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**Indian Health Service's Controls
Over Sanitation Facilities
Construction Program Projects
Funded Under the Infrastructure
Investment and Jobs Act
Could Be Improved**

REPORT HIGHLIGHTS



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Indian Health Service's Controls Over Sanitation Facilities Construction Program Projects Funded Under the Infrastructure Investment and Jobs Act Could Be Improved

Why OIG Did This Audit

- The Infrastructure Investment and Jobs Act (IIJA) appropriated \$3.5 billion to the Indian Health Service (IHS) for Sanitation Facilities Construction (SFC) Program projects to provide safe water, wastewater, and solid waste systems for American Indian and Alaska Native (AI/AN) people. The IIJA funding represents more than a fourfold increase in total annual SFC Program funding compared to previous years.
- IHS uses the Sanitation Deficiency System (SDS) to document and prioritize sanitation deficiencies related to individual AI/AN people's homes and communities and identifies existing deficiencies as projects. As such, it is important that the SDS contain accurate information.
- We performed this audit to determine whether IHS has internal controls for identifying, recording, and tracking projects in the SDS and for ensuring that IIJA-appropriated funds are used only for eligible project costs.

What OIG Found

Although IHS had internal controls in place to track projects in the SDS, some weaknesses existed to identify and record projects in that system and to ensure that IIJA funds were only used for eligible project costs. Specifically, IHS did not implement controls for identifying which projects to fund and did not properly record some projects in the SDS with the required documentation. In addition, we found that IHS did not effectively validate home eligibility or include all necessary information in the SDS to support the calculation of eligible costs. Finally, although we found IHS did have guidance and processes in place to prorate eligible and ineligible Tier 1 construction costs, we found IHS did not have formal guidance or an established process to prorate the eligible and ineligible shares of Tier 1 design costs or Tier 2 and 3 planning costs.

What OIG Recommends

We made five recommendations to IHS to improve controls for identifying and recording SFC Program projects funded under IIJA and for ensuring IIJA funds are used only for eligible project costs. The full recommendations are in the report.

IHS concurred with three recommendations, partially concurred with one recommendation, and did not concur with one recommendation. IHS detailed steps it has taken and plans to take in response to our recommendations.

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ACRONYM LIST

AI/AN	American Indian and Alaska Natives
ANTHC	Alaska Native Tribal Health Consortium
CDP	Community Deficiency Profile
EDU	Equivalent Dwelling Unit
FY	Fiscal Year
GAO	Government Accountability Office
HHS	Department of Health and Human Services
HITS	Home Inventory Tracking System
HQ	Indian Health Service Headquarters
IHS	Indian Health Service
IIJA	Infrastructure Investment and Jobs Act
MOA	Memorandum of Agreement
O&M	operation and maintenance
OIG	Office of Inspector General
PDS	Project Data System
SDS	Sanitation Deficiency System
SFC	Sanitation Facilities Construction
STARS	Sanitation Tracking and Reporting System

INTRODUCTION

WHY WE DID THIS AUDIT

The Infrastructure Investment and Jobs Act (IIJA) authorized the appropriation of \$700 million each year from fiscal years (FYs) 2022 to 2026 for a total of \$3.5 billion in no-year funds for the Indian Health Service (IHS) Sanitation Facilities Construction (SFC) Program. The SFC Program provides essential water supply, sewage, and solid waste disposal facilities for American Indian and Alaska Native (AI/AN) homes and communities.¹ SFC Program projects are tracked within the Sanitation Deficiency System (SDS), which documents and prioritizes sanitation deficiencies related to individual AI/AN people's homes and communities and identifies existing deficiencies as projects. IIJA funding can be used to address existing deficiencies that meet SFC Program eligibility requirements. IHS regularly partners with Tribes and other Federal agencies to identify alternative resources to cover ineligible project costs.²

Congress appropriated \$17.5 million in IIJA funding to the Office of Inspector General (OIG) for oversight related to IIJA-funded SFC Program projects. OIG has implemented an interdisciplinary plan for overseeing IHS's use of IIJA funds that includes audits, evaluations, and investigations. In September 2022, we issued an evaluation report on our initial observations related to IHS's capacity to administer and oversee the \$3.5 billion, and in December 2024, we issued an evaluation report on staffing shortages limiting IHS's capacity to effectively administer IIJA-funded projects.³ This audit report addresses the design and implementation of IHS's internal controls over IIJA-funded SFC projects.⁴

¹ P.L. No. 86-121 authorized IHS to provide and maintain essential sanitation facilities, including domestic and community water supplies and facilities, drainage facilities, and sewage- and waste-disposal facilities, together with necessary appurtenances and fixtures for Indian homes, communities, and lands.

² IHS guidance defines ineligible project costs as costs associated with serving commercial, industrial, or agricultural establishments, including nursing homes, health clinics, schools, hospitals, hospital quarters, and non-AI/AN people's homes.

³ OIG, [*Initial Observations of IHS Capacity to Manage Supplemental \\$3.5 Billion Appropriated to Sanitation Facilities Construction Projects \(OEI-06-22-00320\)*](#), Sept. 30, 2022. OIG, [*Staffing Shortages Limited IHS's Capacity To Effectively Administer Much-Needed Sanitation Projects Funded by the Infrastructure Investment and Jobs Act \(OEI-06-24-00010\)*](#), Dec. 5, 2024.

⁴ Internal control is a process that management uses to help an entity achieve its objectives. Among other requirements, the Government Accountability Office's (GAO's) [*Standards for Internal Control in the Federal Government*](#) (Green Book) states that an agency should design control activities to achieve objectives and respond to risks. Green Book, "Control Activities," paragraph 10.01.

OBJECTIVE

The objective of our audit was to determine whether IHS has internal controls in place to: (1) identify, record, and track projects in the SDS and (2) ensure that IJJA-appropriated funds are used only for eligible SFC project costs.

BACKGROUND

Indian Health Service

IHS, an agency within the Department of Health and Human Services (HHS), is responsible for providing a comprehensive health service delivery system to approximately 2.8 million AI/AN people in 574 federally recognized Tribes in 37 States. IHS has a decentralized management structure that consists of IHS Headquarters (HQ) and 12 Area Offices.

Sanitation Facilities Construction Program

The IHS Office of Environmental Health and Engineering, Division of Sanitation Facilities Construction (Division of Sanitation) administers and oversees the SFC Program. The Division of Sanitation assists and supports the Area Offices by establishing policies and providing guidance to ensure high-quality and consistent program implementation nationwide. The 12 Area Offices provide direct support to the Tribes⁵ using SFC Program personnel located in district, field, and service unit locations.^{6, 7}

SFC Program projects address sanitation deficiencies⁸ and are prioritized according to: (1) tier levels, (2) deficiency levels, (3) Area priority scores, and (4) feasibility status.⁹ There are three tier levels, which are based on the level of planning and cost estimation completed for each project. Tier 1 projects are categorized as “ready to fund,” and Tiers 2 and 3 are categorized as

⁵ The 12 Area Offices include Alaska, Albuquerque, Bemidji, Billings, California, Great Plains, Nashville, Navajo, Oklahoma City, Phoenix, Portland, and Tucson.

⁶ Service units represent organizational units within the Area Office component.

⁷ SFC Program district and field offices are established when professional or technical services are needed at two or more service units or reservations, the Area Office is too distant, and no service unit is large enough to merit full-time staff coverage; when the Area is geographically too large to provide these services to Indian communities from one office; or when the workload distribution dictates that a remote field office would be more effective.

⁸ A sanitation deficiency is a need arising from existing water, sewer, or solid waste facilities, or lack thereof, that creates or may result in exposure to environmental conditions that can negatively impact public health.

⁹ See Appendix B for further details on tier levels, deficiency levels, Area priority scores, and feasibility status.

“needing additional planning.”¹⁰ Deficiency levels are rated 0 to 5, with 5 being the most severe in terms of the magnitude of a facility’s sanitation deficiency. Area priority scores are the priority scores provided by the Area Office for each project based on eight scoring factors. Feasibility status identifies whether a project is economically feasible based on an established per unit cost.¹¹ See Appendix B for further details on prioritization of SFC Program projects.

SFC Program projects must serve AI/AN people, as well as eligible homes, which are defined as 24-hour year-round family dwellings. See Appendix C for further details on the eligibility requirements for IHS SFC Program projects.

The SFC Program is funded through: (1) annual appropriations, (2) appropriations from IJJA funding, and (3) non-IHS funding.¹² IHS may use its appropriations only for eligible project costs. However, costs not eligible for IHS funding may be included in a project if requested by the Tribe, provided that the ineligible portion is funded from a non-IHS source.

