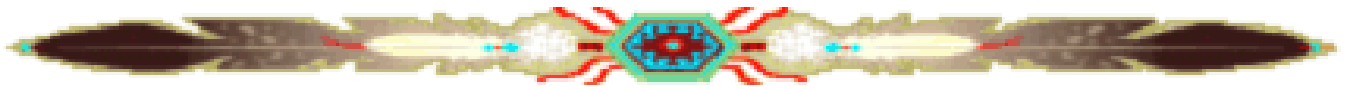




**U.S. DEPARTMENT OF THE INTERIOR  
OFFICE OF INSPECTOR GENERAL**



**BUREAU OF INDIAN AFFAIRS  
OFFICE OF INDIAN EDUCATION PROGRAMS  
CENTRAL OFFICE MANAGEMENT OF  
ADMINISTRATIVE FUNDS**



**REPORT NO. C-IN-BIA-0007-2003**

**MARCH 2004**



# United States Department of the Interior

## OFFICE OF INSPECTOR GENERAL

Central Region

134 Union Blvd., Suite 510

Lakewood, Colorado 80228

March 30, 2004

### Memorandum

To: Assistant Secretary for Indian Affairs

From: Anne L. Richards *Anne L. Richards*  
Regional Audit Manager

Subject: Final Audit Report on the Bureau of Indian Affairs, Office of Indian Education Programs, Central Office Management of Administrative Funds (No. C-IN-BIA-0007-2003)

This report presents the results of our audit of the management practices and procedures of the Bureau of Indian Affairs' (BIA) Office of Indian Education Programs (OIEP) Central Office. We concluded that OIEP did not always use prudent business practices to manage its program administration funding and activities. Our report presents twelve recommendations that are designed to assist the BIA in promoting effective management of program administration funding and activities.

In the March 9, 2004 response to the draft report, the Assistant Secretary and the OIEP Central Office concurred with our recommendations. However, the response did not provide sufficient information for us to consider all of the recommendations resolved. Accordingly, we are requesting that BIA provide us with the information indicated in Appendix 4 to the report. We would appreciate your written response to this report by May 21, 2004.

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

If you have any questions regarding this report, please do not hesitate to call me at (303) 236-9243.

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## EXECUTIVE SUMMARY

We audited the Bureau of Indian Affairs' (BIA) Office of Indian Education Programs' (OIEP) Central Office's management of its administrative funds. Administrative funds are used by the OIEP Central Office to provide support and services to field offices and schools. Administrative funds also include the Indian School Equalization Program's (ISEP) Director's contingency fund (contingency fund) for emergency situations. This fund is established through a holdback of a portion of funds otherwise distributed to Indian schools.

We concluded that administrative funds were not adequately managed by the Central Office of the OIEP. Specifically, we found that the Central Office:

- Used contingency fund monies for non-emergencies, such as purchasing recreational furniture, and incorrectly calculated the amount needed for the contingency fund.
- Did not adequately plan for expenditures or record obligations.
- Acquired goods and services of \$3.6 million without the use of competition.

As a result of these deficiencies, the OIEP Central Office risks not having contingency fund monies available for actual emergencies. Further, by not actively managing its funds, the OIEP Central Office is unable to maximize monies available for distribution to Indian schools.

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### BIA ACTIONS

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Based on our audit, BIA established a separate accounting code structure in the financial accounting system for contingency funds. In its response to our draft report, BIA stated it would take further actions to improve OIEP Central Office financial management by:

- Submitting information about contingency funds used in its future budget justifications to the Congress.

- Developing internal guidance to implement regulations related to contingency fund operations.
- Holding program managers accountable for proper administration of program funds.
- Implementing policy memorandums establishing a process for review and approval of sole-source justifications and clarifying lead time requirements for procurement actions.
- Submitting contract requisitions in accordance with BIA procurement guidance and promptly addressing issues of noncompliance.

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# INTRODUCTION

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## BACKGROUND

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The Bureau of Indian Affairs' (BIA) Office of Indian Education Programs (OIEP) is responsible for administering the only national education system for American Indian children and adults. OIEP currently administers BIA programs that provide for the education of about 48,000 Indian students attending federally funded elementary and secondary schools. OIEP operates two colleges and funds an additional 25 colleges that are operated by tribes and tribal organizations. OIEP fulfills its mission "to provide quality education for lifelong learning" through its Central Office and 24 field offices. OIEP's Central Office operates out of Washington, D.C., and Albuquerque, NM, and its field offices are located throughout the United States. A detailed discussion of OIEP's responsibilities, organization, and resources is in Appendix 1.

