded ISEP, Student Transportation, and Food Reimbursement Program obligations at September 30, 1998 exceeded the allotted funds by \$1,253 (see Appendix 6).

We also found that San Felipe had obligated about \$23,300 in nonbudgeted cost categories, such as contracts - other, grants, printing, and equipment, which contributed to the cost overrun; had spent about \$205,000 more than the budgeted amounts in categories such as salaries, student transportation, and contracts - special education; and had spent less than the budgeted amounts in other cost categories. San Felipe, however, did not revise its financial plan or inform the school board of these changes.

Laguna Elementary School. Although Laguna spent about \$127,900 less than the total amount available for the school year, its recorded ISEP and Student Transportation obligations at September 30, 1998 exceeded the amount in its approved financial plan by \$73,080 because the plan did not include all available resources (see Appendix 7). Also, Laguna did not adjust its financial plan when recorded obligations exceeded budgeted cost categories or when expenditures were incurred in nonbudgeted cost categories. For example, the School exceeded its \$298,298 budget for program management by \$67,084 and its \$839,004 budget for basic instruction by \$72,371, spent only \$55,430 of its \$100,099 budget for the gifted and talented and only \$13,557 of its \$28,593 budget for the bilingual education programs, and exceeded its \$46,000 supplies budget by \$36,000 and its \$7,000 communications budget by \$5,000. Also, obligations of \$6,500 were recorded for grants, although there was no budget established for this category.

As a result of Laguna's underspending its ISEP budget, the Southern Pueblos Agency used available funds totaling \$40,400 to cover a portion of the excess obligations at San Felipe. However, even after the Agency transferred excess obligations totaling \$40,400 from San Felipe to Laguna, as of September 30, 1998, Laguna still had ISEP funds of approximately \$127,900 (see Appendix 7) that could have been used to provide educational services and benefits to Laguna students for school year 1997/1998 if Laguna and the Agency had adequately monitored the School's budgets and obligations during the school year.

Wingate Elementary School. Overall, we found that recorded obligations for the ISEP, Early Childhood, and Student Transportation funds exceeded the approved financial plan by \$41,243. However, recorded obligations were actually \$6,964 less than the amount available to the school because actual Department of Agriculture reimbursements exceeded the amount in the plan by \$48,207.

We also found that recorded obligations sometimes differed from the approved plan budgets by significant amounts (see Appendix 8). For example, Wingate exceeded its \$497,621 budget

for exceptional child education by \$62,291 and its \$51,600 budget for Student Transportation by \$21,894. Although obligations compared with program budgets ranged from 75 percent for school board training to 142 percent for student transportation, Wingate did not always adjust its financial plan for these deviations or otherwise inform the school board.

Wingate amended its plan twice for the purchase of equipment, which decreased the supplies and materials budget and increased the equipment budget by a total of \$99,200. It did not, however, comply with two requests from the Eastern Navajo Agency to further amend the plan. In one instance, although the Agency notified Wingate that the school board training budget of \$20,000 could not, by law, exceed \$15,000, Wingate did not amend the plan or record obligations for the additional \$5,000. In the second instance, Wingate purchased a portable building totaling \$35,800 that was not included in the approved financial plan.

Jones Ranch Community School. Overall, we found that recorded obligations for the ISEP, Early Childhood, and Student Transportation funds exceeded the approved financial plan by \$226,094 but exceeded the funds available by only \$1,094 because available Early Childhood Program funds of \$225,000 were not included in the plan. As discussed in the section "Financial Plans," Jones Ranch did not establish individual program budgets for the majority of its available funds (see Appendix 9). Therefore, we did not compare recorded obligations with the approved budgets.

School Financial Management

The schools and agencies reviewed had not established sufficient management controls over the expenditure of funds to ensure that obligations were incurred in accordance with the approved local financial plans. The Bureau Manual (41 BIAM, Supplement 4, Chapter 4) states in part that each official receiving funds is to ensure that adequate procedures are in place for executing obligation and expenditure transactions. We found, however, that none of the schools periodically reconciled school obligations and expenditures as recorded in BIA's Federal Financial System with their approved financial plan to ensure that expenditures were in accordance with the plan. Also, three of the schools (San Felipe, Laguna, and Jones Ranch) did not have access to BIA's Federal Financial System, and the staff had not received System training.

