



Report to the Chairman, Subcommittee
on Interior, Environment, and Related
Agencies, Committee on
Appropriations, House of
Representatives

November 2014

INDIAN AFFAIRS

Bureau of Indian Education Needs to Improve Oversight of School Spending

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Highlights**

Highlights of [GAO-15-121](#), a report to the Chairman, Subcommittee on Interior, Environment, and Related Agencies, Committee on Appropriations, House of Representatives

Why GAO Did This Study

BIE, within Interior's office of Indian Affairs, oversees 185 schools, serving about 41,000 students on or near Indian reservations. BIE's mission is to provide students with a quality education. However, BIE student performance has been consistently below that of public school students, including other Indian students. Given these challenges, GAO was asked to review BIE school funding and expenditures.

This report examines how funding sources and expenditures of BIE schools compare to those of public schools; the extent to which BIE has the staff and expertise needed to oversee school expenditures; and the extent to which BIE's processes for oversight adequately ensure that school funds are spent appropriately.

GAO reviewed relevant federal laws, regulations and agency documents, and analyzed BIE and public school expenditure data for school year 2009-10, the most recent year for which data were available. GAO also visited select BIE schools and nearby public schools in four states based on location, school and tribal size, and other factors.

What GAO Recommends

Among other things, GAO recommends that Indian Affairs develop a workforce plan to ensure that BIE has the staff to effectively oversee school spending and written procedures and a risk-based approach to guide BIE's oversight of school spending. Indian Affairs generally agreed with GAO's recommendations.

View [GAO-15-121](#). For more information, contact Melissa Emrey-Arras at (617) 788-0534 or emrearrasm@gao.gov.

What GAO Found

Unlike public schools, Bureau of Indian Education (BIE) schools receive almost all of their funding from federal sources. BIE directly operates about a third of its schools, and tribes operate two-thirds. According to BIE data, all of the BIE schools received a total of about \$830 million in fiscal year 2014: about 75 percent from the Department of the Interior (Interior), 24 percent from the Department of Education (Education), and 1 percent from the Department of Agriculture and other agencies. Public schools nationwide receive about 9 percent of their funding from federal sources and rely mostly on state and local funding.

GAO found that some BIE schools spend substantially more per pupil than public schools nationwide. Specifically, GAO estimates that the average per pupil expenditures for BIE-operated schools—the only BIE schools for which detailed expenditure data are available—were about 56 percent higher than for public schools nationally in school year 2009-10, the most recent year for which data were available at the time of GAO's review. Several factors may help explain the higher per pupil expenditures at BIE-operated schools, such as their student demographics, remote location, and small enrollment.

BIE lacks sufficient staff with expertise to oversee school expenditures. Since 2011, the number of BIE full-time administrators located on or near Indian reservations to oversee school expenditures decreased from 22 to 13, due partly to budget cuts. As a result, the 13 administrators have many additional responsibilities and an increased workload, making it challenging for them to provide effective oversight of schools. Additionally, these administrators have received less training in recent years. Further, the three administrators GAO spoke with said they do not have the expertise to fully understand the school audits they are responsible for reviewing. BIE's staffing of these positions runs counter to federal internal controls standards and key principles for effective strategic workforce planning, such as having sufficient, adequately-trained staff. Without adequate staff and training, BIE will not be able to ensure that school funds are spent appropriately.

BIE's processes for oversight do not adequately ensure that funds are spent appropriately. BIE lacks written procedures for how and when staff should monitor school spending and does not use a risk-based approach to prioritize how it should use its limited resources for oversight. Instead, BIE told GAO that it relies primarily on ad hoc suggestions by staff regarding which schools to oversee more closely. Meanwhile, some schools have serious financial problems. Notably, external auditors identified \$13.8 million in unallowable spending at 24 schools as of July 2014. Further, in March 2014, an audit found that one school lost about \$1.2 million in federal funds that were improperly transferred to an off-shore account. Without written procedures and a risk-based approach to overseeing school spending—both integral to federal internal control standards—there is little assurance that federal funds are being used for their intended purpose to provide BIE students with needed instructional and other educational services.

Contents

Letter		1
	Background	3
	BIE Schools Receive Most of their Funding from Federal Sources, Unlike Public Schools	8
	BIE-Operated Schools Spent Substantially More Per Student than Public Schools Nationwide Due to Several Factors	13
	BIE Lacks Sufficient Staff with Expertise to Oversee School Expenditures	21
	BIE's Processes Are Not Adequate to Ensure that School Funds Are Spent Appropriately	26
	Conclusions	33
	Recommendations for Executive Action	34
	Agency Comments and Our Evaluation	34
Appendix I	Objectives, Scope, and Methodology	37
Appendix II	Comments from the Department of the Interior	44
Appendix III	GAO Contacts and Staff Acknowledgments	49
Tables		
	Table 1. Selected Characteristics of Bureau of Indian Education-Operated Day Schools and Public Schools Nationwide in School Year 2009-10	16
	Table 2: Bureau of Indian Education (BIE) Procedures to Oversee its Largest Programs	29
Figures		
	Figure 1: Department of Interior Offices Responsible for Oversight of Bureau of Indian Education School Expenditures	7
	Figure 2: Federal Funds to Operate Programs at Bureau of Indian Education (BIE) Schools for Grades K-12, Fiscal Year 2014	9
	Figure 3: Funding Sources for Public Schools Nationwide in School Year 2009-10	12

Figure 4: Estimated Averages of Operating Expenditures Per Pupil at Bureau of Indian Education-Operated Day Schools and Public Schools Nationwide in School Year 2009-10, Excluding Capital Expenditures, Debt Service, and Certain Other Expenditures	14
Figure 5: Winter Road Conditions Near One Bureau of Indian Education School	19

Abbreviations

Administration	Division of Administration
BIE	Bureau of Indian Education
DOD	Department of Defense
Education	Department of Education
ESEA	Elementary and Secondary Education Act of 1965
IDEA	Individuals with Disabilities Education Act
Indian Affairs	Office of the Assistant Secretary-Indian Affairs
Interior	Department of the Interior
ISEP	Indian School Equalization Program
Performance and Accountability	Division of Performance and Accountability
Recovery Act	American Recovery and Reinvestment Act of 2009
Title I	Title I, Part A of the Elementary and Secondary Education Act of 1965

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November 13, 2014

The Honorable Ken Calvert
Chairman
Subcommittee on Interior, Environment, and Related Agencies
Committee on Appropriations
House of Representatives

Dear Mr. Chairman:

In fiscal year 2014, the Departments of the Interior (Interior) and Education (Education) provided about \$830 million to Bureau of Indian Education (BIE) schools. BIE, within Interior, administers 185 elementary and secondary schools that serve approximately 41,000 students on or near Indian reservations in 23 states. Of the 185 schools, 58 are directly operated by BIE (BIE-operated), and 127 are operated by tribes (tribally-operated) mostly through federal grants.¹ These schools serve about 7 percent of the Indian student population, mostly low-income students in rural communities.

Student performance at BIE schools has been consistently below that of public school students, including other Indian students attending public schools. In addition, high school graduation rates at BIE schools are lower than the national average. Given these longstanding challenges that BIE schools face, questions have been raised about the amount of resources available to them as compared to public schools. GAO was asked to review BIE school funding and expenditures. This report examines: (1) how sources of funding for BIE schools compare to those of public schools; (2) how BIE school expenditures compare to those of public schools; (3) the extent to which BIE has the staff and expertise needed to oversee school expenditures; and (4) the extent to which BIE's processes are adequate for ensuring that school funds are spent appropriately.

To address these objectives, we used multiple data collection methodologies. For all four objectives, we reviewed relevant federal laws

¹According to BIE officials, BIE provides grants for 124 of 127 tribally-operated schools and provides funds to the remaining three schools through contracts.

and regulations, and Interior, BIE, and Education documents, including guidance, internal correspondence, and reports. In addition, we interviewed officials from Interior and Education.

To compare the sources of BIE and public schools' funding, we analyzed BIE budget documents and related information, and data from Education's Common Core of Data, School District Finance Survey. To compare BIE school expenditures with those of public schools, we analyzed data from Interior, including the Federal Financial System, and BIE's Native American Student Information System. Because BIE has very limited data on tribally-operated school expenditures and expenditures at boarding schools would not be comparable to those of typical public schools, we generally analyzed data for the 32 BIE-operated day schools. The expenditure data was for school year 2009-10, the most recent year for which Education data were available at the time of our analysis. To determine the extent to which BIE has the staff and expertise needed to oversee school expenditures, we analyzed BIE data on the number and location of staff currently responsible for overseeing these expenditures as well as data on staff training. To determine the extent to which BIE's processes are adequate for ensuring that school funds are spent appropriately, we reviewed available oversight procedures and protocols for BIE schools, and reviewed the summary results of all tribally-operated schools' single audits and the single audits of select tribally-operated schools, selected based on audit opinions of their poor compliance with program requirements for a 3 year period (fiscal year 2010 to fiscal year 2012) and information from BIE officials. We assessed the reliability of Education's Common Core of Data, Interior's Federal Financial System, BIE's Native American Student Information System, and the Federal Audit Clearinghouse audit data by, among other things, (1) reviewing existing information about the data and systems that produced them and (2) obtaining information from agency officials knowledgeable about the databases. We determined that these data were sufficiently reliable for the purposes of this report.

Additionally, we conducted site visits to 16 BIE-operated and tribally-operated schools that varied by school and tribal size, and location. For comparison, we also visited or spoke by telephone with officials from four public school districts that we selected based on their geographic proximity to the BIE schools and their student demographics. The views of the officials we spoke with at these locations are not generalizable to all administrators at BIE or public schools nationwide.

We compared BIE's oversight of expenditures for all of its schools to the criteria on key practices for Standards for Internal Control in the Federal Government,² and for strategic workforce planning.³ (See appendix I for more detail on the scope and methodology.)

We conducted this performance audit from January 2014 through November 2014 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions.

Background

Student Population

BIE's mission is to provide Indian students with quality education opportunities starting in early childhood. Its Indian education programs derive from the federal government's trust relationship with Indian tribes, a responsibility established in federal statutes, treaties, and court decisions. Students attending BIE schools generally must be members of federally recognized Indian tribes, or descendants of members of such tribes, and reside on or near federal Indian reservations.⁴ About one-third of BIE schools serve students from the Navajo Nation.

Federal Grants and Single Audits

BIE schools are primarily funded through Interior, but like public schools, they also receive annual formula grants from Education. Like state educational agencies that oversee public schools in their respective states, BIE administers and oversees the operation of these Education grants, including grants through two Acts: the Elementary and Secondary

²GAO, *Standards for Internal Control in the Federal Government*, [GAO/AIMD-00-21.3.1](#) (Washington, D.C.: November 1999).

³GAO, *Human Capital: Key Principles for Effective Strategic Workforce Planning*, [GAO-04-39](#) (Washington, D.C.: Dec. 11, 2003), and GAO, *A Model of Strategic Human Capital Management*, [GAO-02-373SP](#) (Washington, D.C.: Mar. 15, 2002).

⁴Certain students who are not Indian may attend BIE schools, for example, children of school staff may generally attend BIE schools.

Education Act of 1965 (ESEA) and the Individuals with Disabilities Education Act (IDEA). Title I, Part A of ESEA (Title I)—the largest funding source for kindergarten through grade 12 under ESEA—provides funding to expand and improve educational programs in schools with students from low-income families and may be used for supplemental services to improve student achievement, such as instruction in reading and mathematics. BIE schools receive IDEA funding for special education and related services, such as physical therapy or speech therapy, for children with disabilities.

BIE has access to some detailed, real-time expenditure data for BIE-operated schools since they are operated directly by BIE. For example, BIE has direct access to these schools' costs for transportation, instruction, and operations. Access to these data enables BIE officials to closely track BIE-operated school spending. However, certain costs for administrative services to operate BIE schools, such as procurement or human resources, are not performed or tracked by BIE. As we reported in September 2013, BIE is part of the Office of the Assistant Secretary-Indian Affairs (Indian Affairs), and Indian Affairs performs many administrative functions to support BIE-operated schools that a school superintendent's office or school district typically would.⁵ However, Indian Affairs does not currently identify all its costs to support BIE schools, despite our 2003 report in which we recommended that it do so, in accordance with federal accounting standards.⁶

Meanwhile, the Tribally Controlled Schools Act of 1988 limits the financial information that most tribally-operated schools are required to submit to BIE.⁷ Tribal school grantees must complete an annual report that

⁵GAO, *Indian Affairs: Better Management and Accountability Needed to Improve Indian Education*, [GAO-13-774](#) (Washington, D.C.: Sept. 24, 2013).