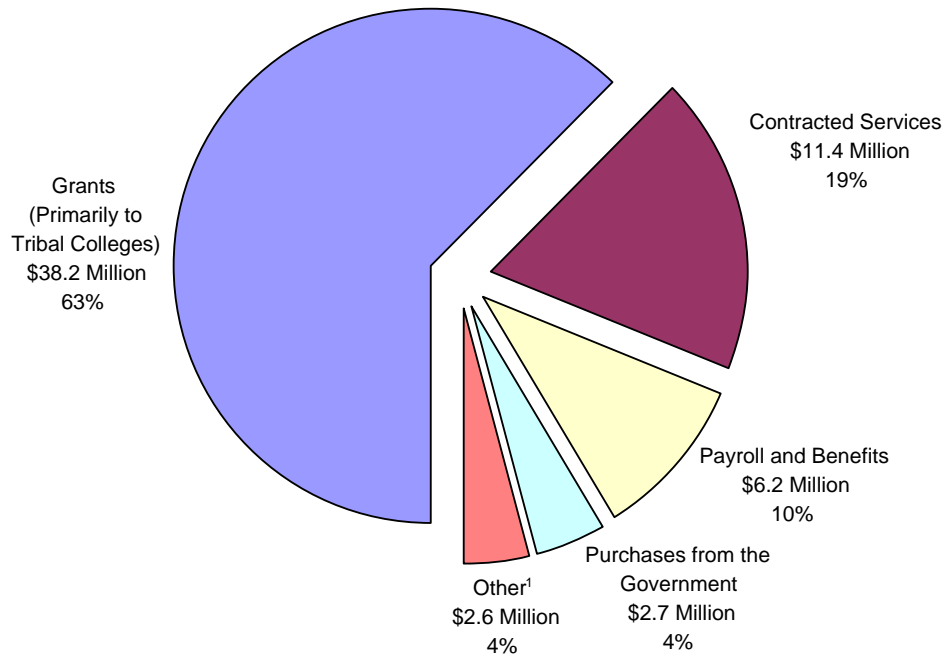
The majority of funding for OIEP is provided through the Department of the Interior's annual appropriation. OIEP receives additional funding from the U.S. Department of Education and other sources. OIEP distributes the majority of appropriated funds to schools under the Indian School Equalization Program (ISEP) which provides direct funding for the instruction and residential care of Indian children. A portion of the ISEP funding is reserved for the Director's contingency fund (contingency fund). According to Public Law 100-427, Amendments to Section 1128(d) of the Education Amendments of 1978; Public Law 103-382, "Improving America's Schools Act of 1994"; and Public Law 107-110, "No Child Left Behind Act," this contingency fund is to be used for emergencies and other contingencies affecting programs funded by ISEP. For budget fiscal year<sup>1</sup> 2001/2002, OIEP spent approximately \$728 million in funding received from all sources. Of the \$728 million, \$667 million was used by schools and education field offices, and about \$61 million was used by the OIEP Central Office as follows:

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<sup>1</sup>As defined by the Federal Financial System's User Guide, a budget fiscal year "Represents the fiscal year(s) in which money is available for a given appropriation." For Indian education funds, the budget fiscal year represents the 15 month-period starting July 1 and ending September 30.



**Funds Used by the OIEP Central Office  
Budget Fiscal Year 2001-2002**



<sup>1</sup>"Other" consists of: Travel, \$1,043,000; Rents, Communications and Utilities, \$473,000; Supplies and Materials, \$428,000; Equipment, \$362,000; Transportation, \$184,000; Printing and Reproduction, \$58,000; Insurance Claims, \$15,000; Operation and Maintenance of Equipment, \$15,000; and Refunds, (\$4,000).

**OBJECTIVE AND SCOPE**

The objective of our audit was to determine whether the OIEP Central Office is appropriately managing its program administration funding. The scope of our audit was generally limited to the receipt, distribution, and use of funds by the OIEP Central Office for fiscal year 2000 through April 2003. We generally excluded grants disbursed to tribal colleges from our scope except when evaluating procurement procedures. Detail about the scope and methodology of our audit, including offices visited, is in Appendix 2.

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## RESULTS OF AUDIT

Administrative funds were not adequately managed by the Central Office of the OIEP. Specifically, OIEP:

- Used contingency funds for non-emergency purposes, and incorrectly calculated the amount needed for the contingency fund.
- Did not adequately plan for expenditures or record obligations—especially when purchasing information technology systems from the General Services Administration’s (GSA) Federal Systems Integration and Management Center (FEDSIM).
- Acquired goods and services of \$3.6 million without the use of competition.

