



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

# **AUDIT REPORT**

**STUDENT BANK AT  
SOUTHWESTERN INDIAN  
POLYTECHNIC INSTITUTE**

**REPORT NO. 97-I-1301  
SEPTEMBER 1997**



# United States Department of the Interior

OFFICE OF INSPECTOR GENERAL  
Washington, D.C. 20240

OCT - 7 1997

## MEMORANDUM

TO: The Secretary

FROM: Wilma A. Lewis  
Inspector General

SUBJECT SUMMARY: Final Audit Report for Your Information - "Student Bank at Southwestern Indian Polytechnic Institute" (No. 97-I-1301)

Attached for your information is a copy of the subject final audit report. The objective of the audit was to determine whether the Southwestern Indian Polytechnic Institute administered the student bank in accordance with applicable requirements.

Although the Institute did not operate the student bank in complete compliance with applicable requirements, we concluded that the Institute did adequately account for student bank funds. Specifically, the commercial checking account was adequately supported by subsidiary accounts; recorded transactions were supported by proper documents such as deposit receipts, withdrawal slips, and payment vouchers; withdrawal slips and requests for voucher payments were approved by authorized individuals; club account files contained plans of operation and periodic statements were sent to all of the clubs that we reviewed; interest earned from the school bank's commercial bank account was used for authorized purposes; and the school bank facility was adequate to safeguard funds. However, we noted that the Institute transferred unclaimed student deposits and fees of \$12,486 to the Institute's Foundation rather than refunding this amount to the students, as required by the Bureau of Indian Affairs Manual, or crediting this amount to the Bureau's appropriation, as required by the United States Code. Also, the Institute did not ensure that personnel complied with applicable Manual requirements and/or the Institute's plan of operations regarding controls over certain student bank operations.

Based on the response from the Assistant Secretary for Indian Affairs, we considered four of the report's five recommendations resolved and implemented and the remaining recommendation resolved but not implemented.

If you have any questions concerning this matter, please contact me at (202) 208-5745 or Mr. Robert J. Williams, Assistant Inspector General for Audits, at (202) 208-4252.

Attachment



# United States Department of the Interior

OFFICE OF INSPECTOR GENERAL  
Washington, D.C. 20240

SEP 30 1997

## AUDIT REPORT

### Memorandum

To: Assistant Secretary for Indian Affairs

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

Subject: Final Audit Report on the Student Bank at Southwestern Indian  
Polytechnic Institute (No. 97-I-1301)

## INTRODUCTION

This report presents the results of our audit of the student bank at Southwestern Indian Polytechnic Institute. The objective of the audit was to determine whether the Institute administered the student bank in accordance with applicable requirements.

## BACKGROUND

The Institute, located in Albuquerque, New Mexico, was established in 1971. According to the Institute's Board of Regents, the mission of the Institute is to provide a:

. . . post-secondary learning environment within which, American Indian students: reinforce academic capabilities, develop foundations in mathematics, science, communication and the humanities and acquire advanced technical, scientific, administrative, social, political and business skills needed by industry and tribal governments to stimulate commercial development, produce quality products, protect traditions, manage natural resources, administer tribal affairs and increase employment opportunities throughout the national Indian community.

Student enrollments at the Institute for the semesters that began in September 1994 and September 1995 were 639 and 643, respectively, and the funding from the Bureau of Indian Affairs for fiscal years 1995 and 1996 was about \$5.5 million for each year.

The student bank provided services for enrolled students, student clubs, and the Institute's Financial Aid and Accounting Departments that included servicing individual and student activity accounts, cashing checks, and collecting and disbursing registration fees. The student bank also collected and recorded transcript fees and replacement fees for items such as lost library books or room keys. The Institute's Financial Aid Department also used the student bank to record the receipt and disbursement of Federal and tribal aid to individual students.

The Bureau of Indian Affairs Manual (62 BIAM 8.1-.7) requires that written plans of operation be prepared for student banks and for each student activity or club. According to the Manual, the plan should include the title of the student activity or club, purpose and membership requirements of the activity or club, a description of how student activity or club funds are to be used, and a description of the system that is to be used to account for the funds. For student banks, the Manual requires that the bank be operated to safeguard student activity and personal funds and to provide for the deposit, withdrawal, and accounting of personal funds for individual students.

