AUDIT

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

COMPLIANCE, ALLOCATED COSTS, AND SCHOLARSHIP AWARDS AT THE MORRIS K. UDALL AND STEWART L. UDALL FOUNDATION

Report No.: 2015-CR-026

June 2017

JUN 0 8 2017

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

Subject: Final Audit Report – Compliance, Allocated Costs, and Scholarship Awards at the Morris K. Udall and Stewart L. Udall Foundation
Report No. 2015-CR-026

Dear Mr. Eberhard:

This letter transmits the findings of our two audits of the Morris K. Udall and Stewart L. Udall Foundation (Foundation). Our audit objectives were to determine whether the Foundation (1) complied with education-related legislative spending requirements and program objectives; (2) had controls in place for awarding scholarships, internships, and fellowships; and (3) allocated shared costs between its two program areas, Education and Environmental Conflict Resolution, on a consistent basis and in accordance with its approved methodology.

We provide eight recommendations to help the Foundation correct the issues identified during our review. In response to our draft report, the Foundation concurred with all of our recommendations. The Foundation's response is included in Appendix 4.

The legislation creating the Office of Inspector General requires that we report to Congress semiannually on all audit, inspection, and evaluation reports issued; actions taken to implement our recommendations; and recommendations that have not been implemented.

If you have any questions concerning this report, please do not hesitate to contact me at 202-208-5745.

Sincerely,

Mary L. Kendall
Deputy Inspector General

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

Table of Contents

Results in Brief

The Morris K. Udall and Stewart L. Udall Foundation (Foundation) provides programs on leadership, education, collaboration, and conflict resolution, to American Indians and Alaska Natives. The Foundation accomplishes it mission through two program areas—Education and Environmental Conflict Resolution.

We conducted two audits to determine whether the Foundation—

1. complied with education-related legislative spending requirements and program objectives;
2. had controls in place for awarding scholarships, internships, and fellowships; and
3. allocated shared costs between its two program areas, Education and Environmental Conflict Resolution, on a consistent basis and in accordance with its approved methodology.

Overall, we found problems with the Foundation's compliance with legislative spending requirements and program objectives; its policies for awarding scholarships, internships, and fellowships; and how it allocates costs between its two program areas.

We determined that the Foundation did not comply with all education-related legislative spending requirements and program objectives because it did not separately track the amounts spent on scholarships, internships, and fellowships. It also included unrelated salary expenses in its reported spending totals, which did not meet the objectives of the scholarship, internship, and fellowship programs. In addition, we determined that the Foundation used different amounts to calculate its education-related spending requirements, a smaller amount to calculate the minimums and a larger amount to calculate the maximum. The Foundation noted that in 2013, the U.S. Office of Management and Budget (OMB) deferred to the Foundation's methodology. Further, we found discrepancies in the numbers provided to us and to the Foundation's Board of Trustees.

In addition, the Foundation has not formalized its policies and procedures for awarding scholarships, internships, and fellowships. Formal policies and procedures ensure that processes fundamental to the organization's success are properly directed by management and are consistently performed to meet its goals and ensure continuity of operations.

Further, we found that the Foundation did not always allocate shared costs on a consistent basis in accordance with its approved methodology. The methodology for calculating shared costs was cumbersome, and as a result, the Foundation made errors in calculating shared costs. The Foundation noted that a third-party contractor, who was hired by the Foundation, suggested this methodology and that OMB approved it.

We provide eight recommendations to help the Foundation correct the issues identified during our review. If implemented, our recommendations will help ensure the Foundation meets its legislative requirements, calculates its spending requirements in a consistent manner, reduces the risk of fraud, better ensures continuity of operations, and appropriately allocates shared costs.

Introduction

We conducted two audits of the Morris K. Udall and Stewart L. Udall Foundation (Foundation) in 2015 and 2016. First, we audited the Foundation's allocated costs and compliance with legislative spending requirements for fiscal years (FYs) 2013, 2014, and 2015. We also audited the Foundation's process for awarding scholarships, internships, and fellowships and reviewed award documentation from FYs 2010 through 2015. Since these audits were closely related, we combined the results into one report.

Appendix 1 contains the details of the scope and methodology for these audits and Appendix 2 contains a summary of our prior audit coverage. Appendix 3 provides the monetary impact of our findings.

Objective

The objectives of these audits were to determine whether the Foundation—

1. complied with education-related legislative spending requirements and program objectives;
2. had controls in place for awarding scholarships, internships, and fellowships; and
3. allocated shared costs between its two program areas, Education and Environmental Conflict Resolution, on a consistent basis and in accordance with its approved methodology.

Background

In 1992, Congress established the Foundation as an independent executive branch agency to honor the late Congressman Morris K. Udall's impact on the Nation's environment, public lands, and natural resources, and his support for the rights and self-governance of American Indians and Alaska Natives.[1] In 2009, Congress passed legislation to honor Morris Udall's brother, Stewart L. Udall, and add his name to the Foundation, in addition to making other statutory changes.[2]

The Foundation is overseen by a 13-member Board of Trustees. The President appoints nine members of the Board, with the advice and consent of the U.S. Senate; the other four members serve by virtue of their positions within the U.S. Government. Those four members include the Secretary of Education and the Secretary of the Interior, or their designees; the Chairperson of the President's Council on Environmental Quality; and the President of the University of Arizona.