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### CONTROLS OVER THE USE AND MANAGEMENT OF CONTINGENCY FUND DEFICIENT

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OIEP does not have formal written procedures and/or policies governing the contingency fund. Without written guidance, OIEP officials appear to be using the fund as a discretionary fund for the Director of OIEP rather than as monies set aside for emergencies or other unforeseen events. In addition, OIEP is unable to effectively track, monitor, and report the use of the contingency fund because the fund is not segregated in the financial accounting system. Further, OIEP allowed unused contingency funds to lapse instead of distributing the funds to schools because it did not properly account for the funds. Finally, OIEP did not submit required reports on fund use to the Congress.

### Funds used for non-emergencies.

During budget fiscal years 1999/2000 through 2001/2002, the OIEP Central Office used at least \$5 million in contingency fund monies for non-emergency purposes. Examples follow:

- Supplementing OIEP programs and initiatives that are not financed under ISEP formula funding such as:
  - Computer networking projects. Funds of \$3.3 million were used for initiatives such as upgrading and modernizing the computer infrastructure and data communications

connectivity of BIA schools and providing commercial-off-the-shelf administrative applications software to BIA schools, district-level education line offices, and the national central office.

- Student Statistical Initiative. Funds of \$800,000 were used to implement a school statistics collection effort at all BIA-funded schools that will be used to process school-related data at all levels within BIA.
  - Family and Child Education (FACE) Program. The FACE Program is intended to provide early childhood education, parenting skills, parent and child interaction time, and adult education and training. Funds of \$210,000 were spent for the FACE Program for items such as televisions, bean bag chairs, puppets, shirts for staff and families, mobile radios, and playground equipment.
- Purchasing goods and services associated with normal educational operations such as:
- Annual audit services. Funds of \$50,000 were used for audit services at two schools. Dilcon School received \$35,000 for annual audits for school years 1999/2000 and 2000/2001. We noted that this school receives a grant that also includes monies to cover administrative activities such as audits. The Turtle Mountain Agency School received \$15,000 for an audit of non-federal funds.
  - Staff development activities. Funds of \$30,000 financed a conference to improve administrative processes, and \$89,500 was used for a summer reading retreat.
  - Recreational and lobby furniture. Theodore Roosevelt School received \$17,121 for items such as a big screen television, stove, sofa, chair, end tables, and lamps.

Although these goods and services ultimately supported Indian education programs, the need for these goods and services did not arise from unforeseen or emergency circumstances, and the contingency fund should not have been used for these purposes.

**Funds not available to address emergencies.**

By using the contingency fund on a discretionary basis and not tracking expenditures, OIEP risks not having contingency fund monies for actual emergencies, as occurred in budget fiscal year 2000/2001. In this instance, a school needed \$395,000 in emergency funds to complete the school year. There were insufficient funds in the contingency fund, so OIEP used ISEP funds of \$138,861 which had been scheduled to be distributed to schools. Furthermore, an additional amount of ISEP funds of \$41,239 had to be retained for the contingency fund for other potential unrecorded obligations or other emergency situations.

This situation also caused OIEP to expend contingency fund monies in excess of the one percent allowed. For budget fiscal year 2000/2001 OIEP received \$316.5 million for ISEP funding. Thus using the one percent limitation, OIEP had about \$3.2 million available for the contingencies. However, OIEP expended more than \$3.3 million for the contingency fund.

Because the OIEP Central Office tracks disbursements from the contingency fund by a manual log rather than setting aside the fund with a separate and identifiable accounting code in the financial accounting system, we could not validate the disbursement data for accuracy or completeness.

**Opportunity to provide Indian schools additional funds was lost.**

By allowing contingency fund monies to keep their fiscal year identity, OIEP has limited the useful life of these monies. Stated differently, had OIEP established the contingency fund as a no-year fund and used the balance remaining in the fund from the prior year in calculating the amount needed for the current year, it could have distributed the residual amount to Indian schools. Because the funds are not maintained as a no-year contingency fund, they retain their fiscal year identity and will lapse to the U.S. Treasury if not expended. For example, about \$200,000 of budget fiscal year 1996/1997 contingency fund monies has expired and are no longer available for use. In

addition, OIEP will likely lose the use of contingency funds totaling \$1.3 million retained from budget fiscal years 1997/1998 through 2001/2002 if these monies are not used for unrecorded and/or unknown prior year obligations.

**Reports to Congress not submitted.**

OIEP has not reported its use of the contingency fund in the annual budget submissions for budget fiscal years 1996/1997 through 2001/2002 to Congress. Public Law 100-427 requires the use of contingency funds to be reported to Congress in the annual budget submission. As a result, Congress has not had complete budgetary information for these programs.

