



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

SPECIAL REPORT

**SELECTED ASPECTS OF THE
CIRCLE OF NATIONS
WAHPETON INDIAN SCHOOL**

**REPORT NO. 96-I-995
JUNE 1996**



United States Department of the Interior

OFFICE OF INSPECTOR GENERAL

Washington, D.C. 20240

JUN 25 1996

MEMORANDUM

TO: The Secretary

FROM: Wilma A. Lewis
Inspector General

SUBJECT SUMMARY: Final Special Report for Your Information - "Selected Aspects of the Circle of Nations Wahpeton Indian School" (No. 96-I-995)

Attached for your information is a copy of the subject final special report.

At the request of the North Dakota Congressional Delegation and the Assistant Secretary for Indian Affairs, we reviewed the Wahpeton Indian School's expenditure of grant funds from the Bureau of Indian Affairs and the Bureau's compliance with funding and oversight provisions of a September 1994 agreement that established the terms for implementing a therapeutic school model at the School. The audit identified grant expenditures totaling \$117,650 that were not adequately supported or reasonable for the efficient operation of the School. The audit also determined that key provisions of the agreement were not completed timely as they related to identification of financial resources needed to operate the School, preparation of implementation team reports, establishment of a School support team, preparation of an annual written plan for the therapeutic model, and completion of an agreement between the School Board and relevant agencies regarding child protection and law enforcement. Although the report makes no recommendations, we believe that to help ensure success of the therapeutic model, the Bureau, the School Board, and the School should implement the agreement expeditiously.

If you have questions concerning this matter, please contact me or Ms. Judy Harrison, Assistant Inspector General for Audits, at (202) 208-5745.

Attachment



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OFFICE OF INSPECTOR GENERAL

Washington, D.C. 20240

JUN 25 1996

Memorandum

To: Assistant Secretary for Indian Affairs
Chairman, Wahpeton Indian school Board

From: **Judy Harrison** *Judy Harrison*
Assistant Inspector General for Audits

Subject: Final Special Report on Selected Aspects of the Circle of Nations
Wahpeton Indian School (No. 96-I-995)

This report presents the results of our review of selected aspects of the Circle of Nations Wahpeton Indian School. The objective of this review was to determine whether: (1) the School spent Bureau of Indian Affairs funds in accordance with the requirements of the grant agreements from the Bureau and (2) the Bureau complied with the funding and oversight provisions of a September 1994 memorandum of agreement between the Wahpeton Indian School Board, Incorporated, and the Bureau's Office of Indian Education Programs. We initiated the review in response to requests from the North Dakota Congressional Delegation and the Assistant Secretary for Indian Affairs.

Regarding the expenditure of grant funds, we identified disbursements by the School totaling about \$117,650 during the 1993-1994 and the 1994-1995 school years that were not adequately supported or reasonable for efficient administration of the School. In addition, a separate financial statement audit, conducted by a certified **public accounting firm, for the school year ended June 30, 1994, reported that School expenditures exceeded revenues by about \$290,000.**

Regarding the September 1994 memorandum of agreement, we found that the Bureau and the School had made progress in implementing some of its provisions. However, we also determined that certain key requirements of the agreement and of the Improving America's Schools Act of 1994 had not been complied with in a timely manner. Specifically, financial resources needed to implement the School's therapeutic model were not identified; implementation team reports were not prepared timely; a school support team was not established; and an annual written plan for the therapeutic model was not prepared. Finally, the School Board and relevant State and local agencies had not completed an agreement regarding child protection and law enforcement because jurisdictional issues related to the School had not been resolved.



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To: Assistant Secretary for Indian Affairs
Chairman, Wahpeton Indian School Board

From: Judy Harrison *Judy Harrison*
Assistant Inspector General for Audits

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The June 17, 1996, responses from the Superintendent, Circle of Nations Wahpeton Indian School (Appendix 2), and the Assistant Secretary for Indian Affairs (Appendix 3) provided additional information regarding the grant expenditures and the actions that the School and the Bureau took to implement the therapeutic model. This information was incorporated into our report as appropriate. However, neither the School nor the Bureau adequately addressed funding of the therapeutic model, timely reporting of the results of implementation team visits, sufficiency of the **annual written plan for implementing the therapeutic model**, the status of a school support team, or development of a fully integrated budget for implementation of the therapeutic model. We believe that these issues will continue to have an adverse impact on the School's implementation of the therapeutic model if they are not resolved.

This report makes no recommendations, therefore, no response to the Office of Inspector General is required. However, we believe that complete and timely implementation of the memorandum of agreement is important to the success of the therapeutic model. Therefore, we believe that the Bureau, the School Board, and the School should give emphasis to resolving the issues identified in our report especially those related to the annual written plan and to the preparation of an **integrated budget**.

The legislation, as amended, creating the Office of Inspector General requires semiannual reporting to the Congress on all audit reports issued, the monetary impact of audit findings, actions taken to implement audit recommendations, and identification of each significant recommendation on which corrective action has not been taken.

We appreciate the cooperation of School Board and Bureau officials in the conduct of our audit.

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INTRODUCTION

BACKGROUND

From February 1908 through June 1993, the Bureau of Indian Affairs operated the Wahpeton Indian School, which is located in Wahpeton, North Dakota, as an off-reservation elementary boarding school. In July 1993, the Bureau transferred control of the School to the Wahpeton Indian School Board, Incorporated, as authorized by the Indian Education Amendments of 1988 (Title V of Public Law 100-297). **Since July 1993, the School Board has operated the School under a grant from the Bureau.** In June 1994, the School Board changed the School's name to the Circle of Nations Wahpeton Indian School.

