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2/15/78

More Effective Controls over Bureau of Indian Affairs: Administrative Costs Are Needed. PGHSD-78-17; B-114'68. February 15, 1978. Released February 27, 1978. 35 pp.

Report to Sen. Robert C. Byrd, Chairman, Senate Committee on Appropriations: Interior Subcommittee; by Elmer B. Staats, Comptroller General.

Issue Area: Accounting and Financial Reporting (2600).  
Contact: Financial and General Management Studies Div.  
Budget Function: General Government: Central Fiscal Operations (803).

Organization Concerned: Bureau of Indian Affairs; Department of the Interior.

Congressional Relevance: Senate Committee on Appropriations: Interior Subcommittee. Sen. Robert C. Byrd.

Authority: Budget and Accounting Procedures Act of 1950.

The Bureau of Indian Affairs was asked by congressional committees to reduce costs of administering Indian programs for fiscal years (FYs) 1977 and 1978 by about \$8.5 million because evidence suggested that costs were excessive.

Findings/Conclusions: BIA reduced costs by about \$900,000 and then, rather than reduce the remaining administrative costs as directed, it reduced funds for Indian programs. It also avoided reductions in administrative costs by such actions as: netting the reduction against other program costs and allocating them to the many BIA offices without identifying the amount of reduction; reducing funds for computer operations and recovering funds by receiving reimbursement from Indian programs for services; and failing to reduce personnel, claiming that reductions would have prevented it from providing essential services. BIA's arguments for maintaining its administrative costs level are inconsistent with audit report disclosures that shortcomings in personnel organizations' operating budgets to management and other adverse conditions have resulted in unnecessarily high costs. Weaknesses in the Bureau's financial management system prevented it from controlling costs effectively and contributed to its high administrative costs.

Recommendations: Congress should exercise better controls over BIA's administrative costs by changing its method of appropriating funds for this purpose, using either separate appropriations or a dollar limitation, and should also specify amounts for personnel costs. If either of these recommendations is adopted, the Secretary of the Interior should require BIA to change its budgets and related justifications to show total administrative costs and personnel by specific offices and program category. He should also direct BIA to: revise its accounting system to use its organizations' operating budgets to control costs and prevent unauthorized deviations from operating budgets, establish fund controls that will keep area

offices within amounts budgeted and require prior approval for significant deviations, act immediately to reduce its administrative costs for FY 1978 by the \$4 million requested by the committees, discontinue plans to show reimbursement for computer operations as reductions in administrative costs, and identify and eliminate overlapping positions and unqualified personnel. (HTE)

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## **REPORT OF THE COMPTROLLER GENERAL OF THE UNITED STATES**

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# **More Effective Controls Over Bureau Of Indian Affairs Administrative Costs Are Needed**

This report to the Subcommittee on the Department of the Interior and Related Agencies, Senate Committee on Appropriations, discusses actions of the Bureau of Indian Affairs to reduce funds for Indian programs by about \$7.6 million in fiscal years 1977 and 1978 rather than reduce its administrative costs as directed by congressional committees. It also identifies conditions, including the present appropriation procedure, which enable the Bureau to avoid reductions by committees.

A separate appropriation or a limitation in the appropriation for the Bureau's administrative costs—now averaging over \$170 million a year—is recommended. The report also calls attention to weaknesses in the Bureau's financial system, and contains specific recommendations to correct them.



COMPTROLLER GENERAL OF THE UNITED STATES  
WASHINGTON, D.C. 20548

B-114868

The Honorable Robert C. Byrd  
Chairman, Subcommittee on the Department  
of the Interior and Related Agencies  
United States Senate

Dear Mr. Chairman:

This report is one of a series responding to your August 9, 1977, request for us to comprehensively review the Bureau of Indian Affairs' programs and operations. It relates specifically to the part of your request for information on the Bureau's total administrative costs and for an evaluation of the effectiveness of congressional and Bureau controls over such costs.