⁶GAO, *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*, [GAO-03-955](#) (Washington, D.C.: Sept. 4, 2003). Indian Affairs initially agreed with our 2003 recommendation, but subsequently reported that it would defer action until Interior adopted a new integrated financial system with the ability to track these costs. In late 2012, Interior rolled out a new financial system to entities within Indian Affairs, including BIE, which has the capability to track these administrative costs. However, in April 2014, Indian Affairs reported that it would not be cost-effective to track the cost of administrative services it provides to BIE schools. However, Indian Affairs acknowledged that it has not analyzed or estimated the resources required to do so.

⁷25 U.S.C. §§ 2505(b), 2503(b)(1).

includes, among other things, an annual financial statement reporting revenue and expenditures as well as a financial audit in accordance with the Single Audit Act of 1984.⁸ This law, as implemented by the Office of Management and Budget, requires a financial audit of grantees who expend at least \$500,000⁹ in federal grants and other assistance in a fiscal year.¹⁰ These audits are commonly called “single audits.” The audits are carried out at the end of a school’s fiscal year and are conducted by independent auditors who are contracted by the grantee. They include both the entity’s financial statements and the records of spending of federal grant awards for each program.¹¹ Auditors determine whether the grantee met the compliance requirements listed in the Office of Management and Budget’s Circular No. A-133 Compliance Supplement for each program.¹² Auditors also report on the entity’s internal control over compliance for these programs and report identified control deficiencies or noncompliance in the single audit report. It is the grantee’s responsibility to follow up and take corrective actions on the audit findings. Auditors also must follow up on findings from past years’ audits,

⁸Throughout this report we use “Single Audit Act” to refer to the Act as amended. See 31 U.S.C. §§ 7501-7507. The Single Audit Act is intended, among other things, to promote sound financial management, including effective internal controls regarding federal awards administered by nonfederal entities. A single audit consists of (1) an audit and opinions on the fair presentation of the financial statements and the Schedule of Expenditures of Federal Awards; (2) gaining an understanding of and testing internal control over financial reporting and the entity’s compliance with laws, regulations, and contract or grant provisions that have a direct and material effect on certain federal programs; and (3) an audit and an opinion on compliance with applicable program requirements for certain federal programs.

⁹The Single Audit Act requires that the Director of the Office of Management and Budget undertake a bi-annual review of the threshold for the audit requirement. The current threshold is \$500,000. This will increase to \$750,000 generally starting in 2015. 78 Fed. Reg. 78,590 (Dec. 26, 2013).

¹⁰According to BIE officials, each of the tribally-operated schools spends at least \$500,000 in federal funds.

¹¹Auditees are required to establish and maintain internal control that can reasonably be expected to help ensure compliance with laws, regulations, and grant agreements.

¹²The Compliance Supplement provides auditors the information needed to understand federal programs’ objectives, procedures, and compliance requirements relevant to the single audit. It also provides the auditors with guidance for determining whether federal programs are compliant with these requirements (laws, regulations, and provisions of contract or grant management). There are multiple compliance requirements, which include allowable costs/cost principles, eligibility, and cash management. The auditor considers the applicability of the requirements to each major program and performs tests and other audit procedures where appropriate.

as reported by the grantee. According to Indian Affairs' policy manual, BIE has several responsibilities that pertain to single audit reporting, including ensuring that audits are completed and reports submitted; providing technical advice and counsel to grantees as requested; and issuing a management decision on audit findings within six months after receipt of the audit report.

Organization and Oversight

BIE is under Indian Affairs, and the BIE director is responsible for the direction and management of education functions, including the formation of policies and procedures, supervision of all program activities, and approval of the expenditure of funds for education purposes. BIE has a central office in Washington, D.C.; a major field service center in Albuquerque, New Mexico; three regional offices (one in the east and two in the west, including one serving only schools in the Navajo Nation); and 22 education line offices located on or near Indian reservations, 17 of which currently have responsibilities for financial oversight.

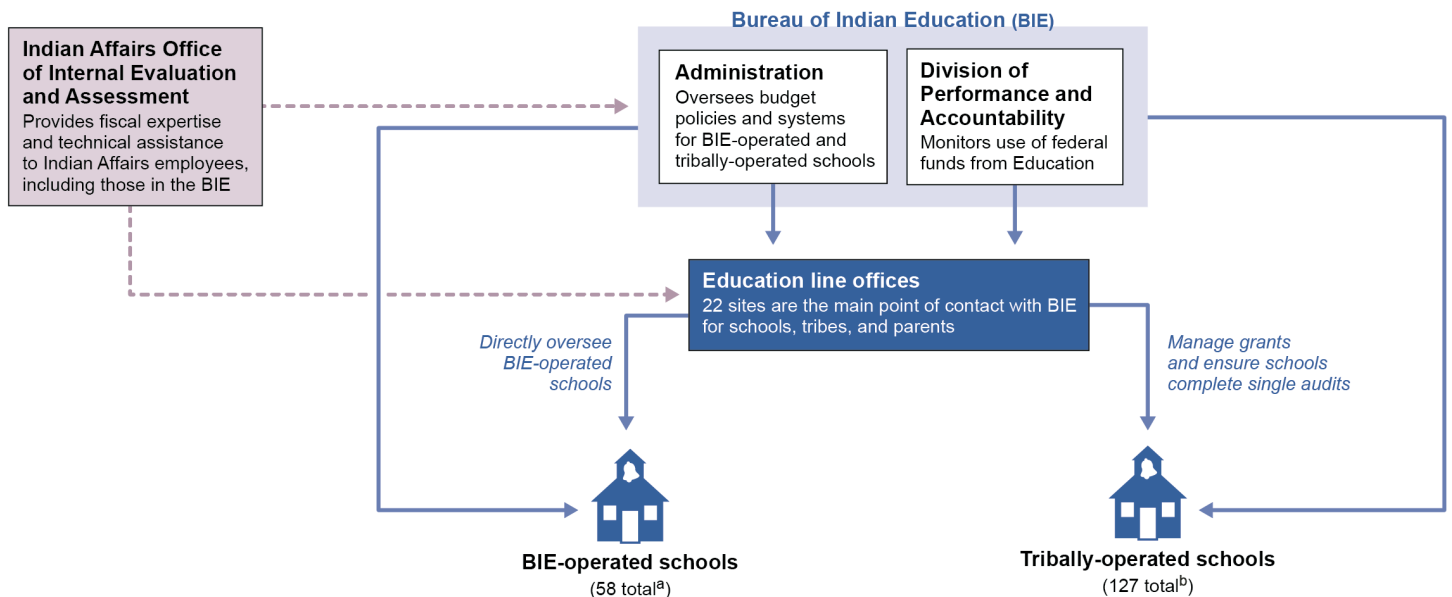
On June 13, 2014, the Secretary of the Interior issued an Order restructuring BIE. The reorganization is to occur in two phases, with the first phase becoming operational before the start of the 2014-15 school year. The second phase is anticipated to be operational by the end of the 2015-16 school year. Additionally, the Order states that Interior will strengthen and support the efforts of tribal nations to directly operate BIE schools.

At the time of our review, several offices were responsible for oversight of BIE school expenditures (see fig. 1).

- BIE's local education line offices have been responsible for providing oversight and technical assistance to both BIE- and tribally-operated schools. Education line office administrators are the lead education administrators for these offices and have responsibilities similar to school district superintendents for BIE-operated schools. Additionally, education line office administrators serve as grant officers to tribally-operated schools, allowing or disallowing costs questioned in BIE schools' single audits.
- BIE's Division of Performance and Accountability (Performance and Accountability), located in Albuquerque, administers and oversees Education-funded programs for BIE schools and develops strategies to improve academic achievement. Staff are responsible for overseeing BIE- and tribally-operated schools' IDEA and ESEA programs.

- BIE’s Division of Administration (Administration), also in Albuquerque, implements budget policies, procedures, processes, and systems for all fiscal and accounting functions for education programs and schools. According to senior BIE officials, Administration staff oversee expenditures for Interior and Education-funded programs for both BIE- and tribally-operated schools, but their main focus is on BIE-operated schools.
- Indian Affairs’ Office of Internal Evaluation and Assessment—staffed mainly by accountants and auditors—is responsible for providing guidance and oversight to BIE to ensure that internal controls are established and maintained. The office maintains an automated tracking system to provide Administration and line office management with information on the status of tribally-operated schools’ single audits; notifies Administration and line office management when schools have failed to submit the audits; reviews all audits submitted to Administration; and is responsible for providing technical assistance to line office administrators. This office provides these and many other services to all Indian Affairs organizations. According to the office’s director, BIE represents a very small portion of the office’s overall portfolio.

Figure 1: Department of Interior Offices Responsible for Oversight of Bureau of Indian Education School Expenditures



Source: GAO analysis of Bureau of Indian Education and Indian Affairs documents. | GAO-15-121

^aAs of April 2014, BIE operated 31 day schools, 26 boarding schools, and 1 dormitory (a residential site). This count reflects the transition of one school in July 2013, which changed from BIE-operated to tribally-operated. At the time of our analysis there were 32 BIE-operated day schools.

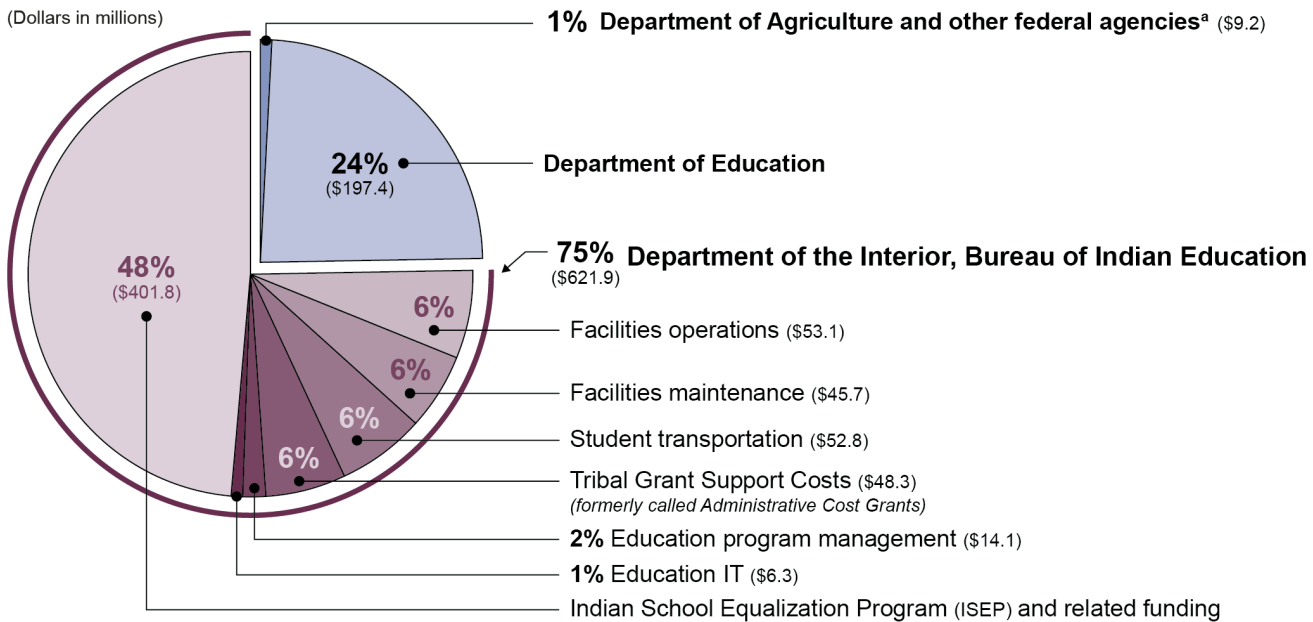
^bAs of April 2014, tribes operated 89 day schools, 25 boarding schools, and 13 dormitories (primarily residential sites). This count reflects the transition of one school in July 2013, which changed from BIE-operated to tribally-operated.

BIE Schools Receive Most of their Funding from Federal Sources, Unlike Public Schools

BIE Schools Receive Funding Mainly from Interior and Education

All BIE schools—both BIE-operated and tribally-operated—receive almost all of their funding to operate from federal sources, namely, Interior and Education. Specifically, these elementary and secondary schools received approximately \$830 million in fiscal year 2014—including about 75 percent, or \$622 million from Interior and about 24 percent, or approximately \$197 million, from Education. BIE schools also received small amounts of funding from other federal agencies, mostly the Department of Agriculture (see fig. 2).