[1] Morris K. Udall Scholarship and Excellence in National Environmental and Native American Public Policy Act of 1992, Pub. Law No. 102-259, 106 Stat. 78 (codified at 20 U.S.C. §§ 5601-09).
[2] Morris K. Udall Scholarship and Excellence in National Environmental Policy Amendments Act of 2009, Pub. Law No. 111-90, 123 Stat. 2976.

The Foundation's mission is to "provide programs to promote leadership, education, collaboration, and conflict resolution in the areas of environment, public lands, and natural resources in order to strengthen Native nations, assist [Federal] agencies and others to resolve environmental conflicts, and to encourage the continued use and appreciation of our nation's rich resources."[3]

The Foundation accomplishes it mission through two program areas—Education and Environmental Conflict Resolution—which are supported by two distinct funds in the U.S. Treasury.

Education Program

Education activities are primarily supported by the revenues earned on the Morris K. Udall and Stewart L. Udall Trust Fund (Trust Fund), which consists of money appropriated by Congress. The Foundation is authorized to spend the Trust Fund's interest and earnings as deemed "necessary and appropriate" by the Board of Trustees to enable the Foundation to carry out its statutory mandates.[4] Since 1994, Congress had allocated $46.2 million to the Trust Fund. As of FY 2015, the Trust Fund balance was $47.7 million. Trust Fund revenues are directly affected by changes in interest rates.

The Foundation's education activities promote leadership, education, and collaboration for students (see Figure 1).

[3] 20 U.S.C. § 5604, "Purpose of the Foundation."
[4] 20 U.S.C. § 5607(a).

Education Activity	Purpose	Funding
Native Nations Institute for Leadership, Management, and Policy (NNI)	Resource for Native nations in the areas of self-determination, governance, and development	Annual appropriations from Congress
Udall Center for Studies in Public Policy (Udall Center)	Supports policy research and forums linking education to decision-making	Trust Fund revenues
Undergraduate Scholarships	Awards scholarships to college sophomores and juniors pursuing careers related to the environment, and to American Indian and Alaska Native undergraduate students pursuing careers in health care and tribal public policy	Trust Fund revenues
Native American Congressional Internships	Provides students with the opportunity to experience the Federal legislative process to help them understand the relationship between Tribes and the Federal Government	Congressional appropriation to NNI (through the Trust Fund)
Fellowship Program	Designed for doctoral students with dissertations related to either U.S. environmental policy or environmental conflict resolution	Trust Fund revenues
Parks in Focus	Provides opportunities for middle school students from underserved communities to connect with nature through photography, environmental education, and creative expression	Gifts, donations, bequests, and Trust Fund revenues

Figure 1. The purpose of the Foundation's six education activities and the funding source for each.

Environmental Conflict Resolution Program

The Environmental Policy and Conflict Resolution Act of 1988 created the U.S. Institute for Environmental Conflict Resolution as a program within the Foundation to assist parties in resolving environmental, public lands, and natural resources conflicts that involve Federal agencies or interests.[5] The Institute provides assessment, mediation, and other related services to resolve environmental disputes involving agencies and instrumentalities of the United States. Environmental Conflict Resolution activities performed by the Institute are funded from the Environmental Dispute Resolution Fund (EDR Fund).

[5] Pub. L. No. 105-156, 112 Stat. 9.

The EDR Fund consists of appropriated funds and revenue earned from fees charged to executive agencies using Institute services. In FY 2014, the Institute's total budget was $6.6 million, including $3.4 million in appropriations and $3.2 million in earned revenue on its accounts. Its total budget for FY 2015 was approximately $6.7 million. The Foundation can use the EDR Fund for operational costs associated with the Institute, such as salaries and administration, as deemed necessary by the Board of Trustees. The EDR Fund is maintained separately from the Trust Fund.

Findings

During our two audits, we found the Foundation—

- did not comply with all education-related legislative spending requirements and program objectives;
- has not formalized its policies and procedures, but had a number of other controls in place for awarding scholarships, internships, and fellowships; and
- did not always allocate shared costs between its two program areas on a consistent basis and in accordance with its approved methodology.

Spending Requirements

Spending Requirement Not Met for Scholarships, Internships, and Fellowships

The Foundation is required to establish priorities and funding levels for the education-related activities supported by the Trust Fund. The law contains specific spending requirements for three program priorities (see Figure 2).

Program Priority	Spending Requirement
Scholarships, internships, and fellowships	Not less than 50 percent of the allocated funds
Salaries and other administrative purposes	Not more than 15 percent of the allocated funds
Udall Center	Not less than 20 percent of the allocated funds and a 25-percent match of funds from other sources with space for staff available at the Udall Center

Figure 2. Foundation priorities in the Education program and associated funding thresholds. Source: 20 U.S.C. § 5605(c).

We found that the Foundation did not comply with all education-related legislative spending requirements and program objectives in the years we reviewed. We also found that the Foundation did not separately track the amounts spent on scholarships, internships, and fellowships, and therefore included unrelated salary expenses in its calculations. As a result, the Foundation did not meet the legislative spending requirement for this category for FYs 2013, 2014, and 2015.