On October 5, 1994, the Improving America's Schools Act of 1994 (Public Law 103-382) was enacted. The Act authorized the Bureau to establish two demonstration schools based on a therapeutic model "to provide services necessary to achieve positive changes in the attitudes, behavior, and academic performance of Indian youth attending off-reservation boarding schools." The Act states:

The purpose of the therapeutic model demonstration schools is to: (A) **provide a program based on an annual written plan that links** clinicians, counselors, and mental health professionals with academic program personnel in a culturally sensitive residential program tailored to the particular needs of Indian students; (B) provide for a continued evaluation of the planning and implementation of the therapeutic model; and (C) determine what steps the Bureau of Indian Affairs must take and what resources are required to transform existing off-reservation boarding schools to meet the needs of chemically dependent, emotionally disturbed, socially troubled, or other at-risk Indian youth who attend such schools.

The School was selected by the Bureau to be a therapeutic model demonstration school and has operated as such since October 1994.

In September 1994, the School Board and the Bureau's Office of Indian Education Programs entered into a memorandum of agreement that established the terms for implementing the therapeutic model demonstration school. The agreement specified that the Bureau was to provide additional funding to supplement the normal allocation under the Indian School Equalization Formula, limit enrollment to a target population of 150 students, and provide assistance in implementing the therapeutic model. The agreement also specified that the School was to provide professionally qualified staff, maintain nepotism restrictions, submit monthly business reports to the School Board, and meet academic requirements as mandated by the Indian Education Amendments of 1988 (Public Law 100-297).

The School's enrollment during the student count week for the 1994-1995 and the 1995-1996 school years was 152 and 150, respectively. The Bureau's total funding for the School's programs was about \$4.12 million and \$3.6 million for the 1994-1995 and the 1995-1996 school years, respectively (see Appendix 1).

The School has had three superintendents since July 1993. The first superintendent was employed by the School Board from July 1993 through April 1995. Prior to this period, the individual was employed by the Bureau as the School's administrator. From April through June 1995, the School had an acting superintendent, who was a Bureau employee assigned to the School under an Intergovernmental Personnel Act agreement. The present superintendent has been in the position since July 1995.

OBJECTIVE AND SCOPE

The objective of this review was to determine whether: (1) the Circle of Nations Wahpeton Indian School spent Bureau of Indian Affairs funds according to the requirements of the grant and (2) the Bureau complied with the funding and oversight provisions of the September 1994 memorandum of agreement.

We reviewed expenditures related to School operations for the 1993-1994 and the 1994-1995 school years and concentrated on amounts paid to the School's superintendent. Our analysis of compliance with the memorandum of agreement was based on the 1994-1995 and the 1995-1996 (through January) school years. In addition, we reviewed the single audit report of the School's financial statements for the year ended June 30, 1994.

The review was performed during January through April 1996 and included a visit to the School. We also obtained information from the Bureau's Office of Indian Education Programs and the Department of Health and Human Service's Indian Health Service.

PRIOR AUDIT COVERAGE

Neither the Office of Inspector General nor the General Accounting Office has previously audited the Circle of Nations Wahpeton Indian School. However, as required by the Single Audit Act of 1984, the School Board obtained an annual financial and compliance audit of the operations of the School for the fiscal year ended June 30, 1994. The report concluded, among other issues, that the School overspent available funding and reimbursed travelers for meals and incidental expenses in excess of authorized amounts. In March 1996, the School Board awarded a contract for the single audit for the fiscal year ended June 30, 1995.

DISCUSSION

Based on our review, we identified grant expenditures by the School totaling about \$117,650 during the 1993-1994 and the 1994-1995 school years that were not adequately supported or that did not conform to applicable Federal cost principles. In addition, the financial statement audit for the school year ended June 30, 1994, reported that School expenditures exceeded revenues by about \$290,000. Also, we found that the Bureau did not comply with key provisions of the September 1994 memorandum of agreement with the School Board pertaining to the Bureau's funding and oversight responsibilities. Finally, we noted that the School did not prepare an annual written plan for the therapeutic model in a timely manner. These matters adversely impacted the School's finances and delayed its implementation of the therapeutic model.

Expenditures

The "Common Rule," the uniform administrative requirements for grants and cooperative agreements to state, local, and Indian tribal governments, contains the standards for recipient financial management systems. Included in those standards is a requirement that the accounting records "should be supported by such source documentation as canceled checks, paid bills, time and attendance records, contract and subgrant award documents, etc." Office of Management and Budget Circular A-87, "Cost Principles for State and Local Governments,"¹ specifies that to be allowable under a grant, costs should be necessary and reasonable for proper and efficient administration of the program. We identified grant expenditures for a loan (\$15,000), rent and utilities (\$9,800), an automobile (\$1,800), kitchen remodeling (\$1,300), consulting fees and salaries (\$7,800), and severance pay (\$70,750) to the former superintendent or his wife that were not adequately supported or justified. We also identified excess travel payments to the former superintendent (\$5,000) and School Board members (\$6,200). These expenditures are detailed as follows:

- The former superintendent received an unsupported \$15,000 payment that was noted in the accounting records as a "loan as per School Board approval." However, the School could not provide written justification for granting the loan or an agreement specifying the terms of the loan. In addition, minutes of School Board meetings did not make reference to this loan.. Also, we found that the former superintendent did not repay the loan and that the severance agreement and mutual release, which was approved by the School Board, for the former superintendent specified that this person was released from all claims related to his employment by the School.

- The School did not charge the former superintendent for rent or utilities for the Bureau-owned house that he lived in while he was employed by the School. In

¹Circular A-87's definition of grantee includes Federally recognized Indian tribal governments.

comparison, when this superintendent was employed by the Bureau as the administrator of the School, he was required to pay monthly rent of \$323 and the utilities. Based on the rental rate charged by the Bureau, the superintendent would have paid rent totaling about \$6,800 for the 21-month period in which he lived in the house when he was employed by the School as the superintendent. He also received about \$3,000 in compensation for utilities for this house. The School could not provide us with a copy of the superintendent's employment contract or other justification for waiving the rent and utility payments.