The report points out that the Bureau's administrative costs are much greater than previously disclosed to the appropriations committees. It also discusses the Bureau's efforts to reduce the 1977 and 1978 budgets which were inconsistent with congressional committee instructions.

The report contains specific recommendations to eliminate conditions and system weaknesses that prevent the Congress from effectively controlling the Bureau's administrative costs. Most of the recommendations are directed to the Secretary of the Interior, but the more important one--providing a separate appropriation or a limitation on the Bureau's administrative expenses--is directed to your office.

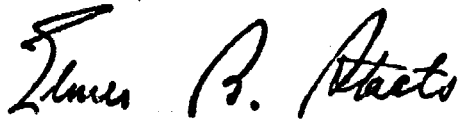
We believe that our recommendations, when implemented, will provide the Congress with more control over the Bureau than we normally suggest. This greater degree of control, in our opinion, is warranted because of the way the Bureau handled previous reductions requested by appropriations committees and because of serious weaknesses in the Bureau's financial management system. We also believe the greater control should be retained until the Bureau obtains our approval of its revised accounting system.

As agreed with your office, we have not obtained formal comments on the report from the Department of the Interior. However, we have informally discussed the contents of our report with Bureau of Indian Affairs officials.

B-114868

As arranged with your office, we plan no further distribution of this report until 10 days from the date of the report unless you publicly announce its contents earlier. At that time, we will send copies to interested parties and make copies available to others on request.

Sincerely yours,

A handwritten signature in cursive script that reads "James B. Stacks". The signature is written in black ink and is positioned above the typed name.

Comptroller General  
of the United States

D I G E S T

Costs to administer Indian programs by the Bureau of Indian Affairs became an issue during congressional hearings on the Bureau's 1977 appropriation request. Because evidence suggested its costs were excessive, the Bureau was asked by congressional committees to reduce its administrative costs for fiscal years 1977 and 1978 by about \$8.5 million.

The Bureau reduced costs by about \$900,000. Then, rather than make the remaining \$7.6 million administrative reductions as instructed, the Bureau

--caused funds for Indian programs to be reduced by about \$3.6 million in fiscal year 1977 (see p. 7) and

--began action to reduce funds for Indian programs by another \$4 million in fiscal year 1978. (See pp. 8 to 10.)

In several ways the Bureau avoided reductions in its administrative costs. For example, in 1977, the reduction was netted against other program increases and decreases and allocated to the many Bureau offices. The amount of the administrative costs reduction was not identified.

In 1978, the Bureau decided to reduce funds for its computer operations by about \$2 million and recover that amount from Indian programs by having them reimburse the computer operation for services. This action did not cause a reduction in the Bureau's administrative costs.

The Bureau did not reduce any of its personnel as intended by the congressional committees; the committees specified

that personnel positions be reduced in fiscal years 1977 and 1978 by about 300. (See p. 10.) It claimed that these reductions would have prevented it from providing essential services to the Indians.

However, internal and external audits have reported adverse conditions that increase administrative costs or maintain them unnecessarily high. (See pp. 12 to 14.)

The Congress will have to change the way it appropriates funds to cover the Bureau's administrative costs if it desires to exercise better controls and to be sure that reductions are made. The Congress could either provide the Bureau with a separate administrative expense appropriation or place a percentage or dollar limitation on the amount of the Bureau's total appropriations that can be spent for administrative costs.

The Subcommittee on the Department of the Interior and Related Agencies, Senate Committee on Appropriations, along with its counterpart in the House, should adopt one of these alternatives and, in addition, specify in future appropriations amounts that can be used to pay personnel costs.

Should one of these recommendations be adopted, the Secretary of the Interior should require the Bureau to change its budgets and related justifications to show total administrative costs and personnel by specific Bureau offices and by each program category. The Bureau also should be required to include statistics on the Bureau's total work force and total personnel employed by each Bureau office in its budgets and related justifications. (See p. 25.)