The Foundation included the cost of the scholarship orientation, scholarship money awarded, and the Scholarship Program Manager's salary, and the Education Director's salary in the total amount used to determine if it met the 50-percent spending requirement. In addition, during the 3 years we reviewed, the Foundation erroneously included a portion of the:

- Parks in Focus staff salaries – while the Foundation considers these direct education costs, they are unrelated to the scholarships, internships, and fellowships programs.
- Executive Assistant's salary – this expense should have been charged to administrative expenses and not included in the scholarships, internships, and fellowships calculation.
- Internship Coordinator's salary – the Foundation retains $200,000 of the appropriation for funding internships and the salary for the Internship Coordinator. The Foundation did not include actual internship awards in its total spending because they are paid through the congressional appropriation to NNI.

Finally, the Foundation included a portion of general administrative salaries for positions shared between the Education Program and the Institute in its spending total for scholarships, internships, and fellowships. The Foundation said it conducted a timesheet analysis to determine which portion of these salaries should be charged as direct costs to the Education Program. The Foundation included the following positions in the scholarship, internship, and fellowship spending total—

- Legal Assistant;
- Application Developer;
- Senior Information Technology Manager;
- Receptionist and Financial Assistant;
- Executive Director;
- Senior Financial Manager;
- Financial Technician;
- Senior Program Associate;
- Chief Financial Officer;
- General Counsel
- Work Study Position from the University of Arizona; and
- General Office Assistant.

The Foundation agreed that the Parks in Focus salaries, the Executive Assistant's salary, and the Internship Coordinator's salary should not have been included in the calculation and told us that they would revise the numbers and provide us with correct figures. When the Foundation provided the revised numbers, however, it only removed the Internship Coordinator's salary from the calculation (because it received a separate appropriation), but it still had not removed the Parks in Focus staff salaries or the Executive Assistant's salary. We asked the Foundation for the guidance provided to employees regarding direct versus indirect time charges, and the Foundation told us that it did not have written guidance for coding time. While we agree that a portion of these salaries may have been directly related to the Education program, we were unable to determine the correct portion attributable to the scholarship, internship and fellowship programs, so we removed them from our estimate.

When we removed the Parks in Focus salaries, the Internship Coordinator's salary, the Executive Assistant's salary, and the general and administrative salaries from the figures provided, we found that the Foundation did not meet its legislative spending requirements for scholarships, internships, and fellowships for the 3 years we reviewed (see Figure 3). If we had included the general and administrative salaries in our estimate, the Foundation still would not have met the legislative requirement in FY 2013 or FY 2014.

	FY 2013	FY 2014	FY 2015
Annual Interest on Trust Fund Investments	$1,427,518	$1,427,518	$1,337,410
- Salaries and fringe benefits*	161,380	205,147	241,420
- Program support	55,110	44,295	31,790
- Scholarships awarded	215,085	220,163	181,766
- Orientation	108,965	88,908	128,910
Subtotal (Percentage of Annual Interest Spent)	**$540,540 (38%)**	**$558,513 (39%)**	**583,886 (44%)**
Amount needed to meet statute requirement	713,759	713,759	668,705
Amount short of the 50-percent requirement	($173,219)	($155,246)	($84,819)

* Includes the Education Program Director's and the Scholarship Program Manager's total salary and fringe benefit costs.

Figure 3. The amounts by which the Foundation missed its 50-percent spending requirement for scholarships, internships, and fellowships for FYs 2013, 2014, and 2015.

The figure above shows the amounts by which the Foundation missed its 50-percent spending requirement for scholarships, internships, and fellowships for FYs 2013, 2014, and 2015 using Udall's calculation of the requirement. We classified these amounts as questioned (ineligible) costs because the Foundation cannot demonstrate that it met the spending requirement for scholarships, internships, and fellowships because it included unrelated salary expenses in its calculation (see Appendix 3).

The Foundation stated that it missed the 50-percent allocation requirement in FY 2014 for the following reasons:

- Revenue from investments has steadily decreased due to falling interest rates on long-term bonds, which is the only investment available. The Foundation noted that the decreasing revenue has forced it to scale back activities, which reduced the amount spent on scholarships and placed fellowship funding on a temporary hold.
- Timing issues have affected overall scholarship expenditures, as the funding provided for expenditures incurred depends on scholar need and actual expenditures can span two FYs. Scholars could have other funding available, which affects the amount of funding the Foundation may provide.

- A staff member left the Foundation in 2013 and that position was not filled until 2015. Foundation staff told us that the loss of this position had a direct impact on the education support numbers, which are charged as a direct cost of the scholarship, internship, and fellowship programs.

Regardless of these reasons, the Foundation still needs to meet the statute's requirements. We also noted that the Foundation did not have a documented method for calculating and approving the three priority program funding requirements, or written guidance for what is included in its spending totals.

Inconsistent Base Amounts Used to Calculate Spending Requirements

The statute[6] establishes spending requirements for the program priorities outlined above (scholarships, internships, and fellowships; salaries and other administrative purposes; and Udall Center). According to the statute, each spending requirement is calculated as a percentage of allocated funds (base amount). When calculating the three spending requirements, however, the Foundation used two different base amounts, a smaller amount to calculate the minimums (at least 50 percent and at least 20 percent) and a larger amount to calculate the maximum (not more than 15 percent). By doing so, the Foundation spent more on salaries and less on scholarships.