The Manual has procedures for receiving and recording deposits, paying and recording withdrawals, making payments to vendors for depositors, balancing accounts, issuing periodic statements to depositors, and closing accounts and disposing of unclaimed balances. In addition, the Manual requires the bank to have insurance coverage to protect student bank funds on hand and those funds that are in transit to commercial depositories.

During the 1994-1995 school year, the student bank administered 205 individual, 16 student club, and 66 tribal or agency financial aid accounts. During the 1995-1996 school year, the student bank administered 165 individual, 19 student club, and 77 tribal or agency financial aid accounts. The student bank also maintained six other accounts during the two school years: (1) an interest account, which recorded the amount of interest for the commercial checking account; (2) an overage/shortage account, which recorded overages and shortages from daily transactions; (3) a student deposit account for refundable deposits; (4) an unclaimed funds account for student deposits that were not claimed by students; (5) a collections account for fees received for lost items; and (6) a transcript account for fees collected for student transcripts. The student bank used an interest-bearing commercial checking account to secure deposits that exceeded the student bank's daily cash needs. Total deposits and total disbursements, including adjustments related to the commercial checking account, were \$95 1,375 and \$949,011, respectively, during the 1994-1995 school year, and the account balance at the end of that school year was \$20,843. Total deposits and total disbursements, including adjustments related to the commercial checking account, were \$718,769 and \$720,475, respectively, during the 1995-1996 school year, and the account balance at the end of the school year was \$19,137.

## **SCOPE OF AUDIT**

Our audit was conducted from February through July 1997 at the Institute's student bank office and focused on bank activities that occurred during the 1994-1995 and 1995-1996 school years. To assist us in meeting our objective, we reviewed the requirements for student

bank operations and interviewed bank and Institute personnel regarding operations, financial aid, accounting procedures, and student clubs. For the 1994-1995 school year, we reviewed the transactions recorded in 13 individual, 4 club, and 6 financial aid accounts, and for the 1995-1996 school year, we reviewed the transactions recorded in 10 individual, 3 club, and 11 financial aid accounts. In addition, we reviewed, for both school years, the transactions recorded in the interest, overage/shortage, transcript, student deposit, unclaimed funds, and collections accounts. We selected the accounts reviewed based on both the volume of transactions and on the highest amount of the account balances at the end of each school year.

Our audit was conducted in accordance with the "Government Auditing Standards," issued by the Comptroller General of the United States. Accordingly, we included such tests of records and other auditing procedures that were considered necessary under the circumstances. We also reviewed the Secretary's Annual Statement and Report to the President and the Congress, which is required by the Federal Managers' Financial Integrity Act, for fiscal years 1994 and 1995 and determined that the Secretary had not reported any material weaknesses related to the Institute's student bank.

## **PRIOR AUDIT COVERAGE**

During the past 5 years, the General Accounting Office has not issued any reports related to the Institute's student bank. However, the Office of Inspector General has issued one report that addressed the Institute's student bank. The audit report titled "Followup of Recommendations Concerning Southwestern Indian Polytechnic Institute, Bureau of Indian Affairs" (No. 93-I-657), issued in February 1993, stated that the Institute improperly used interest earned on the commercial checking account to fund student graduation activities in 1991 and 1992. The report further stated that the use of interest earnings was not in accordance with the Bureau of Indian Affairs Manual (62 BIAM 8.7G(14)) requirement which specifies that interest "may be expended in payment of insurance premiums and other necessary expenses of [bank] operations. " In August 1992, the Director, Office of Indian Education Programs, authorized the president of the Institute to expend interest earned on the commercial checking account on events, activities, and material items "which clearly and solely benefit all, or a specific portion of the student body" and stated that such expenditures were not to exceed \$4,000 in any fiscal year. The report recommended that the Manual be revised to reflect this new policy.