Sanitation Tracking and Reporting System

IHS records and tracks SFC Program projects using its web-based database, the Sanitation Tracking and Reporting System, or STARS. The STARS database was developed to help IHS document the eligibility of individuals and homes for sanitation services, create budget justifications, monitor and track project development, report the status and progress of services provided, and maintain records.

The STARS database consists of several systems that IHS uses to perform SFC Program activities. Within STARS, the SDS is used to track the sanitation deficiencies of projects, the Project Data System (PDS) is used to track the funding of sanitation projects, the Home Inventory Tracking System (HITS) is used to track the provision of sanitation facilities to individuals and specific home sites, and the Community Deficiency Profile (CDP) is used to track the demographic information on the communities where projects are located.

¹⁰ In addition to Tier 1 construction costs, there are Tier 1 design and construction documents costs (Tier 1 design) and Tier 2 and 3 planning, design, and construction documents costs (Tier 2 and 3 planning). A Tier 1 project is considered ready to fund because planning is complete; however, the design and construction contract documentation will still need to be completed. Tier 2 and 3 planning includes engineering and data collection activities associated with further identifying the deficiency, identifying and evaluating alternatives, and developing construction documents for procurement activities.

¹¹ IJJA funding could be used to fund economically infeasible projects up to \$2.2 billion.

¹² Non-IHS funding sources can provide contributions to cover IHS-eligible project costs in addition to ineligible project costs.

Reporting Sanitation Projects to Congress

The Indian Health Care Improvement Act requires IHS to submit to the President, for inclusion in its annual report to Congress, a description of its current Indian sanitation facility priority system, including information on the level of sanitation deficiency¹³ of each Indian Tribe or community and the amount of funds necessary to raise all Indian Tribes and communities to a zero-deficiency level.^{14, 15, 16} IHS identifies projects based on project information and estimated project costs as of a point in time. The November 16, 2021, SDS listing reported to Congress included 1,513 projects with an estimated eligible project cost of about \$3.4 billion.¹⁷

IHS developed a Spend Plan to document how it anticipated using the first year of IIJA funds based on project information as of November 16, 2021.¹⁸ As shown in Table 1, in FY 2022 IHS allocated \$671.4 million of the \$700 million IIJA funds to 644 SFC projects.¹⁹

Table 1: Fiscal Year 2022 IIJA Allocation for SFC Projects

Funding Category	Number of SFC Projects in the SDS	IIJA Amount
Tier 1 construction costs	456	\$578,600,168
Tier 1 design costs	234	59,800,000
Tier 2 and 3 planning costs	184	33,000,000
Total IIJA Allocation	644*	\$671,400,168

*The total number of projects with IIJA funding is 644; however, the sum of the column is greater than the total because some projects received funds for multiple categories.

¹³ 25 U.S.C. 1632(g)(1)(C) requires the determination of the level of sanitation deficiency for each Indian Tribe or community sanitation project.

¹⁴ IHS: (1) maintains an inventory of sanitation deficiencies affecting Indian Tribes and communities, (2) develops and prioritizes projects to address those deficiencies, and (3) reports them to Congress annually. See 25 U.S.C. § 1632.

¹⁵ 25 U.S.C. 1632(g)(4).

¹⁶ A deficiency level of zero means that no deficiency exists.

¹⁷ The November 16, 2021, SDS listing reported in the FY 2021 *Annual Report to the Congress of the United States on Sanitation Deficiency Levels for Indian Homes and Communities* was published at www.ihs.gov/newsroom/reportstocongress/ on January 25, 2024.

¹⁸ The Spend Plan is developed as a budget for the allocation of FY appropriations.

¹⁹ IHS allocated \$26 million of the remaining \$28.6 million from the IIJA funds for special and emergency projects (\$1.5 million); salaries, expenses, and administration (\$21 million); and funds transferred to HHS-OIG (\$3.5 million). The remaining \$2.6 million was retained at HQ to be included in the FY 2023 IIJA budget.

HOW WE CONDUCTED THIS AUDIT

Our audit covered 644 projects funded under the IIJA from November 15, 2021, through September 30, 2022 (audit period). We conducted interviews with officials from the IHS Division of Sanitation HQ and the 12 IHS Area Offices.²⁰ We obtained the SDS data from IHS and nonstatistically selected 30 SFC projects for review. We reviewed documentation supporting the identification, recording, and tracking of each project, as well as documentation supporting the calculation of eligible costs. See Appendix D for details regarding the projects we nonstatistically selected.

We conducted this performance audit 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 based on our audit objectives.

Appendix A describes our audit scope and methodology. Appendix C contains details of Federal requirements and guidance related to the SFC Program and eligibility.

FINDINGS

Although IHS had internal controls in place to track projects in the SDS, some weaknesses existed to identify and record projects in that system and to ensure that IIJA funds were only used for eligible project costs. Specifically, IHS did not implement controls for identifying which projects to fund based on readiness and did not properly record some projects in the SDS with the required documentation. In addition, we found that ineligible homes were included on projects and recorded as eligible, and not all the necessary information was included in the SDS to support the calculation of eligible and ineligible costs. Finally, we found IHS lacked controls for prorating the eligible and ineligible shares of design and planning costs.

These internal control weaknesses occurred because: (1) IHS funded higher deficiency level Tier 1 projects without regard to project impediments, (2) IHS did not follow procedures established for recording project documentation in the SDS, and (3) IHS's review process failed to detect home eligibility errors. As a result, IHS potentially funded projects that may not be ready for construction for several years, increasing the risk that funds may be lost or misused. In addition, projects selected for funding may not be completed before IIJA funds are exhausted. IHS's lack of documentation may be an indication of insufficient planning, which can cause project delays and setbacks. Finally, the lack of controls ensuring that all necessary eligibility information is included in the SDS and for prorating design and planning costs could lead to IIJA

²⁰ We interviewed officials from both the Alaska Area Office and the Alaska Native Tribal Health Consortium (ANTHC) who fulfill the project manager role for projects. ANTHC is structured similarly to an Area Office, with some deviations.

funds being used to cover ineligible project costs that should have been paid by non-IHS sources.

IHS'S INTERNAL CONTROLS TO IDENTIFY AND RECORD PROJECTS IN THE SANITATION DEFICIENCY SYSTEM COULD BE IMPROVED

We found that IHS did not implement controls for identifying which projects to fund based on readiness and did not always follow its policies and procedures for recording required information in the SDS. However, we found that IHS's controls for tracking projects were adequate.

IHS Did Not Implement Controls To Identify Projects for IJJA Funding

IHS conducted Tribal consultations to solicit input for allocating IJJA funds. As part of the Tribal consultations, Tribal leaders recommended that IHS allocate funds using data in the SDS and prioritize projects ready for immediate construction.²¹ Based on input received, IHS funded all Tier 1 projects with a deficiency level of 2 through 5.²² With remaining funds, IHS also provided funding for planning and design activities to get projects ready for construction.

Historically, annual appropriations for SFC projects were not sufficient to meet all sanitation deficiencies. IHS used the three tiers of project planning and cost estimation and the Area scoring factors as part of determining the priority projects to fund. However, IHS's decision to fund all higher deficiency Tier 1 projects bypassed established controls designed to prioritize projects for available IJJA funding based on readiness. Consequently, IHS funded lower priority Tier 1 projects that may not be ready for construction for several years, including funding subsequent phases of a project before the initial phases had been completed, over higher priority Tier 2 and 3 projects.²³ For example, IHS funded a subsequent phase of a project with estimated total costs of \$12.4 million when the initial phase was not near completion; therefore, the \$12.4 million may remain unused for years before construction can begin.

²¹ The November 16, 2021, SDS listing reported to Congress included 1,513 projects with an estimated eligible project cost of approximately \$3.4 billion. Of the 1,513 projects reported to Congress, 19 projects were not considered in IHS's FY 2022 Spend Plan due to IHS focusing on higher level deficiency projects or because the projects were no longer needed or were funded through other sources. Three new ready-to-fund projects were added to the Spend Plan.

²² Deficiency level 2 relates to needed capital improvements, level 3 relates to a sanitation system that has an inadequate or partial water supply and sewage disposal facility that does not comply with water supply and pollution control laws or has no solid waste disposal system, level 4 relates to a sanitation system that lacks either a safe water supply or sewage disposal system, and level 5 relates to a lack of safe water and a sewage disposal system. See Appendix B for the full deficiency level definitions.

²³ Projects may be separated into smaller phases. Some project phases are dependent on the completion of previous phases such as successive extensions of a community water main. Project phases must be prioritized in the functional order that ensures adequate service is provided for each home in each phase of the project.