Additionally, we found that Southern Pueblos Agency officials had not performed on-site monitoring of school financial operations at San Felipe or Laguna during the 1997/1998 school year.

School Management of Undelivered Orders

The Bureau of Indian Affairs Manual (41 BIAM, Supplement 4, Chapter 9, "Year-End Closing Procedures") states in part that completed contracts are to be closed as soon as practicable to ensure that all contract savings are identified and realized. We found, however, that the schools did not periodically review their obligation transactions to ensure the validity of the recorded obligation amounts. Our tests of the recorded undelivered orders for school years 1996/1997 and 1997/1998 identified obligations that were no longer valid relating to food

service contracts that had expired, training and travel that were not performed, and equipment that was not received. The number of transactions reviewed and the results of our review are as follows:

| School | Transactions Tested | | Invalid Transactions | |
|-----------------------|---------------------|-----------|----------------------|----------|
| | Number | Dollars | Number | Dollars |
| San Felipe Elementary | 19 | \$68,200 | 14 | \$52,400 |
| Laguna Elementary | 25 | 19,800 | 16 | 3,200 |
| Jones Ranch Community | 27 | 41,100 | 25 | 34,100 |
| Wingate Elementary | 10 | 8,200 | 9 | 8,100 |
| Totals | 81 | \$137,300 | 64 | \$97,800 |

Because the schools did not timely identify and deobligate invalid obligations, there was no assurance that funds available for providing benefits and services to the students were used efficiently.

BIA Financial Management

Each BIA-operated school receives an ISEP funding allocation that is recorded in BIA's Federal Financial System as lump-sum amounts. The schools, however, are required to prepare their financial plans based on individual program budget categories and budget object class amounts within each allocation. The schools are also required to ensure that school obligations are incurred in accordance with their approved local financial plans. However, because the individual program budgets and budget object class amounts are not recorded in the System, monitoring the individual program budgets and comparing the obligations recorded in the System must be performed manually by school and agency staff. We believe that BIA should record, in the Federal Financial System, the individual program budgets and/or budget object class amounts that support the required financial plan prepared by each school rather than record the available funds at the allocation level.

In addition, BIA's financial management system accounts for 2-year Department of Education funds on an annual budget fiscal-year basis rather than a school-year basis. In the first year, BIA allocates a portion of the funds to each school, and at the end of the first year, any overutilization or underutilization of funds is rolled over to the subsequent year. However, BIA records the second-year allocation of funds in the same System account as the first-year funds. Accordingly, to determine the obligations for a specific school year, school and agency officials are required to segregate the obligations incurred for the last 3 months of the first fiscal year and the first 9 months of the second fiscal year. We believe that BIA, to provide better accountability over Department of Education funds, should account for the funds on a school-year basis rather than on an annual budget fiscal-year basis. This would be consistent with the present method of recording and tracking BIA's ISEP and transportation funds and would also provide school and agency officials a more efficient means of identifying funds available (and their related obligations) to a specific school year.

Recommendations

We recommend that the Assistant Secretary for Indian Affairs:

1. Establish and implement adequate procedures and controls to ensure that school financial plans are accurate and contain all funding sources available to the schools.
2. Establish and implement adequate procedures and controls to ensure that school obligations are incurred in accordance with the approved financial plans and that the plans are amended and submitted to the school board for approval when significant variances occur.
3. Ensure that school budget/cost overruns are not inappropriately transferred (to other schools).
4. Establish and implement adequate procedures and controls to ensure that the recorded undelivered orders are periodically reviewed for validity and that invalid amounts are deobligated in a timely manner.
5. Establish and implement procedures and controls to record the individual school program budgets and/or budget object class amounts in the Federal Financial System.
6. Establish and implement procedures and controls to record the Department of Education Funds on a school-year basis.

BIA Response and Office of Inspector General Reply

In the February 5, 2001 response (Appendix 10) to the draft report from the Deputy Assistant Secretary for Indian Affairs - Management, BIA concurred with Recommendations 1, 2, 3, 4, and 6 but did not concur with Recommendation 5. For Recommendation 5, BIA proposed alternative actions that meet the intent of the recommendation. Based on the response, we consider Recommendations 1, 2, 3, 4, and 5 resolved but not implemented and Recommendation 6 resolved and implemented. Accordingly, the unimplemented recommendations will be referred to the Assistant Secretary for Policy, Management and Budget for tracking of implementation.

