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BUREAU OF INDIAN AFFAIRS SCHOOLS

Expenditures in Selected Schools Are Comparable to Similar Public Schools, but Data Are Insufficient to Judge Adequacy of Funding and Formulas



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Highlights of [GAO-03-955](#), a report to congressional committees

BUREAU OF INDIAN AFFAIRS SCHOOLS

Expenditures in Selected Schools Are Comparable to Similar Public Schools, but Data Are Insufficient to Judge Adequacy of Funding and Formulas

Why GAO Did This Study

In 2001, Congress directed GAO to examine the adequacy of Bureau of Indian Affairs (BIA) school funding and the adequacy of the formulas employed by BIA to distribute various types of operating funds. Because there is no universally accepted standard for adequacy, for this report, GAO examined (1) the sources and amounts of federal funding provided for BIA schools and how they are determined, (2) how BIA school budgets and expenditures compared to national per-pupil expenditures and expenditures for similarly situated public schools, and (3) how equitably various formulas distribute funding across BIA schools and whether they account for all relevant costs.

To obtain expenditure data for BIA schools GAO reviewed BIA budget and financial documents and collected data from 8 BIA and 6 public schools that were similar in terms of their relative isolation and student characteristics.

What GAO Recommends

GAO is making recommendations for BIA to (1) collect detailed expenditure data comparable to public schools on BIA-operated schools in order to better assess the adequacy of both funding and formulas, (2) work with tribes to obtain detailed expenditure data from tribally operated schools, (3) improve the transportation formula, and (4) fully account for administrative services provided to BIA schools.

www.gao.gov/cgi-bin/getrpt?GAO-03-955.

To view the full product, including the scope and methodology, click on the link above. For more information, contact Marnie S. Shaul at (202) 512-7215 or shaulm@gao.gov.

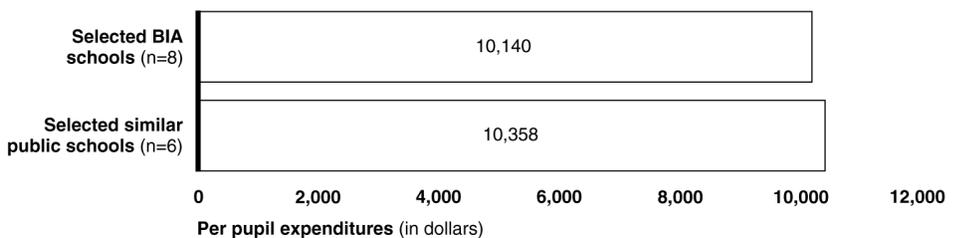
What GAO Found

Most BIA school operating funds are provided by the Department of Interior through the standard federal budget process; however, the agency has little financial data to inform its school budget proposals. In 2002, Interior provided 78 percent of BIA's operating funds, while Education provided 22 percent. To formulate its annual budget proposals for BIA schools, Interior uses prior year data with updates for enrollment, teacher salaries, and fixed costs. Because BIA does not collect detailed expenditure data from its schools, GAO was unable to assess the overall adequacy of the funding.

BIA budgeted dollars for its 112 day schools were higher on a per-pupil basis than the national average expenditure for public schools, but expenditures were comparable for selected similar BIA and public schools. However, all 8 BIA schools GAO visited spent less on instruction and more on facilities than the public schools visited. Also, most BIA school officials GAO spoke with reported that their budgets for transportation did not cover their actual transportation expenditures. About 40 percent of all BIA-operated schools (day and boarding) spent more on transportation than they received through their transportation budgets in school year 2001-2002.

The six BIA formulas that BIA uses to distribute funds appear to have distributed funds fairly, but they did not include certain cost-related factors associated with BIA schools, and their adequacy cannot be determined from BIA's data. GAO found that the primary formula, the Indian School Equalization Program (ISEP) formula, distributed instructional funds equitably. The transportation formula for BIA schools does not account for costs associated with differences in degrees of isolation. Because BIA does not collect complete expenditure data, GAO was limited in its ability to assess the overall adequacy of the formulas.

Per-Pupil Expenditures in Selected Case Study Schools, School Year 2001-02



Source: GAO analysis.

Note: Does not include food. Similar spending does not imply adequate spending in either case.

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Abbreviations

ACG	administrative cost grants
ADM	average daily membership
BIA	Bureau of Indian Affairs
CCD	Core of Common Data
DOD	Department of Defense
FIS	financial information system
IDEA	Individuals with Disabilities Education Act
ISEP	Indian School Equalization Program
NCES	National Center for Education Statistics
OMB	Office of Management and Budget
PPE	per-pupil expenditure
WSU	weighted student unit

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G A O

Accountability * Integrity * Reliability

United States General Accounting Office
Washington, DC 20548

September 4, 2003

Congressional Committees:

The federal government spends over \$600 million annually to provide educational services to approximately 48,000 Indian students in 171 schools and 14 dormitories funded by the Department of Interior's (Interior) Bureau of Indian Affairs (BIA). Although these schools are located across the nation, 70 percent are located on or near Indian reservations in four states: Arizona, New Mexico, North Dakota, and South Dakota. BIA directly operates one-third of the schools, while tribes operate the remaining two-thirds through grants and contracts with BIA. BIA schools have certain characteristics that make them more costly to operate than the average public school, specifically, a high proportion of students with special needs and a broader infrastructure of sewer, water, utility, and other systems to support.¹ In addition, some studies have also attributed some of BIA's higher costs to their isolation and smaller size, as well as the presence of a boarding component in one-third of BIA schools.²

In 2001, Congress directed us to examine the adequacy of BIA school funding and the adequacy of the formulas employed by BIA to distribute various types of operating funds.³ Although there is no single standard for adequacy, for this report, we examined BIA funding in terms of how BIA's budgets are determined, how funding compares with public schools, and the equity and relevance of formulas used to distribute those funds. Specifically, we examined (1) the sources and amounts of federal funding provided for BIA schools and how they are determined, (2) how BIA school budgets and expenditures compare to national per-pupil expenditures (PPE) and expenditures for similarly situated public schools,

¹U.S. General Accounting Office, *BIA and DOD Schools: Student Achievement and Other Characteristics Often Differ from Public Schools*, GAO-01-934 (Washington, D.C.: Sept. 28, 2001).

²National Academy of Public Administration, *A Study of Management and Administration: The Bureau of Indian Affairs* (Washington, D.C.: Aug. 1999) and *Cost Analysis and Feasibility Study of Contracting Out Schools Operated by the Bureau of Indian Affairs*, Support Services International, Inc. (Silver Spring, Md.: Dec. 1997).

³The mandate for this review is from Public Law No. 107-110.

and (3) how equitably various formulas distribute funding across BIA schools and whether they account for all relevant costs.

To obtain expenditure information, we reviewed BIA budget and financial documents and collected expenditure data at 8 BIA and 6 public schools in Arizona, New Mexico, North Dakota, and South Dakota that were similarly situated in terms of their relative isolation and the characteristics of their student populations. Because BIA does not maintain expenditure data on all of the schools it funds—specifically those that are tribally operated—we compared the most recent national expenditure data (school year 1999-2000) with BIA’s budget data for that year. BIA does maintain some expenditure data for the 32 day schools it directly operated in school year 1999-2000, representing 13 percent of enrollment at all BIA-funded schools, and we were able to compare these schools with national school expenditures in terms of instruction, transportation, facilities, and administration for the same year. In our study of expenditures, we excluded boarding schools when comparing BIA schools with public schools because boarding schools have additional costs that are not comparable with those of the average public school but included them when we analyzed differences between budgeted and expended amounts for transportation. All of our analyses exclude funding for food. We obtained budget and expenditure data from BIA’s financial information system, took steps to assess the reliability of the required data, and determined that the data were sufficiently reliable for the purposes of this report. To compare expenditures for BIA schools (both tribally operated and BIA-operated) with similar public schools, we visited and collected expenditure data from the 8 BIA and the 6 public schools that had such data. These BIA and public schools were selected to be similar as a group; they were not matched one-to-one. These results are not generalizable to other BIA schools. In our evaluation of the 6 BIA formulas used to distribute funds to schools for instruction, transportation, administration, and facilities maintenance, we included all BIA schools, including boarding schools. We used an accepted measure, the federal range ratio, to determine fairness. We interviewed officials from Interior, including BIA officials, and the Department of Education (Education). (See appendix I for more details on our scope and methodology.)

We performed our work from November 2002 through August 2003 in accordance with generally accepted government auditing standards.

Results in Brief

Most BIA school operating funds are provided by Interior through the standard federal budget process; however, the agency has little financial

data to use in forming the budget that Interior proposes to Congress. Through Education, BIA schools also receive a designated percentage of major Education program grants that are available to all the nation's public schools. In 2002, Interior provided \$500 million (78 percent) of BIA's operating funds, while Education provided \$140 million (22 percent). Additional funds came primarily from the U.S. Department of Agriculture and from the Department of Health and Human Services' Indian Health Service. To formulate its annual budget proposals for BIA schools, Interior uses prior year data with updates for enrollment, teacher salaries, and fixed costs. However, BIA has no formal mechanism, such as a needs assessment, for determining how much funding is needed for instruction or transportation, although it does have such mechanisms for facilities maintenance and administration. Moreover, BIA does not collect detailed expenditure data from all schools from which such determinations could be made.

BIA budgeted dollars for all its day schools were higher on a per-pupil basis than the national average expenditure for public schools; however, expenditures were comparable for selected BIA and public schools with similar levels of isolation and poverty. In school year 1999-2000, the average amount BIA budgeted for day school students was \$9,167 per pupil, while the national average PPE was \$6,617. When we conducted site visits to 8 BIA and 6 public schools, we found their expenditures to be similar overall. On average, the BIA school PPE was \$10,140, while the public school PPE was \$10,358 in school year 2001-02. However, all the BIA schools we visited spent less on instruction and more on facilities than their public school counterparts. Also, six of the eight BIA school officials we spoke with reported that their budgets for transportation did not cover their actual expenditures. To compensate, BIA school officials said they typically spend funds from other budget categories to cover transportation shortfalls, while three of the four tribally operated school officials told us they were able to use other sources—such as administrative funds or earned interest—not available to BIA-operated schools. Both the BIA and public school officials said that isolation affected their operating costs, particularly for instruction and transportation.

The six formulas that BIA uses to distribute funds to the schools appear to have distributed funds fairly, but they did not include certain cost-related factors associated with BIA schools; and their adequacy cannot be determined from BIA's data. We found that the primary formula, the Indian School Equalization Program (ISEP) formula, distributed instructional funds equitably among schools based on student enrollment adjusted for

grade level and certain student characteristics. We also found that a recent change in the ISEP formula that eliminated weights for special education students was followed by a reduction in the number of students identified as needing special education. We found that with regard to the transportation formula for BIA schools, it does not account for costs associated with differences in degrees of isolation. The other formulas, which determine overall amounts needed to support administration and also facilities maintenance and operations, have been funded at about 80 percent annually. Because BIA does not collect complete expenditure data, we were limited in our ability to assess the overall adequacy of the formulas.

We are making several recommendations for BIA to collect additional expenditure data in order to better assess the adequacy of both funding and formulas, to improve the transportation formula, and to allocate all costs of administering BIA schools.

Background

While most Indian children attend regular public schools, about 10 percent attend the 171 BIA schools that are funded by BIA and operated either by the bureau or by various tribes through grants or contracts (see table 1). BIA schools are found in 23 states but are highly concentrated in 4—Arizona, New Mexico, North Dakota, and South Dakota. In school year 2002-03, BIA was responsible for the education of approximately 48,000 children in 171 schools scattered across 63 reservations.⁴ The bureau's responsibility for Indian schools is somewhat similar to the responsibility of a state for public schools, although its responsibilities include more areas, such as facilities. To help manage the schools, BIA has 24 regional agencies, called education line offices, that are similar to public school district offices, although each regional agency has responsibility for a larger geographic area than most school districts.

⁴BIA also funded 14 dormitories. For this report, schools without dormitories are called day schools.

Table 1: BIA-Funded School Facilities by Type, School Year 2001-02

School type	Responsibility for operations		Total
	BIA	Tribes	
Day schools	33 ^a	84	117
Boarding schools	30	24	54
Subtotal schools	63	108	171
Dormitories	1	13	14
Total	64	121	185

Source: GAO analysis of BIA data.

^aIn school year 1999-2000, there were 32 BIA-operated day schools. This was the year we used for comparison to national averages, the latest data available.