- The School, with the approval of the School Board, purchased an automobile for the former superintendent's use at a cost of \$15,790, (The automobile was owned by the School and was being used by the current superintendent.) However, there was no employment contract or other justification for the School's action or the School Board's approval of this additional compensation. We also noted, based on records of the bids received, that the School did not select the lowest bidder for the purchase, in that a similar vehicle could have been purchased for \$13,990, or a savings of \$1,800.

- **The School, as part of a \$16,000 project to remodel the kitchen of the residence occupied by the former superintendent, purchased upgraded equipment, including a sandstone sink (\$300), a pullout faucet (\$275), and a 27-cubic-foot refrigerator (\$1,650). There was no written support for buying the upgraded fixtures. Standard versions of the same items would have cost \$78,\$52, and \$800, respectively, or a savings of about \$1,300.**

- In August and December 1993, the School paid the former superintendent's wife \$2,800 in consultant fees for 10 days of work, but the School's financial documents did not specify the purpose of the consultation or why the wife was selected for the position. During this period, the wife was pursuing a bachelor's degree in education and an educator's certificate. The compensation the wife received equated to an annual (school year) salary of \$58,800. The following school year, the superintendent's wife was hired as the School's computer instructor, at an annual salary of \$29,106. Based on the School's salary schedule for teachers, we determined that the wife's annual salary equated to that of a teacher with a master's degree; however, she had only a bachelor's degree. The salary for a teacher with a bachelor's degree was \$24,000, or about \$5,000 less than what the former superintendent's wife was paid. There was no justification for the higher salary.

- The School paid the former superintendent \$70,750 because the School Board terminated his employment contract. According to the severance agreement and mutual release, the former superintendent had an employment contract through June 1996. However, we could not determine the appropriateness of the severance compensation because School personnel could not provide us a copy of the employment contract so that we could verify the terms of the former superintendent's employment. We also noted that the Bureau provided the School with school operations program funds totaling \$70,750 "for the buy-out of superintendent's contract."

- The former superintendent usually received \$75 per day for meals and incidental expenses when he traveled. Circular A-87 provides that travel expenses are an allowable cost to Federal programs when incurred consistently in accordance with the government's policies, regulations, and procedures. However, the School did not have a written policy regarding the reimbursement of meals and incidental expenses. For purposes of evaluating the reasonableness of the School's practice, we computed meals and incidental expenses based on "Travel and Subsistence Expenses; Mileage Allowances" (5 U.S.C. 57), which is the current guidance² for travel under Federal awards. According to the Code, Government rates for meals and incidental expenses ranged from \$26 to \$38 per day depending on the locations and periods of travel. Based on the difference between the rates specified in the Code and the \$75 rate, we estimated that the former superintendent received excess compensation of about \$5,000 for 117 days of travel during the 21-month period ended April 1995. In this regard, the School's financial statement audit also questioned the practice of paying \$75 per day for meals and incidental expenses, because payments exceeded the Federal rates for meals and incidental expenses. We also noted that during the 1995-1996 school year, the present superintendent was properly compensated for meals and incidental expenses based on the rates specified in the Code.

- School Board members and School administrative staff also usually received \$75 per day for meals and incidental expenses when they traveled during the 1993-1994 and the 1994-1995 school years. Based on the rates specified in the Code, we estimated that School Board members received at least \$6,200 in excess of compensation for meals and incidental expenses in the 1993-1994 school year. Nonadministrative School employees were reimbursed for meals and incidental expenses based on the rates specified in the Code.

The financial statement audit for the school year ended June 30, 1994, reported that the School expended about \$290,000 more than it received in revenues. In April 1995, the Office of Indian Education Programs sent a financial specialist to the School to determine its financial status. This individual projected that the School would have a \$442,000 deficit at the end of the 1994-1995 school year unless it reduced unnecessary expenditures. In an April 19, 1995, letter, the Director, Office of Indian Education Programs, told the Chairman of the School Board of the results of the review and made recommendations related to accounting controls and financial management. In the letter, the Director specifically recommended that the School curtail unnecessary expenditures.

Memorandum of Agreement

Although the Bureau and the School have made progress in implementing some of the terms of the September 1994 agreement and the provisions of the Improving America's Schools Act of 1994, significant requirements have not been fulfilled.

²Circular A-87 was revised on May 4, 1995. The revised Circular requires that travel under Federal awards be performed in accordance with 5 U.S.C. 57.

Specifically, the Bureau and the School did not identify the financial resources needed to implement the School's therapeutic model; reports prepared by the implementation team (composed of Bureau, Indian Health Semite, and State of North Dakota and county representatives) were not always timely; a school support team (consisting of Bureau, State, and tribal officials and other professionals) had not been established; and the School did not prepare an annual written plan for the therapeutic model timely. In addition, the School Board and relevant State and local agencies had not completed an agreement regarding child protection and law enforcement because jurisdictional issues related to the School had not been resolved.

Funding. The September 1994 memorandum of agreement between the **Bureau and the School Board states:** "The Bureau assures additional funding to the pilot project. This funding will supplement the School's normal allocation under the Indian School Equalization Formula," The agreement also states that a financial specialist will work with the School's business manager and administrator to develop a budget for the therapeutic model. In addition, the Improving America's Schools Act of 1994 specifies that a determination should be made as to the resources required to transform existing off-reservation boarding schools to meet the needs of youth who attend therapeutic model demonstration schools.

We found that neither the Bureau nor the School adequately identified the financial resources needed to implement the School's therapeutic model. As a result, even though the Bureau provided funds to the School in excess of the School's allocation of Indian School Equalization Formula funds, there was no assurance that the amount was appropriate for operating the therapeutic model. (The Bureau's funding of the School is detailed in Appendix 1.)