BIA stated that it could not concur with Recommendation 5 because its "existing accounting system will not accommodate the recommended changes." Specifically, BIA stated that the budget component of the Federal Financial System was not included in BIA's system implementation and that obtaining and implementing the component at this time would require the approval of the Department's Software Advisory Board. BIA also stated that with the Department "presently exploring replacement options for the current system when the existing 10 year contract expires, it does not appear cost effective to purchase, implement, and train staff to use the budget component . . . if it may be replaced in approximately 2 years." BIA further stated that the actions that it had taken and proposed for Recommendations 1 and 2 would "satisfy the intent of Recommendation 5."

We agree that the actions taken and proposed for Recommendations 1 and 2 will satisfy the intent of Recommendation 5. Accordingly, Recommendation 5 will be considered implemented when Recommendations 1 and 2 are implemented.

Since the report's recommendations are considered resolved, no further response to the Office of Inspector General is required (see Appendix 11).

Section 5(a) of the Inspector General Act (5 U.S.C. app. 3) requires the Office of Inspector General to list this report in its semiannual report to the Congress. In addition, the Office of Inspector General provides audit reports to the Congress.

CLASSIFICATION OF MONETARY AMOUNTS

| Finding Area | Funds To Be Put To Better Use |
|--|----------------------------------|
| Excess Obligation Transfers for San Felipe School (\$40,400 + \$73,500) | \$113,900 |
| Expired ISEP Funds at Laguna | 127,900 |
| Untimely Deobligations | <u>97,800</u> |
| Total | <u><u>\$339,600</u></u> |

**FUNDS ALLOTTED TO
SELECTED BIA-OPERATED SCHOOLS
FOR SCHOOL YEAR 1997/1998**

| Program | Laguna | San Felipe | Wingate | Jones Ranch | Total |
|---------------------------------------|-------------|-------------|-------------|----------------|--------------|
| Indian School Equalization Program | \$1,747,100 | \$1,592,100 | \$5,649,900 | \$1,246,600 | \$10,235,700 |
| Student Transportation | 87,800 | 46,100 | 51,600 | 130,500 | 316,000 |
| Early Childhood | | | 225,000 | 225,000 | 450,000 |
| USDA Food Service Reimbursement | 80,000 | 95,000 | 250,000 | 115,000 | 540,000 |
| Indian Education Act Grant | 41,242 | 38,901 | 74,587 | 29,092 | 183,822 |
| Exceptional Education | 98,362 | 84,674 | | | 183,036 |
| Goals 2000: Educate America Act | 855 | | 80,000 | 30,000 | 110,855 |
| Titles I, II, and IV | 359,114 | 331,777 | 682,449 | 263,283 | 1,636,623 |
| Total | \$2,414,473 | \$2,188,552 | \$7,013,536 | \$2,039,475 | \$13,656,036 |

**SAN FELIPE ELEMENTARY SCHOOL
COMPARISON OF FINANCIAL PLAN WITH
FUNDS ALLOCATED FOR SCHOOL YEAR 1997/1998**

| Program | Local Financial Plan | Funds Allocated* | Difference |
|---|----------------------------|---------------------|------------|
| ISEP Program Funding | | \$1,592,100 | |
| Program Management | \$247,010 | | |
| Basic Instruction | 920,536 | | |
| Bilingual Education | 97,527 | | |
| Exceptional Child Education | 152,779 | | |
| Gifted and Talented | 26,069 | | |
| Food Service | 148,179 | | |
| ISEP Total | 1,592,100 | 1,592,100 | |
| Student Transportation | 46,100 | 46,100 | |
| ISEP and Student Transportation | 1,638,200 | 1,638,200 | |
| Food Service Reimbursement | 0 | 95,000 | (\$95,000) |
| ISEP, Student Transportation, and Food Service Reimbursement Net | 1,638,200 | 1,733,200 | (95,000) |
| Department of Education Programs | | | |
| Indian Education Act Grant | 38,901 | 38,901 | |
| Exceptional Child Education | 84,674 | 84,674 | |
| Titles I, II, and IV | 348,800 | 331,777 | 17,023 |
| Department of Education Total | 472,375 | 455,352 | 17,023 |
| Total | \$2,110,575 | \$2,188,552 | (\$77,977) |

*This amount consists of funds allocated to San Felipe Elementary School for school year 1997/1998 (July 1, 1997 through June 30, 1998) by documents issued during the period June through December 1997. The allocated funds do not include Department of Education funds totaling \$221,100 allocated to San Felipe Elementary School for school year 1998/1999 by documents issued during July and August 1998. U.S. Department of Education funds are available for the 15-month period from July 1 through September 30 of the following year.