A high percentage of the student population in the BIA system is characterized by factors that are generally associated with higher costs in education. Almost all students live in poverty, and more than half are limited in their English proficiency. A substantial number have disabilities. The academic performance of many BIA students is below that of public school students.⁵

Funding for BIA schools is determined through an iterative budget development process. The Office of Management and Budget (OMB) gives Interior a planning allowance to work with and also reviews Interior's final budget submission. The major parties involved at Interior are BIA's Office of Indian Education Programs; Interior's Office of Policy, Management and Budget; and the Assistant Secretary for Indian Affairs. Periodically, the Office of Indian Education Programs meets with tribes to discuss the needs and priorities of their schools. That office also solicits priorities from education line officers—BIA regional administrators whose role is somewhat analogous to school district superintendents.

Funding for BIA schools is distributed in several ways. Funds from Interior are distributed through four formulas:⁶ one primarily for instruction (ISEP), one for transportation, one for administration, and

⁵GAO-01-934.

⁶The components of the ISEP formula can be found in 25 C.F.R. 39.12(g)(1) and (2), 39.13 and 39.14; and the administrative cost grants formula in 25 U.S.C. Sec. 2008. The other formulas that BIA uses to distribute funds (from both Interior and Education) are primarily based on BIA internal policy and not on statutory or regulatory guidance.

another for facilities maintenance. Two of these formulas calculate needed amounts to fulfill their respective functions. One calculates administrative cost grants for tribally operated schools and the other calculates funding for facilities maintenance and operation for all schools. The ISEP formula distributes the largest amount of Interior funds, 68 percent. In addition to funds from Interior, funds from Part A of Titles I, II, and IV of the No Child Left Behind Act are distributed by formulas, as well as funds for Part D of Title II. ⁷ (See table 2.) Title I, II, and IV funds are among Education’s funds that flow through BIA. (See app. II.)

Table 2: Formulas Used by BIA to Distribute Funds to BIA Schools

Formula for	Department/agency allocating funds	Purpose of funding	Basis for distribution
ISEP ^a	BIA	Education ^b	Weighted student units ^c
Transportation	BIA	Student transportation	Daily miles ^d
Operations and maintenance of facilities ^e	BIA	Facilities maintenance and operations	Characteristics of facilities ^f
Administrative cost grants for Indian schools	BIA	Administration and indirect costs of tribally operated schools	Program cost ^g
Safe and Drug-Free Schools and Communities (Title IV, Part A) ^h	Education	Education ^c	WSU ⁱ
Titles I and II (Parts A & D) ^j	Education	Education ^c	Enrollment ^k

Source: GAO analysis.

^aThe ISEP formula includes funds for school-level administration, such as principals’ salaries and administrative assistance, in addition to salaries for teachers, teacher aides, and the cost of materials.

^bEducation includes functions such as teaching, professional development, and school-level administration.

^cWeighted student units (WSU) are calculated by adjusting enrollment counts by student characteristics such as grade, bilingual classification, gifted and talented designation, and residency status at the school. For example, students who reside at the school receive a higher weight and therefore are given additional funds to cover their boarding expense.

⁷The No Child Left Behind Act of 2001 was the latest reauthorization of the Elementary and Secondary School Act of 1965, as amended.

^dBIA distributes money for transportation across schools by adjusting miles traveled by road condition; i.e., whether the roads are improved or unimproved.

^eThe formula used for projecting funding for facilities maintenance and operations was not used for a couple of years.

^fThe facilities operations formula generates an amount needed for each school based on such factors as the age of the school, the square footage of the school, the technology at the school, and other characteristics of the school.

^gThe formula for administrative cost grants calculates an administrative rate based on the cost of the program being administered by the tribe. The 'program' may just be the school operations, or it may be the school along with other entities operated by the tribe.

^hThe Safe and Drug-Free Schools and Communities program is Title IV, Part A, of the No Child Left Behind Act of 2001.

ⁱThe WSU used to distribute "Safe and Drug Free Schools and Communities" funds are based on grade and residency.

^jTitle I and Title II, Parts A and D, of the Elementary and Secondary Education Act of 1965 as amended. Title I is entitled "Improving the Academic Achievement of the Disadvantaged" and will be referred to as "Disadvantaged Children" throughout this report. Title II, Part A, is entitled "Teacher and Principal Training and Recruiting Fund." Title II, Part D is entitled "Enhancing Education through Technology." We refer to both parts of Title II as "Title II" in this report.

^kDisadvantaged Children and Title II, Parts A & D program funds use an enrollment measure as the basis for distributing funds, with a special adjustment (more money) given to small schools.

Additionally, BIA distributes other funds from Education without formulas. For example, funds for Individuals with Disabilities Education Act (IDEA), Part B—providing the largest amount of Education funding to BIA—are distributed based on proposals documenting the school's exhaustion of the ISEP special education set-aside.⁸ The proposals must also be consistent with each school's consolidated school reform plan. BIA distributes funds from other Education programs, such as Title I, Part F and Title IV, Part B, by either dividing the money equally among the schools or by granting funds to schools based on proposals (also consistent with the school's consolidated school reform plan).

In general, formulas are designed to distribute funds efficiently and equitably by taking real cost differences, factors that have been identified as having a significant effect on costs incurred, into consideration. For example, some research, though not definitive, shows that children with special needs—low-income students, students with disabilities, and

⁸IDEA both authorizes federal funding for special education and related services (for example, physical therapy) and, for states that accept these funds, sets out principles under which special education and related services are to be provided. Currently, all states receive IDEA funding. BIA also receives IDEA funds and must meet the requirements that apply to it.

students with limited English proficiency—may require additional educational resources to succeed at the level of their nondisadvantaged peers. Because these additional resources require higher spending, some researchers have adjusted PPE by “weighting” these students to account for the additional spending that may be required.⁹ Two of the three instructional formulas used by BIA are based on such weights. They account for differences among students by creating WSUs based on grade level, bilingual designation, gifted and talented designation, level of disability, and residency at the school. For example, in the ISEP formula fourth graders were assigned a weight of 1.15, while first graders were assigned a weight of 1.38.¹⁰ Recently, BIA officials removed the weights for student disability and placement in the ISEP formula¹¹ in response to a finding by Education that BIA was out of compliance with the provision of IDEA that students be educated in the least restrictive environment possible.¹²

BIA maintains a financial information system that contains data on budgeted (appropriated and obligated) funds and expenditures by school. However, these data contain actual expenditures for only the 32 BIA-operated schools. The “expenditure” data on tribally operated schools in this financial system are proposed expenditures. Tribally operated schools are not required to report actual expenditures to BIA.

In the budget proposal for fiscal year 2004,¹³ OMB found that BIA does not yet have a financial management system that fully allocates program costs and associates those costs with specific performance measures. However,

⁹U.S. General Accounting Office, *School Finance: Per-Pupil Spending Differences between Selected Inner City and Suburban Schools Varied by Metropolitan Area*, [GAO-03-234](#) (Washington, D. C.: Dec. 9, 2002).

¹⁰These figures are based on the ISEP weights for school year 2002-03.

¹¹Removal of the weights was accomplished through a Federal Register Notice: 67 Fed. Reg. 52828 (Aug. 13, 2002).

¹²A study conducted by the Center for Special Education Finance (part of the American Institutes for Research, Palo Alto, California, and supported through a cooperative agreement with the U.S. Department of Education, Office of Special Education Programs) found that 17 states use funding formulas that are primarily based on student weights. “State Special Education Finance Systems 1999-2000, Part I” (Palo Alto, Calif.: May 2003).

¹³*Performance and Management Assessments, Budget of the United States Government, Fiscal Year 2004, Department of Interior: Indian School Operations*. www.whitehouse.gov/omb/budget/fy2004 (accessed 5/27/03). These are commonly referred to as PART [program assessment rating tool] assessments.

OMB noted that this requirement might be met through a new accounting system that Interior is adopting. OMB found that BIA did not have adequate academic performance and cost-efficiency measures that provide valid comparisons with public schools in rural areas with high concentrations of Indian students. In response to this finding, BIA said that it will develop academic performance and cost-efficiency measures that are comparable to similarly situated public schools.

To help districts develop useful, comparable accounting systems, Education has developed cost categories for use in school districts and states nationwide.¹⁴ This publication was designed as a national standard for state departments of education to use in reporting financial data to ensure that education fiscal data can be reported in a comprehensive and uniform manner.

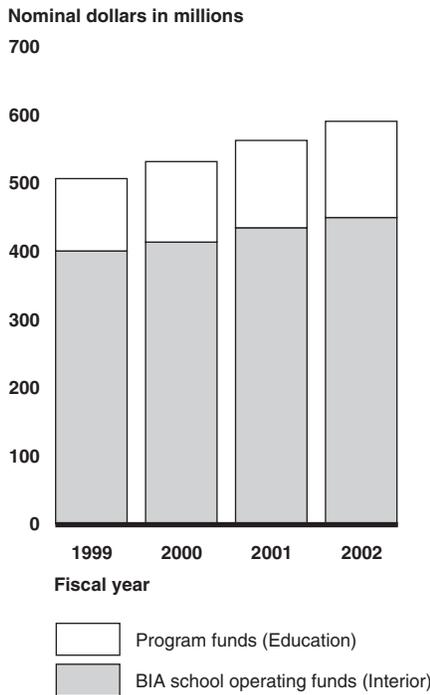
BIA Schools Rely Primarily on Funding from Interior with Additional Support from Education; BIA Has Little Financial Data to Inform Budget Proposals

Interior provides most of the funding for BIA schools, but the agency has little financial data to inform its budget proposals. Additional funds are provided by Education in the form of grants for disadvantaged, disabled, and other targeted students. (See fig. 1.) BIA school operations funding provided through Interior along with Education's funds constitute almost all operating funds available for BIA schools. Interior appropriations for BIA school operations, excluding facilities, grew 11.9 percent (in nominal dollars) between fiscal years 1999 and 2002, primarily through growth in the ISEP funds.¹⁵ However, when inflation is taken into account, the growth was 3.6 percent. During the same period, there was a slight decline in enrollment. In formulating its annual budget proposals, Interior uses prior year funding as a basis and considers projected changes in enrollment as well as teachers' salaries and other fixed costs. However, the agency has no cost basis for determining the level of its funding requests for some parts of its operating budget.

¹⁴National Center for Education Statistics (NCES), U.S. Department of Education, Office of Educational Research and Improvement, *Financial Accounting for Local and State School Systems 1990*, NCES-90-096R (Washington, D.C.: July 1990). William J. Fowler, Jr. Ed.D., Revisions Project Manager.

¹⁵After 1999, facilities maintenance was funded in part out of construction accounts. If facilities operation and maintenance were included in the calculation, the growth rate would be 5.9 percent over the entire 4-year period.

Figure 1: BIA Schools Operating Funds, Fiscal Years 1999-2002



Source: GAO analysis of Interior budget data.

Interior Provided about 78 Percent of BIA School Operating Funds While Major Education Programs Provided 22 Percent

In fiscal year 2002, Interior provided about 78 percent of BIA school operating funds (\$500 million), while Education provided about 22 percent (\$140 million) through programs that are available to all public schools in the nation. Interior's appropriations for BIA school operations grew 5.9 percent between fiscal year 1999 and 2002, primarily through growth in ISEP funds.¹⁶ The majority of educational funds came from ISEP and Education.¹⁷ Education primarily funded grants supporting disadvantaged and disabled students. (See fig. 2.) The program funds from Education have constituted an increasing share of BIA school operating budgets since fiscal year 1999 (from 18.2 percent to 22 percent in fiscal year 2002), in part, due to large increases since 1999 in two major education

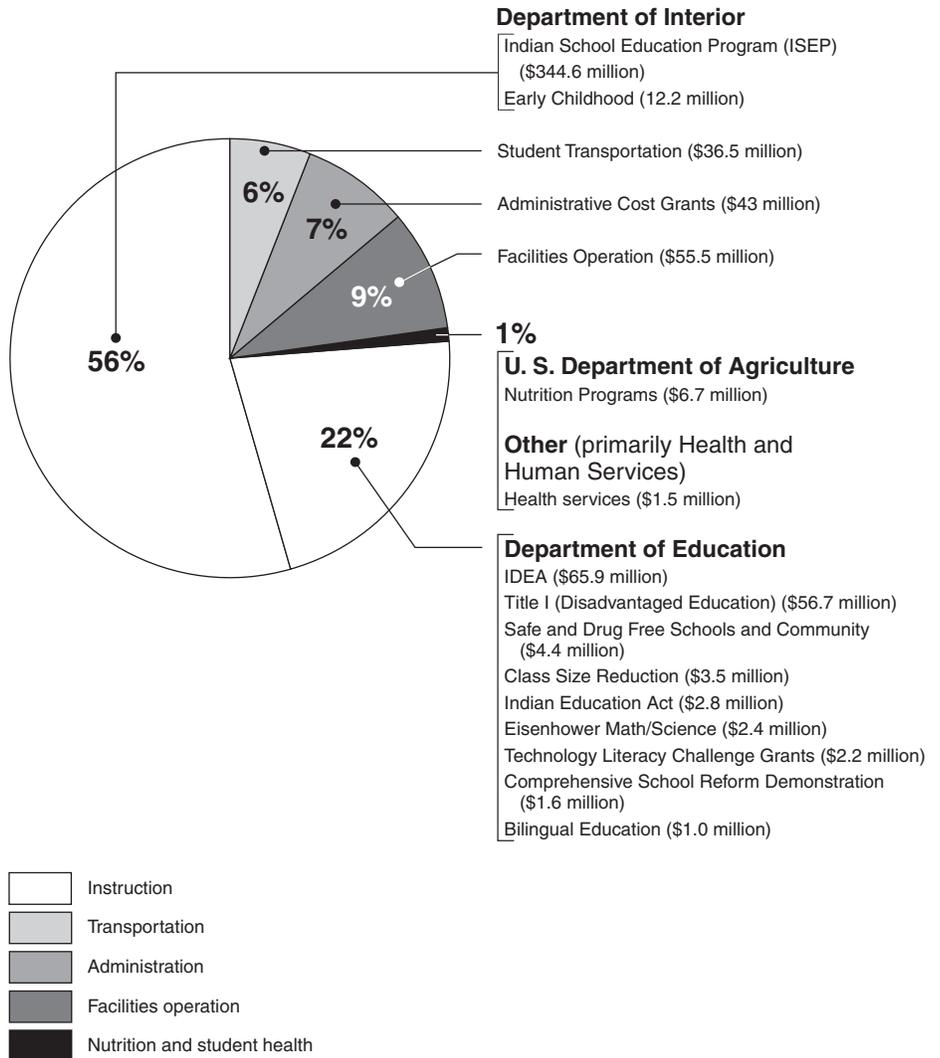
¹⁶BIA also received funding for education-related construction through Interior. These funds increased over 400 percent from fiscal years 1999 (\$60 million) through 2001 (\$293 million) and have remained steady since then.