The Foundation calculated the 15-percent cap on salaries and administrative expenses using a larger base amount that included—

- Trust Fund current year interest;
- Trust Fund unspent interest from prior years;
- NNI unspent funds;
- Udall Center unspent funds; and
- Gifts, donations, and bequests.

The Foundation calculated the other two statutory spending levels using a different, smaller base amount that only included the current year interest from the Trust Fund.

The statutory spending requirements all appear in the same sentence of the same subsection of the same statute. The Foundation is using a smaller amount to calculate the minimums (50 percent and 20 percent) and a larger amount to calculate the maximum (15 percent). This allows the Foundation to spend more on administrative expenses and less on scholarships. The Foundation said it used the larger base amount to calculate the 15 percent cap because it met its 50 percent and 20 percent requirements each year (with the exception of 2014) and that unspent prior year funds were related to savings from—

[6] 20 U.S.C. 5605 (c)

- the remaining 15 percent, which was unallocated and unspent (not assigned to a program priority under the statute);
- the amount remaining from staying below the 15-percent administrative limit; and
- other funding sources (interest earned, gifts, donations, bequests, and funding from other agencies).

The Foundation submitted a letter to the U.S. Office of Management and Budget (OMB), stating its approach for calculating the statutory spending requirements. In response, OMB deferred to the Foundation's interpretation of the statute. While OMB deferred to the Foundation, we see no reason why one would interpret 'funds allocated' in two different ways. We tried to contact OMB to determine its rationale for deferring to the agency's use of two different bases, but were told that the individuals who deferred to the Foundation were no longer employed there.

Had the Foundation used the same base amounts to calculate its three spending requirements for the years we reviewed, it would not have been in compliance with its legislation. For instance, if the Foundation had used the larger base amount, the Foundation would not have been in compliance with the 50-percent scholarship requirement; if the Foundation had used the smaller base amount, then it would not have been in compliance with the 15-percent administration and salaries requirement.

For example, Figure 4 illustrates what the 2014 spending requirements would have been if the same base amounts were used compared to the actual amounts spent by the Foundation. Had the Foundation used the smaller base amount to calculate the 15-percent spending cap (as the other allocations), the administrative expenses would have been limited to $214,128. The Foundation's actual administrative expenses for FY 2014 totaled $283,903, which is $69,775 over the 15-percent limit based on interest. Similarly, if the Foundation had used the larger base amount to calculate the spending requirements for scholarships, internships, and fellowships and for the Udall Center, it would have been required to spend $1,586,744 and $643,698, respectively.

Program Priority (spending requirement)	FY 2014 Actual Expenses	Spending Requirements Using Different Base Amounts	
		Larger Base Amount	Smaller Base Amount
Scholarships, internships, and fellowships (at least 50 percent)	$673,800	$1,586,744	$713,759
Salaries and other administrative purposes (not more than 15 percent)	$283,903	$476,023	$214,128
Udall Center (at least 20 percent)	$404,464	$643,698	$285,504

Figure 4. The Foundation's actual FY 2014 expenses compared to what its expenses would have been if the Foundation had used the same base to calculate the spending thresholds.

The Foundation said it would remove the unspent funds from NNI and the Udall Center from its calculation of the administrative cap since these funds cannot be used for administrative expenses.

There is no reasonable justification for using a different base amount to calculate the funds available for the salaries and administrative expenses than that used to calculate the other two spending requirements.

Data Discrepancies With Unallocated Funds Affected Administrative Cap Calculation

We noted several discrepancies in the Foundation's data on the 15-percent administrative cap base amount. These discrepancies highlight the Foundation's difficulty in assuring that it is meeting its legislative spending requirements.

We identified a discrepancy between the information provided during our audit and information provided to the Board of Trustees. In response to an anonymous complaint received in November 2015, the Foundation used a different (third) base amount to calculate the administrative expense cap for FY 2015. The Foundation acknowledged to the Board that it "slightly exceeded" the statutory spending requirement for administrative expenses; however, during our audit the Foundation told us it was well under the cap. When asked about the discrepancies, Foundation staff stated that they provided a different number to the Board because they only included interest savings from 1999 (when the current Executive Director was hired) forward plus the current year interest.

During our audits, the Foundation also provided two different versions of its 2015 Education Spending Plan (one electronic and one hardcopy), which also included different base amounts for administrative costs. When we asked about those differences, Foundation staff told us that the hardcopy number included—

- all unallocated funds from prior fiscal years for all Foundation accounts;

- current year interest; and
- $200,000 of the NNI appropriation used for internships.

The electronic number included—

- unspent interest from all years;
- current year interest;
- unspent Udall Center funds;
- $200,000 of the NNI appropriation used for internships; and
- unspent NNI funds.

Then, the Foundation provided another revised number, which included unspent prior year interest, current year interest, grants or donations, and $200,000 of the NNI appropriation that the Foundation used to fund the internship program. See Figure 5 for the amounts noted.

Document	Administrative Cap Base Amount
Number provided to the Board of Trustees	$2,200,636
Number on electronic copy of Education Spending Plan	$5,752,530
Number on hardcopy of Education Spending Plan	$3,426,090
Revised number provided in November 2016	$3,251,870

Figure 5. The Foundation provided four different base amounts for the administrative cap for FY 2015.