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**REQUIREMENTS FOR OBLIGATING FUNDS NOT FOLLOWED**

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OIEP does not follow sound business practices or federal accounting standards for planning, accounting for, and monitoring its use of administrative funds. Specifically, our audit showed that:

**Spending plans not prepared.**

OIEP does not require all organizational elements to prepare or adhere to a spending plan. Spending plans are a key element in establishing and maintaining accountability. They provide management and program officials with feedback to measure, evaluate, and improve performance. Without spending plans, OIEP cannot hold managers financially accountable or ensure the availability of funds for program needs. Also, without spending plans the managers of the organizational elements do not have the tools they need to make good management decisions. For example, we found OIEP did not adequately plan for activities related to the FACE Program. As a result, OIEP redistributed funding of \$275,480 for other Indian education programs to supplement FACE program activities.

**Obligations not properly recorded.**

OIEP did not always record obligations in its financial accounting system when it should have done so. For example, OIEP entered into an agreement with GSA's FEDSIM for the design, procurement, management, and operation of Indian education information systems and information technology. However, most obligations for the estimated needs for information technology were not recorded. Instead, OIEP would generally place orders with GSA and wait until GSA submitted a bill and then record both the obligation and payment at the same time. From 1995 through the time of our review, OIEP placed orders totaling \$12.9 million without obligating the amounts until

it actually disbursed the funds. OIEP has accounted for its \$123,000 agreement with the Department of Health and Human Services' Federal Occupational Health for the operation of OIEP's employee assistance program in a similar manner. Also, OIEP did not track its expenditures on the FEDSIM agreement. OIEP could not provide us with basic information, such as the total amount expended to date, planned expenditures, or a full listing of items and services purchased.

Accrual accounting is the prescribed basis of accounting for federal agencies under 31 USC § 3512(e). Under accrual accounting, an obligation should be recorded in the financial system when the commitment to buy/pay is established. Accrual accounting is critical to fund control because it helps ensure that funds are available to pay obligations once they become due.

**Funds may not be available to pay obligations.**

The practices of not planning for or monitoring the use of its financial resources and not recording all valid obligations in its financial accounting system places OIEP in a potentially precarious financial situation, since there is no assurance that funds will be available to pay obligations once they become due. Also, OIEP cannot determine the precise status of appropriations as a result of not recording valid obligations. We believe that OIEP breached its fiscal responsibility by over-expending at different budget levels for which an established amount of money is made available for use, specifically, the allocation and allotment levels. Our review disclosed that OIEP Central Office programs had negative fund balances totaling \$694,000, in the financial system as of January 2003, for three program allocations: Department of Education Title Fund, BIA Education Program Management, and BIA Education Personnel Services. The negative balances of the last two program allocations contributed to a negative balance of \$329,310 at the allotment level for the Central Office Operations Fund for budget fiscal year 2002/2003. As a result, OIEP was unable to timely charge the \$62,896 cost of two obligations relating to relocation expenses and employee assistance program services to the appropriate code.

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**ACQUISITION  
REGULATIONS NOT  
FOLLOWED**

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OIEP Central Office management officials circumvented the Federal Acquisition Regulation (FAR) by procuring services without the benefit of competition, and by approving interagency agreements without considering other vendors. Specifically, our audit disclosed that management officials:

- Negotiated directly with vendors for training services in three procurement actions. These actions were not reviewed by a contracting officer and/or did not meet the requirements for open competition. For example, OIEP provided training to school principals using an existing grant agreement with a tribal college rather than entering into a contract with the organizers of the training. By funding the training in this manner, OIEP paid an unnecessary administrative fee of \$26,700 to the tribal college. OIEP officials said they used this method to expedite the funding process.
  
- Submitted sole-source justifications that did not substantiate a need (for example, the unique or urgent nature of the acquisition) for non-competitive acquisition for 9 of 11 sole-source contracts we reviewed totaling \$2.6 million. For example, OIEP awarded a sole-source contract to a company for \$4,050 to plan and facilitate the “Directors 100 meeting” which was a meeting to discuss OIEP’s mission and goals. The Director of OIEP invited 100 individuals to attend. The stated justification for the sole-source award was the company’s “knowledge and past performance” and “due to urgency.” In our opinion, this urgency arose due to poor planning because the contracting officer was given only three days to approve the contract. Even more questionable was a modification for \$44,080 (1,088 percent increase) less than one month later. The modification was made to “implement the event” planned under the original contract. This modification further demonstrates poor planning, since this work should have been included in the original contract.
  