Separate appropriations and related changes should be made because:

--The present appropriation process permitted reductions requested by congressional committees to be ignored. For example the Bureau was not required to make

reductions or increases specified in congressional committee reports. (See pp. 15 to 17.)

--The Bureau's administrative costs have not been disclosed in full to the Congress. (See pp. 17 to 20.)

--Personnel reductions imposed by the congressional committee are circumvented easily. For example, personnel ceilings apply only to the last day of the fiscal year; many Bureau organizations have circumvented their ceilings by various actions, including paper transactions to show that yearend ceilings were met. (See pp. 20 to 22.)

--The Bureau's budget justifications did not emphasize the size of the Bureau's total work force; thus, Congress was not alerted to consider a category of employees now comprising about one-third of the total work force. (See pp. 22 to 24.)

Weaknesses in the Bureau's financial management system prevented it from controlling costs effectively and contributed to its high administrative costs.

The Bureau's revised but unapproved accounting system includes about 1600 subaccounts in which the Bureau's operating costs can be recorded. As adequate controls have not been established to assure consistency in recording costs in these accounts, similar administrative costs have been charged differently by different organizations and even within an organization. (See pp. 26 to 28.)

Despite cost control being the most widely known use of budgets, the Bureau accounting system does not use approved budgets for this purpose. As a result, many Bureau organizations frequently exceeded the amounts budgeted for their use. (See pp. 28 to 30.)

In October 1974, the Department of the Interior's Office of Audit and Investigation reported that the Bureau produced too many



detailed financial reports. GAO found that this condition still existed to some extent and that the Bureau's financial reports generally did not comply with GAO's standards of accuracy and reliability. (See pp. 30 to 32.)

To correct these weaknesses, the Secretary of the Interior should direct the Bureau to:

- Revise its accounting system to use its organizations' operating budgets, as approved by the Bureau's budget office, to control costs and prevent unauthorized deviations from operating budgets.
- Establish fund controls that will keep area offices within amounts budgeted and require them to obtain prior approval from the Bureau's budget office for significant deviations.

GAO also recommends additional actions that should be taken by the Bureau to correct accounting system weaknesses. The revised system should be submitted to GAO for approval. (See pp. 33 to 34.)

The Bureau has time to make reductions in its 1978 administrative costs, and the Secretary of the Interior should direct the Bureau to:

- Act immediately to reduce its administrative costs for fiscal year 1978 by most, if not all, of the \$4 million requested by the committees.
- Discontinue plans to show reimbursement for computer operations as reductions in administrative costs.
- Identify and eliminate (1) positions that overlap or layer another position and (2) unqualified personnel. (See p. 14.)

In informally commenting on the contents of this report, Bureau officials generally agreed with GAO's conclusions and recommendations. However, they objected to GAO's suggestion

for the Congress to provide the Bureau with either a separate appropriation for administrative costs or a limitation on such costs. The Bureau said that a redesign of its financial management system should provide the necessary control. GAO recognizes a properly designed system would provide the necessary control, but years could elapse before the Bureau develops and obtains approval of its system.

Bureau officials also contended they handled reductions in fiscal year 1977 and 1978 consistent with congressional intent. They said the word program, as used in phrases in sections of committee reports on reductions in administrative costs, permitted them to make general reductions in programs intended to benefit the Indians. They also expressed the views that the transactions to remove employees from the Bureau's records on the last day of the fiscal year complied with congressional committee instructions to reduce the Bureau's personnel positions. GAO believes this report shows conclusively that the Bureau actions were not consistent with the instructions.

Bureau officials also questioned how GAO had arrived at the estimate of administrative costs. GAO explained it used Bureau's subaccounts controlling indirect administrative costs which benefited more than one program and direct administrative costs which benefited a single program. GAO provided the Bureau with a listing of the subaccounts that were used in the estimate.

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**G L O S S A R Y**

Administrative cost--for simplicity, this term is used throughout the report to describe transactions recorded in the Bureau's administrative subaccounts even though in certain instances the amounts are obligations, accrued expenditures, or disbursements.