Recommendations

We recommend that the Foundation:

1. Develop and implement guidance to ensure spending requirements are met.

2. Properly document the calculation and approval of the priority program funding requirement.

3. Use a consistent base to calculate the statutory spending requirements established in 20 U.S.C. § 5605(c).

Controls Over Awarding Scholarships, Internships, and Fellowships

The Foundation has not formalized its policies and procedures, but it had a number of other controls in place for awarding scholarships, internships, and fellowships. Upon request, Foundation personnel provided us with written descriptions of the processes used for awarding scholarships, internships, and fellowships. In addition, they provided an assortment of materials, including memorandums, checklists, and application review instructions, that are provided to reviewers each year during the awarding process. We do not consider the written descriptions and other materials provided to us to be formal policies and procedures; however, they could be a starting point for the development and implementation of more formalized policies and procedures for managing the awards program.

According to OMB Circular A-123, "Management's Responsibility for Enterprise Risk Management and Internal Control," management is responsible for developing and maintaining effective internal controls. Control activities include policies, procedures, and other mechanisms to help program managers achieve results and safeguard the integrity of their programs. Formal policies and procedures ensure that processes fundamental to the organization's success are properly directed by management and are consistently performed to meet the organization's goals and to ensure continuity of operations. Without proper internal controls and formal policies and procedures in place, the potential for fraud, waste, and mismanagement increases.

We reviewed a sample of scholarship and internship awards between 2010 and 2015 to determine if supporting documentation (including application forms, student essays, transcripts, letters of recommendation, and the reviewer rating forms) existed and was complete. We also reviewed the scholarship payment process and a sample of payments made to determine that there was a proper segregation of duties and that payments were supported by appropriate evidence. We did not identify any issues during our testing.

Recommendation

We recommend that the Foundation:

4. Prepare and implement formal policies and procedures for awarding scholarships, internships, and fellowships.

Shared Cost Allocation

Cost allocation is the splitting of costs for shared resources, such as personnel (e.g., the Executive Director or information technology staff) and operating costs (e.g., rent, telephone, or heat) between the Foundation's program areas—Education and Environmental Conflict Resolution. The Foundation's FY 2014 shared cost allocation methodology was developed by an outside consultant, Ferguson Business Management Solutions.

We found several issues with the Foundation's cost allocation methodology. For instance, the Foundation did not always update the methodology when changes were made. In addition, the Foundation's approved methodology for allocating costs is cumbersome—the Foundation currently calculates a new percentage each month, which requires considerable time and effort from its employees. While the Foundation had supporting documentation for its shared cost allocation calculations, we found several errors in the Foundation's calculation of shared costs between its two program areas. For example:

- The shared cost allocation methodology indicates that all telecommunication expenses should be allocated based on a pro-rated percentage of payroll expenses, but the Foundation charged Verizon Wireless expenses to programs based on actual costs rather than a pro-rated percentage of payroll expenses.
- The wireless telecommunication costs for the Executive Director were fully charged to the Education program instead of being allocated between the two programs.
- In a number of instances, the Foundation used the wrong shared cost percentage to calculate allocations for the Tucson office rental costs.
- In one instance, the Foundation did not allocate Board of Trustee costs between the two programs and instead these costs were absorbed by one program.

The Foundation's Chief Financial Officer agreed that the methodology was complex and stated that the Foundation would like to simplify the process.

Recommendations

We recommend that the Foundation:

5. Clearly identify all expenses that are subject to shared cost allocation formulas.

6. Fully document all approved changes to its shared cost allocation methodology.

7. Streamline the procedures for applying its shared cost allocation methodology.

8. Implement training and review procedures as necessary to assure consistent application of the approved shared cost allocation methodology.

Conclusion and Recommendations

Conclusion

Overall, we found problems with the Foundation's compliance with legislative spending requirements and program objectives; its policies for awarding scholarships, internships, and fellowships; and how it allocates costs between its two program areas, Education and Environmental Conflict Resolution.

We found that the Foundation was not separately tracking its spending for scholarships, internships, and fellowships and did not meet its legislative spending requirements in the years we reviewed. Although OMB deferred to the Foundation's method, we questioned the Foundation's use of two different base amounts to calculate its spending requirements for scholarships, internships, and fellowships; administration and salaries; and the Udall Center. Using different base amounts gives the appearance that the Foundation is using the amount that allows it to spend more on administration and less on scholarships. We noted discrepancies in the numbers provided to us and to the Foundation's Board of Trustees.

In addition, the Foundation has not formalized its policies and procedures for awarding scholarships, internships, and fellowships, but it had a number of other controls in place. Further, we found that the Foundation made several errors in calculating shared costs between the Education Program and the Environment Conflict Resolution Program, and its methodology for calculating shared costs was cumbersome.

If implemented, our recommendations will help ensure the Foundation meets its legislative requirements, calculates its spending requirements in a consistent manner, and appropriately allocates shared costs. With proper internal controls and formal policies and procedures in place, the potential for fraud, waste, and mismanagement decreases. In addition, the Foundation will be able to provide more resources for carrying out its role in education opportunities.