- Entered into four of the five interagency agreements we reviewed without performing an analysis called a Determination and Finding. Subpart 17.503 of the

FAR requires that this analysis be conducted to demonstrate that (1) the interagency acquisition is in the best interest of the government and (2) the supplies or services cannot be obtained as conveniently or economically by contracting with a private source. For example, OIEP entered into a \$94,000 agreement with the Geological Survey to provide internet connectivity to BIA schools. OIEP entered into this agreement without showing that it was in the government's best interest and that the service could not be obtained at a better value or as easily by a private vendor.

We attributed these problems to a weak control environment including the lack of adequate procedures. The poor control environment and a lax attitude toward open competition did not provide OIEP management officials with the incentive to plan for foreseeable or recurring program needs in a timely manner. This often resulted in inadequate lead times to obtain full and open competition. In addition, some OIEP officials were not adequately trained on the FAR. For example, in January 2003 a contracting officer recommended that a management official attend Contracting Officer's Representative training because of continued problems with unauthorized commitment of funds.

Because OIEP's procurement process did not allow for an appropriate level of competition or provide contracting officers sufficient information to determine whether pricing was fair and reasonable, there was no assurance that procurements totaling at least \$3.6 million were the most advantageous to the government.

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## **BIA ACTIONS**

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As a result of our audit, BIA has established a separate accounting code structure in the financial accounting system for contingency funds. In its response to our draft report, BIA stated that it would take further actions to improve OIEP Central Office financial management by:

- Submitting information about contingency funds used in its future budget justifications to the Congress.
- Developing internal guidance to implement regulations related to contingency fund operations.



- Holding program managers accountable for proper administration of program funds.
- Implementing policy memorandums establishing a process for review and approval of sole-source justifications and clarifying lead time requirements for procurement actions.
- Submitting contract requisitions in accordance with BIA procurement guidance and promptly address issues of noncompliance.
- Requiring program managers to attend a Contracting Officer's Representative training course.

In March 2003, BIA's Division of Acquisition and Property Management conducted a Quality in Contracting (QUiC) Review of OIEP. In its draft report, the QUiC review team reported that "OIEP program offices, may have been submitting an unrealistic number of sole source requirements." The team recommended that the program offices be encouraged to use competitive procurement whenever possible. The QUiC review team also reported that the OIEP acquisition staff was the best the team had seen within BIA. The focus and scope of its review differed significantly from the focus and scope of our review. We did not audit the QUiC review process or its results.

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## **RECOMMENDATIONS**

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We recommend that the Assistant Secretary for Indian Affairs:

1. Establish a separate and identifiable accounting code in the financial accounting system to account for the contingency fund, providing a means of monitoring, tracking, and validating contingency fund transactions.
2. Prepare and submit a report to the Congress on the uses of contingency fund monies in BIA's annual budget submission as required by statute.
3. Develop policies and procedures for contingency fund operations, including:
  - a. Clearly defining emergencies and unforeseen contingencies.

- b. Requiring that contingency funds are used only for education services or programs at school sites funded with ISEP formula funds.
  - c. Ensuring that contingency funds remain available without fiscal year limitation, as required by statute.
  - d. Considering any remaining balances in determining the amount of current fiscal year appropriations needed to bring the contingency fund balance up to the one percent maximum allowable level.
  - e. Establishing a periodic review process to ascertain that disbursements from the contingency fund are in accordance with Congressional legislation and internal policy.
4. Develop policies and procedures to require that organizational elements develop and adhere to approved spending plans and periodically monitor and report on conformance with spending plans.
  5. Develop policies and procedures to comply with the October 4, 2002 Office of Management and Budget Memorandum for the Heads of Departments and Agencies containing business rules to be observed when engaging in intragovernmental exchange transactions. This would include ensuring that obligations and expenditures for interagency agreements are properly recorded and referenced.
  6. Provide training to all OIEP staff to follow new and established procedures. This would include the procedures to ensure that obligating documents are issued in a timely manner and recorded in the financial accounting system.
  7. Hold responsible officials accountable for implementing financial management policies and procedures by establishing an internal quality control review process to periodically monitor their compliance with those procedures.
  8. Implement the January 22, 2003 policy memorandums issued by the OIEP Division of

Contracts and Grants, which established a process for review and approval of sole-source justifications and clarified lead time requirements for procurement actions.