## **RESULTS OF AUDIT**

Although the Southwestern Indian Polytechnic Institute did not operate the student bank in complete compliance with applicable requirements, we concluded that the Institute adequately accounted for student bank funds. In that regard, we found that the commercial checking account was adequately supported by subsidiary accounts; recorded transactions were supported by proper documents such as deposit receipts, withdrawal slips, and payment vouchers; withdrawal slips and requests for voucher payments were approved by authorized individuals; club account files contained plans of operation and periodic statements were sent

to all the clubs we reviewed; interest earned from the school bank's commercial bank account was used for authorized purposes; and the school bank facility was adequate to safeguard funds. However, we noted that the Institute transferred unclaimed student deposits and fees of \$12,486 to the Institute's Foundation<sup>1</sup> rather than refunding this amount to the students, as required by the Bureau Manual, or crediting this amount to the Bureau's appropriation, as required by the United States Code. Also, the Institute did not ensure that personnel complied with applicable Manual requirements and/or the Institute's plan of operations regarding controls over certain student bank operations.

## Unclaimed Student Deposits and Fees

The Institute improperly disbursed \$12,486 of unclaimed student deposits and fees collected for lost books or dormitory room keys and for transcripts to the Institute's Foundation rather than refunding the deposits to the appropriate students and crediting fees collected to the Bureau's appropriation.

The Bureau Manual (62 BIAM 8.12) specifies that when students permanently leave school, funds in their accounts are to be returned to them and the accounts are to be closed. The Manual further states that **if the** students do not request the funds in their accounts, immediate and aggressive action should be taken to locate the students and forward the balances in their accounts to them. In addition, the Manual states that if the student is not located within a reasonable period (which is not defined), the account is to be closed by transferring the balance to a general student activity fund (unclaimed funds account), which would be subject to claim and payment upon the student's request. (The Manual does not specify the ultimate disposition of these funds if they are not claimed by the students.) However, we found that students frequently did not request refundable deposits when they left the Institute and that the student bank did not take sufficient action to locate those students. Student bank personnel generally attempted to contact each student through a telephone call when the bank was notified that the student had withdrawn **from** the Institute, but **followup** calls or letters were not used to inform students that they had funds due them. The bank transferred funds not requested by the students to the bank's unclaimed funds account and subsequently disbursed the funds to the Institute's Foundation.

The United States Code (25 U.S.C. 14b) specifies that the Secretary of the Interior is authorized to retain collections from payments for goods and services provided by the Bureau. The Code states, "Collections shall be credited to the appropriation account against which obligations were incurred in providing such goods and services." However, neither the bank nor the Accounting Department initiated action to transfer fees collected for lost items to the Bureau's appropriation account.

---

<sup>1</sup> The Foundation is a tax-exempt organization that coordinates fund-raising activities for the Institute and administers grants, bequests, gifts, donations, and endowments as authorized by the Institute's Board of Regents.

Student bank personnel stated that they were directed by the Institute's president, in a May 1995 memorandum to disburse the unclaimed student deposits and the fees collected to the Foundation. As a result, in May 1995, the student bank issued to the Foundation two checks, totaling \$12,486, which consisted of unclaimed student deposits (\$8,098) and fees collected for lost books and keys (\$4,300) and for transcripts (\$88). The Institute's president provided the following written statement relative to the disbursements to the Foundation:

Prior to School Year 1994-1995, there were inadequate, if any, procedures established and used by Student Bank personnel regarding unclaimed student deposits and fees. As a result of this, approximately \$12,486 accumulated over a 20-22 year period and was maintained in three Student Bank accounts: A) Unclaimed Student Funds (\$8,098); B) Lost Books and Keys (\$4,300); and C) Transcripts (\$88). Once this was discovered by the SIPI [Southwestern Indian Polytechnic Institute] President, a memorandum was issued in May, 1995, directing that these funds be transferred to the Institute's Support Foundation account. The purpose of this directive was to ensure greater accountability and control of the funds to guard and prevent any possible misuse of the funds. At the time, Student Bank personnel stated that all possible effort had been given to locating students with unclaimed deposits but, however, due to the timeframes (I 972-I 994) many students simply could not be located.