Management Response

In response to our draft report, the Foundation concurred with all eight of our recommendations; however, it disagreed with the context in the report and believed some of the information to be misleading. Specifically, the Foundation noted that the report should clearly state that it sought, received and implemented guidance from OMB on the statutory spending requirements. In addition, the Foundation said that the report should note whether the data provided meets the statutory spending requirements when using OMB guidance, and that the report conflates the amounts that diverge from the statutory requirements with program objectives not being met. Finally, the Foundation also stated that it has several written policies and procedures for scholarships, internships, and fellowships; however, it does not have an overarching written policy.

While we acknowledge that OMB deferred to the Foundation's approach for calculating the statutory requirements, the deferral does not constitute OMB guidance. In addition, this deferral only involves the 15-percent limit on administrative costs and the 20-percent minimum allocated to the Center. It does not address the 50-percent minimum on scholarships, internships and fellowships that we determined missed the minimum allocation. Our conclusion that program objectives were not met for scholarships, internships, and fellowship was based on the understanding that the program objectives would be to provide scholarships, internships, and fellowships. By including costs not associated with scholarships, internships, and fellowships in meeting the 50-percent requirement, the program objectives were not met. We state in the report that the Foundation does have some controls in place, however, those controls are not formalized policies and procedures, rather the controls referred to were processes, memorandums, and checklists. In response to the Foundation's comments on our draft report, we added language for clarity and context.

Recommendations Summary

The Foundation concurred with all of our recommendations. We recommend that the Foundation—

1. Develop and implement guidance to ensure spending requirements are met;

2. Properly document the calculation and approval of the priority program funding requirement;

3. Use a consistent base to calculate the statutory spending requirements established in 20 U.S.C. § 5605(c);

4. Prepare and implement formal policies and procedures for awarding scholarships, internships, and fellowships;

5. Clearly identify all expenses that are subject to shared cost allocation formulas;

6. Fully document all approved changes to its shared cost allocation methodology;

7. Streamline the procedures for applying its shared cost allocation methodology; and

8. Implement training and review procedures as necessary to assure consistent application of the approved shared cost allocation methodology.

Appendix 1: Scope and Methodology

Scope

We conducted two audits of the Morris K. Udall and Stewart L. Udall Foundation (Foundation). Our first audit focused on the Foundation's allocation of funds between its two program areas, Education and Environmental Conflict Resolution, and its legislative spending requirements for fiscal years 2013 and 2014. Due to discrepancies found during our draft reporting phase, we also included FY 2015 in our review. Our second audit focused on the Foundation's controls for awarding scholarships, internships and fellowships.

We conducted both audits in accordance with Generally Accepted Government Auditing Standards. Those standards require that we plan and perform audits to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

We found some controls to be lacking (policies and procedures for certain areas) and that some controls were not being monitored and properly applied, which resulted in the spending requirement not being met, discrepancies in reporting, and errors in cost allocation calculations. From our review of documents and testing, we determined that the internal controls established by the Foundation in each area reviewed appeared consistent with accepted standards, except as identified in this report.

Methodology

We used financial records provided by the Foundation to determine if the Foundation met its statutory spending requirements. We also analyzed and validated the methodology used to split the costs between the two programs. We relied on computer-processed data during our review and testing of these areas. We used the Foundation's financial records, but found them in some instances to be unreliable. Based on the methodology provided by the Foundation, we calculated the expected allocation amounts and compared it against the Foundation's actual allocations.

In addition, we—

- reviewed applicable laws, regulations, policies, and other criteria;
- interviewed Foundation personnel in Tucson, AZ;
- analyzed Foundation appropriations and expense data;
- analyzed and tested the Foundation's allocation methodology for splitting costs;

- reviewed the Foundation’s internal controls over expenditures during site visits;
- reviewed the process and controls for awarding, documenting, and tracking scholarships, internships, and fellowships;
- tested the expenditures used in the allocation of costs to assure they are accurate and being allocated to the correct pool;
- reviewed a sample of scholarship and internship awards between 2010 and 2015 to determine if supporting documentation (including application forms, student essays, transcripts, letters of recommendation, and the reviewer rating forms) existed and was complete;
- reviewed the scholarship payment process and a sample of payments made to determine that there was a proper segregation of duties and that payments were supported by appropriate evidence;
- reviewed the Foundation’s performance and accountability reports and Independent Auditor’s report; and
- reviewed prior Office of Inspector General and U.S. Government Accountability Office reports.

Appendix 2: Prior Audit Coverage

The Consolidated Appropriations Acts of 2014, 2015, and 2016 gave the U.S. Department of the Interior's (DOI) Office of Inspector General funds to audit and investigate the Morris K. Udall and Stewart L. Udall Foundation (Foundation) even though it is an independent agency.

Our 2012 review, "Audit of the Morris K. Udall and Stewart L. Udall Foundation" (Report No. ZZ-IN-OSS-0011-2012), focused on outside employment, separation of employment, and contracting practices by Foundation staff. The report was issued on December 13, 2012. We found that the Foundation was missing key internal controls over its staff's outside employment, over termination of its staff members' employment, and over its contracting. We made five suggestions to help the Foundation develop strong internal controls to govern its employment and contracting practices.