Figure 2: Federal Funds to Operate Programs at Bureau of Indian Education (BIE) Schools for Grades K-12, Fiscal Year 2014



Source: GAO analysis of Interior budget documents and Education data. | GAO-15-121

Notes: Due to rounding, numbers may not sum to totals. Certain funding amounts are estimates for school year 2014-15 based on estimated amounts from the prior school year as of May 2014. For one program, we estimated school year 2014-15 funding based on actual amounts received as of May 2014, which accounted for most of school year 2013-14. Funding for capital, debt service, and related programs are not shown, because they are not considered as funding for ongoing operations.

^a BIE's largest federal funding source other than Interior or Education was the Department of Agriculture, which administers the National School Lunch Program and the School Breakfast Program for school meals, including reduced-price or free meals for eligible low-income children. The estimate above of \$9.2 million applies to BIE-operated schools. BIE officials did not know the amount of funds that tribally-operated schools received from the Department of Agriculture for school meals since these funds flow through states rather than BIE. Also, Education or other agencies may provide relatively small amounts directly to tribally-operated schools, such as through competitive grant programs, but these amounts would not be included in the figure above.

The largest source of funding for BIE schools is Interior's Indian School Equalization Program (ISEP).¹³ ISEP provides funding for basic

¹³This and certain other programs generally provide forward funding for the school year beginning in July of the federal fiscal year. For example, for funds appropriated for fiscal year 2009 (October 2008 to September 2009), funding for these programs would become available in July 2009, generally for school year 2009-10 (July 2009 to June 2010). For BIE-operated schools, these Interior funds are generally available for 15 months for the agency to obligate the funds, while certain Education funds are generally available for obligation for another fiscal year.

instruction; supplemental instruction, such as language development and gifted and talented programs; staffing to oversee student residences and dormitories; and food service, among other services.¹⁴ The second and third largest sources of funding for BIE schools are from Education's Title I and IDEA programs, respectively. Funding under Title I accounted for about \$93.2 million of the \$120.9 million that BIE received in fiscal year 2014 under ESEA programs.¹⁵

Except for a 2-year infusion of \$149 million of funding in 2009 and 2010 through the American Recovery and Reinvestment Act of 2009 (Recovery Act)¹⁶ and a related act,¹⁷ according to BIE documents, total annual funding from Interior and Education fluctuated slightly from fiscal year 2009 to fiscal year 2014.¹⁸ Excluding Recovery Act funding, annual funding for BIE schools increased overall from fiscal year 2009 to fiscal year 2014 by about 6 percent in nominal terms, which does not account for inflation. However, adjusting for inflation,¹⁹ we estimate that funding during that period actually decreased slightly, by about 1 percent.²⁰ Meanwhile, for public schools, funding data from Education were generally not available for the full period from fiscal year 2009 to fiscal year 2014.

¹⁴An Interior regulation generally requires BIE schools to set aside 15 percent of their ISEP basic instruction funding for special education. 25 C.F.R. § 39.104.

¹⁵The remainder came from such ESEA grant programs as Teacher Quality Improvement under Title II, 21st Century Community Learning Centers under Title IV, and School Improvement Grants under Title I.

¹⁶Pub. L. No. 111-5, 123 Stat. 115. Enacted in February 2009, the Recovery Act provided about \$800 billion in federal funds, including nearly \$100 billion for education programs. Some of these education funds were also available for postsecondary education and non-education purposes. The act's federal funding was intended, among other things, to help states minimize and avoid reductions in state and local government services.

¹⁷Pub. L. No. 111-226, § 101, 124 Stat. 2389. This law was enacted in 2010, and provided an additional \$10 billion for the Education Jobs Fund to create or retain education jobs nationwide, generally for school year 2010-11.

¹⁸We analyzed BIE budget information for these funding amounts.

¹⁹The inflation factor for fiscal year 2014 is a forecast.

²⁰BIE funding appeared to increase in fiscal year 2012, when the program for facilities maintenance became part of the budget of BIE rather than another agency in Indian Affairs. Unlike the Recovery Act, this change did not reflect an additional appropriation, but rather moved an existing program within Indian Affairs.

According to BIE officials, very little funding for BIE schools comes from non-federal sources. BIE-operated schools received very little tribal, state, or other revenue in fiscal year 2014, according to BIE. However, some tribally-operated schools received a small amount of revenue from other sources, such as tribes. Of the schools we visited that serve tribes in four states, officials from one tribe, which operated casinos, reported contributing a small amount of funding to its schools.²¹

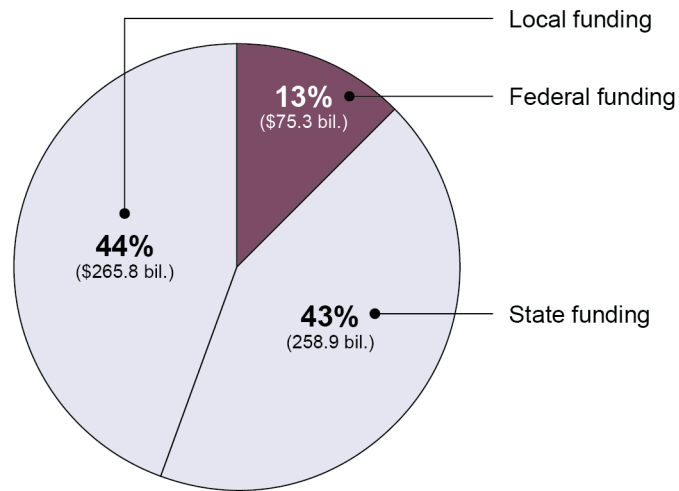
Public Schools Receive Limited Federal Funding

Unlike BIE schools, the vast majority of funding for public schools nationwide comes from state and local sources, while a relatively small proportion comes from federal sources. For example, in school year 2009-10, public schools nationwide received about 87 percent of their funding from state and local sources—43 percent from state sources and 44 percent from local sources. In contrast to BIE schools, federal funding has generally comprised about 9 percent of public schools' funding from school year 2002-03 to 2008-09. Subsequently, in school year 2009-10, federal funding for public schools comprised about 13 percent, which was slightly higher than in previous years due in part to the Recovery Act.²² (See fig. 3.) For public schools nationally, Education's Title I and IDEA programs provide the largest amounts of federal funding.

²¹In 2014, we reported that slightly less than half of federally recognized tribes had gaming operations, and a few large operations accounted for a major portion of the gaming revenue. GAO, *Indian Gaming: Preliminary Observations on the Regulation and Oversight of Indian Gaming*, [GAO-14-743T](#) (Washington, D.C.: July 23, 2014).

²²In the two school years before the Recovery Act, when the federal portion was about 9 percent, total funding amounts were similar to the total amount in school year 2009-10, both in nominal and in real, or inflation-adjusted, terms.

Figure 3: Funding Sources for Public Schools Nationwide in School Year 2009-10



Source: GAO analysis of Education data. | GAO-15-121

The percent of federal funding of public schools varies across states and local school districts. For example, in one district we visited, which was located near BIE schools, federal funding accounted for about 35 percent of its funding, and in another district about 68 percent. A key reason for the larger amount of federal funding for these districts was their funding from a federal formula grant program known as Impact Aid. Impact Aid is intended to compensate school districts for funding losses resulting from federal activities.²³ These funds were in addition to the districts' Title I and IDEA funding.

²³Federal activities include the enrollment in school districts of children whose parents work or live on federal or other land (e.g., children living on Indian lands or military bases). The federal government provides compensation because these activities deprive school districts of the ability to collect property or other taxes from these individuals. BIE schools generally do not receive Impact Aid. For more information on Impact Aid, see, GAO, *School Facilities: Physical Conditions in School Districts Receiving Impact Aid for Students Residing on Indian Lands*, [GAO-10-32](#) (Washington, D.C.: Oct. 29, 2009).

BIE-Operated Schools Spent Substantially More Per Student than Public Schools Nationwide Due to Several Factors

BIE-Operated Day Schools Spent at Least 50 Percent More Per Pupil than the National Average for Public Schools

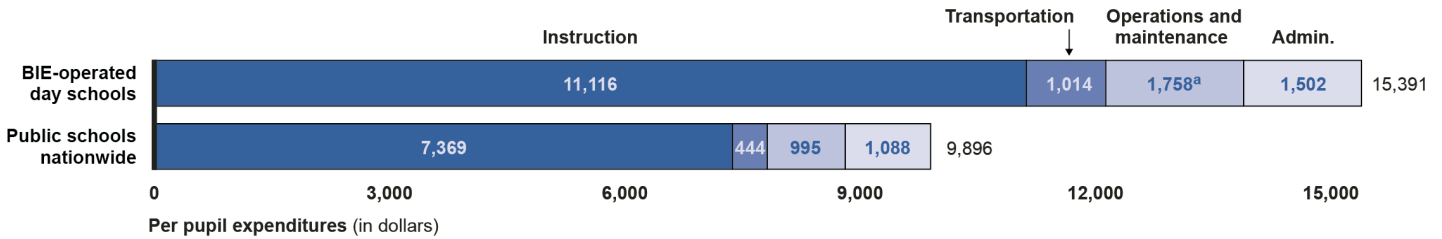
Average per-pupil expenditures for the 32 BIE-operated day schools were at least 56 percent higher than in public schools nationally in school year 2009-10, and were higher in the four categories of operating expenditures that we analyzed.²⁴ According to our analysis, BIE-operated day schools spent an estimated average of at least \$15,391 per pupil, while public schools nationwide spent an estimated average of \$9,896, excluding food service.^{25,26} (See fig. 4). When Recovery Act spending was excluded, per-pupil expenditures for these BIE-operated schools were at least 61 percent greater than at public schools. Similarly, we found higher per-pupil expenditures at BIE-operated day schools in the categories of instruction (the largest category), transportation, facilities operations and maintenance, and administration. For example, transportation expenditures were more than twice as much at BIE-operated schools than at public schools nationwide.

²⁴School year 2009-10 was the most recent year for which data were available at the time of our analysis.

²⁵Estimated per-pupil expenditures including food service were \$16,394 at BIE-operated day schools and \$10,295 at public schools nationwide in school year 2009-10. Higher BIE school expenditures for food service may relate to the predominance of low-income students who qualify for free or reduced school lunch and other meals such as breakfast, according to an Indian Affairs report.

²⁶We also explored the possibility of comparing BIE schools with a subset of public schools, such as schools receiving Title I funds for low-income children. However, data limitations hindered such an analysis. For example, Education data on expenditures were collected at the level of districts, but schools within the district may vary in the extent that they receive Title I funds.

Figure 4: Estimated Averages of Operating Expenditures Per Pupil at Bureau of Indian Education-Operated Day Schools and Public Schools Nationwide in School Year 2009-10, Excluding Capital Expenditures, Debt Service, and Certain Other Expenditures



Source: GAO analysis of BIE and Education data. | GAO-15-121

Notes: Numbers may not sum to totals due to rounding, and include expenditures from the American Recovery and Reinvestment Act of 2009.

^aWe derived our estimate of facilities operations and maintenance from 19 of the 32 BIE-operated day schools. We excluded 13 schools that appeared to spend less than \$5 per pupil. These schools may not directly spend funds on facilities operations and maintenance, since other entities, such as the education line office, may be responsible for these expenses.

Unlike the national averages, per-pupil expenditures at 4 of the 16 BIE schools that we visited appeared similar to those at nearby public school districts. Like the BIE schools we visited, these nearby rural public school districts served students who were mostly Indian and low-income. Thus, certain student demographics as well as the geographic location of the schools were comparable. In one state, two tribally-operated schools spent an estimated \$17,066 per pupil, and the nearby public school district spent \$17,239 per pupil. In another state, per-pupil expenditures, excluding facilities operations and maintenance, were \$12,972 at two BIE-operated schools and \$11,405 at the nearby public school district.²⁷ However, the findings from this sample are not generalizable to all BIE and nearby public schools. Also, data limitations prevented us from comparing the other 12 BIE schools that we visited with nearby public schools.²⁸

²⁷These expenditures exclude facilities operations and maintenance since the local education line office pays for such services for these and other BIE schools. BIE does not centrally collect data on these expenditures.

²⁸These limitations included some BIE schools' lack of responsiveness to our data requests and data from one nearby public school district that appeared unreliable. (See app. I for more information on our methodology and data limitations.)

Several Factors Contribute to Higher Per-Pupil Expenditures at BIE-Operated Schools

Several factors help to explain higher per-pupil expenditures at the 32 BIE-operated schools relative to public schools nationwide (see table 1).