IHS leadership has indicated to OIG that the \$3.5 billion appropriated by Congress for SFC projects will likely not be sufficient to cover the intended projects due to the increased cost of materials and difficulty procuring contractor services. By not implementing controls to prioritize the funding of all SFC projects, IHS potentially funded projects that may not be ready for construction for several years. The funds may sit idle, increasing the risk of loss, misuse, and inaccurate cost estimates due to inflation. There is also an increased risk that projects selected for funding may not be completed before IIJA funds are spent down.

IHS's Internal Controls for Recording Projects Had Weaknesses

In general, we found that IHS had designed its internal controls—through established policies and procedures—to record SFC projects and associated documentation in the SDS. However, from our review of sampled SFC projects, we found some instances of control weaknesses, as several SFC projects lacked or had incomplete documentation.

Prior to funding a project, IHS policy requires project planning data to be recorded in the SDS, including Area priority scores allocated to the project, mandatory field information,²⁴ coverage of ineligible costs by non-IHS funding sources,²⁵ and evidence of review at the HQ level to verify that the required information was obtained.²⁶

Project managers record Tribal requests, detailed cost estimates, any funding commitments or Tribal funding proposals, and other supporting information as attachments to the SDS project file.^{27, 28} Project managers also link applicable information from other STARS systems, such as community information from the CDP and information on existing AI/AN people's homes in the HITS. The Equivalent Dwelling Units (EDUs) are identified for each of the homes and establishments within a project, and the project's type of service is assigned to the housing groups indicating water, sewer, solid waste, and operation and maintenance (O&M).²⁹

²⁴ Mandatory information that must be entered into the STARS database to start a project includes community, project name, project number, project purpose, program delivery method, the name of the project engineer, procurement, homes attached to the project, project impact, facility type, cost, and funding source.

²⁵ Section 4(g) and 6(g) of IHS's SDS Guide.

²⁶ Section 2(a) of IHS's SDS Guide.

²⁷ The term "project manager" is used to refer to the individual who has been designated with responsibility and authority for the day-to-day implementation of an SFC project but is not an official position description within the IHS Division of Sanitation.

²⁸ SFC projects in the SDS that are certified by the Area SFC Director as Tier 1 ready to fund include a well-defined scope and detailed cost estimate, which would identify any operation and maintenance costs included.

²⁹ An EDU is the amount of water consumed or waste disposed by a typical full-time single-family residence.

We found that all 30 nonstatistically selected projects had been recorded with: (1) Area priority scores allocated, (2) mandatory field information entered, and (3) evidence of review by cognizant officials. We also found that 29 of the 30 SFC projects had documentation to support the tier level as defined by IHS, such as a well-defined scope and detailed cost estimates (see Appendix B for tier-level requirements).

However, we found that in some cases the SFC projects were not properly recorded in the SDS with the required documentation prior to designating the project as “ready to fund.” Specifically, of the 30 nonstatistically selected SFC projects:

- Ten projects did not include the required request for sanitation facilities from the Tribe in the SDS.³⁰ In some cases the Tribal request had been added to the PDS after the project was funded.
- Eight of eighteen selected Tier 1 construction projects with ineligible costs did not include the written funding commitments or a Tribal funding proposal. Funding contributions from non-IHS sources are required to cover ineligible costs, and documentation should be attached to the SDS project.³¹
- Two projects did not have documented non-IHS funding sufficient to cover the identified ineligible costs.³²
- One project included cost estimates documentation but no other required planning documents, such as a project summary showing sufficient planning and design work, in the SDS to support the designated Tier 1 level.

³⁰ The request for sanitation facilities generally must come from a federally recognized Tribal government to maintain the government-to-government relationship between the Federal Government and Tribes (chapter 5, section I, SFC Criteria). To document Tribal input and participation in the annual SDS data collection process, Areas must include documentation of their annual engagement with Tribes in their SDS submissions to the HQ SFC Program (section 4(a) of the SDS Guide).

³¹ Section 4(g) of IHS’s SDS Guide. IHS’s SDS Guide refers to SFC projects in the SDS as “SDS projects.”

³² Ineligible homes and users may be included in approved IHS projects provided non-IHS funds are contributed to IHS covering the prorated cost of the facilities required to serve them per chapter 5, section I of the Criteria for the SFC Program. The status (or absence) of required funding contributions must be reported in the SDS project listing per section 6(g) of the SDS Guide.

- One project included documentation that showed there was insufficient funding to cover the identified costs, which if accurate would potentially mean needing to reduce the scope or cancel the project if funding is not able to be obtained.³³

Following established procedures to ensure proper recording and maintenance of documentation in the SDS is important to better position IHS to fund the highest priority projects. Insufficient planning or funding can cause project delays and setbacks for providing essential safe water and solid waste systems.

IHS's Controls for Tracking Projects Were Adequate

IHS had controls in place for tracking SFC projects. We found that all 30 nonstatistically selected projects were adequately tracked in the SDS. IHS must maintain inventories of sanitation deficiencies for AI/AN homes and communities, prioritize the deficiencies, and annually report them to Congress. SFC projects are tracked in the SDS until they are funded. Once a project is funded, a file is created in the PDS, where the funding for the project is tracked. We verified that the projects IHS funded in year one of IIJA funding were based on the SDS inventory and tier levels. We also verified that all 30 of the selected SDS projects had an associated PDS project file in which project construction is tracked.

IHS COULD IMPROVE ITS INTERNAL CONTROLS TO ENSURE THAT IIJA FUNDS ARE ONLY USED FOR ELIGIBLE PROJECT COSTS

For the 30 nonstatistically selected projects reviewed, we found gaps in IHS's controls to calculate ineligible costs associated with SFC projects. We also found that IHS did not effectively review the HITS data to validate home eligibility or include all the necessary information in the SDS to support the calculation of eligible and ineligible costs. In addition, we found that IHS lacked controls for prorating the eligible and ineligible shares of Tier 1 design costs and Tier 2 and 3 planning costs, which would ensure IHS is not funding the ineligible portion of the project.

To be eligible for funding under the IIJA, SFC projects must serve eligible homes. Ineligible costs, which are project costs not meeting eligibility requirements, may be included in a project provided they are funded by a non-IHS source.

³³ HQ SFC Program officials explained that the insufficient project funding could have been due to the timing of when the Area updated the estimated costs for inflation, which was after projects were initially reported for the year's funding determination but before they were funded at the original recorded amounts.

During the development stage of a project, IHS must validate the eligibility of homes and users.³⁴ Eligibility is primarily validated using the HITS data. To identify the portion of a project that IHS funding can be used for, the SDS automatically calculates the eligible and ineligible shares of the project based on data entered for each home or user.³⁵ The homes are coded as different home types.³⁶ Additionally, when a home is added to a project from the HITS, specific services³⁷ homes or users are to receive from the project must be selected for them to be included in the calculation of eligible and ineligible costs.

Controls for Validating the Eligibility of Homes Were Not Effective

We found that IHS did not effectively review HITS data to validate the eligibility of homes identified for projects, as required. As a result, ineligible homes were included on projects and documented as eligible. We performed a visual review of satellite maps and determined that 17 of the 30 nonstatistically selected projects included potentially ineligible user categories such as empty lots, vacant buildings, commercial space, or travel trailers. We also found some locations with multiple entries on the map that could indicate duplicate counting because the satellite images of the location did not appear to show a multifamily home such as a duplex or apartment. See Table 2 below for the number of ineligible user categories associated with the 17 projects.³⁸ We shared these potential findings with the Area Offices to obtain their input, and the Area Offices agreed 7 of the 17 projects contained user categories that were not eligible. In some cases, the Area Offices stated that they did not have the capacity to validate the HITS data.

³⁴ The term “users” refers to all homes and system users that receive new or improved water, sewer, or solid waste service as a result of the project.

³⁵ The eligible and ineligible project cost calculation is now done automatically in STARS 2.0; previously, it was done manually.

³⁶ The housing data should account for every AI/AN person affected by the project, regardless of their eligibility. Existing non-Indian homes, community buildings, and other nonresidential units affected by the project should be accounted for in the SDS Homes tab to determine the eligible cost for the project. However, it is not required that these units be represented in the HITS with a geospatial location (Appendix D of IHS’s SDS Guide).

³⁷ The specific services are water, sewer, solid waste, and operations and maintenance.

³⁸ The number of potential errors is greater than 17 because some of the selected projects had more than 1 potential error.