¹⁷BIA-operated schools do not receive funds specifically designated for administration.

programs under which BIA receives funds.¹⁸ BIA Title I funds for disadvantaged students increased by 21 percent from 1999-2002, while funds for students with disabilities under the IDEA increased by 50 percent.

¹⁸Title I of the Elementary and Secondary Education Act of 1965, as amended and IDEA.

Figure 2: BIA School Operating Funds, Fiscal Year 2002



Source: GAO analysis.

Note: Percentages may not add to 100 due to rounding.

Interior Formulated Its Budget Proposals Based on Prior Year Funding with Only Limited Financial Data

In formulating the annual budget request for BIA schools, Interior officials we spoke with said the agency strives to maintain current levels of educational service to BIA schools. However, we found the agency had limited historical expense data for determining the level of its funding request, consistent with OMB's findings. BIA officials said they generally consider prior year funding to which they request some increases. Agency officials reported that they take into account changes in projected

enrollment and estimated increases in teachers' salaries and fixed costs. They also consider input from tribal leaders and regional agency officials. Although BIA collects and maintains some expenditure information from the schools it operates, it does not collect expenditure data from the tribally operated schools that comprise two-thirds of the schools it funds. In addition, while its formulas for administration and for facilities operations make some funding projections, it is unclear whether such projections inform BIA's budget proposals. Moreover, BIA has no formal mechanism, such as a cost-based formula or needs assessment, or expenditure data for determining how much funding is needed for instruction or transportation. For example, the ISEP formula distributes the available funds and is not based on the actual cost of educating children.

BIA Per-Pupil Budgeted Funds Were Higher Than the National Average Expenditure, but Spending Was Comparable for Selected BIA and Similar Public Schools

BIA budgeted more for its day schools, per pupil, than the national average expenditure for public schools; but for a selected group of BIA and public schools with similar levels of poverty and isolation, PPEs were comparable. BIA does not have expenditure data for all of its schools, so to make a national comparison, we compared BIA per-pupil budgeted dollars for 112 day schools with national PPEs, and found that BIA's budgeted funds were higher.¹⁹ BIA has expenditure data for 32 schools that it directly operates, and when we compared these data for school year 1999-2000, we found that spending for these schools was higher than the national average in three of four categories: instruction and related activities, transportation, and administration.²⁰ Finally, we conducted field work to compare a small number of BIA schools and public schools whose student makeup and environments were similar and we found their expenditures to be on par, overall. For the 8 BIA schools and 6 public schools where we collected data there was comparable spending, although the BIA schools spent less on instruction than their public school counterparts. Most BIA school officials (6 out of 8) we spoke with reported budget shortfalls for transportation. Both BIA and public school

¹⁹In school year 1999-2000, BIA had 115 day schools, but only provided budget data for 112 day schools for school year 1999-2000. Although budget and expenditure data are normally not compared, in this case we believe this is a viable comparison to make for total budgeted and total expenditure, because the total expended would be very close to the amount budgeted.

²⁰Administrative spending was difficult to analyze because BIA does not account for many administrative services provided to BIA-operated schools.

officials told us that isolation affected their operating costs, particularly for instruction and transportation.

BIA Per-Pupil School Budget Was Higher Than National Average Spending

BIA budgeted more per pupil for its 112 day schools, on average, than public schools spent in fiscal year 1999-2000—\$9,167 budgeted²¹ versus \$6,617 spent for public schools.²² However, per-pupil funding among BIA day schools and among all public schools varied widely. The BIA day schools' budgets ranged from \$5,937 per pupil to \$24,531.²³ Among public school districts nationwide, the PPE range was greater—from \$2,350 per pupil to \$39,032.²⁴

BIA schools and their students have a number of characteristics that may account for some of the higher budget levels in their funding. They are generally smaller than public schools and are more geographically dispersed, making it more difficult for them to achieve economies of scale. Unlike public schools, many BIA schools are also responsible for more infrastructure, such as sewer and water systems.²⁵ Finally, BIA schools have a much higher degree of poverty and special needs students than public schools nationally, factors associated with higher resource needs. (See table 3.)

²¹The average for the tribally operated schools (\$9,533) was higher than for the BIA-operated schools (\$8,021). The difference is attributable to grants received by tribal entities for administrative costs, which agency operated schools do not receive.

²²Adding PPEs for food and enterprise, the total PPE becomes \$9,274 for BIA schools and \$6,911 for public schools.

²³A tribally operated school, this was BIA's smallest with 14 students in school year 1999-2000. It received a 35 percent administrative cost grant and a small school adjustment. The next highest school had a per-pupil budget of \$17,126.

²⁴U.S. Department of Education, *National Public Education Financial Survey: SY 1999-2000*. We excluded three schools in this database with extremely high PPEs (\$47,500, \$60,100 and \$93,814) because they did not meet our criteria of regular elementary and secondary school systems.

²⁵[GAO-01-934](#).

Table 3: Selected Characteristics of BIA Schools and Public Schools, School Year 2000-01

Characteristic	BIA schools (n=171)	Public schools (n=84,596)
Average enrollment for elementary & secondary schools	265	546 ^b
Percent students eligible for free or reduced lunch	>80%	39% ^c
Percent students identified with disabilities	21%	13% ^d
Percent students with language needs	58%	5%

Source: GAO analysis of BIA and Education data.

^aBIA enrollment data.

^bU.S. Department of Education, National Center for Education Statistics (NCES), *Overview of Public Elementary and Secondary Schools and Districts: School Year 2000-2001*.

^cU.S. Department of Education, NCES, Common Core of Data, Local Education Agency Universe Survey, 1999-2000.

^dU.S. Department of Education, NCES, *Condition of Education, 2002*, Indicator 28 (data presented is from 1998-99).

Expenditures for BIA-Operated Day Schools Were Higher Than U.S. Average but Comparable for Selected BIA and Similar Public Schools

Expenditures at BIA-operated day schools were higher than the U.S. average but comparable for selected similarly isolated BIA and public schools. Spending in three of four categories—instruction and related activities, student transport, and administration—for the 32 BIA-operated schools was greater than the national per-pupil averages in school year 1999-2000; facilities operations spending was lower. (See table 4.)

Table 4: Average BIA-Operated Day School and U.S. Average PPE for School Year 1999-2000 by Category

Category	BIA-operated school PPE (n=32 schools)	U.S. average PPE (n=85,000 schools)
Instruction and related activities ^a	\$5,924	\$5,140
Student transportation	773	278
Facilities operations ^b	352	665
Administration ^c	694	535
Total PPE for four areas^d	\$7,743	\$6,617

Source: GAO analysis of BIA and NCES data.

^aIncludes salaries and benefits for teachers and instructional aides, supplies, purchased services such as instructional television, instructional staff training, educational media (library and audiovisual), and other support services.

^bIncludes supervision of operations and maintenance, operation of buildings, the care and upkeep of grounds and equipment, security, and utilities.

^eIncludes board of education, local education agencies, school administration, district administration (including BIA regional offices), graduation expense, and clerical support staff. BIA does not identify all administrative costs for BIA-operated schools; therefore, administrative costs may be higher than stated.

^fTotal PPEs excludes food expenditures and may not add due to rounding.

However, the 2001-02 school year expenditures for the 14 similarly situated BIA and public schools we visited were similar. In school year 2001-02 PPEs averaged \$10,140 for BIA students compared with \$10,358 for public school students. Specifically, we found that expenditures for both groups—BIA schools and public schools—were higher than the national average in all categories, as shown in table 5.

Table 5: Average PPE by Category for Selected BIA and Public Schools Visited, School Year 2001-02

Category	BIA day schools				U. S. average PPE ^a (n=85,000)
	BIA-operated schools PPE (n=4)	Tribally operated schools PPE (n=4)	Total BIA schools PPE (n=8)	Similar public schools PPE (n=6)	
Instruction and related activities ^b	\$7,016	\$7,307	\$7,162	\$7,628	\$5,140
Student transport	504	863	684	643	278
Facilities operations ^c	1003	1,147	1,075	916	665
Administration ^d	969	1,470	1,220	1,171	535
Total PPE for four areas^e	\$9,492	\$10,787	\$10,140	\$10,358	\$6,617

Source: GAO analysis.

Note: The PPEs listed were calculated by dividing each total category expenditures by the average enrollment of the study schools. We used BIA enrollment for the BIA schools and Core of Common Data (CCD) enrollment for the public schools.

^aFor school year 1999-2000.

^bIncludes salaries and benefits for teachers and instructional aides, supplies, purchased services such as instructional television, instructional staff training, educational media (library and audiovisual), and other support services.

^cIncludes supervision of operations and maintenance, operation of buildings, the care and upkeep of grounds and equipment, security, and utilities.

^dIncludes board of education, local education agencies, school administration, district administration (including BIA regional offices), graduation expense and clerical support staff. BIA does not identify all administrative costs for BIA-operated schools; therefore, administrative costs may be higher than stated.

^ePPEs exclude food expenditures. Numbers may not add due to rounding.

Instruction and Related Activities

In school year 1999-2000 the 32 BIA-operated day schools spent more (\$5,924) than the national average (\$5,140) for instruction and related activities—typically the largest portion of any school budget. Teacher salaries in the BIA-operated schools (but not the tribally operated schools) are determined by the Department of Defense’s (DOD) teacher salary scale, which, according to our recent study, is higher than the national average for public schools. For example, in school year 2000-01, the average salary in DOD overseas schools was \$47,460 while the national average was \$43,250.²⁶ BIA officials reported that teacher training costs were also higher than average because of the relative isolation of the

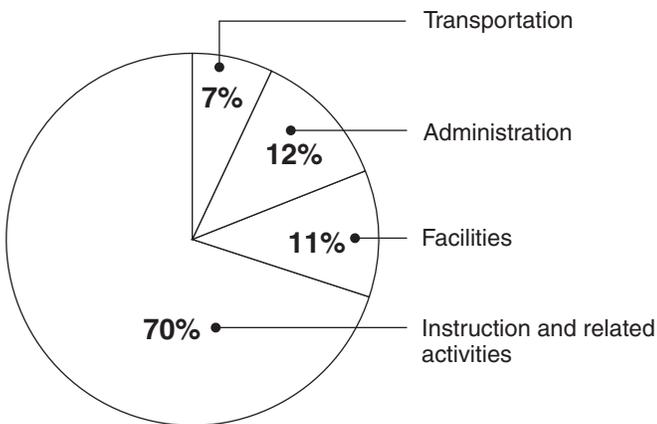
²⁶U.S. General Accounting Office, *DOD Overseas Schools: Compensation Adequate for Recruiting and Retaining Well-Qualified Teachers*, GAO-03-19 (Washington, D. C.: Dec. 12, 2002).

schools on reservations and their distance from training sites. Consequently, funding for advanced teacher training for many BIA school teachers must include travel and lodging.