## CHAPTER 1

### INTRODUCTION

We made this review at the request of the Chairman, Subcommittee on the Department of the Interior and Related Agencies, Senate Committee on Appropriations, who requested us to make a comprehensive review of the Bureau of Indian Affairs' programs and processes and report on the results. This is one of a series of reports on the request, and it discusses the Bureau of Indian Affairs' organizational, or administrative, costs to provide educational, welfare, and other services to the Indians. As agreed with the Chairman's office, the review was designed to develop data that the Congress should consider in acting on the Bureau's future appropriation requests, especially the fiscal year 1979 request.

The Bureau's administrative costs became an issue during congressional hearings on appropriation requests for both fiscal years 1977 and 1978. Questions were raised about the amounts the Bureau spent on administrative costs and whether its budget and related justifications for those years fully disclosed amounts requested for such costs. The Bureau acknowledged the amounts were not fully disclosed and said that about \$72 million was needed in fiscal year 1978 to cover organizational costs of its central and area offices to administer Indian programs.

### REASONS FOR REQUESTING REVIEW

The Chairman's request relayed the Senate Committee on Appropriation's desire for us to review several aspects of the Bureau's operations. The Committee explained the reasons for the review in its report on the Bureau's 1978 appropriation request, when it expressed concern over the costs of administering Indian programs. The report stated:

"In light of several existing reports on the poor administrative operations of the Bureau of Indian Affairs and the ever increasing costs of such activities, the Committee is requesting the General Accounting Office to make a thorough investigation of the administrative procedures of the Bureau from the Central through the Agency offices. This study will include, but not be limited to, the total administrative costs of Bureau operations; \* \* \* expenditures under the Common Program Services account; \* \* \*."

The Bureau's common services account surfaced as a major concern of the Subcommittee during our discussions of the request with the Chairman's office. The account, called the "3599 account," is basically a Bureau clearing account to control administrative costs eventually charged against appropriations obtained to fund specific Indian programs; such programs cover education, social and welfare services, and construction. A clearing account has been in use for over 20 years but it was never justified to the Congress before hearings on the Bureau's 1977 appropriation request.

The Subcommittee was primarily concerned about whether the clearing account disclosed the Bureau's administrative costs that were charged to Indian programs. Initially, the account was viewed as showing all administrative costs not otherwise disclosed in the Bureau's budget justifications; the Bureau was instructed to show the account as a separate line item in its 1978 appropriation requests. The Subcommittee said this was done; however, the Bureau's budget justifications still did not disclose all its administrative costs, and the Subcommittee asked us to make the review.

The Bureau's handling of previous congressional committee requested changes surfaced as another concern of the Subcommittee. From fiscal years 1976 through 1978, the Bureau was instructed to reduce its budgeted administrative costs by about \$9 million. About \$40 million was added to the Bureau's appropriation request during the same period with specific instructions for the funds to be passed on to the Indians when possible. The Chairman's office wanted us to check on whether the committee requested changes were handled consistent with instructions since it had indications that some were not. Because of the limited period for completing our review, we considered only administrative reductions totaling about \$8.5 million that the committees asked the Bureau to make in fiscal years 1977 and 1978.

#### ORGANIZATIONAL STRUCTURE TO ADMINISTER INDIAN PROGRAMS

The Department of the Interior's Assistant Secretary for Indian Affairs has overall responsibility for administration of Indian programs. He discharges this responsibility through the Bureau's longstanding organizational structure which consists of a central headquarters, area offices, and subordinate field organizations, primarily agencies, located throughout the country.

The central headquarters consists of six major organizational units that perform a variety of functions to help exercise management control over the Bureau's operations. 1/ Specifically, these offices:

- Develop and coordinate Bureau-wide policies, programs, budgets, and justifications.
- Initiate Bureau-wide legislative programs and reports.
- Contact other Federal agencies and national Indian organizations about Indian programs and needs.
- Monitor and evaluate the performance of Bureau organizations.
- Participate in management and make periodic and special reviews of field operations.
- Advise the Assistant Secretary on Bureau programs, policy matters, and regulations or specific items requiring his attention.