The Bureau provided the School with \$4,124,403 to operate the School and the therapeutic model for the 1994-1995 school year. This amount included \$491,411 specifically designated for the operation of the therapeutic model: \$466,411 from the contingency funds of the Director, Office of Indian Education Programs, and \$25,000 from the Drug Free School Program. However, at the time the funding was provided, a budget had not been prepared by the School that identified the financial resources needed to implement a therapeutic model. The Bureau's financial documents did not provide justification for the additional funding for the therapeutic model.

In the spring of 1995, the School's acting superintendent prepared various budgets for the 1995-1996 school year. These budgets included estimated funding needed for a therapeutic model. According to the acting superintendent, these budgets were prepared based on a program that was envisioned after consulting with the School's staff and with implementation team members. However, a July 1995 letter from the Director, Office of Indian Education Programs, informed the School that "due to budget constraints in the Office of Indian Education Programs, the Bureau is unable to provide additional funds for planning and implementation of the therapeutic school model." Consequently, the School prepared a budget for the 1995-1996 school

year of \$3.8 million that was predicated on its historical funding and based on an enrollment of 150 students. Subsequently, in September 1995, the School submitted to the Bureau a budget that specified that the School needed \$500,000 to implement its therapeutic model during the 1995-1996 school year. This budget was based on a therapeutic residential school' plan that was completed in October 1995. In addition, the written plan identified \$325,000 for unmet funding needs for chemical dependency and mental health treatment. In total, School documents indicated that \$825,000 was needed to fund the therapeutic model for the 1995-1996 school year.

For the 1995-1996 school year, the Bureau provided the School \$3,604,794, or \$519,609 less than the amount provided in the prior year. According to the Bureau's financial records, the \$3,604,794 included \$80,000 specifically identified to fund some therapeutic model activities: \$25,000 from the Education of the Homeless Children and Youth Program and \$55,000 from the Drug Free Schools Program. The \$80,000 was \$745,000 less than the amount the School estimated was needed to implement the therapeutic model.

The School has yet to incorporate the funding needs for the therapeutic model in a comprehensive budget for all school activities. Consequently, we could not determine the School's total unmet funding needs since existing sources of funds may be used, with the concurrence of the cognizant Federal agency, to fund a portion of the therapeutic model.

Implementation Team. The agreement between the Bureau and the School Board stated that the Bureau was to establish an implementation team to assist the School in developing a plan specific to its needs. In addition, the implementation team was to make recommendations that would provide the basis for implementing the therapeutic model.

We found that the Bureau established an implementation team that consisted of specialists from the Bureau, the Indian Health Service, and State and county agencies. The Bureau's Branch Chief for Elementary and Secondary Programs headed the implementation team and served as the primary liaison between the Bureau and the School. During the 1994-1995 school year, the implementation team met with School officials on at least six occasions, and all but two of the meetings were at the School. In October 1994, March 1995, and October 1995, the implementation team performed on-site evaluations of the School's implementation of the therapeutic model. In November 1995, the implementation team members were requested to evaluate the School's written therapeutic residential school plan for the 1995-1996 school year. As of April 1996, the Bureau had not provided written comments on the evaluation of the plan.

The Bureau has not always been timely in reporting to the School Board the results of the implementation team's evaluations. For example, although the report on the March 1995 evaluation was issued that month, when the evaluation was performed, the report for the October 1994 evaluation was not issued until February 1995. (Implementation team members stated that a draft report was provided to the School

soon after the October 1994 on-site evaluation.) Both of these reports contained numerous recommendations that were intended to improve the therapeutic model, including the recommendation that the School should prepare a written plan for its therapeutic model. As of April 1996, the Bureau had not issued a report for the October 1995 on-site evaluation. One implementation team member stated that the team's comments on the October 1995 on-site evaluation had been sent to the School; however, School personnel stated that the comments had not been received as of April 1996.

We interviewed six of the ten implementation team members and found that three of the six implementation team members had commented on the latest on-site evaluation and on the annual written plan and that each member had made recommendations to enhance the quality of the School's therapeutic model. However, the Bureau was unable to provide documentation to indicate that this information had been provided to the School,

School Support Team. The memorandum of agreement stated that the Bureau was to establish a school support team in the fall of 1994 to review the School's progress on the therapeutic model at least twice a year and provide annual reports. These reports were to serve as the basis for determining the future needs **and funding of the School. However, the Bureau had not established a school support team.** Office of Indian Education Programs personnel stated that the responsibility for establishing the school support team was informally delegated to the Area Education Program Administrator for the Minneapolis Area Office. However, the Administrator did not establish such a team before she retired in December 1994. Personnel in the Office of Indian Education Programs stated that they had overlooked this requirement.

Annual Written Plan. The Improving America's Schools Act requires that the School provide a therapeutic model based on an annual written plan. In this regard, the implementation team recommended, in February and March 1995, that the **School prepare an annual written plan. In April 1995, a general therapeutic plan was completed for the School.** A more specific therapeutic residential school plan (annual written plan) was prepared in October 1995 for the 1995-1996 school year. The initial delays in preparing a written plan occurred because the legislation authorizing the therapeutic model was not enacted until October 1994, which was after the 1994-1995 school year commenced. In addition, we were told by an implementation team member that the former superintendent "ignored" preparing an annual written plan. Furthermore, the implementation team member also stated that there was confusion between the School and the implementation team regarding the team's role in assisting the School in preparing the written plan.

Implementation team members stated that they believed their role was to provide the School guidance for an annual written plan but not to prepare the plan. To assist the School, the Bureau, in 1993, included the former superintendent in working groups that developed therapeutic residential model concepts and principles for off-reservation boarding schools. The working groups included Bureau and Indian

Health Service representatives, educational and psychological consultants, and principals and school board members of off-reservation boarding schools. Some of these participants later became members of the implementation team. The working groups developed documents that could have been used as guidance or a foundation for preparing an annual written plan for a therapeutic model. However, the former superintendent left the School in April 1995. Although the present superintendent stated that she and her staff had not been provided sufficient guidance by the implementation team to prepare an annual written plan, she and her staff did complete the annual written plan for the 1995-1996 school year in October 1995.