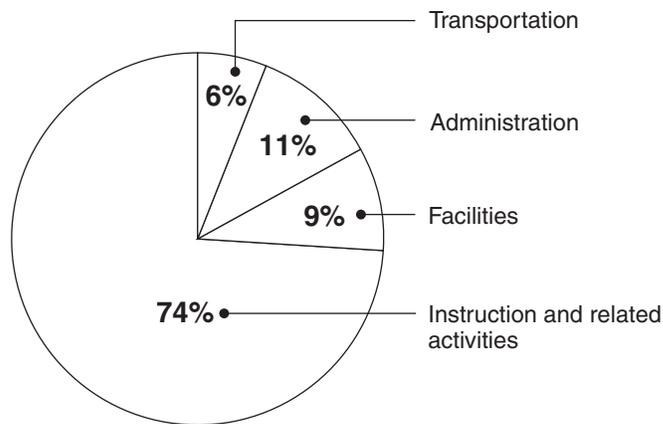
In the 14 schools we visited, all schools were substantially above the national average. However, we found that both the tribally operated and the BIA-operated schools spent lower amounts for instruction (\$7,307 and \$7,016, respectively) than the public schools (\$7,628). Additionally, a smaller proportion of their overall budget was spent on instruction. The BIA schools spent approximately 70 percent of their expenditures on instruction, while the public schools spent 74 percent. (See fig. 3.) Two of the public schools and two tribally operated schools said they did not have enough money for instruction.

Figure 3: Percent of Average PPEs Spent by 8 BIA Schools and for 6 Similarly Situated Public Schools, School Year 2001-02

Eight BIA schools' expenditures



Six public schools' expenditures



Source: GAO analysis.

Isolation of BIA and public schools had an impact on the recruitment and retention of teachers, according to 12 of 14 school officials. Four public and 5 BIA school officials told us they offered low-cost housing to the teaching staff as an added incentive because housing is extremely limited on or near Indian reservations. The attrition rate of teachers, measured by the percent of the teachers employed in school year 2001-02 who did not return the next school year, was higher for the 4 tribally operated schools we visited (26 percent) and for the 6 selected public schools (14 percent) than the national average (7 percent). In contrast, the 4 BIA-operated schools experienced a lower attrition rate (4 percent), which may be due to the higher teacher salary scale of BIA-operated schools. According to

officials we spoke with at 5 of the 8 BIA schools and 3 of the 6 public schools, isolation affected their ability to recruit or retain teachers.

Student Transportation

The average per-pupil spending for transportation at the 32 BIA-operated schools (\$773) was more than twice the national average (\$278) in school year 1999-2000. BIA officials we interviewed said most BIA schools are in remote areas and the buses travel long distances frequently on unpaved roads to pick up students. Unlike public school districts that service their vehicles locally, BIA buses often have to travel long distances to be serviced at government service centers. Also unlike public schools, which generally own their buses and share them throughout a district, the geographically dispersed BIA schools usually lease their buses and shoulder transportation costs individually. In addition, we found that almost 40 percent of the 63 BIA-operated day and boarding schools spent more on transportation than they received through their transportation budgets in school year 2001-02.

In the 14 schools we visited, the tribally operated schools spent more on transportation than their public school counterparts, while the BIA-operated schools spent less. School officials gave us similar explanations to the four listed above by BIA officials for the higher than average cost of transportation. They also provided us with examples.

- The percent of unimproved roads buses traveled for the 14 schools we visited ranged from 0 to 100 percent.
- Two of the 14 schools paid parents to bring children to feeder routes to avoid further bus travel on difficult roads.
- BIA buses traveled greater distances (an average of 465 miles/day) than the public school buses (an average of 379 miles/day), putting more wear and tear on the buses.
- Most of the BIA school officials also reported that they had to travel longer distances for maintenance of their buses than their public school counterparts.
- Most of the BIA school officials reported that they leased their buses from the government service center,²⁷ while most of the public schools reported

²⁷General Services Administration.

owning their buses and maintaining them in the local district or with local service contractors. The capital costs incurred for owning buses are not paid out of the transportation line of public school budgets, so they are not included in the PPEs of public schools; however, they are costs incurred through the leasing rates that BIA schools pay. Therefore, BIA schools likely spend more on their leased buses from transportation funds than the public schools spend on those they own.

Officials from both groups of BIA schools told us they have transportation budget shortfalls and their spending reflects transfers from other budget categories. Three of the 4 tribally run schools reported making up the shortfalls by using other sources of funding available to them, such as administrative funds and interest income.²⁸ For example, one tribal school official reported the school received just under \$200,000 and spent close to \$300,000 for transportation by using administrative funds and also interest income. BIA-operated schools, which have no investment funds or administrative funds, reported using only instructional funds to make up their transportation shortfalls. The 6 public schools we visited did not report shortfalls in transportation.

Facilities operations

The average PPE for facilities maintenance for the 32 BIA-operated schools (\$352) was lower than the national average of \$665 in school year 1999-2000, despite the fact that BIA has a backlog²⁹ of deferred maintenance for its nearly 2,200 buildings at 171 elementary and secondary schools. For school year 1999-2000, 65 percent of BIA schools were reported in less than adequate condition.³⁰ In contrast, only 24 percent of public schools were reported to be in less than adequate condition.³¹ In February 2001, this backlog totaled \$962 million in needed work, but by October 2002, the backlog dropped to \$642 million. Until recently, BIA has not had adequate information to determine the funding needed at each school site for heating, lighting, and other operating expenses. However, a new facilities management information system has

²⁸Tribally operated schools get administrative cost grants, while BIA schools do not.

²⁹This backlog is a catalog of deficiencies that contains a description of the work that needs to be done and the estimated costs for each item.

³⁰[GAO-01-934](#).

³¹NCES, *Condition of America's Public School Facilities: 1999, NCES 2000-32* (Washington, D.C.: U.S. Department of Education, June 2000).

been recently implemented to address the shortcomings of the old system.³²

In the 14 schools we visited, we found that the BIA schools spent more per pupil on facilities operations (\$1,003 for BIA-operated; \$1,147 for tribally operated) than the public schools (\$916). However, none of the BIA school officials reported the condition of their school as good. In contrast, officials at 5 of the 6 public schools described their facilities as good or excellent. Officials at 7 of the 8 BIA schools rated their facilities as fair to poor and complained about a long-standing lack of investment in operation and repair. Unlike their public school counterparts, many of the local BIA school officials said that routine preventive maintenance and repairs are frequently deferred in favor of other, more critical needs. This has resulted in higher costs for repairs and a negative impact in the functionality of the facilities, according to these officials. They said some of these problems affected the safety of children and the educational climate of their schools, citing a nonfunctional fire hydrant and fire alarm system, inoperable emergency generator, an eroded bathroom floor, problems with heating/air-conditioning systems, a fuel tank spill, and problems with sewer lines and water pipes.

Administration

In the 32 BIA-operated day schools, we found that BIA distributes administrative dollars differently than public schools do and does not use accounting categories that are nationally comparable. For example, BIA budgets money for program management (including principals' salaries) to all its schools through instructional funds (ISEP) rather than treating them as administrative costs. Therefore, on a national level it is difficult to compare or evaluate administrative funding for BIA schools. After adjusting for as many of these differences as possible, we found the 32 BIA-operated schools spent more on administration (\$694) than the public schools nationwide (\$535). However, it is likely that administrative expenditures for BIA-operated schools are understated for several reasons. First, BIA itself provides administrative services to the schools it operates but does not necessarily recognize in its accounting records the full cost of those services, as required by federal accounting standards.³³

³²U. S. General Accounting Office, *Bureau of Indian Affairs Schools: New Facilities Management Information System Promising, but Improved Data Accuracy Needed*, [GAO-03-692](#) (Washington, D.C.: July 31, 2003).

³³Federal Accounting Standards Advisory Board, *Statement of Federal Financial Accounting Standards No. 4, Managerial Cost Accounting Standards* (Washington, D.C.: July 31, 1995).

Second, administrative funds that BIA provides to its regional agencies (education line offices), which are counterparts to public school district offices, are not systematically allocated and tracked to the schools.³⁴

In the 14 schools we visited, the 8 BIA schools had higher administrative costs than the 6 similar public schools, \$1,220 and \$1,171, respectively. There was a notable difference between the BIA-operated and tribally operated schools. Tribally operated schools had higher expenditures for administration than the public schools while BIA-operated schools had lower expenditures for administration.

BIA's Formulas Generally Distributed Money Fairly, but Expenditure Data Are Insufficient to Determine Adequacy

The six formulas generally allow for equitable distribution of funds among schools, but we did not have enough expenditure data to fully assess the formulas' adequacy in terms of how well they account for relevant costs. Overall, we found that the three instructional formulas resulted in a fair distribution of funds; that is, students and schools with similar characteristics were treated similarly in terms of funding. A recent change to the largest of the instructional formulas was followed by fewer students being identified as having disabilities, but it is too early to determine the impact of the change on the distribution of funds among the BIA schools. With regard to the transportation formula, we found that it may not account for certain differences among schools. The remaining formulas, which project needed amounts for facilities operations and for administration, adequately accounted for relevant costs, but they were funded at levels below their projections. Whether the formulas are more or less than adequate is not clear due to the lack of expenditure data. See appendix I for further discussion of these formulas.

BIA's Primary Formulas for Instruction Distributed Funds Fairly

Our analysis indicates that in school year 2001-02, instructional funds were distributed fairly among schools based on student enrollment adjusted for grade level and certain other student characteristics, such as English proficiency and disability level.³⁵ ISEP allocations ranged from \$3,291 to

³⁴For the purpose of our analysis, we allocated all budgeted funds identified to the specific schools.

³⁵If instructional funding per pupil were calculated without controlling for student and school characteristics, funding levels across BIA funded schools would range widely, not inconsistent with the findings of previous studies—such as [GAO-01-934](#), September 28, 2001. However, our analysis indicates that these differences diminish substantially when controlling for specific school characteristics, such as grades served, and whether or not the school has a boarding component.

\$4,344 per WSU, which is a small variation according to the federal range ratio, an accepted measure for assessing equity.³⁶ When considering all instructional funds combined except for disability-related funds from Education, the variation was greater, ranging from \$3,849 to \$5,619 per WSU; but this is still an acceptable variation according to the federal range ratio. (See table 6.) The greater range in instructional funds per WSU can be attributed to two factors: (1) the funds for Disadvantaged Children and Title II, Parts A and D are distributed on a per-pupil basis rather than a WSU basis and (2) both programs also include extra money for small schools. We found no substantial difference between BIA-operated and tribally operated schools in instructional funding per WSU.

Table 6: ISEP and Total Instructional Funding Per WSU

	Average	Range	Federal range ratio ^a
ISEP funding per WSU	\$3,767	\$3,291 to \$4,344	4.5%
Total instructional^b funding per WSU	\$4,570	\$3,849 to \$5,619	20%

Source: GAO Analysis of BIA financial and enrollment data.

^aThe federal range ratio is calculated by dividing the difference between the 95th and 5th percentile of funding per WSU by the 5th percentile. For example for ISEP funding per WSU: $(3,902 - 3,733)/3,733 = .045$ or 4.5%.

^bFor this analysis, total instructional funding includes ISEP formula funds as well as funds for "Disadvantaged Children" (Title I), Title II, Parts A & D, and Safe and Drug Free Schools and Communities, (Title IV) funds, but not IDEA Part B funds.