About half of the Bureau's Central Office is located in Washington, D.C , and the other is in Albuquerque, N.M. The Albuquerque complex, frequently called Central Office West, consists of 15 smaller organizations that report to their respective program offices in Washington, D.C. These organizations include the divisions of automatic data processing and accounting management, which produce the financial and accounting data used in monitoring the Bureau's operations.

Area offices comprise the second, and perhaps most important, level of the Bureau's management. The Bureau has divided the United States into 12 geographical areas for management purposes. Each area has an area office designated by the name of the city in which it is located, except the Navajo Area, located in Window Rock, Arizona, and the Eastern Area located in Washington, D.C. (See p. 5 for geographic area of each office.)

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1/These units are the Offices of (1) the Commissioner, (2) Indian Education Programs, (3) Indian Services, (4) Trust Responsibilities, (5) Tribal Resources Development, and (6) Administration.

Area offices are responsible for all activities of the Bureau within the geographic area under their jurisdiction. These activities include:

- Representing the Bureau in its dealings with the Indians, the public, State governments, and other Federal agencies within the area's jurisdiction.
- Operating offices to (1) provide technical advice and review, (2) direct and assist in the application of overall policies and programs, and (3) coordinate and evaluate programs which apply to more than one operating office within the area.
- Recommending to the Central Office revisions of policies, programs, procedures, and regulations.
- Performing functions such as budget, financial reporting, and personnel management activities which can be done most efficiently and economically on an areawide basis. 1/

Agencies, the third organizational level of the Bureau, provide the primary source of contact with the Indians. The Bureau operates 82 agencies which are located on or near one or more Indian reservations. The agencies are responsible for the development and execution of short- and long-range programs to fit the needs of the people and the reservation(s) under their jurisdiction. They report to the area office having management responsibility over the area in which the agencies are located. The agencies should be normally staffed with specialists in several, if not all, of the Bureau programs.