We concluded, as previously stated, that the Institute adequately accounted for student bank funds but that the student bank generally did not take aggressive action to locate students and forward the balances in their accounts. Specifically, when students could not be located by initial telephone calls, the student bank did not make **followup** calls or issue letters to inform the students that they had funds due them. We believe that refunding the deposits to the students should be a priority of Institute personnel.

## **Compliance Issues**

We identified instances in which the Institute did not comply with the requirements of the Bureau Manual (62 BIAM) or the Institute's plan of operation regarding controls over student bank operations as follows:

Monthly reconciliations of the student bank's commercial checking account were performed by the bank teller rather than by an employee who was independent of the student bank. This control ensures proper segregation of the check writing, check posting, and check reconciling functions. As a result of our discussion of this matter with the bank teller, the March 1997 bank statement was independently reconciled by an individual of the Accounting Department.

- Periodic bank statements were not prepared for all student accounts. This control informs students of their account balances and activity and provides a control over the proper recording of transactions through student confirmations of their account activity.

- Revenues from club fundraising activities were not supported by records of receipts or sales journals. This control ensures that all revenues collected are deposited into the student bank.

- Withdrawal slips were not marked “paid” by the bank teller when payments were made. This control helps to prevent duplicate payments.

The student bank did not account for prenumbered deposit, withdrawal, voucher payment, and journal voucher documents. This control ensures that all transactions are accounted for and posted to the appropriate accounts.

- Copies of deposit slips for transcript fee deposits were not provided to the Institute’s records clerk. This control ensures that the appropriate amount of fees is deposited into the transcript account.

- The bank supervisor was not designated in writing by the Institute’s president. This control ensures that the bank supervisor is notified of his responsibilities. After we requested a copy of the written designation, the bank supervisor obtained a designation, dated February 19, 1997, and provided a copy to us.

- The bank supervisor did not have access to the combination to the student bank’s safe. This control ensures that an authorized individual has access to student bank funds in case of an emergency. In addition, the bank supervisor notified us that the combination to the safe had not been changed when the previous supervisor left in February 1994. In February 1997, the Institute had a locksmith change the combination, and the Institute purchased a lockable security box and secured the safe’s combination.

We concluded that these weaknesses existed because student bank and other Institute personnel did not enforce internal control requirements. Our tests of student bank transactions did not identify any adverse effects that resulted from these instances of noncompliance. However, we believe that compliance with these requirements would help ensure that internal controls over student bank funds are operating as designed.

## **Recommendations**

We recommend that the Assistant Secretary for Indian Affairs ensure that:

1. Funds improperly transferred to the Institute’s Foundation are returned to the appropriate accounts.

2. Written notices are sent to students who had deposit balances remaining in their accounts when they left the Institute.

3. Policies and procedures are developed for disposing of unclaimed deposits after aggressive actions fail to locate students.



4. Fees collected from payments for items such as lost books or keys and for transcripts are credited to the Bureau's appropriate fiscal year appropriation-

5. Institute personnel comply with the requirements of the Bureau of Indian Affairs Manual (62 BIAM) and the Institute's plan of operation regarding controls over student bank operations, including the specific requirements cited in this report.

## **Bureau of Indian Affairs Response and Office of Inspector General Reply**

In the September 11, 1997, response (Appendix 1) from the Assistant Secretary for Indian Affairs, the Bureau concurred with Recommendations 1, 3, and 4; nonconcurred with Recommendation 2 but provided an alternative plan for resolving the recommendation; and partially concurred with Recommendation 5. Based on the response, we consider Recommendations 1, 2, 3, and 4 resolved and implemented and Recommendation 5 resolved but not implemented. Accordingly, the unimplemented recommendation will be referred to the Assistant Secretary for Policy, Management and Budget for tracking of implementation.