9. Hold program managers accountable for submitting contract requisitions within established lead times and require the contracting officer to report instances of noncompliance.
10. Require that interagency agreements entered into by OIEP have approval by the OIEP contracting officer and are supported by a Determination and Finding.
11. Provide training on the FAR and proper contracting procedures to all Central Office officials.
12. Hold the contracting officer accountable for meeting all of the FAR requirements by establishing a periodic peer review process through the Department's Office of Policy, Management, and Budget with the results reported directly to the Assistant Secretary.

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**BIA RESPONSE**

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In the March 9, 2004 response to the draft report (Appendix 3), the Assistant Secretary and the OIEP concurred with our recommendations. However, the response did not provide sufficient information for us to consider all of the recommendations resolved. Based on the response, we consider 1 recommendation resolved and implemented and are requesting additional information for the remaining 11 recommendations. (See Appendix 4 for Status of Recommendations.)

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## **BUREAU OF INDIAN AFFAIRS ORGANIZATION, RESPONSIBILITIES, AND RESOURCES**

The Bureau of Indian Affairs (BIA) federally funded school system provides for the education of about 48,000 Indian students attending elementary, secondary, and boarding schools located on 63 reservations in 23 states. BIA also provides for the education of about 30,000 adult Indian students at 25 BIA-funded Tribally Controlled Community Colleges and Universities and an additional 1,600 Indian adults at two colleges operated by BIA.

The Office of Indian Education Programs (OIEP) within the BIA is charged with the responsibility for administering BIA's education programs. Some education programs are provided directly by OIEP, and others are operated by tribes through grants or contracts. OIEP is responsible for directing and managing all BIA education functions, including formulating policies and procedures, supervising all education program activities, and approving the expenditure of appropriated funds.

OIEP is currently organized into two major divisions, the Office of School Operations and the Office of School Policy, Administration and Budget. Each of these divisions has a Deputy Director that reports to the Director of OIEP. These two divisions make up the OIEP Central Office and have offices located in Washington, D.C., and Albuquerque, NM. The Deputy Director for School Operations provides oversight to the two BIA operated colleges and to 24 Education Line Offices (that is, the field offices). The Education Line Offices supervise principals at BIA-operated schools and represent OIEP in its dealings with the schools operated by tribes or tribal organizations under contracts or grants with BIA. The Deputy Director for School Policy, Administration, and Budget provides oversight for management support services, including contracts and grants, human resources, management information systems, budget formulation, and strategic planning. In addition, the Deputy Director provides oversight for the administration of programs funded by the Department of Education (DOE).

Under the Deputy Director for School Policy, Administration, and Budget, the Center for School Improvement (CSI) performs the duties of a State Education Agency. CSI provides teacher training aimed at improving and supporting student academic achievement. CSI also provides technical assistance to schools in their reform efforts to meet the requirements of the No Child Left Behind Act of 2001 (Public Law 107-110) and the Individuals with Disabilities Education Act of 1997 (Public Law 105-17).

Funding for OIEP is appropriated as part of the Department of the Interior's annual budget. These funds provide elementary and secondary education and residential programs for Indian students not served by public and sectarian schools; residential care for some Indian students attending public schools; and special services to meet the needs of Indian students in such areas as early childhood development, bilingual education,

post-secondary education, and adult education. Funding is also provided by DOE under the Elementary and Secondary Education Act (as amended by the No Child Left Behind Act of 2001) and the Individuals with Disabilities Education Act. These funds are administered by OIEP as a State Education Agency under agreement with DOE. As a State Education Agency, OIEP is responsible for ensuring that all DOE program and funding requirements are achieved.

Funding for the instruction and residential care of Indian children is provided to Indian schools through the Indian School Equalization Program (ISEP). A majority of ISEP funds are allocated to Indian schools using a formula. However, a portion of the ISEP funds are reserved for the ISEP contingency fund to be used for emergencies or other contingencies. The ISEP contingency fund is authorized by Public Law 100-427. The legislation states that:

The Secretary shall reserve from the funds available for distribution for each fiscal year under this section an amount which, in the aggregate, shall equal 1 percent of the funds available for such purpose for that fiscal year. Such funds shall be used, at the discretion of the Director of the Office, to meet emergencies and unforeseen contingencies affecting the education programs funded under this section. Funds reserved under this subsection may only be expended for education services or programs at a schoolsite (as defined in Section 5204 (c) (2) of the Tribally Controlled Schools Act of 1988). Funds reserved under this subsection shall remain available without fiscal year limitation until expended. However, the aggregate amount available from all fiscal years may not exceed 1 percent of the current year funds. Whenever the Secretary makes funds available under this subsection, the Secretary shall report such action to the appropriate committee of Congress within the annual budget submission.