**LAGUNA ELEMENTARY SCHOOL
COMPARISON OF FINANCIAL PLAN WITH
FUNDS ALLOCATED FOR SCHOOL YEAR 1997/1998**

| Program | Financial Plan | Funds Allocated* | Difference |
|---|----------------|------------------|------------|
| ISEP Program Funding | | \$1,747,100 | |
| Program Management | \$298,298 | | |
| Basic Instruction | 839,004 | | |
| Bilingual Education | 28,593 | | |
| Exceptional Child Education | 266,343 | | |
| Gifted and Talented | 100,099 | | |
| Food Service | 149,563 | | |
| School Board Training | 3,000 | | |
| ISEP Total | 1,684,900 | 1,747,100 | (\$62,200) |
| Student Transportation | 87,800 | 87,800 | 0 |
| ISEP and Student Transportation | 1,772,700 | 1,834,900 | (62,200) |
| Food Service Reimbursement | 0 | 80,000 | (80,000) |
| ISEP, Student Transportation, and Food Service Reimbursement Net | 1,772,700 | 1,914,900 | (142,200) |
| Department of Education Programs | | | |
| Indian Education Act Grant | 37,000 | 41,242 | |
| Exceptional Child Education | 98,362 | 98,362 | |
| Goals 2000 | 5,000 | 855 | |
| Titles I, II, and IV | 418,466 | 359,114 | |
| Department of Education Total | 558,828 | 499,573 | 59,255 |
| Total | \$2,331,528 | \$2,414,473 | (\$82,945) |

*This amount consists of funds allocated to Laguna Elementary School for school year 1997/1998 (July 1, 1997 through June 30, 1998) by documents issued during the period June through December 1997. The allocated funds do not include Department of Education funds totaling \$257,800 allocated to Laguna Elementary School for school year 1998/1999 by documents issued during July and August 1998. U.S. Department of Education funds are available for the 15-month period from July 1 through September 30 of the following year.

**JONES RANCH COMMUNITY SCHOOL
COMPARISON OF FINANCIAL PLAN WITH
FUNDS ALLOCATED FOR SCHOOL YEAR 1997/1998**

| Program | Financial Plan | Funds Allocated | Difference |
|---|----------------|-----------------|-------------|
| ISEP Program Funding | \$1,246,600 | \$1,246,600 | |
| Program Management | | | |
| Basic Instruction | | | |
| Bilingual Education | | | |
| Exceptional Child Education | | | |
| Gifted and Talented | | | |
| Food Service | | | |
| School Board Training | | | |
| ISEP Total | 1,246,600 | 1,246,600 | |
| Early Childhood | 0 | 225,000 | (\$225,000) |
| Student Transportation | 130,500 | 130,500 | |
| ISEP, Early Childhood, and Student Transportation | 1,377,100 | 1,602,100 | (225,000) |
| Food Service Reimbursement | 115,000 | 115,000 | |
| ISEP, Early Childhood, Student Transportation, and Food Service Reimbursement Net | 1,492,100 | 1,717,100 | (225,000) |
| Department of Education Programs | | | |
| Indian Education Act Grant | | 29,092 | (29,092) |
| Goals 2000 | | 30,000 | (30,000) |
| Titles I, II, and IV | | 263,283 | (263,283) |
| Department of Education | | 322,375 | (322,375) |
| Total | \$1,492,100 | \$2,039,475 | (\$547,375) |

*This amount consists of funds allocated to Jones Ranch Community School for school year 1997/1998 (July 1, 1997 through June 30, 1998) by documents issued during the period June through December 1997. The allocated funds do not include Department of Education funds totaling \$148,200 allocated to Jones Ranch Community for school year 1998/1999 by documents issued during July and August 1998. U.S. Department of Education funds are available for the 15-month period from July 1 through September 30 of the following year.