Table 2: 17 Projects With Potential Home Eligibility Errors

User Category	OIG-Identified Number of Projects With Potential Errors
Empty lot	9
Vacant building	7
Commercial space	3
Travel trailer	3
Duplicate entries	10

For example, we identified one project, with total costs of \$11.6 million, that included an ineligible home, two ineligible Tribal buildings, and an ineligible art store.³⁹ The Area Office stated that the ineligible costs associated with this project should have been recorded as \$927,120 in the SDS. However, this project had no ineligible costs recorded in the SDS because the home and buildings were all marked as eligible homes in the HITS.⁴⁰ The Area Office explained that because the project received approximately \$1.7 million of non-IHS funding, IJA funds would not be distributed for any of these newly discovered ineligible costs. The \$1.7 million would cover any ineligible costs identified on this project up to that amount. We found that the HITS data is not adequately reviewed and updated in a timely manner, which is the primary control to ensure that the system data is reliable and for determining the eligibility of homes and users.⁴¹

Controls Were Not Always Effective To Ensure Information Was Entered in the Sanitation Deficiency System To Identify Eligible Tier 1 Construction Project Costs

All necessary information (such as documented explanations of eligibility determinations) supporting the calculation of eligible and ineligible costs for a project was not documented in the SDS. IHS's review process failed to detect the missing data, which could lead to IJA funds being used to cover ineligible project costs that should have been paid by non-IHS sources. We found that for 2 of the 27 Tier 1 construction projects we nonstatistically selected, IHS did not identify specific water and wastewater services related to the ineligible portion of the project. For these two projects, IHS officials told us the homes may have been included for informational purposes, such as an abandoned home, and were not intended to be included when calculating ineligible costs. However, we did not find any documentation supporting that

³⁹ The project with total costs of \$11.6 million was initially included in the Spend Plan with estimated costs of \$8.6 million and is included in Appendix D with this amount. When we discussed this project with the Area Office in 2023, the total cost of the project had increased to \$11.6 million.

⁴⁰ The SDS uses the HITS eligibility data to calculate eligible and ineligible costs for an SFC project.

⁴¹ Projects must be reviewed and updated on a regular basis to ensure that the overall database represents an accurate reflection of the current sanitation facilities need. This includes updates to cost estimates, narratives, Tribal priorities, the HITS data, and other project details. At a minimum, projects within the Area's potential funding range must be updated yearly (section 8(c) of IHS's SDS Guide).

the homes were included for informational purposes. IHS further stated that these two projects may have been data entry errors.

In addition, of the 27 Tier 1 nonstatistically selected projects, 2 projects had designated home type codes that could be ineligible for IJA funding. The two projects contained homes that were coded as “H1,” which designated them as being funded by another Federal agency—the Department of Housing and Urban Development.^{42, 43} Homes coded as H1 and marked as eligible are required to have an explanation in the SDS stating why these homes are being considered eligible.⁴⁴ We could not find an explanation in the SDS for why the H1-coded homes were considered eligible, and IHS stated that the explanations were mistakenly omitted. If these H1 homes were ineligible and included on a project, IJA funds could potentially be used for ineligible costs.

IHS Lacked Controls for Identifying Ineligible Tier 1 Design and Tier 2 and 3 Project Planning Costs

We found, and IHS program officials confirmed, that IHS does not have specific controls in place, such as formal guidance or an established process, to prorate the eligible and ineligible shares of Tier 1 design costs or Tier 2 and 3 planning costs. This proration would determine whether and how much non-IHS funding is needed for a project that includes ineligible homes or users. We also found that Tier 1 design costs (14 nonstatistically selected projects) and Tier 2 and 3 planning costs (3 nonstatistically selected projects) within our sample were not prorated between eligible or ineligible homes or users included on the project. Moreover, we found that all three projects with Tier 2 and 3 planning costs had a formal agreement in place in which IHS funded 100 percent of the project planning even if the projects included ineligible homes.⁴⁵ We noted that IHS's guidance states that the planning project and the construction project will represent the total project effort.⁴⁶ If the Tier 1 design costs and Tier 2 and 3 planning costs are considered part of the total effort for a project, IHS could potentially be using IJA funds to pay for ineligible costs associated with these projects.

⁴² H1 homes are defined as Housing and Urban Development-funded Indian Housing Projects, which are typically ineligible unless the homes did not contribute to the deficiency being addressed. We considered any H1-coded home as being potentially ineligible.

⁴³ One project included 3,297 buildings, of which 598 were coded as H1 homes, and the other project included 838 buildings, of which 274 were coded as H1 homes.

⁴⁴ IHS guidance states that a note should be added in a comment field explaining why H1 designated costs are IHS-eligible (section 4(e)(2) of IHS's SDS Guide).

⁴⁵ Agreements establish a formal government-to-government commitment to deliver the project (section 4.5.2 of the SFC Project Management Guideline). MOAs are the primary means by which IHS obligates appropriations for SFC projects. Most of the projects that provide SFC projects and related services benefiting AI/AN people are funded using an agreement signed by the Tribe and other participants including IHS (chapter 2 of the Indian Health Manual).

⁴⁶ Section 3.5.1 of the SFC Project Management Guideline.

CONCLUSION

A more than fourfold increase in total annual SFC project funding compared to previous years has allowed IHS to fund a greater number of water and waste facility projects for AI/AN people's homes. However, IIJA funds were allocated for Tier 1 projects that may not be ready for construction for several years, increasing the risk of loss, misuse, and inaccurate cost estimates due to inflation. Weaknesses in the controls for recording and ensuring IIJA funds are used only for eligible project costs may potentially lead to the use of IIJA funds for ineligible costs. Specifically, we found that IHS did not implement controls to identify and fund projects based on readiness, or record required project information in the SDS.

In addition, we found errors with how IHS calculated and documented eligible costs for certain projects. Such errors could lead to miscalculating the proration of eligible and ineligible costs for homes and users benefiting from the project. Further, although IHS did have guidance and processes in place to prorate eligible and ineligible Tier 1 construction costs, IHS did not have formal guidance or an established process to prorate the eligible and ineligible shares of Tier 1 design costs or Tier 2 and 3 planning costs; therefore, IHS could potentially be using IIJA funds for ineligible costs. Miscalculations can be further compounded by the weakness in IHS's controls for validating the eligibility of homes. IHS must validate the eligibility of homes and users to accurately identify ineligible project costs. We found that some of the eligible homes in the HITS contained errors and were not being adequately reviewed, and in two of the nonstatistically selected projects we reviewed, we found home type codes that potentially were ineligible without any documented reason as to why they were considered eligible in the SDS. Weaknesses in controls can be magnified and exacerbated when distributing the influx of unprecedented funds to meet the large-scale need. IHS must strengthen its controls to ensure that IIJA funding is only used for eligible project costs.

RECOMMENDATIONS

We recommend that the Indian Health Service:

- consider additional project prioritization procedures to fund the highest priority SFC projects based on readiness,
- reinforce compliance with established procedures for recording and documenting projects in the SDS prior to funding them,
- validate the eligibility of homes and users by regularly reviewing and updating the HITS data,
- strengthen documentation controls to appropriately ensure that all information is entered in the SDS to identify the ineligible portion of Tier 1 construction projects, and

- develop formal guidance for the proration of Tier 1 design costs and Tier 2 and 3 planning costs between eligible and ineligible homes or users.

IHS COMMENTS AND OFFICE OF INSPECTOR GENERAL RESPONSE

In written comments on our draft report, IHS concurred with three recommendations, partially concurred with our fifth recommendation, and did not concur with our first recommendation. IHS detailed steps it has taken and plans to take in response to our recommendations.

We appreciate the actions that IHS indicated it has taken or plans to take to address our recommendations. We maintain that our first and fifth recommendations are valid.

IHS also provided technical comments, which we addressed as appropriate. IHS's comments, excluding technical comments, are included as Appendix E.

IHS COMMENTS

IHS did not concur with our first recommendation that additional prioritization procedures for funding the highest priority SFC projects be considered. IHS stated that additional procedures are not needed because clear guidance and definitions have been established. However, IHS acknowledged that some Areas did not fully follow existing prioritization procedures. IHS also stated that it hired two senior-level experienced engineering staff to assist with the annual SDS review process in an effort to reinforce standards and expectations in adherence to the SDS Guide.

IHS concurred with our second recommendation to reinforce compliance with established procedures for recording and documenting projects in SDS prior to funding them, and it stated that recent IHS Headquarters' reviews of Area data identified similar shortfalls. IHS stated that it strengthened its process for reviewing Area SDS data by hiring two additional staff as noted above, reinforcing Area Directors' roles and responsibilities, issuing interim guidance in March 2025 aimed at improving project information submissions,⁴⁷ and identifying project review focus areas for FY 2026 that incorporate past lessons learned.

IHS concurred with our third recommendation that HITS data should be validated, and it recognized the need for continued reinforcement of standards and expectations in adherence with established procedures.