The Elimination of Weights for Special Education from the ISEP Formula Was Followed by a Large Reduction in the Number of Students Enrolled in Special Education

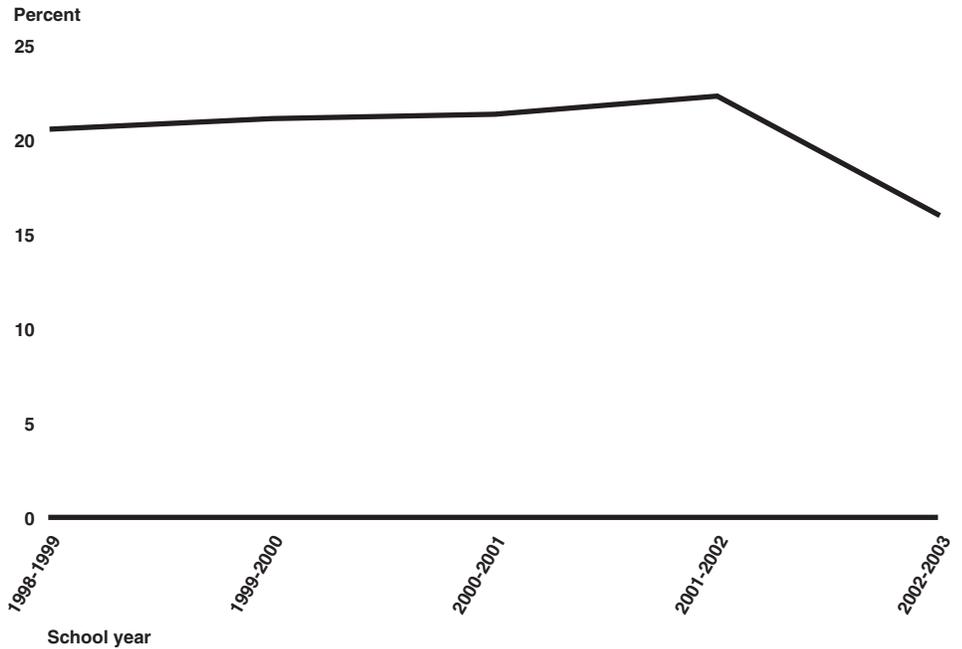
Students requiring special education are more costly to educate than students who do not need such services. To account for this difference, until recently, the ISEP formula used weights for severity of special education needs of students and on disability and amount of time per day spent in a special education program. Because such weights could create an incentive to educate students in overly restrictive environments, Education found BIA out of compliance with IDEA. To comply with IDEA, BIA eliminated these weights and went to a different method of financing the additional costs of special education in school year 2002-03 in order to

³⁶The federal range ratio can be used to measure the degree of equity in a school finance system. A federal range ratio of zero would imply a fully equitable distribution. Although there is no threshold explicitly stated for the ISEP formula, we used the 25 percent level. The 25 percent level is described as a disparity limitation in the Impact Aid program, 34 C.F.R. 222.162.

reduce the incentive to place students in overly restrictive environments.³⁷ It is too soon to assess the impact this method had on the equity of the funding for special education students, that is, whether this new system gives schools sufficient funds to cover the costs of educating students with disabilities. In the first year of the change, BIA reported about 3,000 fewer special education students than in the previous year, a 29 percent decline in special education enrollment. As can be seen in figure 4, the percentage of students identified as needing special education services had been increasing slightly since 1999 (the years of this study). BIA officials said that a study was under way to account for the large drop in special education enrollment.

³⁷Prior to the change, which occurred in August 2002, the ISEP formula included weights linked to the level of severity of a student's disability and amount of time per day in a special education program. For example, a 4th grade student who needed part-time services in a special education program for a specific learning disability was given an additional weight of 0.5 (for a total weight of 1.5) and a student needing full-time services in a special education program for a specific learning disability was given an additional weight of 1 (for a total weight of 2). According to BIA's Budget Justification, ISEP funds were about \$3,730 per WSU for school year 2001-02. Thus, a school would receive \$5,595 for each student that was weighted with a 1.5 and \$7,460 for each student weighted with a 2. When implementing a child's individual education program costs less than additional the amount provided, then such a weighting scheme creates a financial incentive to classify children as needing more time per day in a special education program.

Figure 4: Percentage of BIA Students Identified as Needing Special Education Services, School Year 1999-2003



Source: GAO analysis.

The Transportation Formula May Not Account for Isolation

Our analysis of the limited expenditure data (only BIA-operated schools report their expenditures) showed that the current weighting scheme for road conditions in the transportation formula seems appropriate, but some cost factors may be missing. BIA uses two cost factors in this formula: miles driven transporting students to and from school and road condition. To capture the increased cost of transporting students on very poor roads, BIA officials have assigned a weight of 1.2 for every mile traveled on “unimproved” roads in the transportation formula. While this formula may appropriately account for road conditions, there are other relevant costs for BIA schools associated with degrees of isolation. Isolation is included in BIA’s formula for facilities management, but not for transportation. In contrast, the transportation formula used by New Mexico accounts for isolation by factoring in the density³⁸ of the school district. Not having an isolation factor could result in schools receiving less in funding than they

³⁸Density in the New Mexico transportation formula is the number of students in the district divided by the district area in square miles.

incur in costs.³⁹ Another noteworthy feature of New Mexico's transportation funding is that it includes an incentive to promote efficient use of funds (efficiency incentive). The efficiency incentive allows schools to keep 50 percent of any unused transportation funds for the following year. These funds can be used to cover transportation services, including school activities such as field trips. BIA's transportation formula does not offer any kind of efficiency incentive.

Other Formulas Calculate Funding Need That Exceeds the Current Funding Level

To determine funds needed to operate and maintain facilities, BIA utilizes a comprehensive formula to project the dollar amount that schools will need.⁴⁰ BIA also determines an administrative rate for the administration of the tribally operated schools under a statutorily prescribed formula. While each of these formulas calculate a dollar amount needed for each school, both programs are funded at about 80 percent of calculated need.⁴¹ While much has been done to improve the reliability of the facilities data and to improve the accuracy of projections, similar work has not been done to assess the efficiency or accuracy of the administrative cost grant program. To determine whether the administrative cost grants are underfunded, one could conduct an efficiency study comparing the cost of administration to industry standards of schools of similar size. However, BIA does not currently collect any data about how the administrative cost grants are used, which makes such a study problematic.

In the case of facilities maintenance, the formula projects amounts needed by taking into account specific factors related to the cost of maintaining the facilities. The backlog of maintenance for facilities across BIA's system indicates a historic problem in funding levels. Our previous study found that funding for the maintenance and repair of BIA facilities was at the low end of national guidelines set forth by the National Research Council and below rates recommended by experts in the facilities field.⁴² However,

³⁹Currently, the only measure of isolation that BIA collects for the schools is in the facilities management information system, where BIA collects data on the distance to the nearest place to obtain services for facilities.

⁴⁰The facilities formula takes into account characteristics such as size of the facility, age of the building, number of classrooms, and technology (number and age of boilers, public announcement systems, etc.) present at the site.

⁴¹To determine the actual level of funding, BIA takes the formula calculated amount and scales it back across the board, i.e., if available funds were only 80 percent of calculated need, then BIA would scale all schools' funding back to 80 percent of calculated need.

⁴²[GAO-01-934](#).

since we did not study how efficiently the schools were using the money allotted for facilities maintenance and operations, we cannot draw conclusions about the adequacy of the formula's projection or the appropriateness of funding facilities maintenance at 80 percent of calculated need. We have noted, however, that BIA is taking steps to improve the facilities maintenance and operations program. In school year 2001-02, BIA budgeted \$293 million to replace and renovate schools and is currently updating the facilities database to ensure more reliable data.⁴³

With regard to the administrative cost grants for tribally operated schools, we were unable to assess the effect of their having less than 100 percent of formula projected funds.⁴⁴ The administrative cost grant formula calculates an administrative rate related to program cost to fund administrative duties such as payroll processing. In school year 2001-02, this rate ranged from 12 percent to 38 percent of program funds. As a percentage of calculated need, distributed funds have decreased from 90 percent in school year 1998-99 to 72 percent in school year 2002-03 (see table 7), a decline that was due to the formula projections for increased costs without similar increases in appropriations. However, without expenditure data, we are unable to assess whether the calculated need is valid and the formula accurate. Moreover, leaders of tribally operated schools can request more administrative funds from another Interior source, but BIA officials in the Office of Indian Education Programs did not know whether the tribes used this option, or whether tribally operated schools had received more for administration than they needed.

⁴³GAO-03-692.

⁴⁴Administrative cost grants are not needed for the BIA-operated schools since BIA assumes some of their administrative responsibilities, such as payroll processing.

Table 7: Administrative Cost Grants—the Difference between Calculated Need and Distributed Funds in Tribally Operated BIA Schools, School Years 1998-99 through 2002-03

	School year				
	1998-99	1999-2000	2000-01	2001-02	2002-03 ^a
Calculated need	\$47,082,549	\$51,384,395	\$53,228,957	\$56,888,738	\$59,708,500
Distributed funds	\$42,160,000	\$42,160,000	\$42,160,000	\$43,065,048	\$43,065,048
Distributed funds as a percentage of calculated need	90%	82%	79%	76%	72%

Source: BIA financial system.

^aBIA has not yet issued the final administrative cost grant funds.

Evaluation of BIA Formulas for Adequacy Is Limited by the Lack of Expenditure Data

The lack of expenditure data limited our ability to fully evaluate the formulas in terms of adequacy. While we were able to assess the distributional equity of those used for instruction and transportation, we were not fully able to assess whether the weighting schemes were appropriate or whether they accounted for any intrinsic cost differences that may exist among schools. For example, the ISEP formula has weights for residency; we would need detailed expenditure data to capture the costs of operating boarding schools on such items as after school activities, increased food costs, counseling, and supervision and to determine the appropriateness of the weights. Intrinsic differences among schools could also be captured in expenditure data that would reflect differences in pay scale for the tribally operated schools according to region or degree of isolation, whether or not a school provides housing for its teachers, and amounts spent on recruitment or retention of staff. The presence of such differences in cost could affect the services and resources available for each student. OMB recommended to Interior that it develop academic performance and cost-efficiency measures that are comparable to similarly located public schools. Interior has agreed to implement this recommendation.

Conclusions

BIA schools contend with very high poverty rates, large numbers of students with limited English proficiency, isolation, and many less than adequate facilities, all of which are associated with the high costs of education. While BIA's budgeted per-pupil funding exceeds the national average PPE, PPEs at selected BIA schools appear to be on par with that of selected public schools with similar characteristics. This similarity, however, does not ensure adequacy. Although we did not do a cost-effectiveness study, the funding allocated for transportation may not have been sufficient, since some schools made up shortfalls by spending money from funds primarily intended for instruction. It is unknown how this shift

of funds may have affected instruction, but in an educational system characterized by higher than average costs for instruction, the use of such funds for any other purpose seems problematic. We could not make similar calculations to see how BIA schools made up for any shortfalls in facilities operations or administrative costs because these numbers were not available.

Because BIA does not collect complete expenditure data for two-thirds of its schools that are tribally operated, it is difficult to determine the overall adequacy of BIA's per-pupil funding other than by comparing it to similar selected public schools, which is a limited measure of adequacy. The expenditure data BIA collects does not reveal in detail how funds are actually spent. For example, the current system does not have data on how much was spent on components of instruction (teacher and paraprofessional salaries, instructional materials, and computers) or local administrative expenditures. Hence, Interior cannot use expenditure data to formulate its budget requests. Moreover, what expenditure data the agency does collect are not in categories that would permit comparisons with public schools. However, Interior's recent decision to implement an OMB recommendation to develop cost-efficiency measures that are comparable to similarly located public schools may capture some of these data. Similarly, any assessment of the adequacy of distributional formulas would require expenditure data. As to the removal of special weights for special education students from the ISEP formula, Education found, and we concur, that this change has reduced the incentive to place students in overly restrictive environments. However, it is too soon to know the long-term effects on resources available for educating children who require special education.

Because it lacks an isolation factor in the transportation formula, BIA may not be providing enough transportation funding for students who live in remote areas. As a result, some BIA-operated schools may be shortchanging instruction. In addition, the lack of an efficiency incentive in the formula may limit opportunities for making the best use of available resources.

Finally, because BIA does not identify and track the total amount of overhead functions such as payroll, facilities management, and procurement, we could not assess the total funding supporting the administration of BIA schools. Moreover, without this information, Interior cannot account for the full costs of administration of BIA-operated schools as federal accounting standards require.

Recommendations

To better assess BIA funding and formulas for their adequacy and to ensure that budgeted funds are spent as intended and well managed, the Secretary of the Interior should direct the Assistant Secretary for Indian Affairs to collect expenditure data for the schools the agency directly manages in greater detail so that the data can be compared with public schools. For example, BIA should consider adopting the expenditure classifications, particularly the function and object codes, listed in Education's *Financial Accounting for Local and State School Systems, 1990*.

To better assess BIA funding and formulas for their adequacy, the Secretary of the Interior should also consider entering into negotiations with tribal entities to acquire detailed expenditure data for the schools they manage so they can compare it with public schools.

To improve the transportation formula so that it more accurately reflects costs and encourages efficiency, the Secretary of Interior should direct the Assistant Secretary of Indian Affairs to include an isolation index and an efficiency incentive in addition to an adjustment for road conditions.

To better manage Interior's funds, the Secretary of the Interior should direct the Assistant Secretary for Indian Affairs to identify and allocate all costs of administering BIA-funded schools, including the costs of (1) administrative services provided by BIA to BIA-operated schools and (2) central office services provided by headquarters and regional offices.

Agency Comments

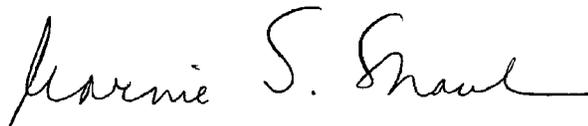
We provided a draft of this report to the Departments of the Interior and Education for their review and comment. Interior's comments are provided in appendix III. In its written comments, Interior generally agreed with our findings and recommendations.