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## SCOPE AND METHODOLOGY

We generally limited the scope of our audit to the receipt, distribution, and use of funds by the OIEP Central Office for fiscal year 2000 through April 2003. However, we expanded our scope for the following two areas due to deficiencies identified during our review.

- **FEDSIM Agreement** - We reviewed transactions related to OIEP's agreement with the General Services Administration's Federal Systems Integration and Management Center (FEDSIM) from July 1995 through November 2002.
- **Contingency Fund** - We reviewed transactions related to the Indian School Equalization Program's (ISEP) Director's contingency fund for budget fiscal year 1996/1997 through 2001/2002.

To accomplish our audit, we visited OIEP's Central Office locations in Washington, D.C., and in Albuquerque, NM. We interviewed BIA personnel and reviewed records concerning OIEP's organization, procurement and contracting, financial accounting transactions, and program management practices. In addition, we evaluated OIEP's system of internal controls related to overseeing and managing the accounting and operational aspects of its administrative offices (the Central Office) and procurement and contracting functions related to sole-source acquisitions.

We reviewed the following to determine whether they would impact our audit:

- **Prior Audits** – We reviewed audit reports issued by the U.S. General Accounting Office and the Office of Inspector General, Department of the Interior, for the past five years. We found that no reports had been issued that would directly or materially impact our audit.
- **Government Performance and Results Act Information** - We reviewed BIA's Performance Plans for fiscal years 2002 and 2003 and BIA's Performance Reports for fiscal years 2000 and 2001. Goals reported by BIA in its Education Activity related to student transportation, student proficiency, student attendance, teacher proficiency, school accreditation, conferred degrees, and student violence. We did not evaluate these reported goals, as they were not directly related to the objective of our audit.
- **Federal Managers' Financial Integrity Act Information** – We reviewed the Department of the Interior Reports on Accountability for fiscal years 1998 through 2000, which included information required by the Federal Managers' Financial Integrity Act of 1982. In addition, we reviewed BIA's annual assurance statements on management controls for fiscal years 2001 and 2002. We

determined that BIA had not reported any material weakness that directly related to the objective of our audit.

We conducted our audit in accordance with the *Government Auditing Standards*, issued by the Comptroller General of the United States. Accordingly, we included such tests of records and other auditing procedures that were considered necessary to meet our objective.



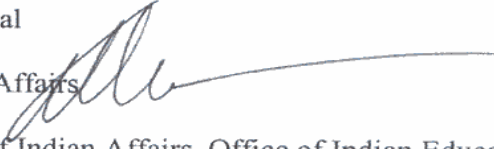
## United States Department of the Interior

OFFICE OF THE SECRETARY  
Washington, D.C. 20240

**MAR 9 2004**

### Memorandum

To: Assistant Inspector General for Audits  
Office of the Inspector General

From: Assistant Secretary – Indian Affairs 

Subject: Draft Audit Report, Bureau of Indian Affairs, Office of Indian Education Programs,  
Central Office Management of Administrative Funds (C-IN-BIA-0007-2003)

Thank you for the opportunity to respond to the subject draft audit report. The objective of the audit was to determine whether the Office of Indian Education Programs (OIEP) Central Office is appropriately managing its program administration funding. The auditors concluded that the OIEP Central Office was not adequately managing its administrative funds. Specifically, the OIEP used contingency funds for non-emergency purposes, did not adequately plan for expenditures or record obligations, and acquired goods and services of \$3.6 million without the use of competition.

The auditors made 12 recommendations to assist the OIEP Central Office to improve its financial management practices. The OIEP Central Office concurs with the recommendations and offers the following comments.

Recommendation 1. Establish a separate and identifiable accounting code in the financial accounting system to account for the contingency fund, providing a means of monitoring, tracking, and validating contingency fund transactions.

Response. The OIEP Central Office concurs with the recommendation. A separate program code for contingency funds was established. OIEP Central Office began using this code on July 1, 2003.

Recommendation 2. Prepare and submit a report to the Congress on the uses of contingency fund monies in BIA's annual budget submission as required by statute.

Response. The OIEP Central Office concurs with the recommendation. The Bureau of Indian Affairs (BIA) will include in its annual budget submission a schedule of OIEP's use of contingency funds. The schedule will identify the recipient, amount, and purpose of the expenditure.



Recommendation 3. Develop polices and procedures for contingency fund operations, including:

- a. Clearly defining emergencies and unforeseen contingencies.
- b. Requiring that contingency funds are used only for education services or programs at school sites funded with ISEP formula funds.
- c. Ensuring that contingency funds remain available without fiscal year limitation, as required by statute.
- d. Considering any remaining balances in determining the amount of current fiscal year appropriations needed to bring the contingency fund balance up to the one percent maximum allowable level.
- e. Establishing a periodic review process to ascertain that disbursements from the contingency fund are in accordance with Congressional legislation and internal policy.