- *Student demographics.* Students in BIE schools—both tribally-operated and BIE-operated—tend to have different demographic characteristics than students in public schools nationally. These characteristics, including higher poverty rates and a higher percent of students with special needs, are among the factors yielding higher per-pupil expenditures on average, as we have noted in previous reports.²⁹ In BIE schools, students tend to be from lower income households than public school students. For example, all BIE schools were eligible for Title I funding on a school-wide basis because they all had at least 40 percent of children from low income households in school year 2009-10, according to an Education study.³⁰ In contrast, half of all public schools were eligible for Title I funds on a school-wide basis. In addition, BIE-operated day schools have a higher percentage of students receiving special education services than public schools nationwide, according to BIE and Education data. Students in special education generally need additional services, such as physical, occupational or speech therapy, so expenditures tend to be higher for these students.
- *Smaller enrollment and remote location.* The smaller enrollment and isolated location of many BIE schools contribute to their higher expenditures. In school year 2009-10, BIE schools, including BIE-operated schools, generally had smaller average enrollment than public schools nationwide. For example, over 85 percent of BIE-operated day schools (28 of 32 schools) had fewer than 300 students according to our analysis, as compared to about 30 percent of public schools nationwide. Along with smaller size, the remote location of many BIE schools hinders their ability to benefit from economies of scale, as we have previously reported.³¹ For example, expenditures

²⁹See, for example, GAO, *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).

³⁰U.S. Department of Education, National Center on Education Statistics, *Documentation to the NCES Common Core of Data Public Elementary/ Secondary School Universe Survey: School Year 2009–10*. (Washington, D.C.: August 2012).

³¹[GAO-03-955](#). In that report, we also found that per-pupil expenditures at BIE-operated schools were higher than at public schools nationwide, but were comparable for selected similar BIE and public schools.

for facilities operations and maintenance may be higher, to the extent that many schools are geographically dispersed and unable to share facilities personnel, supplies, or services.

Table 1. Selected Characteristics of Bureau of Indian Education-Operated Day Schools and Public Schools Nationwide in School Year 2009-10

	Percentage of schools with large number of low-income students, as measured by schools' eligibility for school-wide Title I programs ^a	Percentage of students in special education	Average student enrollment
BIE-operated day schools	100	18 ^b	173 ^c
Public schools	50	13 ^d	546

Source: GAO analysis of BIE and Education data. | GAO-15-121

Notes:

^a For schools to be eligible school-wide for Title I programs under the Elementary and Secondary Education Act, at least 40 percent of children must qualify as low income. In school year 2009-10, all BIE schools were eligible on a school-wide basis. U.S. Department of Education, National Center on Education Statistics, *Documentation to the NCES Common Core of Data Public Elementary/Secondary School Universe Survey: School Year 2009–10*. (Washington, D.C.: August 2012).

^b The percentage for tribally-operated day schools was about 20 percent. The percentage for all boarding schools—both BIE-operated and tribally-operated—was about 14 percent, and the overall percentage for all BIE day and boarding schools was about 18 percent.

^c The average for tribally-operated day schools was about 234 students. For all BIE boarding schools, the average enrollment in school year 2009-10 was about 292 students. For all BIE day and boarding schools, the average enrollment was about 240 students.

^d This percentage applies to children and youth ages 3-21 in the 50 states, the District of Columbia, and BIE schools.

Other factors may help explain higher per-pupil expenditures at BIE-operated schools, including the higher costs of instruction, transportation, facilities operations and maintenance, and administration.

Instruction

Instructional expenditures were greater at BIE-operated schools than at public schools nationwide, due partly to teacher salaries. Teacher salaries were typically higher in BIE-operated schools than in public schools, according to BIE salary schedules and an Education study of school year 2011-12.³² For example, in school year 2011-12, the yearly base salary for a teacher with a bachelor's degree and no experience at BIE-operated schools was \$39,775, compared to averages of \$35,500 at public schools

³²Education's study of school year 2011-12 currently has the most recent data available for public schools on teacher salaries. U.S. Department of Education, National Center for Education Statistics, *Characteristics of Public School Districts in the United States: Results From the 2011–12 Schools and Staffing Survey, First Look*, NCES 2013-311 (Washington, D.C.: July 2013).

nationwide and \$33,200 at rural public schools nationwide.³³ The higher salaries at BIE-operated schools are mainly due to a federal law which requires BIE to pay teachers using the same pay scale as teachers at Department of Defense schools located overseas.³⁴ The law requires similar pay, in part, to help recruit and retain teachers at BIE-operated schools.

Although our analysis of per-pupil expenditures focused on BIE-operated schools, teacher salaries at tribally-operated schools—which set their own salary amounts—generally were lower than teacher salaries at public schools. According to an Education study of school year 2007-08 (the most recent study that included tribally-operated schools), all BIE schools—two-thirds of which were tribally-operated—paid teachers, on average, an estimated base salary of \$41,500. By contrast, public schools nationwide paid, on average, an estimated base salary of \$49,600, including an average of \$44,000 in rural public schools.³⁵ According to Education’s study of school year 2007-08, teachers at BIE schools and public schools nationwide generally appeared to have similar years of experience, but a slightly lower percentage of teachers at BIE schools had a master’s degree as their highest degree compared to public school teachers nationally.

In addition, BIE schools had lower median student-teacher ratios than public schools in school year 2009-10, which makes per-pupil spending higher.³⁶ The median ratio was 11.4 students per teacher at all BIE

³³For public schools nationwide, the 95 percent confidence interval for this estimate was \$35,284 to \$35,716. For rural public schools nationwide, the 95 percent confidence interval for this estimate was \$33,004 to \$33,396.

³⁴25 U.S.C. § 2012(g)(1)(B).

³⁵The estimate for the average base salary at BIE schools has a 95 percent confidence interval from \$40,500 to \$42,450. The estimate for average base salary at public schools nationwide has a 95 percent confidence interval from \$49,208 to \$49,992, and the estimate for rural public schools has a 95 percent confidence interval from \$43,373 to \$44,627. U.S. Department of Education, National Center for Education Statistics, *Characteristics of Public, Private, and Bureau of Indian Education Elementary and Secondary School Teachers in the United States: Results from the 2007-08 Schools and Staffing Survey, First Look*, NCES 2009-324 (Washington, D.C.: June 2009).

³⁶Student-teacher ratio is distinct from class size, as these measures are calculated differently. We cited student-teacher ratio due to our prior work in a 2002 report, when we found that this measure was a significant determinant of per-pupil expenditures in select urban and suburban schools. [GAO-03-234](#).

schools and 15.5 students per teacher at public schools, according to an Education study.³⁷ This lower ratio mainly relates to the smaller average enrollment at BIE schools than at public schools, which limits BIE schools' ability to benefit from economies of scale.

Transportation

BIE reported that the remote locations of its schools and poor road conditions contributed to higher transportation expenditures than those of public schools, among other factors. For example, daily round-trip bus routes averaged about 80 miles for all BIE schools and ranged from a few miles to more than 320 miles, according to BIE officials. Also, the poor road conditions, including dirt or unimproved roads, lead to wear and tear on vehicles transporting students, according to BIE budget documents and administrators at schools we visited (see fig. 5). By contrast, slightly more than half of public schools are located in cities or suburbs, and therefore may be unlikely to face such long bus routes or poor road conditions. As transportation expenditures increase, BIE reported that schools are trying to contain costs in various ways, such as combining or reducing bus routes or using more appropriate vehicles for the number of students or road conditions.

³⁷U.S. Department of Education, National Center for Education Statistics, *Documentation to the NCES Common Core of Data Public Elementary/Secondary School Universe Survey: School Year 2009-10, Version Provisional 2a*, NCES 2011-348rev (Washington, D.C.: August 2012).

Figure 5: Winter Road Conditions Near One Bureau of Indian Education School



Source: American Horse School. | GAO-15-121

Facilities Operations and Maintenance

Facilities-related expenditures may be higher at BIE-operated schools than public schools because a greater proportion of schools that BIE manages are in poor condition than public schools. BIE reported that about one-third of its schools were in poor condition as of the end of school year 2012-13, while two-thirds were in fair or good condition. At one school we visited that BIE identified as in poor condition, the main classroom building was built in the 1930s, and several other school buildings no longer had functioning heat. Conversely, an estimated 3 percent of public schools nationwide with permanent buildings reported that they were in poor condition in school year 2012-13, excluding temporary, or portable, buildings.^{38,39}

³⁸The 95 percent confidence interval for this estimate was 2 percent to 4 percent. However, public school officials self-reported the condition of their schools without necessarily having an inspection, while BIE noted that its assessment is based partly on inspections that are supposed to be done on a 3-year cycle. U.S. Department of Education, National Center on Education Statistics, *Condition of America's Public School Facilities: 2012-13, First Look*, NCES 2014-022 (Washington, D.C.: March 2014).

BIE-operated schools may also have higher facilities-related expenditures than public schools because some BIE schools are responsible for funding the operations and maintenance of many services that public school districts typically are not, such as water and sewer service or trash and snow removal. For example, at another BIE school we visited in poor condition, the 50-year old building lacked a sprinkler system and was located in a remote area. As a result, school officials said that they provide a fire truck and supplies for the school as well as for the local vicinity, contributing to higher operations and maintenance expenditures.

Administration

As with other categories of spending, higher per-pupil spending on administration at the 32 BIE-operated day schools relates partly to their smaller average enrollment than enrollment at public schools. As we reported in 2003, expenditure categories for administration are not comparable for BIE and public schools in light of their different organizational structures.⁴⁰ At BIE-operated day schools in school year 2009-10, about \$1,502 of the \$15,391 in per-pupil expenditures, or about 10 percent, was for administration. Of the \$1,502 per pupil for administration, \$1,149 was spent on school-level administration, such as principals' salaries; \$47 was allotted for the school board; and an estimated \$306 was spent by BIE education line offices. These offices provide academic and financial guidance, similar to a school district's office of the superintendent. Meanwhile, public schools in school year 2009-10 spent per pupil, on average, \$1,088, or about 10 percent, for administration: about \$568 for school-level administration, \$186 for the school board and the office of the superintendent, and \$334 for additional administration, such as procurement, finance, and payroll.

However, the costs for administering BIE-operated schools are greater than \$1,502 per pupil since our estimate excludes the costs of the administrative services that Indian Affairs provides to BIE. Indian Affairs performs many administrative functions to support BIE-operated schools that a school or school district typically would, such as procurement, finance, and human resources. However, Indian Affairs does not currently

³⁹For public schools on or near Indian lands, we found in 2009 that limited nationwide data were available on the physical condition of public school facilities in districts that received Impact Aid funding for students living on Indian lands. [GAO-10-32](#).

⁴⁰[GAO-03-955](#).

identify all the costs associated with supporting these schools.⁴¹ These costs and services are to shift from Indian Affairs to BIE by the end of school year 2015-16, according to a June 2014 Order from the Secretary of the Interior.⁴²

BIE Lacks Sufficient Staff with Expertise to Oversee School Expenditures

Line office administrators are integral to overseeing school expenditures, but the number of full-time administrators who oversee school expenditures decreased from a total of 22 in 2011 to 13 in 2014, 6 permanent and 7 acting. The workload of the vacant administrator positions has been absorbed by the remaining administrators.

Besides key responsibilities in academic and other aspects of school administration,⁴³ line office administrators' responsibilities include:

- overseeing and evaluating schools' expenditures;
- ensuring that tribally-operated schools submit their annual single audits and providing them to the Federal Audit Clearinghouse and BIE's Administration office;
- approving or disapproving costs that are questioned in tribally-operated schools' single audits, and working with tribes and schools to ensure that any single audit findings are resolved; and
- collaborating with BIE's Performance and Accountability officials to identify schools that may need additional oversight because of failure to comply with Education program requirements, such as Title I and IDEA fiscal requirements.

⁴¹Unlike BIE-operated schools, tribally-operated schools are generally responsible for providing many administrative support services, such as procurement, payroll, and human resources. Tribally-operated schools are eligible to receive Tribal Grant Support Costs, formerly known as Administrative Cost Grants, to help pay for these services. In school year 2013-14, these grants amounted to about 63 percent of the total amount needed for tribally-operated schools' administrative expenses, according to BIE's estimate.

⁴²It is not clear how the changes in the Secretary's June 2014 Order would provide tracking of such costs or how Indian Affairs would transfer an appropriate level of administrative services to BIE.