Interior also made three comments on specific statements in our report: (1) BIA asked for clarification of "regional agencies" and we added that regional agencies are education line offices. (2) The second comment referred to our statement that similar spending does not imply adequate spending in the case of similar BIA and public schools and our statement "because the BIA does not collect complete expenditure data, we were limited in our ability to assess the overall adequacy of the formulas." The former statement was a clarification that the graph shows a comparison of spending at BIA and similar public schools and that no conclusions should be drawn regarding adequacy of funding. In contrast, the latter statement is specific to the adequacy of the formulas used by BIA and does not have

implications for the adequacy of expenditures for public schools. (3) The third comment is about PPE comparisons and has two parts. The first part states that the report does not indicate what was included or considered as part of the PPE. Table 4 identifies what was included in our definition. The second part of the comment refers to the omission of a discussion about the inadequate amount spent on facilities in the past. Although our report indicates spending on facilities operations was more in the BIA-funded schools we visited than in similar public schools, we also stated that officials at 7 of the 8 BIA schools we visited rated their facilities as fair to poor and complained about a long-standing lack of investment in operation and repairs.

Education did not provide written comments but provided technical comments that were incorporated as appropriate.

We are sending copies of this report to the Secretary of the Interior, the Secretary of Education, relevant congressional committees, and other interested parties. Please contact me on (202) 512-7215 or Eleanor Johnson on (202) 512-7209 if you or your staff have any questions about this report. In addition, the report will be available at no charge on GAO's Web site at <http://www.gao.gov>. Other GAO contacts and staff acknowledgments are listed in appendix IV.



Marnie S. Shaul, Director
Education, Workforce and
Income Security Issues

List of Congressional Committees

The Honorable Judd Gregg
Chairman

The Honorable Edward Kennedy
Ranking Minority Member
Committee on Health, Education, Labor and Pensions
United States Senate

The Honorable John A. Boehner
Chairman

The Honorable George Miller
Ranking Minority Member
Committee on Education and the Workforce
House of Representatives

Appendix I: Scope and Methodology

This appendix discusses in more detail the scope and methodology for examining the funding and formulas used for funding Bureau of Indian Affairs (BIA) schools.

Funding

To determine the sources and amounts of federal funding for all BIA schools, we reviewed BIA annual reports and budget justification documents, the President's Budget, Office of Management and Budget (OMB) reports, Department of Interior (Interior) appropriations summaries, and Department of Education (Education) financial reports. We talked with officials from Interior and Education. We conducted interviews with BIA officials at headquarters and the Office of Indian Education Programs in Albuquerque, New Mexico.

To determine how BIA school funding compares to national benchmarks, we analyzed BIA financial databases and national public school expenditure data from the Education's Core of Common Data (CCD) maintained by the National Center for Education Statistics (NCES), which uses the national average per-pupil expenditure (PPE) as an indicator of education funding. The national average PPE is determined by taking the total annual expenditures for all categories of current funding, except capital funds and debt service, and dividing it by the average school enrollment.¹

Because BIA does not maintain expenditure data on all of the schools it funds, specifically, tribally operated schools, we compared BIA annual budget allocations with national expenditures for the most recently available school year 1999-2000 to get an overall PPE comparison, excluding food. Similar to the PPE, the BIA per-pupil budget allocation is calculated by dividing the total dollar amount of annual budget allocations, excluding capital funds and debt service, by the student enrollment.² BIA does maintain some expenditure data for the 32 day schools it directly operated in school year 1999-2000, representing 13 percent of enrollment at BIA-funded schools, and we were able to compare these schools with national school expenditures in terms of instruction, transportation, facilities, and administration for the same year.

¹NCES uses the count of students on the current roll taken on the school day closest to October 1.

²Student enrollment is determined during "count week", generally the last full week in September.

We used budget and expenditure data from BIA's Financial Information System (FIS). We assessed the reliability of these data by (1) performing electronic testing for obvious errors in completeness, accuracy, and consistency; (2) reviewing existing information about the data and the system; and (3) interviewing agency officials knowledgeable about the data and the system. We determined that the budget data were sufficiently reliable for the purposes of this report. However, as stated in the report, FIS only contains limited expenditure data for the 32 BIA-operated day schools, which represent only 14 percent of the total BIA enrollment. We determined that these data were sufficiently reliable for describing certain expenditure categories for the 32 BIA-operated schools. We have discussed completeness issues related to this data (including the lack of data on certain expenditure categories and the lack of data on the tribally operated schools) in the body of the report.

To determine how BIA school funding compares to that of similarly situated schools, we selected 10 BIA and 10 public schools based on location, school size, grade levels, relative isolation, and poverty indicators. These BIA and public schools were selected to be similar as a group; it was not a one-to-one match. We visited 9 public schools; the tenth was unreachable because of weather. We dropped 1 public school because it was not, in fact, similar and we dropped 2 other public schools because they did not have complete data. In addition, 2 tribally operated BIA schools were eliminated because they could not provide necessary data. The BIA-operated schools also could not provide us with expenditure data. We obtained expenditure data for the 4 BIA-operated schools we visited from the financial management system. We obtained data from 8 BIA (4 tribally operated, 4 BIA-operated) and 6 public schools in Arizona, New Mexico, North Dakota, and South Dakota. (See table 8.) These results are not generalizable to other BIA schools. We selected these 4 states because they have 70 percent of the BIA schools.

Table 8: BIA and Public Schools We Visited

School	State	Type	Enrollment
BIA-funded day schools			
BIA-1	Arizona	BIA	155
BIA-2	New Mexico	BIA	246
BIA-3	New Mexico	BIA	137
BIA-4	New Mexico	Tribal	398
BIA-5	New Mexico	BIA	261
BIA-6	South Dakota	Tribal	368
BIA-7	South Dakota	Tribal	42
BIA-8	South Dakota	Tribal	668
Similar public schools			
P-1	Arizona	Public	271
P-2	New Mexico	Public	360
P-3	New Mexico	Public	56
P-4	South Dakota	Public	387
P-5	South Dakota	Public	181
P-6	North Dakota	Public	192

Source: GAO analysis.

In these schools, we interviewed public school principals and cognizant district officials, such as superintendents and business managers. We obtained and reviewed budget and financial documents from these schools and requested data from school officials regarding costs and issues related to their (1) instruction and related activities, (2) transportation, (3) facilities maintenance, and (4) administration in school year 2002. We also interviewed BIA school principals and business officials and a limited number of regional administrators who directly oversee BIA schools.

With regard to disaggregated data, we are not able to isolate the total amount of federal funding supporting the administration of BIA schools because some overhead functions, such as payroll, facilities management, and procurement, are handled regionally and the costs are not consistently identified and allocated to the schools. However, we did identify the administrative overhead that BIA reports for the administrative cost grants and the regional administrators. In addition, we found that BIA distributes administrative dollars differently than public schools do and does not use accounting categories that are nationally comparable. We adjusted the BIA

data so that program management (which includes principals' salaries) was accounted for as an administrative, rather than as an instructional expense.

Formulas—Overview

Formulas can be evaluated in terms of their equity and their adequacy. One notion of equity recognizes that students with similar characteristics should be treated similarly in terms of funding. For this measure of formula equity, the distribution of funds across weighted student units (WSU) is used to determine whether the range of differences in resources available to students is acceptable. There are several measures of the equity of the distribution of educational funds, including the federal range ratio. The federal range ratio would have a value of zero if the distribution were completely equitable. To evaluate the adequacy of a formula, one would assess how well the formula reflects relevant cost factors, such as teachers' salaries, by analyzing expenditure data. However, these data were not available or available at the level of detail needed.

To determine how the various formulas were used to distribute funds and how formula changes affected the funding of BIA schools, we conducted several analyses. First, we analyzed distributive formulas for instruction and transportation by determining the equity of the distribution. In the case of the transportation formula, we also compared the resulting distribution (budgeted amounts) to expenditures for the BIA-operated schools that report expenditures. To determine how well the Indian School Equalization Program (ISEP) formula and other formulas distributed instructional funds, we examined the equity of the distribution of such funds across pupils, WSU, and schools. In doing so, we examined the amount of variation in per-pupil funding across different categories of schools, such as size, control of school (tribally or BIA-operated), whether the school has a boarding component, and grades served by the school.

With regard to the facilities maintenance and operations formula and the administrative cost grant formula, we describe the formulas but do not evaluate their adequacy. It should be noted that at the time of the study, the facilities formula was in flux. We compared the amounts calculated by these two formulas to the amounts distributed by BIA for their respective programs.

To determine the extent to which changes to the ISEP formula have affected the funding of individual schools, we reviewed laws, as well as school enrollment data and preliminary funding data, and existing literature.

Formulas— Descriptions

BIA uses six different formulas to distribute the majority of the operational funds. Each formula is associated with a program or function, such as instruction or transportation, and, each formula is comprised of variables that are relevant to that program or function. Ideally, any such set of formulas would work together to distribute funds efficiently and fairly based on real cost components relevant to the functions of the formulas.

ISEP Formula

Formula details. The ISEP formula is BIA’s primary formula for distributing funds for instruction. ISEP funds are distributed to schools based on WSU, or school enrollment adjusted for certain school and student characteristics. The weighting scheme for the ISEP formula recently changed, such that all weights based on special education needs were eliminated. Prior to the change, the ISEP formula included weights based on grade, bilingual designation, gifted and talented classification, as well as exceptional child categories, which were eliminated. The change in August 2002 increased all grade-based weights by a factor of 15 percent. The ISEP formula also has weights for BIA’s residency program. The instructional weights and the residential weights are in tables 9 and 10.

Formula distribution. The ISEP formula is a distributional formula. The distribution of ISEP funds begins in July, when schools receive 80 percent of funds (calculated by using the prior year’s enrollment). Schools have a count week in September during which they determine their current enrollment and the number of students requiring exceptional education services. School administrators report their average daily membership (ADM) to BIA. The education line officers certify these counts. ISEP also has a small school adjustment that is intended to help defray some costs associated with relatively small schools whose enrollment is less than 50 ADM. Each small school receives an additional 12.5 WSU. In addition, each school that has between 50 and 100 ADM receives extra WSU as follows:

$$\frac{(100 - ADM)}{200} \times ADM = \text{Number of additional WSU}$$

After calculating the WSU for each school (including small school adjustments), officials at BIA calculate the dollar amount per WSU by dividing the amount appropriated for ISEP by the total number of WSU. They then compute the amount that each school receives by multiplying the total WSU for each school by the ISEP per WSU amount. The schools

then receive the difference between that product and the amount they were given in July. The BIA disburses the final amount by December 1st.

Table 9: ISEP Formula Weights for the Instructional Program

ISEP formula instructional programs	Prior to August 2002		Since August 2002	
	Base weight	Add on weight	Base weight	Add on weight
Basic program				
Kindergarten	1.00	N/A	1.15	N/A
Grades 1 to 3	1.20	N/A	1.38	N/A
Grades 4 to 6	1.00	N/A	1.15	N/A
Grades 7 to 8	1.00	N/A	1.38	N/A
Grades 9 to 12	1.30	N/A	1.50	N/A
Supplemental programs				
Intense bilingual	N/A	0.2	N/A	0.2
Gifted and talented	N/A	2 – base weight	N/A	2 – base weight ^a
Disabilities programs (full time – high service)				
• Deaf	N/A	3.00	N/A	N/A
• Blind	N/A	3.00	N/A	N/A
• Severely multi-handicapped	N/A	3.00	N/A	N/A
• Severely and profoundly retarded	N/A	3.00	N/A	N/A
• Hospital/homebound instruction required	N/A	3.00	N/A	N/A
• Severely emotionally disturbed	N/A	3.00	N/A	N/A
• Emotionally disturbed	N/A	1.00	N/A	N/A
• Specific learning disabled	N/A	1.00	N/A	N/A
• Mentally retarded	N/A	1.00	N/A	N/A
Disabilities programs (part time – moderate service)				
• Emotionally disturbed	N/A	0.50	N/A	N/A
• Specific learning disabled	N/A	0.50	N/A	N/A
• Mentally retarded	N/A	0.50	N/A	N/A
• Multihandicapped	N/A	0.50	N/A	N/A
• Hard of hearing	N/A	0.25	N/A	N/A
• Visually handicapped	N/A	0.25	N/A	N/A
• Orthopedically impaired	N/A	0.25	N/A	N/A
• Other health impaired	N/A	0.25	N/A	N/A
• Speech impaired	N/A	0.25	N/A	N/A

Source: For the column entitled "Prior to August 2002 ISEP weights," the source was 25 C.F.R. 39.12, revised as of April 1, 2002. For the column "Since August 2002 weights," the source was 25 C.F.R. 39.12 (e) and (g) (1) and (2), revised as of April 1, 2003.

^aFor example, in school year 2002-03, a gifted and talented kindergartener receives an add on weight of $2 - 1.15 = 0.85$.