IHS concurred with our fourth recommendation to strengthen documentation controls to appropriately ensure that all information is entered in the SDS to identify the ineligible portion of Tier 1 construction projects. IHS stated it will modify the SDS guidance to include a

⁴⁷ IHS issued the interim guidance to the Area SFC Directors on Apr. 10, 2025.

requirement that EDU calculations must be included in the project and used to calculate the ineligible portion of all projects in Tiers 1, 2, and 3.

IHS partially concurred with our fifth recommendation to develop formal guidance for the proration of Tier 1 design costs and Tier 2 and 3 planning costs between eligible and ineligible homes and users. IHS stated that it will develop formal guidance for the proration of Tier 1 design costs and Tier 2 and 3 planning costs between eligible and ineligible homes/buildings for projects in non-Indian communities. However, IHS did not believe it is necessary to develop similar guidance for projects in Indian communities. IHS stated that it has long provided technical assistance to Indian communities without requiring a contribution to fund the ineligible share of project costs. IHS also stated that implementing such guidance would create an increased administrative burden on the limited SFC Program staff and would delay the construction of sanitation facilities. IHS added that it has taken action to seek out and develop partnerships with other Federal agencies to support Tier 1 design costs and Tier 2 and 3 planning costs without a need for the distinction covered by this recommendation.

OFFICE OF INSPECTOR GENERAL RESPONSE

Regarding our first recommendation, IHS's current guidance does not address whether subsequent phases of a project should be considered Tier 1, Ready to Fund when initial phases are not near completion, even though the project may meet other funding requirements.⁴⁸ Therefore, we maintain that IHS should consider additional project prioritization procedures as needed to fund the highest priority SFC projects based on readiness.

Regarding our fifth recommendation, IHS did not provide details to support its position that the funding impact of the technical assistance it has long provided to Indian communities was de minimis in nature. Moreover, IHS did not provide support for its position that implementing formal guidance for the proration of Tier 1 design costs and Tier 2 and 3 planning costs between eligible and ineligible homes or users in Indian communities would be an administrative burden or could cause a delay in completing projects. Without this support, we are unable to assess the funding impact of the technical assistance IHS provides to the Indian community for sanitation facility projects, specifically as it relates to the ineligible share of project design and planning costs. It is also unclear how developing additional guidance would be burdensome or potentially cause project delays since IHS is currently working on similar guidance for non-Indian communities. Development of guidance for Indian communities could be incorporated into those efforts. We maintain our recommendation is valid because proration of these costs would help IHS ensure its partners share ineligible project planning costs.

⁴⁸ The SDS Guide states that, "Projects that score in the funding range, but are not yet Ready to Fund should be removed from the range by applying negative points under the Other Considerations factor."

APPENDIX A: AUDIT SCOPE AND METHODOLOGY

SCOPE

Our audit covered 644 projects funded under the IIJA from November 15, 2021, through September 30, 2022 (audit period). We conducted interviews with officials from the IHS Division of Sanitation HQ and the 12 IHS Area Offices.⁴⁹ We obtained the SDS data from IHS and nonstatistically selected 30 SFC projects for review. We reviewed documentation supporting the identification, recording, and tracking of each project, as well as documentation supporting the calculation of eligible costs.

We determined that IHS's control environment, risk assessment, control activities, information and communication, and monitoring were significant to our audit objective. We assessed the design and implementation of IHS's internal controls related to sanitation projects funded under the IIJA during our audit period. We met with IHS staff to gain an understanding of IHS's organizational structure, responsibilities, and operating procedures. We also reviewed IHS's documented process for identifying, recording, and tracking projects as well as ensuring IIJA funds are only used for eligible costs. We spoke with HQ and Area Office staff to determine the effectiveness of communication within IHS.

We conducted our audit from August 2022 through February 2025.

METHODOLOGY

To accomplish our objective:

- We reviewed applicable Federal laws, regulations, and guidance.
- We reviewed the Green Book components and principles to determine their significance to our audit objective.
- We identified systems in place, such as the SDS for managing SFC projects.
- We interviewed officials from HQ and Area Offices to gain an understanding of the controls related to SFC Program processes and the use of the SDS and STARS for managing SFC projects.
- We obtained IHS's FY 2022 Spend Plan to identify the projects that were funded with IIJA funds.

⁴⁹ We interviewed officials from both the Alaska Area Office and the Alaska Native Tribal Health Consortium (ANTHC), who fulfill the project manager role for projects. The ANTHC is structured similarly to an Area Office, with some deviations.

- We nonstatistically selected 30 SFC projects in the SDS with planned allocations for IJJA funding, which included 21 projects with ineligible costs that would need to be covered by non-IHS funding sources. Specifically, we selected the top 2 Tier 1 projects by project cost from each of the 12 Areas (24 projects) and projects based on number of homes served (3 projects), as well as Tier 2 or 3 projects (3 projects).
- For each of the 30 selected SFC projects, we reviewed:
 - information entered and documentation attached in the SDS and the PDS supporting the identification, tracking, and recording of projects and
 - documentation within the SDS supporting the calculation of eligible costs, including EDU values and support of eligible homes identified in the HITS.
- We discussed the results of our audit with IHS officials.

We conducted this performance audit 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 based on our audit objectives.

APPENDIX B: SANITATION FACILITIES CONSTRUCTION PROJECT PRIORITIZATION FACTORS

TIER LEVELS

For the purposes of listing projects in the SDS, IHS established three tiers of project planning and cost estimation. Tier 1 projects require: (1) a well-defined scope; (2) a detailed cost estimate; (3) that foreseeable risks to construction, operation, and maintenance are identified and addressed; and (4) that sufficient planning and design work is complete and documented such that plans and specifications can be created without delay once the project is funded.

Tier 1 projects have a cost estimate accuracy goal of +/- 10 percent and are ready to be funded.

Tier 2 projects require a level of assessment such that the deficiency is understood and a recommended solution has been analyzed and scoped, while some details may need to be resolved. Tier 2 projects have been assessed by an engineer but have an accuracy goal that is +/- 25 percent and are not ready to be funded.

Tier 3 projects should demonstrate that an eligible deficiency has been identified, but the Area may not have determined the recommended solution. Tier 3 projects have been preliminarily assessed and have a cost estimate based upon the available information at the time of submission.

DEFICIENCY LEVELS

A deficiency level, assigned to each project in the SDS, is a numeric categorization depicting the magnitude of the facility's sanitation deficiency. The project's deficiency level is determined by examining the impact the installed facilities will have on the homes included in the project. Deficiency levels range from 0 to 5, with 5 being the highest priority, as follows:

- Level 0: No deficiencies to correct.
- Level 1: An Indian Tribe or community with a sanitation system that complies with all applicable water supply and pollution control laws, and in which the deficiencies relate to routine replacement, repair, or maintenance needs.
- Level 2: An Indian Tribe or community with a sanitation system that complies with all applicable water supply and pollution control laws, and in which the deficiencies relate to capital improvements that are necessary to improve the facilities to meet the needs of such Tribe or community for domestic sanitation facilities.
- Level 3: An Indian Tribe or community with a sanitation system that has an inadequate or partial water supply and a sewage disposal facility that does not comply with

applicable water supply and pollution control laws, or that has no solid waste disposal facility.

- Level 4: An Indian Tribe or community with a sanitation system that lacks either a safe water supply system or a sewage disposal system.
- Level 5: An Indian Tribe or community that lacks a safe water supply and a sewage disposal system.

AREA PRIORITY SCORES

IHS prioritizes projects in the SDS based on eight scoring factors: (1) health impact, (2) project deficiency level, (3) adequate previous service, (4) capital cost, (5) local Tribal priority, (6) O&M capability, (7) contributions, and (8) other considerations. Each Area's proposed projects must be prioritized based on the scoring of these factors. The higher the score, the higher the priority the project will be to receive funding for an Area.

FEASIBILITY STATUS

IHS categorizes projects in the SDS as economically feasible or infeasible. For a project to be economically feasible, it must meet an eligible unit cost per home that is unique to each Area and type of project. This allowable unit cost is based on the eligible cost of the project divided by the number of eligible homes the project is serving. If the allowable unit cost exceeds the allowable unit cost for an Area, the project will be found to be economically infeasible.

APPENDIX C: FEDERAL CRITERIA RELATED TO THE SANITATION FACILITIES CONSTRUCTION PROGRAM

FEDERAL LAWS

Infrastructure Investment and Jobs Act

The IIJA, P.L. No. 117-58, Title VI, 135 Stat. 1411 (Nov. 15, 2021), appropriated \$700 million in each fiscal year from FY 2022 through FY 2026, for a total of \$3.5 billion for the SFC Program. These resources are available until expended. The Act further states that up to 3 percent of the amounts made available in each FY shall be for salaries, expenses, and administration, and one-half of 1 percent of the amounts made available shall be transferred to HHS-OIG for oversight of funding provided to HHS.