⁴³Line office administrators' other responsibilities include making personnel and curriculum decisions at BIE-operated schools, developing school safety policies and procedures, meeting with school boards, tribes, and parents, managing BIE-operated facilities, and supervising other line office staff.

Beginning in 2012, when BIE officials announced plans to reorganize and possibly close line offices, staff began resigning and retiring. Staff departures increased further when Indian Affairs announced Voluntary Early Retirement Authority and Voluntary Separation Incentive Payments in 2013. From fiscal years 2011 to 2014, funding for management of BIE schools, including for line office staff, decreased by about 38 percent.⁴⁴

As a result of having fewer line office administrators, the remaining administrators have been assigned additional responsibilities and their workload has increased, making it challenging for them to conduct needed oversight. For example, administrators in two of the three line offices we interviewed reported that over the last 2 years their responsibilities have increased significantly, and they are now overseeing and providing technical assistance to a greater number of schools. One official told us that in addition to the 7 schools he usually monitors, he is responsible for 11 additional schools that two other line offices had been responsible for overseeing. According to an administrator in a third line office, located in the Navajo Nation, responsibilities in that office have also changed significantly, and currently one line office administrator is responsible for overseeing 65 Navajo schools' financial matters, including the tribally-operated schools' annual single audits.⁴⁵

With increased responsibilities and travel budgets constraints, line office administrators in all three BIE regions reported that conducting site visits and maintaining regular interaction with school personnel is difficult. In particular, line office administrators said, among other things, it is challenging to obtain and review school documents, develop working relationships with school officials, and provide technical assistance to schools, all of which are activities that contribute to oversight. For example, one line office administrator reported that she reviews hard-copy special education files during site visits to ensure that funding is used to provide students with needed services. She explained that she is only able to access these files when visiting schools.

⁴⁴These funds pay for the central office in Washington, D.C.; a major field service center in Albuquerque, New Mexico; 3 regional offices and the 22 education line offices, but not individual school level administrators.

⁴⁵These changing responsibilities are due to BIE's efforts to restructure management of its schools in the Navajo Nation. The Navajo Nation is currently studying the feasibility of converting its 31 remaining BIE-operated schools to tribally-operated schools.

According to a high-ranking BIE official, increased line office responsibilities can include working outside of one's assigned region in geographically dispersed areas. For example, a line office administrator in North Dakota also serves as the acting administrator for a line office in Tennessee and is responsible for overseeing and providing technical assistance to schools in five states—Florida, Louisiana, Maine, Mississippi, and North Carolina. Similarly, a line office administrator in New Mexico and another in Arizona are responsible for overseeing school expenditures to schools in Montana.

The challenges line office administrators confront in overseeing school expenditures are further exacerbated by a lack of financial expertise and training. For example, although line office administrators make key decisions about single audit report findings, such as whether funds are being spent appropriately, they are not auditors or accountants. Additionally, the administrators responsible for the three line offices we visited said that they did not have the financial expertise to understand the content of single audits. Although Indian Affairs has offered occasional webinars pertaining to single audits in the last two years, some line office administrators have not received this training. In fact, the majority of BIE's acting line office administrators (4 out of 7), have not attended these webinars, though they may especially need training on their new job responsibilities. Additionally, no BIE staff have attended any in-person single audit training since at least 2011.

Although BIE officials reported in September 2013 that eliminating line office positions would create problems if appropriate plans are not developed and implemented, the agency has not developed a plan for meeting its workforce needs. According to BIE officials, they have not hired new line office administrators for 4 years due to budget cuts. As a result of these cuts, Interior had a hiring freeze for about 1.5 years and currently has a cap on hiring. Although BIE can request waivers to hire additional staff, it has not done so for line office positions in this fiscal environment.

BIE has a responsibility to employ the staff needed to adequately oversee school expenditures. To the extent that line office administrators are currently stretched thin without an effective plan for realigning staff responsibilities, BIE's efforts to fulfill its mission of educating Indian students are impaired. BIE's approach to staffing line offices runs counter to federal internal control standards and key principles for effective strategic workforce planning. Federal internal control standards state that staff need to possess and maintain a level of competence that allows

them to accomplish their assigned duties. Additionally, key principles for workforce planning include: (1) aligning an organization's human capital program with its current and emerging mission and programmatic goals and (2) developing long-term strategies for acquiring, developing, and retaining staff to achieve programmatic goals.⁴⁶ The appropriate number and geographic distribution of employees can further support organizational goals and strategies and enable an organization to have sufficient, adequately trained staff. Absent a comprehensive workforce plan that responds to staff shortages, BIE is jeopardizing its ability to oversee both BIE-operated and tribally-operated schools to ensure their funds are being used for their intended purpose to provide students a quality education.

Strategic workforce planning for oversight of school expenditures is especially important for BIE as it implements a recently announced restructuring. On June 13, 2014, the Secretary of the Interior issued an Order to restructure BIE using existing resources for the 2014-15 school year. The Order emphasizes the importance of improving academic achievement at BIE schools and creates new offices in BIE as well as transferring responsibilities for certain school support services from other Indian Affairs offices to BIE. However, the Secretarial Order does not address any issues regarding the oversight of school expenditures. For example, although line offices are discussed within the context of restructuring and will still be responsible for providing technical assistance to schools, it is unclear whether they will continue to have a role in monitoring school expenditures. Further, the Order is silent on the status and roles of Performance and Accountability and the Administration office, the two other BIE entities currently involved in monitoring school expenditures. In addition, the Order does not address concerns about the shortage of staff responsible for overseeing school expenditures or gaps in their expertise and training.⁴⁷ In late June 2014, a senior BIE official said that the status of Performance and Accountability is still unclear and

⁴⁶GAO, *Human Capital: Key Principles for Effective Strategic Workforce Planning*, [GAO-04-39](#) (Washington, D.C.: Dec. 11, 2003). We developed the key principles of workforce planning by reviewing documents from organizations with expertise in workforce planning models and federal agencies recommended by several sources as having promising workforce planning practices, as well as our past work.

⁴⁷Additionally, the Order is unclear on the impact restructuring will have on line offices in the Navajo Nation. As discussed earlier, line office administrators in this region are assigned different responsibilities than those of line administrators in other BIE regions.

that the Administration office will become BIE's School Operations Division, responsible for acquisition and grants, among many other duties.

Although the Secretarial Order requires the Assistant Secretary-Indian Affairs to complete an analysis of new work functions and develop workforce plans, it is unclear if the workforce plans will address whether BIE has an adequate number of staff with the required knowledge and skills to oversee BIE school spending. Moreover, the timeframe for completing these activities is limited. Specifically, the Order directs BIE and the Assistant Secretary-Indian Affairs to complete these activities in less than 3 months—from mid June through August 2014. As of mid-August, high-ranking officials reported that BIE was unlikely to meet these timeframes. This compressed timeframe makes it extremely challenging to conduct effective workforce planning. According to our prior work, as part of workforce planning an agency should first identify current and future needs, including the appropriate number of employees, the key competencies and skills for mission accomplishment, and the appropriate deployment of staff across the agency. After completing these activities, the agency should then create strategies for identifying and filling gaps.⁴⁸

While BIE is restructuring to improve operational support to schools and enhance school performance, it must also ensure that federal funding to the schools is used for its intended purposes. Therefore, it is critical to ensure that there are sufficient staff assigned to oversee school expenditures and that they have the appropriate expertise and training to do so. If BIE does not develop a detailed workforce plan for staff overseeing school expenditures, its ability to effectively provide technical assistance to tribes and build tribal capacity to operate schools will be impaired.

⁴⁸GAO, *A Model of Strategic Human Capital Management*, [GAO-02-373SP](#) (Washington, D.C.: March 15, 2002). This report describes a human capital model we developed that identifies eight critical success factors for managing human capital strategically. In developing this model, we built upon GAO's *Human Capital: A Self-Assessment Checklist for Agency Leaders*, [GAO/OCG-00-14G](#) (Washington, D.C.: September 2000). Among other steps, we also considered lessons learned from GAO reports on public and private organizations that are viewed as leaders in strategic human capital management and managing for results.

BIE's Processes Are Not Adequate to Ensure that School Funds Are Spent Appropriately

BIE Lacks Consistent Processes for Documenting and Sharing Findings and Overseeing Major Programs

Single Audits

BIE oversees tribally-operated school spending primarily through information provided in the schools' annual single audits; however, it does not have a process in place for consistently documenting actions it takes to respond to audit findings. For example, when we requested documents describing actions BIE had taken in response to audit findings at six tribally-operated schools, BIE could only produce documents for one of the schools. BIE officials told us they could not produce documents for the remaining five schools because the line office staff assigned to oversee the schools' spending had either retired or were unavailable. As a result of not having a process to document what steps BIE took to address the issues identified at the schools, BIE staff newly assigned to oversee these schools' expenditures have no way to determine how their schools' audit findings were resolved. Consequently, they must start anew when following up on future single audit findings and other oversight activities. Without a mechanism to ensure sustained oversight of school expenditures, BIE is not well-positioned to improve financial management at these schools and ensure they are spending Interior and Education funds to provide Indian students a quality education. According to internal control standards, oversight activities should ensure that the findings of audits are promptly resolved and they should be recorded in

an accurate and timely manner. In addition, documents should be readily available for examination.⁴⁹

Similarly, BIE does not have a mechanism in place to ensure that tribally-operated schools' single audits are shared with all of the officials responsible for overseeing school expenditures. Specifically, officials from Performance and Accountability—who are tasked with overseeing schools' spending for Education programs—reported they do not have access to schools' single audits, which include information about their use of ESEA and IDEA funds. Performance and Accountability officials told us they have requested access to single audits from Administration officials in the past, but they told us their requests were not honored because of technological challenges related to BIE's computer network. However, Indian Affairs staff said that if BIE sends them a list of individuals who should have access to the single audits, they can accommodate their requests.

Performance and Accountability officials reported that access to these audits would give them a more comprehensive view of tribally-operated schools' finances. This would help them determine whether schools are complying with Education program requirements, such as whether IDEA funds are being used to provide special education services for students with disabilities. Additionally, the officials said the audits would help them identify tribally-operated schools that have large unexpended IDEA balances from year to year and may not be using funds to provide needed services to students.⁵⁰ To the extent that Performance and Accountability staff do not have access to needed documents, it hinders BIE's ability to hold others accountable for use of government resources. According to internal control standards, program managers need both operational and financial data to meet their goals for accountability for effective and efficient use of resources.⁵¹

Indian School Equalization Program

BIE does not have written procedures for overseeing BIE-operated and tribally-operated schools' Indian School Equalization Program (ISEP)

⁴⁹ [GAO/AIMD-00-21.3.1.](#)

⁵⁰ Federal law generally permits tribally-operated schools to keep funds, including Education funds, they receive through an Interior contract or grant until they are spent. See 25 U.S.C. §§ 450(c), 2507(a)(11).

⁵¹ [GAO/AIMD-00-21.3.1.](#)

expenditures, which is particularly significant since ISEP is the schools' largest source of funding—about \$402 million in fiscal year 2014. Although BIE Administration and line office staff are responsible for overseeing these expenditures, they do not have complete or detailed procedures to guide their work.⁵² For example, they do not have a specific procedure for how and when they should conduct desk audits of schools or on-site monitoring visits. Further, the staff lack written procedures—such as a uniform list of documents and other items to review—to help guide their oversight efforts and ensure they are consistent across schools. According to federal internal control standards, management is responsible for developing the detailed policies, procedures, and practices to fit their agency's operations and to ensure they are built into and an integral part of operations.

Instead of using written procedures to oversee expenditures, Administration officials told us they use a case-by-case approach and rely on the “practice history” of staff. Absent written oversight procedures, BIE is at risk of obtaining and relying on varied and incomplete information to determine whether its schools are using funds as intended. Written procedures are particularly important for BIE's oversight of tribally-operated schools since BIE plans to increase their number in coming years and the Tribally Controlled Schools Act limits the amount of information that tribes must submit to BIE. If funds are not used for their intended purpose, students in BIE schools may not receive the services they need, such as tutoring and other forms of instruction.

In contrast to the lack of written procedures for overseeing ISEP expenditures, Performance and Accountability staff have developed draft procedures for overseeing schools' IDEA spending and are in the process of developing them for ESEA-funded programs (see table 2). The draft procedures for overseeing IDEA funds include detailed written instructions for conducting both fiscal desk audits of schools and on-site oversight reviews. For example, the desk audit instructions include a list of all the financial documents that staff will review, outline a detailed process for determining the risk level of each school for meeting IDEA

⁵²BIE Administration officials do have a written oversight procedure to use when visiting the three tribally-operated contract schools. BIE also provided us with a 2007 ISEP monitoring manual. However, all three of the line office administrators we spoke with were unfamiliar with this document, and BIE could not confirm that this document is currently in use.

fiscal requirements, and describe follow-up actions to be taken depending on the schools' level of risk.