**SAN FELIPE ELEMENTARY SCHOOL
COMPARISON OF APPROVED FINANCIAL PLAN
WITH OBLIGATIONS AS OF SEPTEMBER 30, 1998**

| Program | Financial Plan | Obligations* | Difference (Over Plan) | Percent (Obligations to Plan) |
|---|--------------------|--------------------|------------------------------|-------------------------------------|
| ISEP | | | | |
| Program Management | \$247,010 | \$131,458 | \$115,552 | 53% |
| Basic Instruction | 920,536 | 1,105,357 | (184,821) | 120% |
| Bilingual Education | 97,527 | 91,715 | 5,812 | 94% |
| Exceptional Child Education | 152,779 | 166,000 | (13,221) | 109% |
| Gifted & Talented | 26,069 | 37,898 | (11,829) | 145% |
| Food Service** | 148,179 | 183,840 | (35,661) | 124% |
| School Board Training | 0 | 2,733 | (2,733) | N/A |
| ISEP Total | 1,592,100 | 1,719,001 | (126,901) | |
| Student Transportation | 46,100 | 47,232 | (1,132) | 102% |
| ISEP and Student Transportation | 1,638,200 | 1,766,233 | (128,033) | 108% |
| Food Service Reimbursement | 0 | (126,780) | 126,780 | |
| ISEP, Student Transportation, and Food Service Reimbursement Net | \$1,638,200 | \$1,639,453 | (\$1,253) | 100% |

*Obligation total is net of transfers totaling \$113,900, discussed in the section "School Compliance With Local Financial Plans."

**Obligation total includes expenditures totaling \$126,780 that were reimbursed by the Department of Agriculture.

**LAGUNA ELEMENTARY SCHOOL
COMPARISON OF APPROVED FINANCIAL PLAN
WITH OBLIGATIONS AS OF SEPTEMBER 30, 1998**

| Program | Financial Plan | Obligations* | Difference (Over Plan) | Percent (Obligations to Plan) |
|--|--------------------|--------------------|------------------------------|-------------------------------------|
| ISEP | | | | |
| Program Management | \$298,298 | \$365,382 | (\$67,084) | 122% |
| Basic Instruction | 839,004 | 911,375 | (72,371) | 109% |
| Bilingual Education | 28,593 | 13,557 | 15,036 | 47% |
| Exceptional Child Education | 266,343 | 246,760 | 19,583 | 93% |
| Gifted & Talented | 100,099 | 55,430 | 44,669 | 55% |
| Food Service** | 149,563 | 160,810 | (11,247) | 108% |
| School Board Training | 3,000 | 3,000 | | 100% |
| ISEP Total | 1,684,900 | 1,756,314 | (71,414) | |
| Student Transportation | 87,800 | 89,466 | (1,666) | 102% |
| ISEP and Student Transportation | 1,772,700 | 1,845,780 | (73,080) | 104% |
| Food Service Reimbursement | | (138,749) | 138,749 | |
| ISEP, Student Transportation, and Food Service Reimbursement Net | \$1,772,700 | \$1,707,031 | 65,669 | 96% |
| Additional ISEP Funds Available But Not Included in the Plan (see Appendix 4) | | | | |
| | | | 62,200 | |
| Total ISEP Funds Not Obligated | | | \$127,869 | |

*Obligations total is net of transfers totaling \$40,400 discussed in the section "School Compliance With Local Financial Plans."