Sanitation Statutes

The Indian Health Care Improvement Act at 25 U.S.C. 1632(b)(1) states the primary responsibility and authority of IHS to provide the necessary sanitation facilities and services as provided in 42 U.S.C. 2004a. These include authorization to construct, improve, extend, or otherwise provide and maintain, by contract or otherwise, essential sanitation facilities, including domestic and community water supplies and facilities, drainage facilities, and sewage and waste disposal facilities, together with necessary appurtenances and fixtures, for Indian homes, communities, and lands.

The Secretary shall submit to the President, for inclusion in each report required to be transmitted to Congress, a report that sets forth: (1) IHS's current Indian sanitation facility priority system, (2) the level of sanitation deficiency for each sanitation facilities project of each Indian Tribe or community, and (3) the amount of funds necessary to raise all Indian Tribes and communities to zero sanitation deficiency (25 U.S.C. 1632(g)).

In support of contributions from non-IHS sources, the Indian Sanitation Facilities Act at 42 U.S.C. 2004a(a)(3) further states that the Surgeon General is authorized to make arrangements and agreements with appropriate public authorities and nonprofit organizations or agencies and with the Indians to be served by such sanitation facilities (and any other person so served) regarding contributions toward the construction, improvement, extension, and provision thereof.

Federal statute requires IHS to consult with and encourage the participation of Tribes served by SFC projects and to determine the sanitation needs of each Tribe (42 U.S.C. 2004a(c) and 25 U.S.C. 1632(g)(2)).

IHS POLICIES AND PROCEDURES

IHS has numerous policies and procedures governing the SFC Program, including: (1) the SDS Guide, dated September 2019, which provides guidance for reporting sanitation deficiencies of AI/AN people's homes and communities; (2) criteria for the SFC Program (SFC Criteria), dated March 2003, which sets the policies, procedures, and legal requirements for the SFC Program; and (3) the Project Management Guideline for the SFC Project Management Program, dated December 2019, which provides a framework for the development and execution of projects that incorporates formal project management concepts.

IHS Guidance Relevant To Identifying, Recording, and Tracking Projects

IHS guidance states that a "reportable project" is included in the annual SDS report to Congress. To be considered reportable, the project must serve eligible Tribal homes for which the existing deficiencies and the proposed facilities are allowed according to set criteria. A project determined to be nonreportable will be excluded from the SDS report to Congress, will not be eligible for funding, and will not be incorporated into the Regular Funds allocation formula. Projects will be considered nonreportable if any or all of the following conditions apply: (1) the project does not contain the HITS data, (2) the project does not serve any eligible homes, (3) the project does not include any eligible costs (e.g., O&M costs only), or (4) the project deficiency level is 0 (section 8(o), SDS Guide).

IHS guidance states that all IHS Areas, regardless of their SFC Program delivery method, are required to report project information in the SDS in accordance with the guidelines outlined in the SDS Guide. IHS guidance further states that the Area's SDS project information is reviewed by the HQ SFC Program to ensure consistency with these guidelines, and feedback is provided to the Areas where additional information is needed (section 2(a), SDS Guide).⁵⁰

The principal components of an SDS project include project name; community location; Tribe name; existing deficiency; the number, type, and location of homes; primary project purpose; proposed facilities; project deficiency level; cost; funding sources; economic feasibility; rating scores; and if ready to fund. Through the information provided and the supporting documentation attached, projects entered in the SDS by Area staff must demonstrate the planning and analysis that was carried out to identify the deficiency and design the facilities to address those deficiencies (section 2(b), SDS Guide).

IHS guidance states that the request for sanitation facilities generally must come from a federally recognized Tribal government in keeping with the government-to-government relationship between the Federal Government and Tribes (chapter 5, section I, SFC Criteria).

IHS guidance also states that to document Tribal input and participation in the annual SDS data collection process, Areas must include documentation of their annual engagement with Tribes

⁵⁰ IHS's SDS Guide refers to SFC projects in the SDS as "SDS projects."

in their SDS submissions to the HQ SFC Program. The specific processes will be dependent on the policies and needs of the Areas and individual Tribes. If the Area's Tribes assign priorities to their projects, documentation of Tribal engagement can be demonstrated by the written confirmation (e.g., letter or email) provided by a designated Tribal official or governing body indicating the Tribe's priorities for the annual project submission. Tribes may decline to assign priority points. In these situations, documentation of the Tribe's participation and input (e.g., a memo from IHS staff summarizing a Tribal review meeting) shall be included with the Area's SDS submission in lieu of priority assignments (section 4(a), SDS Guide).

IHS guidance states that funding contributions from non-IHS sources are required to cover the proportional share of ineligible homes and establishments that benefit from the project; otherwise, the project cannot be considered ready to fund. The status (or absence) of required funding contributions must be reported in the SDS project listing. A written Tribal funding proposal that describes the expected timeline of funding contributions from all parties is sufficient to mark initial SDS project submissions as ready to fund. The funding sources and likelihood of contribution should be clearly identified in the Cost tab of the SDS projects and described in the Proposed Facilities narrative. Documentation of funding commitments should be attached to the SDS project. IHS guidance further states that prior to any obligation of IHS funds, contributions must be fully committed by all parties. If contributions are not committed, IHS will not obligate any funding, and the project will remain in the SDS inventory until such time as the contributions are available (sections 4(g) and 6(g), SDS Guide).

Other non-AI/AN people, organizations, or enterprises may also be included in approved IHS projects provided they contribute funds to IHS to cover the prorated cost of the facilities required to serve them (chapter 5, section I, SFC Criteria). IHS guidance further states that the status (or absence) of required funding contributions must be reported in the SDS project listing (section 6(g), SDS Guide).

IHS guidance states that the national SDS "snapshot" taken in the final quarter of the calendar aggregates the 12 Area SDS project priority lists, and economically feasible projects on these lists become the Agency Funding Plan for the following year (section 2(a), SDS Guide).

IHS Guidance Relevant to Ineligible Project Costs

When prorating project costs, the IHS funding amount entered into the SDS is calculated based on the total project cost, less the prorated costs for all the commercial, industrial, governmental, and institutional establishments benefiting from the proposed facilities, and less the prorated costs for all services to the non-Indian homes, nonresidential users, and State or remote housing units benefiting from the proposed facilities. In no case should funding appropriated to SFC be used to provide service to ineligible homes or users (section 4(g), SDS Guide).

The Memorandum of Agreement (MOA) Guideline notes that some planning activities, such as the purchase of materials or aerial photography services, do not require the prior execution of

an MOA. The majority of planning tasks fall into one of the three categories identified in the MOA Guideline that require an MOA to obligate funds: (1) funds being contributed from one governmental entity to another; (2) activities requiring Tribal involvement; or (3) activities requiring use of Tribal lands, facilities, or equipment (section 3.5, Project Management Guideline).

Combined, the PDS planning project and the SDS construction project will represent the total project effort. As construction costs are better defined during the planning and design phase, the SDS construction project will be updated accordingly (section 3.5.1, Project Management Guideline).

IHS guidance states that when identifying sanitation deficiencies, the population demographics and number of eligible versus ineligible users within the community must be accurately known (section 3, SDS Guide). IHS guidance further states that projects must be reviewed and updated on a regular basis to ensure that the overall database represents an accurate reflection of the current sanitation facilities' needs, including the HITS data (section 8(c), SDS Guide). The HITS data supporting an SDS project must be accurate and must be reviewed on a regular basis to determine if any changes have occurred (section 3, SDS Guide).

IHS guidance includes the following eligibility requirements for SDS projects:

- IHS sanitation services are eligible for any member of a federally recognized Tribe, band, group, or community of AI/AN people, provided they are within the scope of the IHS health care program.⁵¹ Eligibility is also extended to certain unaffiliated California Indians (also covered in Federal statutes 25 U.S.C. 5131 and 25 U.S.C. 1679) (chapter 5, section I, SFC Criteria).
- IHS projects that also service non-Indians must be primarily for the benefit of Indian homes. IHS may provide funds to construct upgrades to existing community water supply and waste disposal facility for predominately non-Indian communities (less than 50 percent eligible Indian population) with a total population of less than 10,000 people (chapter 5, section V, SFC Criteria, and section 4(g), SDS Guide).
- IHS funds sanitation facilities to serve homes only. Homes are defined as 24-hour year-round family dwellings (chapter 5, section III, SFC Criteria).
- IHS does not provide funds to serve commercial, industrial, or agricultural establishments, including office buildings, nursing homes, health clinics, schools,

⁵¹ Individuals are within the scope of the IHS health program by not otherwise being excluded by provision or law and who are an AI/AN person or eligible non-Indian. Eligible non-Indians include individuals such as dependents of AI/AN people, individuals pregnant with an eligible AI/AN child, individuals in eligible households where the medical officer determines services are necessary, and other individuals authorized for limited services.

hospitals, and hospital quarters, with SFC funds (chapter 5, section III, SFC Criteria, and section 4(b), SDS Guide).