The U.S. Government Accountability Office (GAO) followed up on our 2012 review and issued a report on December 6, 2013, titled "Corrective Actions Under Way to Address Control Deficiencies at the Morris K. Udall and Stewart L. Udall Foundation" (Report No. GAO-14-95). GAO found that the Foundation had developed a corrective action plan to address our findings, which included steps to address deficiencies in the Foundation's internal controls related to personnel issues, contracting, and internal control monitoring and assessment processes. For the actions that were sufficiently documented at the time of its review, GAO found that the design was consistent with accepted internal control standards and applicable laws and regulations. Since a number of the Foundation's planned actions to improve its internal controls were not finalized at the time of GAO's review, it was too soon to assess the design of the actions and whether they were consistent with accepted internal control standards and applicable laws, regulations, and guidance.

We performed a follow-up review in 2014 to determine whether the Foundation's internal controls were consistent with accepted internal control standards and applicable laws and regulations in the areas identified in our 2012 report and discussed in GAO's 2013 report—personnel actions, contracting actions, and internal control monitoring and assessment processes. We issued our report, "Follow-Up on Internal Controls at the Morris K. Udall and Stewart L. Udall Foundation" (Report No. C-FL-UDL-0041-2014), on September 24, 2014. We found that internal controls were implemented in each area reviewed and appeared consistent with accepted standards. Our review was limited to the design of the internal controls at the Foundation and did not include a determination as to whether the internal controls were operating effectively.

Appendix 3: Monetary Impact

We identified $413,284 in questioned costs, and concluded that these costs were ineligible because the Morris K. Udall and Stewart L. Udall Foundation should have spent these funds on scholarships, internships, and fellowships.

Questioned Costs	Amount
FY 2013 ineligible costs	**$173,219**
FY 2014 ineligible costs	**155,246**
FY 2015 ineligible costs	**84,819**
Total	**$413,284**

Appendix 4: Response to Draft Report

The Morris K. Udall and Stewart L. Udall Foundation’s response to our draft report follows on page 24.

Udall Foundation
CIVILITY, INTEGRITY, CONSENSUS

130 South Scott Avenue, Tucson, Arizona 85701
TELEPHONE: 520.901.8500 FAX: 520.670.5530

April 10, 2017

Ms. Amy R. Billings
Central Regional Manager
Office of the Inspector General
U.S. Department of the Interior
12345 West Alameda Parkway, Suite 300
Lakewood CO 80228

Re: Response to DOI OIG's Draft report 2015-CR-026 dated March 2017

Dear Ms. Billings:

On behalf of the Udall Foundation's Board, the cognizant senior staff of the Foundation and I have reviewed the draft audit report, "Compliance, Allocated Costs, and Scholarship Awards at the Morris K. Udall and Stewart L. Udall Foundation," No. 2015-CR-026 dated March 2017. While the Foundation would strongly prefer to respond to the final draft of the report, we welcome the opportunity to respond to the current draft. In addition to this letter, the senior Foundation staff has also provided your office with a point-by-point response to the draft that included the factual context that we found missing from the draft and I had the opportunity to speak with you about some of our concerns. We appreciate those opportunities for review and discussion of our concerns with the draft report.

Since 2012, when the OIG conducted its first audit of the internal controls of the Foundation at the Board's request and found deficiencies, the Foundation's Board and staff have worked diligently to correct these deficiencies. During the years the OIG reviewed for cost-related data for this draft report (FY 2013 – FY 2015), the Foundation experienced considerable change: 75 percent of its management team left the Foundation, and during the resulting organizational assessment and change in organizational structure, the CFO position (as a dedicated function) was vacant from May 2012 to June 2014; a new strategic plan was written, approved, and implemented; three senior managers with extensive Federal experience were hired to replace vacated positions; all of the staff position descriptions were re-written and then classified by GSA; staff received ethics and internal controls training; and an improved framework for assessing risk and testing and documenting the Foundation's internal controls was implemented. The Foundation also issued new personnel policies; implemented improved Board operating procedures; entered into an interagency agreement with the Interior Business Center for all contracting above the micro-purchase threshold; and implemented internal control improvements recommended by an independent contractor.

During the years covered by this draft audit report, we were also involved in a second OIG audit and a GAO audit of internal controls. The OIG audit, "Follow-Up on Internal Controls at the Morris K. Udall and Stewart L. Udall Foundation," No. C-FL-UDL-0041-2014, was issued in September 2014 and concluded that "internal controls were implemented in each area reviewed and appeared consistent with accepted standards." The GAO audit, "Internal Controls: The Morris K. Udall and Stewart L. Udall

Foundation Has Made Significant Progress but Needs to Fully Document Certain Policies and Procedures," GAO 16-52, was issued in November 2015 and concluded that the Foundation had made significant progress in improving the internal control environment and its risk assessment and monitoring activities. Both of those reports concluded that we had more work to do in the documentation of our internal controls but that significant progress had been made.

It is and has been our view that the necessary work should proceed by addressing the most significant risks first and then moving to the less significant risks. In addition to the obvious necessity of that approach, it reflects the reality that we have limited personnel resources and must ensure that we use them as effectively as possible to ensure the integrity of our financial operations. The process of assessing risks and completing the necessary documentation of internal controls for each of our programs and operations has continued since the arrival of the CFO in June 2014 and is on-going at this time. That process will continue and will now include the recommendations from your current audit.