Jurisdictional Issues. The memorandum of agreement between the Bureau and the School Board specified that the implementation team would obtain an agreement between the Wahpeton Indian School Board and relevant State and local agencies for child protection and law enforcement services at the School. In that regard, in March 1994 and again in September 1995, the North Dakota Congressional delegation requested that the Department of the Interior provide a legal opinion regarding the jurisdiction over child protection and law enforcement at the School. At the time of our review in April 1996, personnel of the Office of the Solicitor stated that an opinion regarding this matter had not been issued. However, the School entered into a memorandum of understanding with the City of Wahpeton in September 1995 that gave the City interim authority to pursue suspected juvenile and misdemeanor offenses committed by students on or off the School's campus.

Circle of Nations Wahpeton Indian School and Bureau of Indian Affairs Responses and Office of Inspector General Reply

The June 17, 1996, responses from the Assistant Secretary for Indian Affairs (Appendix 2) and the Superintendent Circle of Nations Wahpeton Indian School (Appendix 3), provided additional information regarding the grant expenditures and the actions the Bureau and the School took to implement the therapeutic model.

Former Superintendent's Compensation

School Response. The School stated that the \$15,000 loan was authorized by the School Board and was "forgiven" at a rate of \$5,000 per year. The School further stated that if the amount of loan forgiveness per year (\$5,000) was added to the salary received, the total compensation package was not "unreasonable" when compared with compensation for comparable education positions. The School also stated that the former superintendent's contract stipulated that he be provided a house on campus and that the utilities be paid by the School. In this regard, the response stated, "It is common in educational circles and in any industry where a person is required to be on call 24 hours a day for that person to be furnished with reasonable accommodations." The School stated that the School Board did not believe the expenditure was "at all unreasonable."

Office of Inspector General Reply. Although the School Board meeting minutes for June 22, 1994, indicated that a 3-year employment contract was approved for the former superintendent, the terms of the contract were not specified. Furthermore, the School could not provide us a copy of the former superintendent's employment contract, which should have: (1) authorized the loan and its forgiveness; (2) waived the rents for the Bureau-owned house; and (3) authorized reimbursement of utilities for the house. The School's statement that the former superintendent's total annual compensation of \$69,777 (salary of \$59,098, loan forgiveness of \$5,000, waiver of rent of \$3,879, and waiver of utilities of \$1,800) was comparable to compensation paid to individuals in similar educational positions was not supported by the School or addressed in our report. However, we did note that the total compensation paid to the former superintendent (\$69,777) in 1994 was 34 percent (\$.17,679) greater than the annualized amount (\$52,062) he would have received in 1993 as a Bureau employee in a similar position.

Automobile Purchase

School Response. The School stated that it initially solicited bids for a new automobile but that the bids were too high. The School said that it subsequently solicited bids for and purchased a used automobile. The School stated that the \$13,990 vehicle did not have "options or quality" that was "comparable" to the \$15,790 vehicle that was purchased.

Bureau Response. The Bureau objected to the characterization of the cost of the automobile as "additional compensation" to the former superintendent on the grounds that title to the automobile is held by the School. With respect to the purchase of the automobile, the Bureau stated that the School was not located near a General Services Administration motor pool and that the School was authorized to purchase automobiles for official travel. The Bureau also stated that the report did not address the age and condition of the automobile, mileage, service agreement, and other factors critical in purchasing a used automobile. Such factors, the Bureau stated, "may well outweigh" the initial savings of \$1,800.

Office of Inspector General Reply. We believe that the School acted prudently in purchasing a used versus a new automobile. However, our report notes that additional funds could have been saved if the less expensive used automobile had been purchased. Both automobiles were for sale by the same dealer, were the same year and model, and were demonstrators. The purchased automobile had been driven 4,300 miles, and the automobile that was not purchased had been driven 3,300 miles. Further, while the School and the Bureau stated that the less expensive vehicle did not have the "options or quality" and that other factors "may well outweigh" the initial cost differential, no support was provided for these assertions. The School also could not substantiate that the less expensive automobile was not sufficient to meet the School's transportation needs. In addition, we noted that the School had obtained other vehicles from a General Services Administration motor pool. Finally, because the automobile was used by the superintendent, we believe that its cost can properly be considered as additional compensation to him.

Kitchen Remodeling

School Response. The School stated that the superintendent's house was "nearly 70 years old" and "almost inhabitable." In addition, the School stated that it had obtained bids for the remodeling project and had attempted to minimize the remodeling cost. The School also stated that, while it was unable to verify the comparable prices we used in the report, the fixtures obtained during the remodeling were "competitively]" priced.

Bureau Response. The Bureau stated that the superintendent's house needed "structural improvements and extensive electrical work." The Bureau also noted that the large capacity refrigerator, the most expensive upgrade, was "a practical item in a rural area."

Office of Inspector General Reply. Based on the School's and the Bureau's responses, we accepted the School's need to remodel the residence and modified our report. However, upgraded items costing \$1,300 were cited in our report as examples of purchases that were not documented by the School as being needed upgrades and of funds that could have been used more efficiently. In that regard, the prices we used as comparable were obtained from vendors in Wahpeton.

Severance Pay

School Response. The School stated that the former superintendent was given a 3-year contract when he was hired. The School further stated that the Bureau "told the [School] Board that unless the former superintendent was dismissed, it would discontinue funding of the School." The School also said that a severance payment of half of the remaining amounts due the superintendent under his contract was "prudent" and resulted in the School Board "saving in excess of \$70,000."