- Mobile homes may be served if they are permanently located, owned by, or rented to Indians; in sound condition; and the trailer court is a nonprofit operation. IHS may not serve travel trailers (chapter 5, section III, SFC Criteria).
- Tribally owned houses rented or leased to Indians are eligible provided that the primary purpose is not to produce a profit. Indian-owned homes leased to Indians are eligible provided the time remaining on the lease is at least 5 years and the lease price is not increased because of the newly installed facilities. Indian homes leased to non-Indians are not eligible. Non-Indian owned homes are ineligible even if rented to an Indian family (chapter 5, section III, SFC Criteria).
- The SFC Program may provide sanitation facilities to eligible people on or near Indian reservations, but only in counties labeled as an IHS Contract Health Services Delivery Area (chapter 5, section I, SFC Criteria, and section 4(c), SDS Guide). (Also covered in Federal statutes 25 U.S.C. 5131 and 87 FR 22917.)
- None of the funds appropriated to IHS may be used for sanitation facilities for new homes funded with grants by the housing programs of the Department of Housing and Urban Development.⁵² When an SDS project is identified to correct deficiencies in sanitation facilities serving Department of Housing and Urban Development homes managed by a Tribally Designated Housing Entity, if those homes contributed to the sanitation deficiency when they were built, then non-IHS funding is required for a pro-rata portion of the cost of the project serving those homes (chapter 5, section IV, SFC Criteria, and section 4(e), SDS Guide). If the homes did not contribute to the deficiency and are considered eligible, the reason should be noted in the SDS project (section 4(e)(2), SDS Guide).

⁵² Homes that were originally funded by the Department of Housing and Urban Development but have since been conveyed in ownership to the homeowner are treated as eligible homes if the home and occupant are otherwise eligible.

APPENDIX D: NONSTATISTICALLY SELECTED PROJECTS

Area Office	State	Deficiency Type	Project Tier	Total Eligible Cost	Total Ineligible Cost	Total Cost
Albuquerque	NM	Sewer	1	\$14,639,100	\$325,800	\$14,964,900
California	CA	Sewer	2	13,347,450	1,483,050	14,830,500
Alaska	AK	Sewer	1	10,510,501	759,886	11,270,387
Oklahoma	OK	Sewer	1	4,699,000	5,325,000	10,024,000
California	CA	Sewer	1	6,042,800	-	6,042,800
California	CA	Sewer	1	3,925,016	2,042,284	5,967,300
Albuquerque	NM	Sewer	1	5,401,800	-	5,401,800
Bemidji	WI	Sewer	1	2,960,000	858,000	3,818,000
Billings	MT	Sewer	1	985,125	1,641,875	2,627,000
Great Plains*	ND	Sewer	1	57,800	1,387,200	1,445,000
Tucson	AZ	Sewer	1	664,000	-	664,000
Alaska	AK	Solid Waste	1	8,929,636	2,928,283	11,857,919
Great Plains	SD	Solid Waste	1	4,496,000	1,124,000	5,620,000
Great Plains [†]	ND	Solid Waste	1	2,044,800	85,200	2,130,000
Nashville	NY	Water	1	21,004,000	3,501,000	24,505,000
Portland	OR	Water	1	13,601,000	10,262,000	23,863,000
Nashville	NY	Water	1	20,985,824	-	20,985,824
Portland	WA	Water	3	13,376,759	2,997,385	16,374,144
Oklahoma	OK	Water	1	2,335,000	7,563,000	9,898,000
Navajo	AZ	Water	1	6,504,000	-	6,504,000
Portland	WA	Water	1	3,324,440	2,612,060	5,936,500
Great Plains	SD	Water	1	3,696,500	1,739,500	5,436,000
Phoenix	AZ	Water	1	2,579,571	198,429	2,778,000
Billings	WY	Water	1	574,000	574,000	1,148,000
Tucson	AZ	Water	1	900,000	-	900,000
Alaska	AK	Water and Sewer	2	54,149,733	9,007,421	63,157,154
Navajo	AZ	Water and Sewer	1	12,431,000	-	12,431,000
Phoenix	AZ	Water and Sewer	1	8,610,000	-	8,610,000
Bemidji	MN	Water and Sewer	1	1,593,000	118,000	1,711,000
Alaska*	AK	Water and Sewer	1	190,000	-	190,000
Total Estimated Costs as of the FY 2022 Spend Plan				\$244,557,855	\$56,533,373	\$301,091,228

* These two projects were selected because each included only one eligible home.

[†] This project was selected because it had 3,177 eligible homes, the highest number of all the projects in our audit population that also had ineligible costs.

APPENDIX E: IHS COMMENTS



DEPARTMENT OF HEALTH & HUMAN SERVICES

Public Health Service

Indian Health Service
Rockville MD 20857

DATE: March 18, 2025

TO: Amy J. Frontz, Deputy Inspector General for Audit Services

FROM: Acting Director

SUBJECT: Indian Health Service Response to Office of Inspector General Draft Report:
Indian Health Service's Controls Over Sanitation Facilities Construction Program Projects Funded Under the Infrastructure Investment and Jobs Act Could Be Improved, A-05-22-00021, dated February 14, 2025

We appreciate the opportunity to provide our official comments on the draft Office of Inspector General (OIG) report titled, *OIG Draft Report: Indian Health Service's Controls Over Sanitation Facilities Construction Program Projects Funded Under the Infrastructure Investment and Jobs Act Could Be Improved*, A-05-22-00021. The Indian Health Service (IHS) concurs with three recommendations, non-concurs with one recommendation, and partially concurs with one recommendation.

OIG Recommendation No. 1: The IHS non-concurs with this recommendation.

OIG recommends the Indian Health Service consider additional project prioritization procedures to fund the highest priority SFC projects based on readiness.

Discussion:

The IHS has considered this recommendation and concluded that additional project prioritization procedures are not needed. The IHS has established clear guidance and definitions on individual project scoring factors and three tiers of overall project readiness-to-fund in the 2019 Sanitation Deficiency System (SDS) Guide. The IHS established the SDS project Tier system when revising the 2019 SDS Guide, in consultation with American Indian and Alaska Native Tribes, for the purpose of identifying and prioritizing the funding of projects based on a project's readiness to receive construction funds.

The IHS followed this prioritization system in selecting Tier 1 projects that were included in this audit to fund for construction over Tier 2 or 3 projects. Section 8a of the SDS Guide provides a clear definition and standard for Tier 1, Ready to Fund projects.

Ready to Fund projects can stand on the information submitted and attachments included in SDS and will allow a peer reviewer to fully understand its scope and impacts. SDS projects that are certified by the Area SFC Director as Ready to Fund have the following:

- *a well-defined scope,*

- *a detailed cost estimate,*
- *foreseeable risks to construction, operation, and maintenance are identified and addressed, and*
- *sufficient planning and design work is complete (and appropriately documented) such that plans and specifications can be created without delay once the project is funded.*

Only SDS projects that are certified by the Area SFC Director as Ready to Fund should be included in the Area's potential funding range, defined as 125% of the previous year's total funding allocation (including contributed funds). A checkbox is provided within the Project Details tab of the SDS project to allow the Area SFC Director to make this designation.

When the IHS made the decision to fund these projects, the IHS fully expected Tier 1 projects to move forward rapidly through final design and into construction. However, in the first year of the Infrastructure Investment and Jobs Act (IIJA) implementation (i.e., Fiscal Year (FY) 2022), some Tier 1 projects that were certified as Tier 1 by the Area SFC programs did not meet the above SDS Guide standard for Tier 1. Although the IHS had procedures in place to prioritize projects, they were not fully followed by all of the IHS Areas.

Having previously recognized the need for continued reinforcement of standards and expectations in adherence to the SDS Guide, the IHS increased the capacity of Headquarters to review Area project data and perform SDS oversight. Specifically, in 2024, the IHS hired two additional senior-level, experienced engineering staff in the Headquarters' SFC program to support IIJA project implementation and assist in the annual SDS review process. Adding these two staff increased the IHS Headquarters' ability to perform program oversight, including review of Tier 1 projects submitted by the IHS Areas.

OIG Recommendation No. 2: The IHS concurs with this recommendation.