Table 2: Bureau of Indian Education (BIE) Procedures to Oversee its Largest Programs

Program Name	Fiscal Year 2014 total funding*	Written procedures for financial oversight?
Indian School Equalization Program (ISEP)	\$401.8 million	No
Title I, Part A (Title I)	\$93.2 million	Yes, in pilot phase
Individuals with Disabilities Education Act (IDEA)	\$75.0 million	Yes, in draft form

Source: BIE budget data and interviews with BIE officials. | GAO-15-121

*For Title I and IDEA, these totals represent the amount of funds BIE received, not the total amount for the program as a whole.

In addition to not having comprehensive written procedures for oversight, Administration officials reported they do not consistently document the results of monitoring, including on-site visits, which is particularly important given recent staff departures. In addition, BIE officials reported that a line office administrator had solely conducted monitoring activities in fiscal years 2010 through 2012 at a school with a history of poor management of ISEP funds. When we asked BIE for documentation of the administrator's activities, we were told that he had retired and that no records were available. In addition, BIE does not have a standard form or template for their staff to document their monitoring activities.

Further, when we asked about recent site visits they conducted, Administration officials provided conflicting information. In a May 1, 2014 written response to a question that we posed, Administration officials reported that they had not conducted any recent site visits. However, in an interview on May 2, they stated that a visit had occurred within the previous month. If the Administration office had a process in place to consistently document site visits, the office would have had definitive information on the recent visits that they conducted.

BIE Lacks a Risk-Based Approach to Oversee School Expenditures

BIE also lacks a process to prioritize oversight activities based on a school's risk of misusing ISEP funds. Rather than using a risk-based approach to guide how it uses limited monitoring resources, BIE officials use an ad hoc approach. BIE officials said they typically wait for suggestions from line office staff to determine which schools to monitor

on-site, and they typically visit schools in close proximity to their offices. This approach is consistent with BIE's tendency to rely on its practice history, rather than standard oversight processes. While this approach may, in isolation, allow BIE to identify some schools that need additional oversight or assistance, federal internal control standards call for a more comprehensive analysis, and they state that management needs to comprehensively identify risks.⁵³

A line office administrator we interviewed reported that given his increased workload in recent years and travel budget constraints he has been unable to visit schools for which he is responsible and whose single audits have identified serious financial weaknesses. For example, he has been unable to visit one school—which is at a significant distance from his office—whose audit found \$1 million or more in questioned costs over multiple years.

According to written responses to questions we posed, BIE indicated that monitoring visits to all schools have been infrequent over the past few years due to budget constraints and travel restrictions. Given these budget constraints as well as staff shortages, it is critical for BIE to use its existing resources to target schools for monitoring that have been identified in their single audits as at high risk of misusing federal funds. Internal control standards state that the scope and frequency of monitoring should depend primarily on the assessment of risks and the effectiveness of ongoing monitoring procedures.⁵⁴

Absent a risk-based approach, federal funds may continue to be provided to schools with a history of financial weaknesses. For example, as of July 2014, single audits of tribally-operated schools identified \$13.8 million in costs that were not allowable at 24 schools, but we found minimal follow-up by BIE with the schools that had misused funds or did not adhere to program or legal requirements. Further, it appeared that BIE took little action to incentivize schools to adhere to financial and program requirements. According to Circular A-133, issued pursuant to the Single Audit Act, if an auditee, such as a tribally-operated school, has not completed corrective action, the agency awarding the auditee's grant should give it a timetable for follow-up. Further, according to Indian

⁵³GAO/AIMD-00-21.3.1.

⁵⁴GAO/AIMD-00-21.3.1.

Affairs' policy manual, if a tribally-operated school fails to take the action necessary to resolve findings in its single audit, BIE should offer technical assistance to the school if the audit findings remain unresolved. In serious situations, BIE may also designate the school as "high risk," which subjects the school to additional monitoring and restricted payments. If BIE determines that there has been gross negligence or mismanagement in the handling or use of funds, it may initiate procedures to assume control of the school.

In our review of single audits of six tribally-operated schools whose audits in fiscal years 2010 through 2012 identified poor financial management of major program funds, we found some occasions where BIE took little follow up action to address serious financial problems that auditors identified at the schools. For example:

- In 2010, auditors found that one school used \$1.2 million of its ISEP funds to provide a no-interest loan to a local public school district, which the auditors found is not permitted by law. In 2011 BIE asked the school to repay the more than \$1 million and is still negotiating with the school to recoup the funds. Nevertheless, BIE could not provide us with records that line office staff visited the school or provided additional oversight of school expenditures or technical assistance during the past 3 years. In the meantime, a subsequent audit found that the school has not taken any steps to ensure that its funds are not misused again and that it is still at risk of comingling federal funds with the local school district funds. However, BIE has continued to provide the school its full ISEP funding without additional monitoring or restrictions on those payments.
- At another school that received an adverse audit opinion 3 years in a row (fiscal years 2010 to 2012), auditors found that the school's financial statements had to be materially adjusted by as much as nearly \$1.9 million.⁵⁵ As a result, they found that the financial reports that the school submitted to BIE for those 3 years were unreliable. Despite these problems, BIE was unable to provide any evidence that it took action to increase oversight of the school's expenditures to ensure that it could accurately account for the federal funds it spends.

⁵⁵An adverse audit opinion states that an entity's financial statements taken as a whole are not presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles.

More recent examples of financial issues at BIE schools include:

- In February 2014, during our review of the Federal Audit Clearinghouse database, we found that one school had not submitted its required single audits since fiscal year 2010. Officials with BIE and the Office of Internal Evaluation and Assessment were not aware of this, and acknowledged that it was an oversight on their part when we brought it to their attention. According to Indian Affairs, the Office of Internal Evaluation and Assessment subsequently updated this information in its system. However, despite a legal requirement for tribally-operated schools to submit annual single audits, BIE has not imposed sanctions on this school.⁵⁶
- A March 2014 single audit found that a tribally-operated school lost \$1.7 million in federal funds that were illegally transferred to an off-shore bank account. According to the school's audit, about \$500,000 of these funds were subsequently returned to the school's account, making the net loss around \$1.2 million. Interior reported in October 2014 that this incident was "...a result of cybercrimes committed by computer hackers and/or other causes" and that the school is working with tribal authorities to investigate the incident. Nevertheless, the school's single audit stated that its inadequate cash management and risk assessment procedures contributed to the incident and stated that the school must strengthen these procedures. Additionally, a school administrator reported that the school held at least another \$6 million in federal funds in a U.S. bank account. As of June 2014, BIE had not yet determined how the tribe accrued that much in unspent federal funds.
- Several BIE officials told us that some tribes operating schools have a history of placing Interior and Education funds in savings accounts rather than using them to provide educational services as intended. One official cited an instance of a school accumulating over \$900,000 in unspent IDEA funds that were intended to be used to provide special education services to students with disabilities.

⁵⁶According to Indian Affairs' policy manual, if a tribally-operated school does not submit its single audit within 9 months of the end of the fiscal year, BIE has three levels of sanctions it can impose until the school submits the audit. First, if the school does not submit its audit by the due date, BIE stops giving the school its funds in an annual lump sum and instead provides funds on a monthly basis. Second, if the school does not submit its audit by the end of the following fiscal year, BIE continues to fund the school through monthly instead of annual payments but withholds grant support payments to the school. Third, if the school does not submit its audit after an additional year, BIE will take control of the school.

According to a June 2014 study commissioned by the Secretaries of the Interior and Education, the Tribally Controlled Schools Act provides an incentive for schools not to spend funds they receive from Interior and Education because schools are permitted to retain certain unspent federal funds, and they can also place any current or unspent funds in interest-bearing accounts before they are spent.⁵⁷ Based on certain audit information that was available, the study found that approximately 80 tribally-operated schools have retained a total of about \$125 million in unspent funds that have accumulated over time. According to the study, BIE has contributed to this problem by not implementing policies that encourage schools to fully utilize their funding and discourage them from planning to have unspent funds. The study stated that BIE and Education should provide tribes with technical assistance and practical guidance about the activities for which federal funds are allowed to be spent under current laws. Education is currently developing this type of guidance and, according to Indian Affairs, it is working with Education to develop this type of guidance.

Without using a risk-based approach to monitoring and having written procedures in place to oversee school expenditures, the amount of misused and unspent funds at BIE schools is likely to grow.

Conclusions

BIE's mission is to provide the students attending its schools a quality education. Most of these students are low-income, many have special needs, and their performance and graduation rates are below those of public school students nationwide. These students are in need of instructional, supplemental, and special education services. To ensure that students have access to these services, it is imperative that BIE accurately track and oversee school expenditures to make sure that federal funds are used for their intended purposes. However, BIE staff responsible for oversight currently face multiple challenges, and their monitoring of expenditures is weak. High staff turnover and reductions in the number of education line office administrators as well as their lack of expertise and training have left them struggling to adequately monitor school expenses. In addition, the limited information that BIE officials have about tribally-operated school expenditures is not shared with the

⁵⁷ Bureau of Indian Education Study Group, *Findings and Recommendations Prepared by the Bureau of Indian Education Study Group Submitted to the Secretaries of the Departments of the Interior and Education* (Washington, DC: June 11, 2014).

BIE staff responsible for overseeing schools' use of Education funds. Further, BIE does not utilize tools, such as written procedures and a risk-based approach to monitor school expenditures that would help improve the effectiveness of its oversight. Within this environment, BIE is not well positioned to oversee schools that may be at high risk for misusing federal funds. Strong oversight of school expenditures is especially critical since the number of tribally-operated schools is likely to increase over the next several years and limited expenditure information is available from these schools. To this end, BIE's current restructuring efforts provide officials with a unique opportunity to develop a workforce plan and adopt processes and procedures that create an improved control environment. These actions will help ensure that students receive the quality education and services they deserve.

Recommendations for Executive Action

We recommend that the Secretary of the Interior direct the Assistant Secretary-Indian Affairs to take the following four actions:

- Develop a comprehensive workforce plan to ensure that BIE has an adequate number of staff with the requisite knowledge and skills to effectively oversee BIE school expenditures.
- Develop a process to share relevant information, such as single audit reports, with all BIE staff responsible for overseeing school expenditures to ensure they have the necessary information to identify schools at risk for misusing funds.
- Develop written procedures for BIE to oversee expenditures for major programs, including Interior's Indian School Equalization Program. These procedures should include requirements for staff to consistently document their monitoring activities and actions they have taken to resolve financial weaknesses identified at schools.
- Develop a risk-based approach to oversee BIE school expenditures to focus BIE's monitoring activities on schools that auditors have found to be at the greatest risk of misusing federal funds.

Agency Comments and Our Evaluation

We provided a draft copy of this report to the Departments of the Interior and Education for review and comment. Education chose not to provide comments. Interior's comments are reproduced in appendix II. Interior also provided technical comments that we incorporated in the report as appropriate.

In its overall comments, Interior stated that our report's findings and recommendations will be beneficial as the Department moves forward with facilitating improvements in BIE schools and improving the oversight

of school spending. For example, Interior noted that strong financial stewardship is essential to achieving its goal to transform BIE into an organization that provides direction and services to tribes to help them attain high levels of student achievement.

Interior concurred with our recommendation to develop a workforce plan to ensure that BIE has an adequate number of staff to effectively oversee BIE school expenditures. Interior said that as part of BIE's restructuring, it plans to increase the number of staff whose main responsibility is to oversee school expenditures. Additionally, the Department stated that new training will be developed for current BIE staff, including line office administrators, mainly in areas related to budget and finance issues. While these are positive steps, we believe it is important for Interior to monitor the manner in which BIE implements these plans to ensure it has staff with the skills needed to provide appropriate oversight of school expenditures.

Interior also concurred with our recommendation to develop a process to share relevant information with all BIE staff responsible for overseeing school expenditures. According to Interior, BIE has implemented a process to ensure that relevant information is made available via email to all cognizant officials, including information on schools' questioned costs and cash deficits. The Department also stated that BIE will convene monthly meetings with high level officials to discuss these issues. While we believe that these are all positive actions, it is important for Interior to ensure that BIE periodically review its approach to disseminating information to make sure that its practices are effective.