Report Recommendations:

Although we concur with the eight recommendations noted on pages 15-16 of the draft report and intend to work internally and with OMB to implement them, we strongly disagree with the lack of context provided in the draft report as well as the vague or, in some cases, misleading language of the draft report. Taken together, the problems with the way the report is written may lead the reader to conclude that the Foundation willfully ignored statutory requirements, rather than made errors in calculation; has not yet fully documented most of the relevant policies; and has not proceeded in good faith based on guidance provided to it by OMB.

Statutory Spending Requirements:

This section of the draft report, and the "Results in Brief" section, should clearly and prominently state that the Foundation sought, received, and implemented guidance from OMB on the statutory spending requirements. In FY 2013, given the many compliance issues that were being examined internally, the Foundation sought written documentation for what had been discussed verbally with OMB in prior years. The Foundation received guidance from a senior staff member at OMB who had expertise in Trust Funds. At her request, the Foundation drafted a letter (dated July 16, 2013) for my signature which summarized her guidance. Subsequently, the Foundation received an email from our budget examiner stating that OMB had deferred to the Udall Foundation's interpretation as stated in my letter of July 16, 2013. We provided a copy of that letter to the audit team in the course of your work.

Although the email correspondence and letter were provided to the OIG, on page 10 the draft report states, "…the Foundation told us that it submitted a letter to the U.S. Office of Management and Budget (OMB)…." This is misleading since the actual documentation was provided by us during the course of the audit. In addition, this contextual sentence appears at the mid-point of the report rather than at the beginning of the report. The fact that the Foundation followed OMB guidance is fundamental to understanding why the Foundation acted as it did.

Furthermore, since the Foundation provided data for FY 2013 – FY 2015 which indicates spending limits based upon this guidance, the Foundation believes it is reasonable that the report should note whether the data provided meets the statutory spending requirements when using the OMB-approved methodology. The report does not do this. Since the OIG's legal opinion about the statutory limits differs from the OMB guidance, the draft report analyzes the data based on that legal opinion rather than the guidance provided to the Foundation by OMB and draws conclusions about non-compliance from this perspective. The reasoning for using this approach should be clearly stated.

The OMB guidance recognizes that over the last twenty-five years there have been some years when the Foundation has earned significant interest on the Trust Fund. During the years when the Trust Fund Corpus was primarily invested in high-yield, long-term securities, it was prudent, after making the mandatory 50%, 20%, and 15% allocations, to carry some of the remaining interest earnings forward to future years. These carryforward funds were then available for offsetting the effects of inflation and to address other administrative needs in years when interest earnings were low and there were significant premiums required for the purchase of new long-term Treasury securities. The statute is silent on the carryforward funds. The OMB guidance is not.

Lastly, according to the analysis explained above, the draft report conflates amounts that diverge from the statutory requirements with "program objectives" not being met. The statute does define program purposes: "Scholarships shall be awarded to outstanding undergraduate students who intend to pursue careers related to the environment…."; but does not define the program objectives, e.g., "There shall be 60 scholars each year." The statute is silent on the number of scholars from year to year. That determination is committed to the sound discretion of the Board of the Foundation as we carry out our statutory duties within available funds under the direction of OMB. The Foundation has worked steadily to continuously improve its programs and meet their objectives. The excellent results of that work are reported each year in our Performance and Accountability Report. The draft audit report should not, in our view, provide a judgement on program objectives.

<u>Overarching Policy for Awarding Scholarships, Internships, and Fellowships</u>:

The Foundation has many written policies and procedures for scholarships, internships, and fellowships; however, it does not have an overarching written policy that references the existing policies and procedures and that is approved annually by the Executive Director. We take issue with the characterization in the draft report which states that "…the Foundation has been operating without formal policies and procedures for awarding scholarships, internships and fellowships." The average reader might misconstrue this sentence to mean that there are no written procedures and policies, which is untrue. The Foundation believes the draft report should state that the OIG was provided with numerous written procedures and policies, but that the Foundation has not written an overarching policy that is approved by the Executive Director.

Shared Cost Allocation Methodology:

The Foundation agrees that the current cumbersome methodology for calculating shared costs has led to errors in calculation and that a simplification is needed.

As always, the Foundation appreciates the efforts made by the OIG to help the Foundation improve. We will continue to actively work to improve our internal controls and compliance with our statute through our own internal annual review process; the annual outside audit; and following the recommendations from OMB, GAO, and your office. The Foundation is committed to continuous improvement in the reliability of its data and internal controls while meeting the statutory purposes of the Udall Foundation programs.

Sincerely,

Eric D. Eberhard
Chair, Board of Trustees

Report Fraud, Waste, and Mismanagement

Fraud, waste, and mismanagement in Government concern everyone: Office of Inspector General staff, departmental employees, and the general public. We actively solicit allegations of any inefficient and wasteful practices, fraud, and mismanagement related to departmental or Insular Area programs and operations. You can report allegations to us in several ways.

By Internet: www.doi.gov/oig/index.cfm

By Phone:
24-Hour Toll Free: 800-424-5081
Washington Metro Area: 202-208-5300

By Fax: 703-487-5402

By Mail:
U.S. Department of the Interior
Office of Inspector General
Mail Stop 4428 MIB
1849 C Street, NW.
Washington, DC 20240