Table 10: ISEP Formula Weights for the Residential Program

ISEP formula residential program		Prior to August 2002	Since August 2002
		Add on weight	Add on weight
Basic program	Kindergarten	0	0
	Grades 1 to 3	1.4	1.4
	Grades 4 to 6	1.25	1.25
	Grades 7 to 8	1.25	1.25
	Grades 9 to 12	1.25	1.25
Disabilities programs (full time – high service)	All full-time handicapped students	0.5	N/A
Disabilities programs (part time – moderate service)	Mentally retarded	0.25	N/A
	Multihandicapped	0.25	N/A
	Emotionally disturbed	0.25	N/A
	Orthopedically impaired	0.25	N/A
	Other health impaired	0.25	N/A
Intense residential guidance		0.50	0.50

Source: For the column entitled "Prior to August 2002 ISEP weights," the source was 25 C.F.R. 39.13, revised as of April 1, 2002. For the column entitled "Since August 2002 weights," the source was 25 C.F.R. 39.13, revised as of April 1, 2003.

Student Transportation Formula

Formula details. BIA uses a formula for the distribution of funds for student transportation. The transportation formula itself is straightforward. It distributes funds based on miles driven, weighted by the road condition. Basically, improved miles get a weight of 1 while unimproved miles get a weight of 1.2. Improved roads are paved roads or graded roads, including gravel roads. Unimproved roads consist of those roads that are not graded, and not really maintained. (See table 11.)

Formula distribution. Like the ISEP formula, the transportation formula is purely distributive. The schools report to BIA the number of miles driven in 1 day transporting students to and from school on improved and

on unimproved roads. BIA officials then calculate the total miles for boarding schools and day schools as described in table 11.

Since some students live very far away from their schools or dorms, they have to use planes, trains, or buses (other than school buses) to get to school. BIA pays for two roundtrip tickets for such students each school year. Therefore, the transportation costs for such students are based on the costs of two roundtrip tickets (per school year). Before calculating the per mile rate (based on school bus miles driven), BIA officials first subtract any student transportation expenses for airfare, charter buses, train fare, and bus fare from the transportation allocation. The remainder of the transportation is divided by the sum of day and boarding adjusted total miles, generating a “per mile” rate. The transportation funds are then distributed to the schools accordingly.

Table 11: Transportation Formula Weights with Examples

Definition	Improved miles [M] Number of miles driven on improved roads in 1 day	Unimproved miles [U] Number of miles driven on unimproved roads in 1 day	Adjusted total miles [T] $T = M + 1.2U$	Total boarding miles 4T	Total day miles 180T
Example 1: Standing Rock Community School	1,346.8	212.5	$1,346.8 + 1.2(212.5) = 1601.8$	N/A ^a	$180(1601.8) = 288,324$
Example 2: Navajo Preparatory School ^b	2,459	17	$2,459 + 1.2(17) = 2,479.4$	$4(2,479.4) = 9917.6$	N/A ^a

Source: GAO analysis.

^aBIA day schools are in session and transport their students to and from school 180 days per year. BIA boarding schools are in session 180 days, but need to transport their students to and from school only 4 times each year.

^bThis school is a boarding school with no day students that need transportation. Many boarding schools have students who live at home in addition to those who board.

Formula Used to Distribute “Safe and Drug Free Schools and Communities–State Programs” (Title IV, Part A) Funds from Education

Formula description. The formula used in the distribution of Title IV funds has the same weights as those in the ISEP Base Program, that is, weights based on the grade the student is in, with additional “add on” weights for students who reside at one of the dorms or boarding schools (see tables 9 and 10).

Formula distribution. Every school gets a base of \$5,000. The rest of the funds are distributed by WSU using only the basic grade—related and basic residential weights. In other words, after giving each school \$5,000,

BIA officials divide the rest of the funds by WSUs derived from the base programs and obtain an amount per base WSU.

Formula Used to Distribute “Disadvantaged Children” (Title I) and Title II, Parts A & D Funds from Education

Formula description. Funds for these two programs are distributed primarily based on enrollment, with adjustments made only for school size. The adjustments for school size are different for the two programs, but each one gives a larger base to smaller schools (see tables 12 and 13). In the text of this report, the two programs were treated as being distributed by one formula.

Formula distribution. After distributing the base amounts, BIA divides the remaining funds by the total ADM and distributes the funds to each school accordingly.

Table 12: Small School Adjustments for Disadvantaged Children (Title I) Funds.

School enrollment	Base amount (Title I)
< 50	\$15,000
50 - <100	\$10,000
100 - < 200	\$5,000
200 & up	\$0

Source: BIA officials.

Table 13: Small School Adjustments for Title II, Parts A & D Funds

School enrollment	Base amount (Title II)
< 51	\$5,000
51 – 100	\$3,000
101 – 200	\$1,500
201 & up	\$0

Source: BIA officials.

Formula Used for the Operations and Maintenance of Facilities

Formula description. The facilities maintenance and operations formula is handled in the Office of Facilities Management and Construction through the Facilities Management Information System. The facilities maintenance formula calculates the amount needed to operate and maintain facilities based on size of facilities (in square feet), age of the facilities, and technology currently in place at the facilities (i.e., public announcement system, boiler, electric system, etc.). The formula calculates amount needed for on-location costs, such as utilities, custodial

services, preventive maintenance, and unscheduled maintenance. In addition, it calculates program support costs such as program administration, leave, vehicle leases, communication, site operations, site maintenance, guard services, pest control, refuse collection, expendable equipment, and work supervision. The formula incorporates an isolation factor, a variable that represents the distance from the school to the nearest repair or parts center. We did not collect information on the actual weights used in the formula.

Formula distribution. The amount each school is supposed to receive to fully operate and maintain its facilities is generated by the formula. In general, however, facilities maintenance and operations have been funded below 100 percent of “calculated need.” To determine funding level, BIA considers the proportion of appropriated funds to the level of funding determined by the formula and then scales each school’s facilities maintenance and operations budget accordingly. For example, if appropriated funds could cover 84 percent of formula determined funds, then each school would receive 84 percent of its calculated facilities maintenance and operations need.

Administrative Cost Grants Formula

Formula detail. This grant applies only to tribally operated schools. Like the facilities maintenance and operations formula, the administrative cost grant (ACG) formula generates a “needed” amount. In the case of the ACG formula, it generates an administrative rate. The administrative rate has an inverse relationship to program costs; the larger the program, the smaller the administrative rate will be. It could range from 11 percent to 50 percent. Program dollars from 2 years previous are used in the ACG formula. A program may consist of the school by itself; however, if the tribe operates several institutions under one grant, then the program consists of all such institutions. For example, the program dollars used to calculate the ACG rate for one school could consist of funds for not only the school, but for the preschool and some health facilities as well, while the program dollars used to calculate the ACG rate for another school could consist solely of the funds for the school.

The administrative rate is calculated using the following formula:

$$AR = \frac{0.11P_{t-2} + \$300,000}{P_{t-2} + \$600,000}$$

where P_{t-2} represents the program dollars 2 years previously.

Formula distribution. To distribute ACGs, BIA officials multiply the administrative rate by program dollars for each school's operations in the current year to generate the amount needed for ACGs for the current school year. Thus, while the administrative rate is based on program dollars for all programs administered by the tribe, the ACG itself is the formula generated rate applied to the school program.

In general, the ACGs have been funded below 100 percent of the rate generated by the formula. To determine funding level, BIA considers the proportion of appropriated funds to the level of funding determined by the formula and then scales each school's ACG accordingly. For example, if appropriated funds could cover 84 percent of formula determined funds, then each school would receive 84 percent of its calculated ACG.

Formula Analyses

Instructional Formulas

We analyzed the instructional formulas³ in several ways to determine the equity of the distribution of funds. We evaluated the equity of the instructional formulas by comparing funding per pupil and per WSU. In making these comparisons, we accounted for differences in student and school characteristics. To capture differences between students, we conducted our analysis across WSU, which account for differences such as bilingual instruction and degree of disability. (Table 9 presents a full description of the ISEP weights.) We accounted for differences in school characteristics by controlling for type of administration (BIA or tribal), grades served (elementary, secondary, or combined), school size (small, medium, or large), and whether or not the school has a boarding component. Together, these characteristics yielded 36 school categories. All of these features had been used in at least one prior study of BIA schools and are directly related to costs. For example, boarding schools receive more money than day schools, and in general, small schools received more money per pupil than larger schools. (See tables 14 and 15.)

First, to determine the equity of instructional funding across schools with different characteristics, we compared average funding per student (weighted and unweighted). We calculated the means (and standard

³For the purpose of this report, we grouped the ISEP formula and the Title I, II, and IV formulas together as "instructional formulas."

deviations) of per-pupil instructional funds for different categories of schools. We found substantial variation in the per-pupil means across categories. (See tables 14 and 15.) As expected, boarding schools received more funding per pupil than did day schools, regardless of size, administration, and grades served. When we analyzed instructional funding per pupil and per weighted student counts by administration to determine if there were any differences in funding between tribally operated and BIA-operated schools, we found no systematic differences.

Table 14: Means, Standard Deviations and Coefficient of Variation of Instructional Funding by School Characteristics for On-Reservation Boarding Schools, in School Year 2001-02

Boarding school ^a size and grade level	Statistics	Instructional funds		Instructional funds	
		per pupil	per WSU	per pupil	per WSU
		BIA-operated		Tribally operated	
Small, K-8					
	N	1	1	0	0
	Mean	\$9,628.06	\$4,575.42	N/A	N/A
	SD	N/A	N/A	N/A	N/A
	CV	N/A	N/A	N/A	N/A
Medium, K-8					
	N	15	15	6	6
	Mean	\$8,699.84	\$4,437.12	\$12,193.12	\$4,354.10
	SD	\$1,230.76	\$110.265	\$4,871.03	\$243.50
	CV	14	2	40	6
Medium, 9-12					
	N	0	0	2	2
	Mean	N/A	N/A	\$10,585.40	\$4,314.77
	SD	N/A	N/A	\$979.17	\$153.33
	CV	N/A	N/A	9	4
Medium, K-12					
	N	0	0	1	1
	Mean	N/A	N/A	\$9,006.58	\$4,283.55
	SD	N/A	N/A	N/A	N/A
	CV	N/A	N/A	N/A	N/A
Large, K-8					
	N	7	7	6	6
	Mean	\$8,479.68	\$4,469.88	\$7,953.61	\$4,378.13
	SD	\$1,530.71	\$132.31	\$461.33	\$120.60
	CV	18	3	6	3
Large, 9 – 12					
	N	5	5	1	1
	Mean	\$12,632.59	\$4,195.98	\$81,95.98	\$4,339.79
	SD	\$2,249.04	\$139.65	N/A	N/A
	CV	18	3	N/A	N/A

Appendix I: Scope and Methodology

Boarding school ^a size and grade level	Statistics	Instructional funds per pupil	Instructional funds per WSU	Instructional funds per pupil	Instructional funds per WSU
		BIA-operated		Tribally operated	
Large, K-12					
	N	3	3	6	6
	Mean	\$9,280.34	\$4,248.31	\$9,600.50	\$4,371.50
	SD	\$3,290.21	\$272.10	\$1,061.55	\$188.78
	CV	35	6	11	4

Source: GAO analysis.

Note: N is the number of schools.

SD is the standard deviation.

CV is the coefficient of variation.

^aThis analysis does not include the 7 off-reservation boarding schools.

Table 15: Means, Standard Deviations, and Coefficients of Variation of Instructional Funding by School Characteristics for Day Schools, School Year 2001-02.

Day school size ^a and grade level	Statistics	Instructional funds per pupil		Instructional funds per WSU	
		BIA operated	Tribally operated	BIA operated	Tribally operated
Small, K-8					
	N	9	9	12	12
	Mean	\$8,155.87	\$4,835.84	\$8,999.87	\$4,895.00
	SD	\$1,437.35	\$209.77	\$3,192.28	\$359.40
	CV	18	4	35	7
Small, 9-12					
	N	0	0	1	1
	Mean	N/A	N/A	\$8,146.93	\$4,535.56
	SD	N/A	N/A	N/A	N/A
	CV	N/A	N/A	N/A	N/A
Small, K-12					
	N	0	0	4	4
	Mean	N/A	N/A	\$7,359.08	\$4,744.14
	SD	N/A	N/A	\$77.04	\$91.04
	CV	N/A	N/A	1	2
Medium, K-8					
	N	16	16	20	20
	Mean	\$6,925.53	\$4,668.39	\$6,878.96	\$4,641.74
	SD	\$635.77	\$117.96	\$641.53	\$152.23
	CV	9	3	9	3
Medium, 9-12					
	N	1	1	1	1
	Mean	\$6,797.3	\$4,601.25	\$8,731.36	\$5,225.01
	SD	N/A	N/A	N/A	N/A
	CV	N/A	N/A	N/A	N/A
Medium, K-12					
	N	1	1	20	20
	Mean	\$7,220.27	\$3,849.07	\$7,396.80	\$4,627.26
	SD	N/A	N/A	\$739.70	\$204.58
	CV	N/A	N/A	10	4

Day school size ^a and grade level	Statistics	Instructional funds per pupil		Instructional funds per WSU	
		BIA operated	Tribally operated	BIA operated	Tribally operated
Large, K-8					
	N	6	6	5	5
	Mean	\$6,914.55	\$4,579.50	\$7,111.31	\$4,492.04
	SD	\$687.60	\$125.31	\$331.10	\$54.85
	CV	10	3	5	1
Large, 9-12					
	N	0	0	1	1
	Mean	N/A	N/A	\$7,443.99	\$4,418.93
	SD	N/A	N/A	N/A	N/A
	CV	N/A	N/A	N/A	N/A
Large, K-12					
	N	1	1	14	14
	Mean	\$6,764.04	\$4,673.17	\$7,209.77	\$535.74
	SD	N/A	N/A	\$421.00	\$92.93
	CV	N/A	N/A	6	2

Source: GAO analysis.