### **Recommendation 2. Nonconcurrence.**

**Bureau of Indian Affairs Response.** The Bureau stated that "as a result of the audit work," the Institute's staff had initiated actions to identify former students who had unclaimed deposits and to refund the deposits. Specifically, according to the Bureau, the staff sent letters to 43 former students notifying them that they had unclaimed deposits totaling \$645 and received responses from 11 former students that resulted in refunds totaling \$230. The Bureau said that based on the results of this effort, it determined that it would not be cost effective to refund the remainder of the unclaimed student deposits. Furthermore, the Bureau stated that because the amounts were "de minimis" (minimal) and the unclaimed deposits had accumulated over a 25-year period, the Bureau proposed to resolve the recommendation by crediting the Institute's appropriation account with the remaining unclaimed funds rather than continuing with implementation of the recommendation. The Bureau also stated that the unclaimed student deposits would be transferred to the Institute's appropriation account upon resolution of the recommendation.

**Office of Inspector General Reply.** Based on the actions planned, we consider the recommendation resolved and implemented.

### **Recommendation 5. Partial concurrence.**

**Bureau of Indian Affairs Response.** The Bureau stated that the Institute is complying with the Bureau of Indian Affairs Manual and the student bank's plan of operations control requirements in that students are provided monthly statements, withdrawal slips are marked paid, prenumbered control documents are used, and the records clerk is provided copies of deposit slips. The Bureau also stated that the Institute had established a policy to require students to obtain banking services from commercial facilities and that the Institute plans to

revise the plan of operations regarding controls over student bank operations to conform to the policy of requiring students to obtain commercial banking services by November 1997. Further, the Bureau stated that updated procedures for student activity clubs would be developed. Based on a subsequent discussion with Bureau officials, the target date for completing the procedures is March 31, 1998.

**Office of Inspector General Reply.** Based on the actions planned, we consider the recommendation resolved but not implemented.

Since the report's recommendations are considered resolved, no further response to the Office of Inspector General is required (see Appendix 2).

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

We appreciate the assistance of Bureau of Indian Affairs personnel in the conduct of our audit.



# United States Department of the Interior

OFFICE OF THE SECRETARY  
Washington, D.C. 20240

SEP 11 1997

## Memorandum

To: Assistant Inspector General for Audits

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

Subject: Draft Audit Report on the Student Bank at Southwestern Indian Polytechnic Institute (SIPI) (Assignment No. C-IN-BIA-005-97)

We appreciate the opportunity to respond to the draft audit report. On page 6 of the draft report, it is noted that certain actions were taken by the staff at SIPI during the audit field work. Specifically, the bank supervisor received the required written designation, and the combination to the safe was changed. Based on the report, SIPI has made several other changes: current students are now provided month-end statements; withdrawal slips are being marked "paid"; prenumbered deposit, withdrawal, voucher payments, and journal documents are being used to improve controls; and the accounting office is providing the records clerk with copies of the deposit slips for transcript fees.

As part of SIPI's on-going review of administrative practices, it has been decided that many of the student banking services will no longer be provided after the end of this calendar year. There is a commercial bank less than 1/4 mile from campus, and students will be advised that they should make appropriate arrangements with this bank, or any other bank of their choosing, to meet their needs for checking or savings accounts.

Our response to the specific recommendations contained in the report is provided below.

**Recommendations:** We recommend that the Assistant Secretary for Indian Affairs ensure that:

1. Funds improperly transferred to the Institute's Foundation are returned to the appropriate accounts.

**Response:** The Bureau concurs. The Foundation has refunded \$12,486 to SIPI (Attachment 1). Of this amount, SIPI has sent \$4,388 to the Division of Accounting Management for deposit to the credit of the Operation of Indian Programs appropriation account (Attachment 2). The remaining funds have been deposited in SIPI's checking account, pending the disposition of this audit.

2. Written notices are sent to students who had deposit balances remaining in their accounts when they left the Institute.

**Response:** The Bureau does not concur. As a result of the audit work, SIPI staff began a review of student files in an effort to identify those former students with unclaimed deposits. The former student files are maintained alphabetically. A staff member at SIPI has completed a review of all of the "A" files and half of the "B" files. As a result of this review, SIPI mailed notices to 43 prior students, who, according to the records, had unclaimed refundable deposits totaling \$645 (an average of \$15 per person). As of September 4, 1997, eleven individuals have requested refunds totaling \$230 (an average of \$21 per person). The smallest refund is \$4 and the largest is \$50.