Interior partially concurred with our recommendation to develop written procedures for BIE to oversee expenditures for its major programs. Interior stated that, in addition to draft Title I and IDEA oversight procedures, BIE also has written procedures in place related to the Indian School Equalization Program (ISEP). Specifically, Interior said that BIE's newly established School Operations Division has a standard review process in place that is currently being utilized, referred to as the Education Management Assessment Tool. We reviewed this document and found that its main focus is on reviewing Education Line Offices' operations, management, and program functions. However, none of the BIE officials we interviewed were aware of the document. While oversight of line offices' operations is important, the specific focus of our recommendation is on BIE's oversight of school expenditures, including for ISEP, its largest program. As we noted in our report, although BIE Administration and line office staff are responsible for overseeing these

expenditures, they do not have complete or detailed procedures to guide their work. For example, they do not have a schedule for conducting audits, a uniform list of documents to review, or procedures for staff to document the actions they have taken to resolve financial weaknesses identified at schools. We believe that rigorous oversight of school expenditures is critical to ensure that schools are spending federal funds for their intended purposes.

Lastly, Interior concurred with our recommendation on the need to develop a risk-based approach to oversee BIE school expenditures. To that end, Interior said that BIE, once its restructuring has been fully implemented, will improve coordination with the Office of Internal Evaluation and Assessment on matters regarding financial accountability. In addition, Interior stated that BIE will assign appropriate grant monitoring protocols to schools and tribal grantees based on questioned costs and other risk factors identified in their single audits. The Department further stated that it will use single audits to designate certain schools and tribes as high risk, along with those that are unresponsive to repeated requests for corrective action plans. While we believe that these are all positive steps, it is critical that Interior ensure that BIE follow through to effectively implement these changes.

We are sending copies of this report to relevant congressional committees, the Secretaries of the Interior and Education, and other interested parties. In addition, this report will be available at no charge on GAO's website at <http://www.gao.gov>.

If you or your staff have any questions about this report, please contact me at (617) 788-0534 or emreyarrasm@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. GAO staff who made key contributions to this report are listed in appendix III.

Sincerely yours,



Melissa Emrey-Arras, Director
Education, Workforce, and Income Security Issues

Appendix I: Objectives, Scope, and Methodology

Our objectives were to assess (1) how sources of funding for Bureau of Indian Education (BIE) schools compare to those of public schools; (2) how BIE school expenditures compare to those of public schools; (3) the extent to which BIE has the staff and expertise needed to oversee school expenditures; and (4) the extent to which BIE's processes are adequate for ensuring that school funds are spent appropriately.

To address these objectives, we used multiple methodologies. We reviewed relevant federal laws and regulations. Additionally, we reviewed agency documents from BIE, the Office of the Assistant Secretary-Indian Affairs (Indian Affairs), and the Department of Education (Education), including budget justifications, published reports, annual financial audit reports, and other documents. We also conducted interviews with officials at the Department of the Interior (Interior) in Indian Affairs, which includes BIE, as well as with officials at Education.

A key component of our methodology was a quantitative analysis of data from various federal sources. For sources of funding, we reviewed budget justifications as well as other financial information. For expenditures, we analyzed agency data systems and followed a methodology similar to our approach in our 2003 report on this topic.¹ Further, we conducted site visits to select BIE schools and nearby public school districts. For BIE oversight of school expenditures, we additionally analyzed data from a federal database on results of annual financial audits. Our methodology is described below in further detail.

We conducted this performance audit from January 2014 through November 2014 in accordance with generally accepted government auditing standards. These standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

¹GAO, *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*, [GAO-03-955](#) (Washington, D.C.: Sept. 4, 2003).

Objective 1: Sources of Funding

To address how sources of funding for BIE schools compare to those of public schools, we analyzed the federal funding sources of BIE schools as well as the various sources of funding for public schools. For BIE schools, we reviewed budget justifications of Indian Affairs—which includes BIE—and related information. For public schools, we reviewed data from Education’s National Center for Education Statistics, which maintains the Common Core of Data, including the School District Finance Survey’s final F-33 data. This survey collects financial data from all school districts in the 50 states and the District of Columbia. School districts provide information on funding, expenditures, and enrollment for a particular school year. The data that we analyzed generally applied to school year 2009-10, consistent with our analysis of expenditures, for which the data were from the most recent year available at the time of our analysis. According to Education documents, Education conducted several tests of the data and performed follow-up to ensure that data were complete and accurate. In addition, we performed tests and removed a few additional districts from our analysis to increase the reliability of the data. Thus, we reviewed Education’s data through (1) electronic data tests; (2) a review of related documents about the data and the systems; and (3) interviews with knowledgeable agency officials, and we found that the data were sufficiently reliable for the purposes of this report. We also interviewed officials from BIE, Indian Affairs, and Education.

Objective 2: Expenditures

Data Reliability

To examine how BIE school expenditures compare to those of public schools, we analyzed expenditures of BIE schools and those of public schools. We began by assessing the reliability of three databases:

- Interior’s Federal Financial System was the source of expenditure data for BIE schools;
- BIE’s Native American Student Information System provided enrollment data for BIE schools; and
- Education’s Common Core of Data, School District Finance Survey’s final F-33 data was the source of data on expenditure and enrollment for public school districts.

We focused on school year 2009-10, since it was the most recent year for which data were available from Education at the time of our analysis. We assessed the reliability of data for this school year from these systems in several ways, including (1) electronic data tests, (2) reviews of related

documentation about the data and the system, and (3) interviews with knowledgeable agency officials. Based on our assessment, we determined that the relevant data were sufficiently reliable for our purposes.

BIE and DOD are the only two federal entities that directly oversee the management and operation of elementary and secondary schools.² For this review, we were unable to compare expenditures at schools operated by the Department of Defense (DOD) schools with those of BIE or public schools because DOD's financial system containing school year 2009-10 data was not sufficiently reliable for our purposes of comparing amounts across departments. Specifically, DOD's Standard Accounting and Reporting System-Field Level data system contains expenditure data for DOD schools that we determined were not sufficiently reliable for our purposes, based on reviews of related documentation about the data and the system, as well as interviews with knowledgeable agency officials.³

Nationwide Comparison

To compare expenditures at BIE and public schools, we developed estimates of per-pupil expenditures at the national level.⁴ Although Interior's Federal Financial System does not use categories that directly align with Education's Common Core of Data, we were able to compare broad categories, based on reviews of documentation, professional judgment and interviews with agency officials. We focused our analysis on operating expenditures of elementary and secondary schools in a typical year. We classified BIE expenditure data and Education expenditure data into four broad categories: (1) instruction, (2) transportation, (3) facilities operation and maintenance, and (4)

²According to DOD's Student Management System, enrollment in school year 2009-10 was 23,972 students for the 58 DOD schools located in the continental United States. The average school enrollment was about 413 students. In addition, about two-thirds of DOD schools are located overseas.

³See, for example, GAO, *DOD Financial Management: Ongoing Challenges with Reconciling Navy and Marine Corps Fund Balance with Treasury*, [GAO-12-132](#) (Washington, D.C.: Dec. 20, 2011); and Department of Defense Inspector General, Memorandum for Assistant Secretary of the Navy (Financial Management and Comptroller), (Arlington, VA: Nov. 9, 2010).

⁴We also explored the possibility of comparing BIE schools with a subset of public schools, such as schools receiving Title I funds for low-income children. However, data limitations hindered such an analysis. For example, Education data on expenditures were collected at the level of districts, but schools within the district may vary in the extent that they receive Title I funds.

administration. Then, we derived per-pupil expenditures by dividing expenditure amounts by student enrollment. Due to our focus on operating expenditures, we generally excluded certain amounts such as expenditures for food service, capital (i.e., construction), and debt service.

Student enrollment is measured differently by BIE and Education. BIE measures enrollment as an average daily membership, or an average over the course of the year.⁵ We derived student enrollment by adding average daily membership for students in school year 2009-10 who are eligible Indian students under the Indian School Equalization Program (ISEP) and those who are not eligible Indian students but still attend BIE schools, such as children of BIE staff. Because we used student enrollment in one particular year and we included students who are not eligible under ISEP but still attend BIE schools, our enrollment data may differ somewhat from published data from Interior. Meanwhile, Education's Common Core of Data measures student enrollment by taking a head count at one point in time in the fall.

Consistent with the methodology of our 2003 report,⁶ we generally analyzed expenditures of BIE-operated day schools. Thus, we analyzed day schools and excluded boarding schools, which have a boarding as well as an academic component. We also limited our analysis to all 32 day schools that were BIE-operated in school year 2009-10. Of 185 BIE schools and dormitories, BIE-operated day schools represent about 17 percent of the schools and dormitories. As with our 2003 report and Education's publication on its School District Finance Survey for school year 2009-10,⁷ we did not adjust expenditures for geographic variation.

⁵Average daily membership for one year is based on an average of enrollment during the entire year. BIE uses a three-year measure of average daily membership as a factor in formulas to determine funding amounts for its schools. Another measure of enrollment at BIE schools is the head count, which reflects the number of students enrolled at a school for at least one day during the school year. Thus, head count represents a maximum measure of BIE enrollment that is greater than the typical daily enrollment, according to BIE officials.

⁶[GAO-03-955](#).

⁷U.S. Department of Education, National Center for Education Statistics, *Revenues and Expenditures for Public Elementary and Secondary School Districts: School Year 2009-10 (Fiscal Year 2010), First Look*, NCES 2013-307 (Washington, D.C.: April 2013).

We excluded schools that were tribally-operated because BIE has limited expenditure data for tribally-operated schools. In our 2003 report, we recommended, among other things, that the Secretary of the Interior should consider entering into negotiations with tribal entities to acquire detailed expenditure data for the schools they manage for comparison with public schools.⁸ However, Indian Affairs, in consultation with the school boards of tribally-operated schools, concluded that this recommendation would not be feasible with the school boards' existing systems. BIE headquarters officials noted that current law limits the type or format of information that the agency can require from tribes, including data on expenditures. For example, one statutory provision requires a tribal grantee to submit an annual financial statement reporting revenue and expenditures and an annual financial audit, but the grantee has discretion on the specifications of the cost accounting of the statement.⁹

Additionally, we reviewed seven reports of Education data on the characteristics of public and BIE schools. These characteristics helped to explain differences in per-pupil expenditures between public and BIE schools. We generally reviewed the most recent version available of these studies. Estimates obtained from reports that used sample data collected using random probability samples are subject to sampling error. We present estimates along with 95 percent confidence intervals to show the precision of those estimates. Further, we interviewed officials at BIE, Indian Affairs, and Education, and reviewed agency documents, including guidance, internal correspondence, and agency-sponsored management studies.

Site Visits

We supplemented our analysis of nationwide data with site visits to BIE schools and nearby public school districts. The information from these site visits is not generalizable to all BIE schools or public school districts nationwide. For this and our prior report on BIE management challenges,¹⁰ we visited 16 BIE schools—6 BIE-operated and 10 tribally-operated—as well as 4 nearby public school districts.¹¹ We conducted site

⁸[GAO-03-955](#).

⁹25 U.S.C. § 2505(b).

¹⁰GAO, *Indian Affairs: Better Management and Accountability Needed to Improve Indian Education*, [GAO-13-774](#) (Washington, D.C.: Sept. 24, 2013).

¹¹For the public school districts, we visited three in person and contacted one by phone.

visits to BIE schools that serve the Oglala Sioux Tribe in Pine Ridge, South Dakota; the Mississippi Band of Choctaw Indians; the Navajo Nation in Arizona, New Mexico, and Utah;¹² and various Pueblo Indians in New Mexico, where we interviewed school administrators and observed school conditions. We also requested expenditure data from tribally-operated schools because BIE has limited expenditure data from schools operated by tribes. Further, we interviewed administrators at public school districts in close proximity to the BIE schools we visited. We selected locations to visit to reflect an array of BIE schools that varied in administration type, school and tribal size, and location. For the nearby public school districts, we selected school districts that were in close proximity and also had similar student demographics in terms of the percent of students who were Indian.

Our expenditure analysis of schools we visited was limited to four BIE schools—two BIE-operated and two tribally-operated schools—along with two public school districts, all of which were located in New Mexico and South Dakota. We compared expenditure data for the schools we visited with the amount of funding they received to assess the reliability of the expenditure data. We determined that the data for these four BIE schools and two public school districts were sufficiently reliable. We excluded data from the remaining 12 BIE schools and 2 public school districts we visited because we did not receive any expenditure data or were not able to obtain reliable expenditure data for both the BIE schools and the nearby public school districts. In addition, we excluded expenditure data for some BIE schools we visited because the schools were boarding schools and, therefore, their expenditures would not be comparable to those of nearby public schools.