Bureau Response. The Bureau stated that the report "implied]" that the severance agreement may have been "improper" because the School was unable to provide a copy of the former superintendent's employment contract. The Bureau noted that the School Board had broad authority under the Indian Education Amendments Act to use, at the Board's discretion, grant funds to pay education-related administrative expenses. The Bureau also stated that at an April 1995 meeting, Office of Indian Education Program officials "expressed their concerns about the former superintendent to the School Board" and the School Board agreed that early termination of the former superintendent's employment contract was in the School's "best interest."

Office of Inspector General Reply. We do not question the School Board's authority or decision to dismiss the former superintendent or the propriety of entering into a severance agreement. However, since the School could not provide us with a copy of the former superintendent's employment contract, we could not determine whether the amount of the severance compensation was appropriate.

Per Diem for School Board Members

School Response. The School stated that the \$75 per day payment to School Board members for attending a meeting included an “honorarium of approximately \$50.” The School further stated that this was “modest compensation to those School Board members, who receive[d] no other payment for their services to the School.” The School also noted that it had changed its accounting procedures to separate the honorarium from the per diem payment.

Office of Inspector General Reply. There was no indication in the School Board’s charter that its members were eligible to receive honoraria for their services. Therefore, while payment of honoraria is an allowable cost under Circular A-87 when the payment is in conformance with established policy of the government unit, such was not the case here. Accordingly, in addition to changing its accounting procedures to separate the honorarium from the per diem payment, the School Board should amend its policies to allow for the payment of honoraria. Further, as previously indicated, compensation for meals should be based on Federal requirements in 5 U.S.C. 57.

Implementation Team

Bureau Response. The Bureau stated that assistance in addition to that identified in the report had been provided to the School regarding development of a therapeutic model.

Office of Inspector General Reply. Based on the response, we have revised our report to recognize the assistance provided by the Bureau.

Annual Written Plan

School Response. The School stated that the therapeutic plan was prepared in September 1994, before passage of the Act, and that we were provided a copy of the plan during our review. The School further stated that after the first year of the therapeutic model, a consultant evaluated the therapeutic plan and its implementation at the School, and that based on this evaluation, the therapeutic plan was modified and put in place during the 19.95-1996 school year. The School concluded that these actions “more than meet the requirements of the agreements [the School] had” with the Bureau and the Congressional delegation.

Office of Inspector General Reply. At our June 10, 1996, exit conference, the School provided us a copy of a therapeutic plan that was dated April 1995. (This is the earliest therapeutic plan that we were made aware of by the School or the Bureau.) As stated in the report, the implementation team recommended in February and March 1995 that the School prepare an annual written plan for the therapeutic model. Also, in a September 26, 1995, letter to the Office of Indian Education Programs, the North Dakota Congressional delegation stated that a written plan would be developed within 30 days. We believe these actions may

indicate that these parties either were unaware that a written plan had been prepared or believed the existing plan needed to be revised.

General Comments

Bureau Comments. The Bureau stated:

Since the report contains no recommendations for action by the Bureau of Indian Affairs or the Circle of Nations School, we conclude that the concerns that initially prompted [the] request for an independent audit have since been adequately addressed by the School's current superintendent and the School Board.

Office of Inspector General Reply. The absence of recommendations is not an indication that all concerns in the Bureau's November 8, 1995, audit request have been adequately addressed. The Bureau requested an evaluation of financial and program operations. However, we did not evaluate program operations because we did not have the technical expertise to measure the effectiveness of mental health and academic programs designed for the particular needs of Indian children. Accordingly, our report contains no information or recommendations on program operations. During our review, however, we noted that the School had had several evaluations performed by experts in mental health and education and that these evaluations included recommendations to improve the School's program. Furthermore, as indicated in our report (page 2), the scope of our review was to determine whether grant funds were spent in accordance with grant agreements and whether the Bureau complied with the September 1994 agreement. Since the purpose of our review was to present information on the Bureau's compliance, we did not make recommendations on issues of noncompliance. However, our report identifies several matters that adversely impacted the School's implementation of the therapeutic model, and we believe that the Bureau should focus its efforts on completing implementation of the agreement. Specifically, the Bureau did not comment on: (1) adequate funding for the therapeutic model and an integrated budget for all school activities; (2) the untimely reporting of on-site evaluation results and recommendations to the School Board and whether a report was issued for the October 1995 on-site evaluation; (3) the sufficiency of the School's October 1995 written therapeutic residential school plan; and (4) the status of a school support team.

**BUREAU OF INDIAN AFFAIRS FUNDING OF THE
CIRCLE OF NATIONS WAHPETON INDIAN SCHOOL
FOR SCHOOL YEARS 1994-1995 AND 1995-1996**

<u>PROGRAM</u>	<u>SCHOOL YEAR</u> <u>1994-1995</u>	<u>SCHOOL YEAR</u> <u>1995-1996</u>
School Operational ¹	\$2,353,411 ²	\$2,053,000
Transportation	131,200	110,500
Administrative Cost Grant	455,050	509,600
Handicapped (Ideas)	162,217	136,286
Handicapped (Ideas - Arts)		100
Drug Free Schools	70,600 ³	110,750
Drug Free Schools (Ropes)		55,000 ⁴
Title I, Part A	158,100	138,500
Title II, Part B		4,100
Facilities Operations and Maintenance	634,473	433,300
Homeless Assistance		25,000 ⁴
Goals 2000		28,658
Substance - Alcohol	13,200	
Facilities - Emergency	134,152	
Human Services	<u>12,000</u>	<u> </u>
Total	<u>\$4,124,403</u>	<u>\$3,604,794</u>

¹Included funds of \$1,806,100 and \$1,961,000 that were received through the Indian School Equalization Program for the 1994-1995 and the 1995-1996 school years, respectively.

²Included \$466,411 that was designated for the therapeutic model.

³Included \$25,000 that was designated for the therapeutic model.

⁴Total amount was designated for the therapeutic model.