**Obligations total includes expenditures totaling \$138,749 that were reimbursed by the Department of Agriculture.

**WINGATE ELEMENTARY SCHOOL
COMPARISON OF APPROVED FINANCIAL PLAN
WITH OBLIGATIONS AS OF SEPTEMBER 30, 1998**

| Program | Financial Plan | Obligations | Difference (Over Plan) | Percent (Obligations to Plan) |
|---|-------------------|-------------|------------------------------|-------------------------------------|
| ISEP | | | | |
| Basic Instruction | \$2,595,939 | \$2,532,027 | \$63,912 | 98% |
| Bilingual Education | 172,719 | 176,512 | (3,793) | 102% |
| Exceptional Child Education | 497,621 | 559,911 | (62,290) | 113% |
| Gifted & Talented | 142,215 | 119,917 | 22,298 | 84% |
| Residential | 1,865,187 | 1,939,981 | (74,794) | 104% |
| Food Service* | 606,219 | 590,259 | 15,960 | 97% |
| School Board Training | 20,000 | 15,000 | 5,000 | 75% |
| ISEP Total | 5,899,900 | 5,933,607 | (33,707) | |
| Early Childhood | 225,000 | 210,642 | 14,358 | 94% |
| Student Transportation | 51,600 | 73,494 | (21,894) | 142% |
| ISEP, Early Childhood, and Student Transportation | 6,176,500 | 6,217,743 | (41,243) | 101% |
| Food Service Reimbursement | (250,000) | (298,207) | 48,207 | |
| ISEP, Early Childhood, Student Transportation, and Food Service Reimbursement Net | \$5,926,500 | \$5,919,536 | \$6,964 | 100% |

*Financial plan amount includes estimated reimbursement of \$250,000, while obligation total includes expenditures totaling \$298,207 that were reimbursed by the Department of Agriculture.

**JONES RANCH ELEMENTARY SCHOOL
COMPARISON OF APPROVED FINANCIAL PLAN
WITH OBLIGATIONS AS OF SEPTEMBER 30, 1998**

| Program | Financial Plan | Obligations | Difference (Over Plan) |
|--|-------------------|-------------|------------------------------|
| ISEP | \$1,246,600 | | |
| Basic Instruction | | \$874,080 | |
| Exceptional Child Education | | 58,873 | |
| Gifted & Talented | | 32 | |
| Residential | | 160,595 | |
| Food Service* | 115,000 | 233,404 | |
| School Board Training | | 15,000 | |
| ISEP Total | 1,361,600 | 1,341,984 | \$19,616 |
| Early Childhood | | 227,900 | (227,900) |
| Student Transportation | 130,500 | 148,464 | (17,964) |
| ISEP, Early Childhood, and Student Transportation | 1,492,100 | 1,718,348 | (226,248) |
| Food Service Reimbursement | (115,000) | (115,154) | 154 |
| ISEP, Early Childhood, Student Transportation, and Food Service Reimbursement Net | \$1,377,100 | \$1,603,194 | (226,094) |
| Additional Early Childhood Funds Available But Not Included in Plan (see Appendix 5) | | | 225,000 |
| Total ISEP Funds Overobligated | | | (\$1,094) |

*Financial plan amount includes estimated reimbursement of \$115,000, while obligation total includes expenditures totaling \$115,154 that were reimbursed by the Department of Agriculture.



United States Department of the Interior

OFFICE OF THE SECRETARY
WASHINGTON, D.C. 20240

FEB 5 2001

Memorandum

To: Assistant Inspector General for Audits

From: Deputy Assistant Secretary - Indian Affairs (Management) *James H. McDermott*

Subject: Draft Audit Report on Compliance With Local Financial Plans for the 1997/1998 School Year at Selected Schools Operated by the Bureau of Indian Affairs (Assignment No. C-JN-BIA-001-99-M)

The subject draft audit report includes six recommendations for the Assistant Secretary - Indian Affairs to implement that will enable the Director, Office of Indian Education Programs (OIEP), to ensure compliance with Local Financial Plans. The Bureau of Indian Affairs (BIA) agrees with the intent of the recommendations.

The BIA's responses to the recommendations contained in the draft report are provided below:

Recommendation 1: Establish and implement adequate procedures and controls to ensure that school financial plans are accurate and contain all funding sources available to the schools.

Response: The BIA concurs with the recommendation.

Actions already taken include an April 2000 memorandum from the Director, OIEP, requiring adherence to local financial plans. Training was also provided June 2000 for education line office business managers and technicians on financial plan development and reconciliation. Further, in fiscal year 2000, the OIEP initiated Administrative Program Reviews of BIA-funded schools to assist the school administration in measuring the effectiveness of the delivery of quality education programs and services to the children and communities served. Financial management, budget and finance are included as part of the review.

The OIEP will initiate new procedures and guidance for local financial plan development. Guidance will be provided to school supervisors, business managers and education line officers on the presentation of the local financial plans and subsequent amendments to the school board. Guidance will also be provided to school supervisors and school boards on the review, adjustment and approval process, and the time frames in which the approval must be accomplished. The financial plan development, approval and reconciliation process will be implemented through policy memorandums and changes to CFR 25 Part 39.