OIG recommends the Indian Health Service reinforce compliance with established procedures for recording and documenting projects in the SDS prior to funding them.

Discussion:

As noted in the discussion above regarding **OIG Recommendation No. 1**, the IHS recognizes that in the first year of IIJA implementation some Tier 1 projects that were certified as Tier 1 by the Area SFC programs did not meet the SDS Guide standard for Tier 1.

Recent IHS Headquarters' reviews of the Area SDS data identified similar shortfalls, which was also noted by the OIG, including lack of or incomplete documentation supporting Ready to Fund Tier 1 projects and demonstrating a written funding commitment or a Tribal funding proposal to cover ineligible construction costs.

The IHS has significantly strengthened the annual Headquarters review of the Area SDS data process by hiring two senior engineers at the Headquarters SFC program. The IHS is taking additional actions to reinforce compliance with the SDS guidance, as described below.

1. To ensure SDS data quality, IHS Headquarters SFC leadership reinforced SFC Area Directors' roles and responsibilities at the annual SFC Directors meetings on February 24-27, 2025, where Headquarters established a firmer position and greater expectations for Area adherence with the SDS Guide.
2. Issuance of an Interim Guidance Memo before the end of March 2025, will clarify and provide additional guidance supplementing the 2019 SDS Guide. The memo will include modifications to the SDS Guide targeted at improving SDS project information submissions, including a requirement to attach project calculations that show how eligible and ineligible pro-rata construction cost shares were derived based on Equivalent Dwelling Units (EDU). Also, a requirement that the Area SFC Director submit a signed transmittal memo certifying projects have sufficient planning and preliminary engineering completed to be classified as Ready to Fund (Tier 1).
3. Issuance of the annual data quality memo before the end of March 2025, that identifies specific lessons learned from the SDS project review and priority focus areas for FY 2026. This memo will list ten common issues identified by IHS Headquarters during the FY 2025 SDS review and provide directions to address them during the FY 2026 SDS season. These lessons include a lack of adequate Preliminary Engineering Reports or other technical documentation to justify Ready to Fund (Tier 1) projects, a lack of appropriate documentation to justify the need for planning funds for Tier 2 projects, and not verifying Home Inventory Tracking System (HITS) homes on projects prior to data submission.

OIG Recommendation No. 3: The IHS concurs with this recommendation.

OIG recommends the Indian Health Service validate the eligibility of homes and users by regularly reviewing and updating the HITS data.

Discussion:

The IHS agrees that HITS data should be validated. The IHS has established clear guidance and expectations for Area SFC programs to follow in the 2019 SDS Guide, to ensure the quality and reliability of HITS home data.

Section 3, Page 5: SDS projects must have all of the existing AI/AN homes that will benefit from the project identified in HITS and linked to the project. The HITS data supporting an SDS project must be accurate and must be reviewed on a regular basis (See Section 8c) to determine if any changes have occurred.

Section 8c, Project Update Frequency, Page 35: Projects must be reviewed and updated on a regular basis to ensure that the overall database represents an accurate reflection of the current sanitation facilities need. This includes updates to cost estimates, narratives, tribal priorities, HITS data, and other project details. At a minimum, projects must be

updated in accordance with the frequencies outlined in Table 7 below (refer to Section 6b for a description of the project planning tier categories).

Table 7: Project Update Frequency

<i>Minimum Update Frequency</i>	<i>Project Type</i>
<i>Yearly</i>	<ul style="list-style-type: none"> • <i>All projects within the Area's potential funding range (i.e. Tier 1 projects, based on 125% of the previous year's IHS Regular and contributed funds received)</i> • <i>All Tier 2 projects with a project Deficiency Level of 3, 4, or 5</i>
<i>Every 3 years</i>	<ul style="list-style-type: none"> • <i>All Tier 2 projects with a project Deficiency Level of 2 or 1</i>
<i>As needed</i>	<ul style="list-style-type: none"> • <i>All Tier 3 projects</i>

Additionally, the Indian Health Care Improvement Act requires the IHS to prepare an annual report to Congress on the sanitation facilities needs of American Indian and Alaska Native Tribes and communities. In preparing the report, the IHS:

"... shall consult with Indian tribes and tribal organizations (including those tribes or tribal organizations operating health care programs or facilities under any contract entered into with the Service under the Indian Self-Determination Act [25 U.S.C. 450f et seq.]) to determine the sanitation needs of each tribe."

Therefore, the requirement to understand the exact status of all housing units occupied across all American Indian and Alaska Native Tribes is not solely the responsibility of the IHS Sanitation Facilities Construction Program staff.

The IHS recognizes the need for continued reinforcement of standards and expectations in adherence to the SDS Guide. The actions discussed above regarding OIG Recommendations Nos. 1 and 2 will help to ensure the validity of HITS data and that it is regularly reviewed and updated.

OIG Recommendation No. 4: The IHS concurs with this recommendation.

OIG recommends the Indian Health Service strengthen documentation controls to appropriately ensure that all information is entered in the SDS to identify the ineligible portion of Tier 1 construction projects.

Discussion:

The IHS has established clear guidance and expectations for Area SFC programs to follow to document construction projects. The 2019 SDS Guide requires that quality and reliable data be associated with ineligible homes and associated costs, and that documentation be provided to reinforce the data. However, to address this recommendation, the IHS will modify the SDS

guidance on Ready to Fund Section 8a to include a requirement that EDU calculations must be included in the project and used to calculate the ineligible portion of all projects in Tiers 1, 2, and 3. This update will be included in an Interim Guidance Memo that will clarify and provide additional guidance supplementing the 2019 SDS Guide.

OIG Recommendation No. 5: The IHS partially concurs with this recommendation.

OIG recommends the Indian Health Service develop formal guidance for the proration of Tier 1 design costs and Tier 2 and 3 planning costs between eligible and ineligible homes or users.

Discussion:

The IHS will develop formal guidance for the proration of Tier 1 design costs and Tier 2 and 3 planning costs between eligible and ineligible homes/buildings for projects that provide improvements to sanitation facilities in non-Indian communities. A non-Indian community is defined in SFC Program guidelines as a community in which 50 percent or less of the federally recognized American Indian and Alaska Native people can be provided assistance using IHS sanitation facilities construction funds.¹

The IHS will issue an Interim Guidance Memo by June 2025 that describes the proration of Tier 1 design costs and Tier 2 and 3 planning costs between eligible and ineligible homes/buildings for projects that provide improvements to sanitation facilities in non-Indian communities.

The IHS does not believe it is necessary to develop formal guidance for the proration of Tier 1 design costs and Tier 2 and 3 planning costs between eligible and ineligible homes or users for projects that provide improvements to sanitation facilities in Indian communities. An Indian community is defined in SFC Program guidelines as a community in which 50 percent or greater of the federally recognized American Indian/Alaska Native people can be provided assistance using IHS sanitation facilities construction funds.²

As part of the SFC Program administration authorized under P.L. 86-121, the SFC Program has long provided technical assistance to Indian communities with SFC Program-paid staff without requiring a contribution for an ineligible program funding share. The IHS considers the level of funding this recommendation would impact as de minimis and needing to implement such a guideline change would create an increased administrative burden on the limited SFC Program staff that has been noted by the OIG.³ Additionally, this requirement would delay the development of projects to a Tier 1 Ready to Fund, further delaying the construction of sanitation facilities needed by American Indian and Alaska Native Tribes.


¹ Criteria for the Sanitation Facilities Construction Program, Chapter 5, Section V, page 7: Sanitation Facilities for Homes in Non-Indian Communities.

² Criteria for the Sanitation Facilities Construction Program, Chapter 5, Section V, page 7: Sanitation Facilities for Homes in Non-Indian Communities.

³ Staffing Shortages Limited IHS's Capacity to Effectively Administer Much-Needed Sanitation Projects Funded by the Infrastructure Investment and Jobs Act (OEI-06-24-00010).

The IHS has already taken action to seek out and develop partnerships with other Federal agencies including the Environmental Protection Agency and the Bureau of Reclamation to support Tier 1 design costs and Tier 2 and 3 planning costs without a need for the distinction covered by this recommendation.

Thank you for the opportunity to review and comment on this draft report. Please refer any follow-up questions regarding our comments to Mr. Corbrett Hodson, Director, Division of Compliance, by email at Corbrett.Hodson@ihs.gov.

Phillip B. Smith -S  Digitally signed by Phillip B.
Smith -S
Date: 2025.03.18 17:01:13 -04'00'

P. Benjamin Smith, M.B.A, M.A.
Acting Director

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Office of Inspector General
Public Affairs
330 Independence Ave., SW
Washington, DC 20201

Email: Public.Affairs@oig.hhs.gov