Douglas W. Coster
Audit Supervisor
U.S. Department of the Interior
Office of Inspector General
Central Region
134 Union Blvd., Suite 510
Lakewood, CO 80228

888 North 8th Street
Wahpeton, North Dakota 58075
701-642-8796 - Administration Office
701-642-4901 - School Building
701-642-8880 - Fax

June 17, 1996

Re: Response of the Circle of Nations School to the Preliminary
Draft Special Report of the U.S. Department of Interior,
Office of Inspector General, Dated May 1996

Dear Mr. Coster:

Thank you for the opportunity to respond to the Preliminary Draft Special Report dated May 1996 of the Office of the Inspector General, U.S. Department of Interior. As you know, that report was received in this office on May 31, 1996. You requested this response by June 14, 1996, which seems to us to be an unreasonably short period of time. Nonetheless, we are sending these comments with the understanding that you will allow us to supplement all comments as further issues arise.

We respectfully disagree with several conclusions reached in the report. In reaching this conclusion, we have researched the records of the school, spoken to members of the board of directors and its attorney, and done, in the short period of time that we had, an extensive investigation. The remainder of this letter will itemize significant areas of disagreement.

Expenditures

Your report identified a number of expenditures and concluded that these expenditures were either unwarranted or not supported by necessary documentation. We vigorously dispute most of these conclusions.

Loan to Former Superintendent (\$15,000). This loan was authorized by a motion of the board of directors and was essentially additional compensation to the former superintendent. The loan total was \$15,000, and the loan was forgiven at a rate of \$5,000 per year. Because the school is a grant school, the board of directors retains discretion over the amount of compensation paid to the superintendent.

Douglas W. Coster
June 17, 1996
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Even if you add the amount of loan forgiveness per year of \$5,000 to the amount of money the superintendent received in salary, the total compensation package was not unreasonable given that paid to individuals with comparable positions in the educational field.

Rent and Utilities (\$9,000). As part of the superintendent's contract, he was furnished a house on campus and the utilities were paid on this house. This was not an unreasonable thing to do since the superintendent was on call 24 hours a day during the school year to respond to numerous emergencies and crises that occur at the school. It is common in educational circles and in any industry where a person is required to be on call for 24 hours a day for that person to be furnished with reasonable accommodations. The board does not believe that this expenditure was at all unreasonable.

Automobile (\$15,790). The school purchased an automobile for the use of the school at a price of \$15,790. The title is issued in the name of the school and the automobile remains on the school premises for use by the school. Initially, bids were solicited for a brand new automobile, but the cost was deemed to be too high. Therefore, subsequent bids were sent out for a used car. The assertion that a similar vehicle could have been purchased for \$13,990 is simply wrong. The vehicle referenced in this report did not have comparable options or quality. The board acted fiscally prudently in purchasing a used automobile for use of the school at \$15,790.

Kitchen Remodeling (\$16,000). The superintendent's house is nearly 70 years old. The kitchen remodeling required redoing both the plumbing and the electrical system. Prior to the remodeling, the house was almost inhabitable. Bids were sought and the school sought to minimize the expense of this remodeling. The sum of \$16,000 is not unreasonable at all. We have no idea where the Inspector General got its figures for the three items mentioned that could have been obtained more cheaply. Suffice it to say, the prices we obtained from local suppliers were competitive in the Wahpeton area.

Severance Pay (\$70,750). When the former superintendent was hired, he was given a three year contract as evidenced both in the minutes of the board meeting and in the notes kept by the secretary of the meeting. We were advised by counsel that those writings could be sufficient under North Dakota law to constitute a valid and binding contract. The Bureau of Indian Affairs told the board that unless the former superintendent was dismissed, it would discontinue funding of the school.

Douglas W. Coster
June 17, 1996
Page 3

Therefore, the board had little choice but to dismiss the superintendent. Payment of half of the remaining amounts due under his contract (one year's salary as opposed to two year's salary) was prudent in resulting the board saving in excess of \$70,000 which would have been required to pay out the full amount on the contract.

Payment of Excessive Per Diem to Board Members for Attendance of Meetings. The Inspector General claims that payment of \$75 per day to members of the board of directors for attendance of the meeting was excessive given the lower federal government per diem rate of \$26 - \$38 per day depending on the locations and the periods of travel. What the report fails to note, however, is that the \$75 per day included an honorarium of approximately \$50 per day for each board member. This is modest compensation for board members who receive no other payment for their services to the school. We have, however, changed our accounting procedures to separate the honorarium from the per diem payment so that that is clear in the future.

Failure to Prepare an Annual Written Plan in a Timely Manner

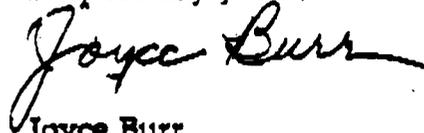
The Report of the Inspector General claims that the Circle of Nations School did not prepare an annual written plan for a therapeutic model in a timely manner. In fact, this is wrong. The therapeutic plan was prepared in September of 1994 by the Circle of Nations School prior to the implementation of therapeutic law. This report has been furnished to the Inspector General's office. In addition, after the first year of therapeutic model, a consultant was hired to critic the therapeutic plan and its implementation at the school. Based on this critic, a modified therapeutic plan was adopted by the school and put in place during the 1995 school year. We believe that the actions of the school more than meet the requirements of the agreements it has had with the BIA, the congressional delegation, and the government regarding written planning.

Douglas W. Coster
June 17, 1996
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Conclusion

We respectfully **submit that several of the conclusions reached in the Inspector General's Report are inaccurate and** erroneous and should be modified or disregarded.

Respectfully yours,

A handwritten signature in black ink that reads "Joyce Burr". The signature is written in a cursive style with a long horizontal flourish at the end.

Joyce Burr
Superintendent, Circle of Nations
School

Attachments

[NOTE: ATTACHMENTS NOT INCLUDED BY OFFICE OF INSPECTOR GENERAL.]