The OIEP will also provide training for school business managers and school supervisors on development, amendment, approval and implementation of local financial plans. The training will include the use of a computer based financial plan format that will allow immediate financial plan adjustments as funding and program needs change.

The Financial System Specialist, OIEP, is responsible for ensuring the implementation of the recommendation. The scheduled target date for implementation is June 30, 2001.

Recommendation 2: Establish and implement adequate procedures and controls to ensure that school obligations are incurred in accordance with the approved financial plans and that the plans are amended and submitted to the school board for approval when significant variances occur.

Response: The BIA concurs with the recommendation.

The OIEP will develop procedures and guidance for financial plan reconciliations. Specific time frames for conducting the reconciliations will be established, and a certification from the education line office will be required when the reconciliation is completed. Procedures and time frames will be established for amending the local financial plans when funding changes occur. The procedures will require the use of BIA Status of Obligations reports in the reconciliation process.

The Financial System Specialist, OIEP, is responsible for ensuring the implementation of the recommendation. The scheduled target date for implementation is June 30, 2001.

Recommendation 3: Ensure that school budget/cost overruns are not inappropriately transferred (to other schools).

Response: The BIA concurs with the recommendation.

The OIEP will develop specific guidance on fund transfers. The requirements will include a written request by the school supervisor, documentation of school board approval through school board minutes and/or resolutions by each of the school boards impacted by the transfer of resources, and the concurrence of the education line officer(s) supervising the schools.

The Financial System Specialist, OIEP, is responsible for ensuring the implementation of the recommendation. The scheduled target date for implementation is June 30, 2001.

Recommendation 4: Establish and implement adequate procedures and controls to ensure that the recorded undelivered orders are periodically reviewed for validity and that invalid amounts are deobligated in a timely manner.

Response: The BIA concurs with the recommendation.

The OIEP will develop guidance and training will be provided to school supervisors, business managers, and education line officers on the review of the BIA's undelivered orders report. The training will be included with the training on local financial plans. The guidance will require the use

of standardized reports and certifications from school supervisors as to the validity of the undelivered orders.

The Financial System Specialist, OIEP, is responsible for ensuring the implementation of the recommendation. The scheduled target date for implementation is June 30, 2001.

Recommendation 5: Establish and implement adequate procedures and controls to record the individual school program budgets and/or budget object class amounts in the Federal Financial Systems.

Response: The BIA cannot concur with this recommendation because the BIA's existing accounting system will not accommodate the recommended changes. OIEP is unable to record the individual school program budgets in the Federal Finance System (FFS) by categories of expenditures or budget object class (BOC). For the individual school, the FFS provides total dollar amounts for program subelements, such as, Individual School Equalization Program or Student Transportation. However, the actions taken and proposed for Recommendations 1 and 2 are sufficient in our opinion to satisfy the intent of Recommendation 5.

The budget component of the Federal Finance System was not included in the BIA's system implementation. To obtain and implement the component at this time would require the approval of the Department's Software Advisory Board. With the Department presently exploring replacement options for the current system when the existing 10 year contract expires, it does not appear cost effective to purchase, implement, and train staff to use the budget component, if it may be replaced in approximately two years.

Recommendation 6: Establish and implement adequate procedures and controls to record the Department of Education Funds on a school-year basis.

Response: The BIA concurs with this recommendation.

Actions have already been taken to implement the recommendation. On October 1, 1998, the appropriations for the BIA were changed from one year availability to two year availability. At the same time, the BIA's reimbursable funds, which the Department of Education (DOE) funds are classified, changed from one year availability to two year availability. This change eliminated the need to issue funds on July 1 of a school year, then identify the school's unobligated balance on September 30 of that year, and reissue that balance October 1. Now DOE funds are available to schools for 12 to 15 months, the same as the appropriated school operation funds.

STATUS OF AUDIT REPORT RECOMMENDATIONS

| Finding/Recommendation Reference | Status | Action Required |
|-------------------------------------|----------------------------|---|
| 1, 2, 3, 4, and 5 | 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. |
| 6 | Implemented. | No further action is required. |

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