^aMost BIA schools are small compared to public schools. In this table, small schools have fewer than 100 students, medium schools range from 100 to fewer than 300 students, and large schools have 300 or more students.

We also considered equity within categories, calculating the coefficient of variation, which expresses the ratio of the standard deviation to the mean, for each of the categories above. (See tables 14 and 15.) Again, while there was sometimes substantial variation within cells on a per-pupil basis, there was less variation across WSU. For example, among the 9 small, K–8, day schools that are operated by BIA, the coefficient of variation was 0.18 when considering instructional funds across pupils, but was only 0.04 when considering instructional funds across WSU.

Finally, we evaluated the overall equity of per WSU distributions across all the schools by using a measure of equity, the federal range ratio, presented in table 6.

Transportation

To evaluate the equity of the transportation formula, we considered the amount each school received on a per mile basis to determine equity. We found no substantial difference in the per mile rates across schools.

Among the 160 schools for which we had data in for the 2001-02 school year, 156 schools had a per mile rate between 2.29 and 2.32.

To evaluate the adequacy of the transportation formula, we performed two analyses in which we employed the expenditure data available to us. This expenditure data covered only the BIA-operated schools, as BIA does not collect such data for the tribally operated schools. Thus, the results in this section cannot be generalized to the entire BIA school system and should be interpreted only for the BIA-operated schools. In the first analysis, we compared expended amounts in transportation to budgeted amounts in order to determine whether or not there was any evidence of spending greater than the amount budgeted. If some schools overspent the transportation budget while others underspent, this would indicate a potential problem of misallocation of funds by the formula for the BIA-operated schools. We found that about 40 percent of the BIA-operated schools overspent their transportation budgets in school year 2001-02. To determine how well the formula accounted for actual differences in expenditures for the BIA-operated schools, we ran a regression of expended amounts for transportation on the number of miles traveled on unimproved roads, the number of miles traveled on improved roads, and isolation. As BIA uses a weight of 1.2 for every unimproved mile, we examined the ratio of the coefficients for unimproved miles to improved miles for the BIA-operated schools. A ratio different from 1.2 would provide evidence that unimproved miles cost more (or less) than 1.2 times an improved mile for the BIA-operated schools. We found the ratio to be equal to 1.23 and thus concluded that BIA’s weight of 1.2 was acceptable, at least for the BIA-operated schools. We included a variable for isolation, measuring miles to a service station, which had a positive correlation to the expenditures of the school. This indicated that, for the BIA-operated schools, each additional mile to a service station cost the school about \$241. The results are below in table 16.

Table 16: Transportation Regression Results Using Data from School Year 2001-02.

Variable	Degrees of freedom	Parameter estimate
Intercept	1	-12112
Isolation	1	241.24418
Unimproved miles	1	2.75684
Improved miles	1	2.23786
R-square		0.8916
Adjusted R-square		0.8862

Source: GAO analysis.

Appendix II: Appropriations for BIA Schools, Fiscal Years 1999—2002

Table 17: Appropriations for BIA School Operations from the Department of Interior and Amounts Received from the Department of Education, Fiscal Years 1999-2002

Dollars in thousands				
Interior program	FY 1999	FY 2000	FY 2001	FY 2002
ISEP formula funds	\$306,230	\$316,502	\$330,070	\$343,933
ISEP program adjustments	656	663	666	673
Early childhood development	5,503	5,586	12,107	12,210
Student transportation	34,758	36,099	36,217	36,546
Institutionalized disabled	3,740	3,747	3,743	3,813
Facilities operations and maintenance	75,222			
Facilities operations		54,091	54,481	55,473
Administrative cost grants	42,160	42,160	43,065	43,065
Area/agency technical support	7,117	7,357	7,371	7,604
School statistics (automatic data processing)	700	700	698	698
Subtotal: Interior (BIA) School Operations	\$476,086	\$466,905	\$488,418	\$504,015
Education funding				
IDEA, Part B, 611 (a)(1)	30,414	37,346	42,279	48,939
IDEA, Part B, 611 (c)	9,336	9,336	10,570	12,235
IDEA, Part C, Sec. 684	4,284	4,568	4,630	4,735
IASA ^a , Title I, Disadvantaged	47,019	49,390	51,343	56,748
IASA, Title II, Eisenhower Math and Science	1,670	1,670	1,673	2,423
IASA, Title III, Technology Literacy Challenge Grant	2,215	2,125	2,125	2,225
IASA, Title IV, Drug Free Schools and Communities	5,310	4,410	4,393	4,393
IASA, Title VII, Bilingual Education	749	525	830	1,005
IASA, Title IX - Indian Education Act	2,270	1,798	1,819	2,770
Comprehensive School Reform Demonstration Program	0	896	2,235	1,614
Class Size Reduction Program		3,467	3,467	3,467
Education of Homeless Children and Youth	100	100	100	100
Educate America Act	2,909	2,989	2,875	0
Subtotal: Education	\$106,276	\$118,620	\$128,339	\$140,654
Total: Interior and Education	\$582,362	\$585,525	\$616,757	\$644,6692

Source: GAO analysis of BIA Budget Justifications.

^aImproving America's Schools Act of 1994.

**Appendix II: Appropriations for BIA Schools,
Fiscal Years 1999—2002**

Table 18: BIA Education Construction Appropriations, Fiscal Years 1998-2003

Dollars in thousands	Fiscal years					
	1998	1999	2000	2001	2002	2003 ^a
Replacement school construction	\$19,200	\$17,400	\$62,859	\$141,238	\$127,799	\$125,223
Employee housing repairs	3,000	3,000	2,507	3,105	3,114	3,120
Facilities improvement and repair	32,179	40,000	67,833	147,998	161,590	164,374
Total	\$54,379	\$60,400	\$133,199	\$292,341	\$292,503	\$292,717

Source: GAO analysis.

^aAmount requested.

Appendix III: Comments from the Department of Interior



United States Department of the Interior

OFFICE OF THE SECRETARY
Washington, D.C. 20240

AUG 28 2003

Marnie S. Shaul, Director
Education, Workforce and Income Security Issues
United States General Accounting Office
Washington, D.C. 20548

Dear Ms. Shaul:

Thank you for the opportunity to comment on your proposed report, BUREAU OF INDIAN AFFAIRS: Expenditures in Selected Schools.

The attached comments are presented in two major sections. The first section responds to the four (4) recommendations on page 31. The second section provides our comments on specific pages or statements in the draft report.

If you have any questions or require additional information, please contact Mr. Ed Parisian, Director, Office of Indian Education Programs, at (202) 208-6123.

Sincerely,

Acting Assistant Secretary - Indian Affairs

Enclosure

Comments on Draft Report: BUREAU OF INDIAN AFFAIRS:

**Comments on Draft Report: BUREAU OF INDIAN AFFAIRS:
Expenditures in Selected Schools.....**

I. Comments on GAO Recommendations

1. To better assess BIA funding and formulas for their adequacy and to ensure that budgeted funds are spent as intended and well managed, the Secretary of the Interior should direct the Assistant Secretary for Indian Affairs to collect expenditure data for the schools the agency directly manages in greater detail so that the data would allow for comparison with public schools. For example, BIA should consider adopting the expenditure classifications, particularly the function and object codes, listed in Education's financial Accounting for Local and State School Systems 1990.

We agree with the recommendation. For those schools the BIA directly manages, the federal accounting system used by the Bureau of Indian Affairs (BIA) will be modified to collect school expenditure data in greater detail. The BIA will consider the adoption of the expenditure classifications listed in Education's Financial Accounting for Local and State School Systems 1990. In addition, the Office of Indian Education Programs (OIEP) will review the Education Cost Code System to determine the feasibility of merging it with the FFS. This system has the capability to capture very specific cost and expenditure data.

2. To better assess BIA funding and formulas for their adequacy, the Secretary of the Interior should also consider entering into negotiations with tribal entities to acquire detailed expenditure data for the schools they manage in a way that would allow for comparison with public schools.

We agree that acquiring detailed data would allow for comparison with public schools. However, currently § 5207 of Pub. L. 100-297 states that the annual report from tribally controlled schools shall be limited to an annual financial statement, a biannual financial audit conducted pursuant to the Single Audit Act, the number of students served, a brief program description, and a program evaluation conducted by an impartial entity. In the past, tribally controlled schools have been reluctant to share detailed financial information with the Bureau, as they feel that the Single Audit Act provides all the information required by the statute. If Congress desires this information, changes to Pub. L. 100-297 will likely be necessary. We would be happy to work with Congress to develop amendments which would provide appropriate information.

3. To improve the transportation formula so that it more accurately reflects costs and encourages efficiency, the Secretary of Interior should direct the Assistant Secretary of Indian Affairs to include an isolation index and an efficiency incentive in addition to an adjustment

for road conditions..

We agree with the recommendation. This recommendation will be considered along with the recommended changes in the Indian School Equalization Program (ISEP) regulations to be proposed by the Negotiated Rulemaking Committee which is required by the "No Child Left Behind Act". Additionally, an old (1984) Office of Indian Education Programs (OIEP) survey found that the Student Transportation formula used by New Mexico could accommodate the BIA's student transportation requirements in that it included factors for road conditions, isolation, varying bus driver salaries, size of school enrollment, etc. The BIA will review that, or similar formulas, and provide that information to the Negotiated Rulemaking Committee.

4. To better manage Interior's funds, the Secretary of the Interior should direct the Assistant Secretary for Indian Affairs to identify and allocate all costs of administering BIA-funded schools, including the costs of (1) administering services provided by BIA to BIA-operated schools, and (2) central office services provided by headquarters and regional offices.

We agree with the recommendation, with modification. The Assistant Secretary - Indian Affairs (AS-IA) office staff now, as a result of a new reorganization within the Bureau of Indian Affairs (BIA) and the Assistant Secretary's office, provides assistance and guidance in the areas of Human Resources, Information Technology, Budget Execution, Finance, and Public Relations to both the BIA operated and BIA funded schools. Therefore, the costs to be identified and allocated will include both the AS-IA staff and the BIA headquarters and regional offices.

II. Comments on Specific Statements in the Draft Report

1. Paragraph one, page 23. The term "regional agencies" needs clarification. Does it mean the non-education portion of the BIA that has regional offices and agency offices? Does it mean the education line office portion of the BIA? To which level and what portion of the BIA does "regional agencies" refer?

2. The first (un-numbered) page of the draft GAO report has a graph at the bottom comparing BIA expenses with those of similar public schools. The note accompanying the graph states that "Note: Does not include food. Similar spending does not imply adequate spending in either case." Further, the report indicates that "because the BIA does not collect complete expenditure data, we were limited in our ability to assess the overall adequacy of the formulas." Does this imply that the public schools do collect complete expenditure data that would allow the ability to assess the overall adequacy of expenditures? We are unclear as to how the GAO made this comparison given GAO's concern that comparable data is not available for the two programs. The implication here is that currently public schools collect complete expenditure data necessary to assess overall adequacy of expenditures. It is our understanding that there is considerable discrepancy among States and local

communities as to how expenses are captured within their current system.

3. The GAO draft report refers to per pupil expenditures, and compares those expenditures to those of public schools similarly located and with similar student populations. The report does not indicate what was included or considered as a part of the per pupil expenditure. There are references to facilities costs. There is no recognition of the fact that because of past practice where the BIA did not expend an adequate amount for facilities operation and maintenance, there is now a great increase in funding for those purposes. This can affect any direct comparisons with public schools that have had a more consistent spending level for operation and maintenance.

Appendix IV: GAO Contacts and Staff Acknowledgments

GAO Contacts

Anna Kelley (617) 788-0551
Nagla'a El-Hodiri (202) 512-7279

Staff Acknowledgments

In addition to those named above, Susan Bernstein, Jessica Botsford, Paul Czerny, Jerry Fastrup, Jeff Malcolm, John Mingus, Robert Owens, Nancy Purvine, and Jay Smale made important contributions to this report.

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