United States Department of the Interior

OFFICE OF THE SECRETARY
Washington, D.C. 20240

JUN 17 1996

Memorandum

To: Assistant Inspector General for Audits

From: Ada E. Deer *Ada E. Deer*
Assistant Secretary - Indian Affairs

Subject: Preliminary Draft Report on Selected Aspects of the Circle of Nations Wahpeton Indian School, Report No. C-IN-BIA-004-96

We have reviewed the preliminary draft report of the Circle of Nations School which was conducted in response to my request and requests from members of Congress from the State of North Dakota.

Since the report contains no recommendations for action by the Bureau of Indian Affairs or the Circle of Nations School, we conclude that the concerns that initially prompted my request for an independent audit have since been adequately addressed by the School's current superintendent and the School Board. However, we would like to comment on (1) the factual accuracy of some of the specific findings in regard to possible misuse of federal grant funds and (2) the omission of special efforts made by the Bureau's Office of Indian Programs (OIEP), as well as the Indian Health Service (IHS) of the Department of Health and Human Services, to assist the School in developing a new therapeutic model for off-reservation boarding schools.

Prior Audit Coverage

On page 5, the report states, "In March 1996, the School Board awarded a contract for the single audit for the" fiscal year ended June 30, 1995." It is important to note that in order to be in compliance with the Single Audit Act, the School must submit a report to the Department of the Interior within 13 months of the end of the fiscal year. The School's audit is not due into the Department until July 31, 1996. We have spoken with the CPA firm that performed the audit for fiscal year 1995, and they have informed us that the draft report will be issued to the school for comment the week of June 17. Because the firm has been communicating on an ongoing basis with the School, the firm expects to be able to incorporate the School's response into the final report and submit it to the Department within the required timeframe.

Expenditures

The report's findings with respect to certain expenditures should be modified based on the following information:

Purchase of an Automobile

On page 7 the report states that, “The School, with the approval of the School Board. purchased an automobile for the former superintendent at a cost of \$15,790, which, in effect, was additional compensation.” The report continues that, “We also noted, based on the records of the bids received. that the School did not select the lowest bidder for the purchase, in that a similar vehicle could have been purchased for \$13,990, or a savings of \$1,800,”

The report failed to note three important facts:

- (1) The title to the automobile is held by the School, not the superintendent. Since the superintendent is no longer at the School, and the car is still at the School, the statements regarding additional compensation should be deleted.
- (2) Similar to many BIA schools, the Circle of Nations School is not located near any GSA car pools or car rental agencies and is authorized to purchase automobiles for official travel.
- (3) The School actually obtained two sets of bids - the first set was for a new car, and the second set was for a used car. The School decided that a new car was too expensive and purchased a used vehicle. The report does not address the age and condition of the car, mileage, service agreement and other factors critical in purchasing a used car. Such factors may well outweigh an initial savings of \$1,800.

Kitchen Remodeling

On page 8 the report states that the School “spent \$16,000 to remodel the kitchen of the former superintendent’s house...” In fact, the School holds title to the house, not the former superintendent. As an off-reservation boarding school, the Circle of Nations School provides quarters for its superintendent who must be on call at all times. The house is more than 60 years old and needed structural improvements and extensive electrical work such as new wiring, outlets and circuit box. The report does not question the need for the remodeling, but only \$1,295 in upgrades for three kitchen appliances. The most expensive upgrade was a large capacity refrigerator which is a practical item in a rural area,

Buyout of Superintendent’s Contract

On page 9, the report implies that the severance agreement with the former superintendent may have been improper since the auditors were unable to review the original employment contract. The School Board had broad authority under Section 5204(a) (3) (A) of the Indian Education Amendments Act (Public Law 100-297), which states: “, grants provided under this part shall be used to defray, **at the discretion of the school board**, any expenditures for education-related activities. including but not limited to. .(1) school operations, academic, education, residential guidance and counseling and **administrative** purposes....” [Emphasis added.]

During a meeting in April 1995, OIEP officials expressed their concerns about the former superintendent to the School Board. The Board agreed that it was in the School's best interest to terminate early the three-year contract with the superintendent. After discussions with the superintendent, the Board determined that the quickest, most cost effective method to end the contract was through the agreed-upon buyout.

Memorandum of Agreement

We believe that important information is missing from this section with respect to the efforts made by both OIEP and the IHS. The OIEP provided an Education Specialist for the first two weeks of the project to assist in the development of a therapeutic plan and provided continued assistance on a bi-weekly basis. Also, although the report indicates that there were only three implementation visits during the 1994-1995 School Year, there were at least six visits between the School and all but two were onsite. Additionally, under separate agreements, Drs. David Beaulieu, Minnesota Commissioner for Human Rights and member of the Indian Nations at Risk Task Force, and Rick St. Germaine, University of Wisconsin Professor of Education, were commissioned to conduct reviews of the School. Recommendations from these studies were provided to the School on January 3, 1994 and April 11, 1994 and were separate from the Implementation Team reports.

Staff of the IHS Mental Health/Social Services Programs were available on a fairly frequent basis to participate in the Implementation Team meetings and other activities involved in assisting the School. The Substance Abuse Branch also participated in the Implementation Team meetings and provided additional assistance. In December of 1995, the IHS Headquarters Mental Health Program provided staff training. Training consultants included a residential treatment/juvenile justice specialist and the Chief of the Children's Section from the Mental Health/Social Semite Programs Branch.

Because your office requested comments within only two weeks, the School has not had sufficient time to complete its assessment of the preliminary draft report and provide additional clarifying information. The School Board members should also have the opportunity to review the School's formal response before it is submitted to the Bureau. We believe the courtesy of providing the usual 30-day response period should have been considered in your schedule. Since you subsequently notified us that this would be the only opportunity to respond, we will, therefore, forward any expanded comments received from the School Board to you and the North Dakota Congressional Delegation.

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