Objective 3: Staff and Expertise to Oversee School Expenditures

To determine the extent to which BIE has the staff and expertise needed to oversee school expenditures, we analyzed BIE data on the number and location of staff currently responsible for overseeing these expenditures as compared to the number of staff in prior years and the location of schools for which they are responsible. We also reviewed BIE data on the types of positions that are currently vacant and interviewed cognizant BIE officials. In addition, we reviewed Indian Affairs records on

¹²Navajo Nation is located in these three states, and we visited schools in New Mexico and Arizona.

the training on single audits provided since 2012 to line office administrators and staff. We also interviewed officials at BIE and Indian Affairs who are responsible for overseeing school expenditures about their skill sets and the types of training they have received on overseeing federal grants.

Objective 4: Oversight of School Expenditures

To determine the extent to which BIE's processes are adequate for ensuring that school funds are spent appropriately, we reviewed available oversight tools, including protocols for desk and onsite audits and tracking data. In addition, we reviewed the results of all tribally-operated schools' single audits for a 3-year period (fiscal year 2010 to fiscal year 2012) in the Federal Audit Clearinghouse. For more analysis of single audit findings, we selected for further review the single audits of six recipients of Indian School Equalization Program (ISEP) funding, the largest funding source of BIE schools. We selected these recipients based on audit opinions of their compliance with program requirements. Specifically, we examined all the single audits in which the auditor found that the school's records for ISEP compliance either contained significant departures from generally accepted auditing standards or were in a condition that made it impossible for them to be assessed in accordance with generally accepted auditing standards. We also examined the single audits of select tribally-operated schools based on information from BIE officials. Although our non-generalizable sample focused on schools with poor financial management, these schools may have needed the greatest oversight and technical assistance from BIE to correct the audit findings and improve their financial management. We assessed the reliability of the Federal Audit Clearinghouse data on single audits by (1) reviewing existing information about the data and systems that produced them, and (2) obtaining information from U.S. Census Bureau officials knowledgeable about the database. We determined that these data were sufficiently reliable for the purposes of this report. We also obtained documents about other select BIE schools. Additionally, we interviewed officials in Education, Indian Affairs' Office of Internal Evaluation and Assessment, as well as BIE's Division of Performance and Accountability, Office of Administration, and education line offices.

Appendix II: Comments from the Department of the Interior



United States Department of the Interior

OFFICE OF THE SECRETARY
Washington, DC 20240

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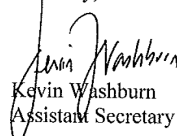
Ms. Melissa Emrey-Arras
Director, Education, Workforce, and
Income Security Issues
U.S. Government Accountability Office
441 G Street, N.W.
Washington, DC 20548

Dear Ms. Emrey-Arras:

Thank you for providing the Department of the Interior (Department) the opportunity to review and comment on the draft Government Accountability Office Report titled "INDIAN AFFAIRS: Bureau of Indian Education Needs to Improve Oversight of School Spending" (GAO-14-795).

The Department appreciates the work of the team that prepared the report and the amount of data collected. The findings and recommendations in the Report will be beneficial as the Department moves forward with facilitating improvements for schools in Indian Country and the oversight of school spending. As discussed in the enclosed document, the Bureau of Indian Education (BIE) concurs with recommendations 1, 2, and 4, and partially concurs with recommendation 3. If you have any questions or need additional information, contact Mr. Michael Oliva, Director, Indian Affairs Office of Internal Evaluation and Assessment, at (703) 390-6537.

Sincerely,


Kevin Washburn
Assistant Secretary – Indian Affairs

Enclosure

General comments:

The Department understands that providing quality administrative services to assist in the success of Indian youth in Indian Country is vital to their individual success and to the future of Indian Country. Within the Blueprint for Reform (Blueprint), issued on June 13, 2014, the Assistant Secretary – Indian Affairs proposed recommendations to support tribal self-determination; support schools toward the goals of ensuring the highest quality education and providing for the unique educational and culturally-related academic needs of children; and improve the delivery of services to BIE-funded schools. Many of the Blueprint’s recommendations were based on findings and recommendations contained in the Government Accountability Office’s (GAO) Report, “Better Management and Accountability Needed to Improve Indian Education” (GAO-13-774).

One of the Blueprint’s major recommendations focused on transforming the BIE from an organization operating schools into a school improvement organization. Consequently, on June 13, 2014, the Secretary of the Interior issued Secretarial Order 3334 (Order)¹ directing Indian Affairs to “redesign and restructure the BIE into an innovative organization that will improve operations for both tribally-controlled and BIE-operated schools.”

The Secretarial Order lays out objectives for the BIE transformation effort which includes the need to “build a responsive organization that provides resources, direction, and services to tribes so they can help their students attain high levels of student achievement.” Essential to achieving this objective is strong financial stewardship. The current BIE restructuring effort provides a unique opportunity. Working closely with GAO and Congress, the BIE restructuring provides a unique opportunity for the Department to implement lasting improvements in BIE’s service delivery and oversight and ultimately improved student performance.

The BIE is in the process of strengthening the “School Operations Division” within the BIE that reports directly to the BIE Director. The Division will focus on teacher and principal recruitment, acquisition and grants, budget and finance, school facilities, educational technology, and communications.” This restructuring addresses a major finding in GAO-13-774 regarding BIE management reforms.

The BIE restructuring provides an opportunity to transfer and consolidate some school operations functions from the Deputy Assistant Secretary – Indian Affairs (Management) (DAS-M) to the BIE Director. Refocusing school operation functions under the authority of the BIE Director will help: (1) reduce institutional fragmentation; (2) install an institutional focus within the BIE that will improve the delivery of operational services to BIE-operated schools, and, to a lesser extent, tribally-operated schools; and (3) ensure the educational requirements are addressed appropriately.

¹ Secretary of the Interior Order No. 3334, Subject: Restructuring the Bureau of Indian Education, signed by the Honorable Sally Jewell, Secretary of the Interior, June 12, 2014.

Comments and Clarifications on Recommendations for Indian Affairs

Recommendation 1: Develop a comprehensive workforce plan to ensure that BIE has an adequate number of staff with the requisite knowledge and skills to effectively oversee BIE school expenditures.

Response: The BIE concurs. As a result of Secretarial Order 3334, in order for the redesign and restructure of BIE to effectively improve the structures and systems within Indian Education, the BIE is establishing a School Operations Division to fill the gaps and increase its current level of staff whose main responsibility will be to provide oversight of schools' expenditures of Federal education funds. The planned positions would be "Financial Specialist - 501" located at the field level. The skill requirement for these positions will be specific to expertise in the areas of A-133, A-123, A-50, and Budget and Finance. The School Operations Division would also establish one Supervisory, Financial Specialist position located at the Central Office level. This position would be responsible for oversight of policy compliance and provide oversight to the Financial Specialist positions at the field level, thus ensuring separate levels of an effective internal control and review structure within the School Operations Division. The development and implementation of the staffing plan will align to the Secretarial Order and the recommendations contained in the Blueprint.

In addition to hiring newly qualified employees, and as a means to ensure ongoing training and development of staff, BIE in collaboration with DOI University, will implement a "Workforce Learning and Performance Plan" for the School Operations Division that will be custom designed to fit the specific training needs of BIE. For example, the plan will include a training program for our existing Education Line office staff (and future Education Resource Center staff) which will concentrate on how to: (1) analyze the development and execution including all appropriate levels of budget; (2) examine past budgets; (3) estimate future budget needs; and (4) evaluate the performance of a program. The custom course design will also include specific training needs in the areas of Acquisitions and Grants, Finance, and Facilities Maintenance, and will be coordinated with Departmental policy in these areas.

Recommendation 2: Develop a process to share relevant information, such as single audit reports, with all BIE staff responsible for overseeing school expenditures to ensure they have the necessary information to identify schools at risk for misusing funds.

Response: The BIE concurs. As a result of Secretarial Order 3334, the BIE has implemented a process that will ensure the OIEA will provide copies via e-mail of all reports which will include questioned costs, adverse or disclaimer of the auditor's opinion, and deferred revenue cash deficits to identified staff within the Division of Performance and Accountability (DPA) for its information and use. The OIEA will also continue its practice of copying the BIE Director, BIE Deputy Director, School Operations Division, and all applicable staff on all single audit report issues.

Further, once fully operational, the School Operations Division has implemented a reporting and tracking tool to share relevant information regarding the status of Overdue

Management Decisions and Management Decisions Coming Due. This tool will be reported to all responsible officials on a weekly basis via e-mail along with monthly follow-up meetings to ensure they have the necessary information and technical assistance to issue Management Decisions within the 6 month requirement (180 days). The monthly meetings will include staff from the School Operations Division, Division of Performance and Accountability (DPA), Associate Deputy Directors (ADDs), BIE's Deputy Bureau Director, and OIEA.

Recommendation 3: Develop written procedures for BIE to oversee expenditures for major programs, including the Department's Indian School Equalization Program. These procedures should include requirements for staff to consistently document their monitoring activities and actions they have taken to resolve financial weaknesses identified at schools.

Response: The BIE partially concurs. The 25 CFR Subchapter E, Part 32.4 Accountability requires the BIE Director to enforce a strict standard of fiscal, programmatic, and contract accountability to Tribes and Alaska Native entities and assist them in the development of their own standards of accountability and carry out annual evaluations of all BIE-funded schools and programs. In order to implement this requirement, the BIE has written procedures in place related to the Indian School Equalization Program (ISEP). For example, the School Operations Division has a standard review process in place that is currently being utilized. The Education Management Assessment Tool (EMAT) which is a method of conducting a formal review specifically focuses on areas such as: Budget, Finance, Credit Card Purchase, P.L. 100-297 Tribally Controlled Schools, and P.L. 93-638 Indian Self-Determination and Education Assistance Act requirements.

In addition, the BIE will incorporate these procedures in the Indian Affairs manual that will capture all the different responsibilities related to monitoring schools. A standard review program will be developed which will include the program compliance requirements and the requirements for the administration of the funds. The BIE will also enforce the financial reporting requirement (425 financial reports) and the information in these reports must tie into a school's general ledger.

Although the BIE's Title I (of the Elementary and Secondary Education Act) and the Individuals with Disabilities Education Act (IDEA) programs have written procedures for financial oversight and are using them in "pilot phase" and "draft form," respectively; as a result of the Secretarial Order 3334 for the redesign and restructure of BIE, we expect that these procedures will be finalized in the first quarter of FY 2015.

Recommendation 4: Develop a risk-based approach to oversee BIE school expenditures to focus BIE's monitoring activities on schools that auditors have found to be at the greatest risk of misusing Federal funds.

Response: The BIE concurs. The annual single audit report is a factor that BIE considers when evaluating a schools' financial stability and compliance with laws and regulations. The BIE is required under OMB Circular A-123 and Department of the

Interior Guidance (DIG) Release 2011-03, Amendment 1, Financial Assistance Monitoring Protocol, to develop a risk-based system of internal controls over its financial assistance programs and, with oversight from OIEA, to conduct internal control reviews of Financial Assistance and Monitoring of Grants. Further, as a result of Secretarial Order 3334, the School Operations Division, once fully operational, will improve coordination with OIEA regarding financial accountability (see Recommendation 2). This process will ensure copies are readily available to DPA staff of those audits that have been determined to be of high risk (i.e., containing questioned cost issues, including large amounts of questioned costs, deferred revenue, and repeated findings) and that appropriate grant monitoring protocols will be assigned to recipients based on risk. In addition, those schools that are unresponsive to repeat requests for corrective action plans will also be included. Thus, capturing schools with those instances of issues and classifying them as "High Risk." When a tribe is placed on "High Risk," financial sanctions are imposed by the Office of Management and Budget.

Appendix III: GAO Contacts and Staff Acknowledgments

GAO Contact

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Staff Acknowledgments

In addition to the contact named above, Elizabeth Sirois (Assistant Director), Ramona L. Burton (Analyst-in-Charge), Lucas M. Alvarez, Kathleen M. Peyman, and Matthew Saradjian made key contributions to this report. In addition, key support was provided by Hiwotte Amare, James E. Bennett, Deborah Bland, Holly A. Dye, Alexander G. Galuten, LaToya Jeanita King, Ashley L. McCall, Sheila McCoy, Kimberly A. McGatlin, Jean L. McSween, Deborah A. Signer, and John S. Townes.

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