Based upon this experience, we estimate that it would take approximately 200 hours just to complete the file search. The cost of searching the files, preparing and mailing the letters, issuing checks to those requesting refunds, and the related accounting and other administrative costs associated with implementation of this recommendation is estimated to be about \$5,000. This does not consider the impact on current operations of work which would have to be delayed to complete this process. If it is assumed 35 to 40 percent of the funds will be claimed, the amount returned would be between \$2800 and \$3240. Given the de *minimis* individual amounts involved and the fact that the funds accumulated over a 25 year period, we believe that the interests of the government would best be served by crediting the remaining funds to SIPI's appropriation rather than continuing with implementation of the audit recommendation.

3. Policies and procedures are developed for disposing of unclaimed deposits after aggressive actions fail to locate students.

**Response:** The Bureau concurs. As noted above, SIPI will no longer hold students' personal funds. Subsidiary records of refundable deposits will be maintained. When a student leaves without claiming the amount of any refund which is due, SIPI will provide a written notification to the former student within one month. If the letter is returned as undeliverable and no forwarding address is provided, the amount due to that individual will be credited to the appropriation account. If the letter has not been returned or answered within 30 days, a second letter will be sent. If no response is received within 30 days of the second letter, the funds will be credited to the appropriations account. Should a former student contact SIPI after the funds have been transferred to the appropriations account, funds will be disbursed directly **from** the appropriation account to the former student. We consider this recommendation to be resolved and implemented.

4. Fees collected **from** payments for items such as lost books or keys and for transcripts are credited to the Bureau's appropriate fiscal year appropriation.

**Response:** The Bureau concurs. As noted in the response to the first recommendation, the amount previously held for lost books, keys, and transcripts has been forwarded to the Division of Accounting Management. Rather than make numerous small deposits to the appropriation account, SIPI will hold the funds in its commercial account and will make the transfers to the appropriations account annually or when the amount reaches \$5000, whichever first occurs. We consider this recommendation to be resolved and implemented.

5. Institute personnel comply with the requirements of the Bureau of Indian Affairs Manual (62 BIAM) and the Institute's plan of operation regarding controls over student bank operations, including the specific requirements cited in this report.

**Response:** The Bureau partially concurs. SIPI will be revising its plan of operations in line with requiring students to obtain banking services from commercial facilities. SIPI's revised banking plan will be completed by November 1997 and submitted to the Director, Office of Indian Education Programs, for approval. Mr. Frank Kekahbah, Registrar, is responsible for the completion of this action. Updated procedures for student activity clubs will be developed. Mr. Joe Jaramillo, Dean of Student Services, is responsible for this action.

#### Attachments

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

## STATUS OF AUDIT REPORT RECOMMENDATIONS

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

**ILLEGAL OR WASTEFUL ACTIVITIES  
SHOULD BE REPORTED TO  
THE OFFICE OF INSPECTOR GENERAL BY:**

---

Sending written documents to:

Calling:

**Within the Continental United States**

U.S. Department of the Interior  
Office of Inspector General  
1849 C Street, N.W.  
Mail Stop 5341  
Washington, D.C. 20240

**Our 24-hour**  
Telephone HOTLINE  
1-800-424-5081 or  
**(202) 208-5300**

TDD for hearing impaired  
(202) 208-2420 or  
1-800-354-0996

**Outside the Continental United States**

**Caribbean Region**

U.S. Department of the Interior  
Office of Inspector General  
Eastern Division - Investigations  
1550 Wilson Boulevard  
Suite 410  
Arlington, Virginia 22209

**(703) 235-9221**

**North Pacific Region**

U.S. Department of the Interior  
Office of Inspector General  
North Pacific Region  
238 Archbishop F.C. Flores Street  
Suite 807, PDN Building  
Agana, Guam 96910

**(700) 550-7428** or  
COMM 9-011-671-472-7279

**Toll Free Numbers:**

**1-800-424-5081**

**TDD 1-800-354-0996**

**FTS/Commercial Numbers:**

**(202) 208-5300**

**TDD (202) 208-2420**

# **HOTLINE**

**1849 C Street, N. W.**

**Mail Stop 5341**

**Washington, D.C. 20240**