Response. The OIEP Central Office concurs with the recommendation. The use and distribution of contingency funds are subject to the negotiated-rule-making process resulting from the No Child Left Behind legislation. Upon completion of the rule-making process, the OIEP will develop the internal guidance necessary to implement the regulations. The items included in the recommendation will be considered.

Recommendations 4 through 12 address the obligation of funds and the procurement of goods and services. The recent reorganization of Indian Affairs centralized the financial management functions, including budget, accounting, property and procurement, under the Office of the Chief Financial Officer (OCFO). While the OIEP Central Office concurs with the audit recommendations, it is not appropriate for the OIEP to develop policies and procedures for the OIEP Central Office to implement these recommendations. The OIEP Central Office is subject to the policies and procedures issued by the OCFO for Indian Affairs.

Recommendation 4. Develop policies and procedures to require that organization elements develop and adhere to approved spending plans and periodically monitor and report on conformance with spending plans.

Response. The OIEP Central Office was required to prepare a financial management plan for fiscal year 2004. Indian Affairs offices are required to prepare quarterly updates reflecting actual costs for the prior quarter and revisions for future periods.

Recommendation 5. Develop policies and procedures to comply with the October 4, 2002, Office of Management and Budget Memorandum for the Heads of Departments and Agencies (M-03-01) containing business rules to be observed when engaging in intragovernmental exchange transactions. This would include ensuring that obligations and expenditures for interagency agreements are properly recorded and referenced.

Response. The proper recording of obligations for all procurement activities was identified as a deficiency in the BIA's fiscal year 2003 financial statement audit. A corrective action plan to address the recommendation contained in that audit has been developed.

Recommendation 6. Provide training to all OIEP staff to follow new and established procedures. This would include the procedures to ensure that obligating documents are issued in a timely manner and recorded in the financial accounting system.

Response. The training needs of OIEP staff will be determined and training will be provided.

Recommendation 7. Hold responsible officials accountable for implementing financial management policies and procedures by establishing an internal quality control review process to periodically monitor their compliance with those procedures.

Response. Financial accountability for program funds is inherent in the responsibilities of program managers. Program managers will be held accountable for the proper administration of program funds. The Office of Audit and Evaluation, Office of the Chief Financial Officer, will perform periodic reviews for compliance with BIA financial management policies.

Recommendation 8. Implement the January 22, 2003, policy memorandums, issued by the OIEP Division of Contracts and Grants, which established a process for review and approval of sole-source justifications and which clarified lead time requirements for procurement actions.

Response. These procedures, as they are reflected within BIA procurement guidance, will be implemented and program managers will be held accountable for following the procedures.

Recommendation 9. Hold program managers accountable for submitting contract requisitions within established lead times and require the contracting officer to report instances of noncompliance.

Response. OIEP Central Office personnel will submit contract requisitions through the OIEP contracting officer in accordance with BIA procurement guidance. Instances of noncompliance will be promptly addressed.

Recommendation 10. Require that interagency agreements entered into by OIEP have approval by the OIEP contracting officer and are supported by a Determination and Finding.

Response. All interagency agreements require a Determination and Finding and approval by the Contracting Officer and the Chief Financial Officer.

Recommendation 11. Provide training on the FAR and proper contracting procedures to all Central Office officials.

Response. The OIEP will require program managers from the Central Office and OIEP field locations and schools to attend a Contracting Officers Representative training course. Prior to

the reorganization, the initial course was held in Albuquerque, New Mexico, and attended by 30 OIEP staff. Future courses will be held as the need arises.

Recommendation 12. Hold the contracting officer accountable for meeting all of the FAR requirements by establishing a periodic peer review process through the Department's Office of Policy, Management, and Budget with results reported directly to the Assistant Secretary.

Response. As part of the Division of Acquisition, Office of the Chief Financial Officer, the OIEP contracting office will be subject to periodic reviews using the Quality in Contracting (QUiC) Review process. As you know, this is the Department's management control review instrument for acquisition, and the results are reported to the Department's Office of Acquisition and Property Management.

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## Status of Audit Recommendations

<u>Recommendation</u>	<u>Status</u>	<u>Action Required</u>
1	Resolved and implemented.	No further action is required.
2-12	Management concurs; additional information requested.	Provide a corrective action plan that includes target dates and titles of the officials responsible for implementation of the recommendations.

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