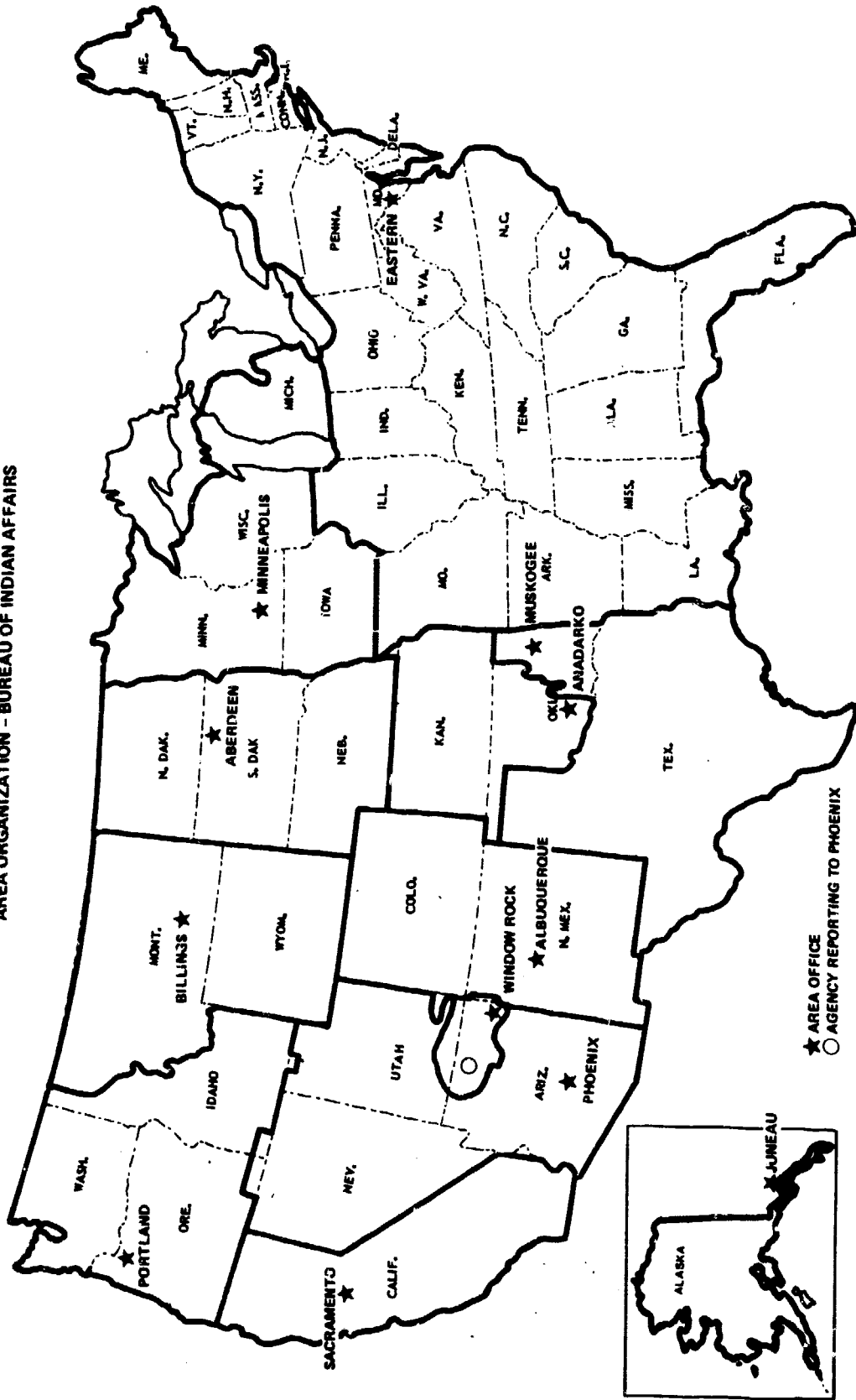
The Bureau also operates specialized field activities that provide services to the Indians, such as off-reservation boarding schools. These specialized activities are staffed with personnel to provide a specific service, and they report directly to the area office responsible for their areas.

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1/Not all area offices perform administrative functions. The areas headquartered at Anadarko, Okla.; Minneapolis, Minn.; and Sacramento, Calif. receive administrative support from the Muskogee, Okla.; Aberdeen, S. D.; and Phoenix, Ariz., area offices, respectively. The Eastern Area Office receives administrative and program support from the Washington Central Office.



AREA ORGANIZATION - BUREAU OF INDIAN AFFAIRS



## ACCOUNTING SYSTEM FOR CONTROLLING PROGRAM COSTS

The Bureau's statement of accounting principles and standards requires that each Bureau manager, at every organizational level, be involved in measuring and evaluating program accomplishments in terms of resources available and actually used. These measures and evaluations are to take place periodically throughout the year and be based on financial data of the Bureau's accounting system.

The Congress, in passing the Budget and Accounting Procedures Act of 1950, emphasized the need for agencies' accounting systems to produce reliable data. The act authorizes the Comptroller General to prescribe the necessary principles, standards, and related system requirements. But the act holds the head of each executive agency responsible for establishing and maintaining accounting systems that conform to the Comptroller General's principles, standards, and requirements.

The Comptroller General approved an accounting system for the Bureau in January 1953. However, the Bureau now operates a revised system which differs from the design approved. The Bureau plans to submit the revised system design for approval in fiscal year 1979.

The revised system should conform to the Bureau's statement of accounting principles and standards approved by the Comptroller General in 1972. As emphasized in the statement, the system's objectives should, among other things, provide for:

- Maintenance of accounts on an accrual basis to show the resources, liabilities, and costs of operations with a view to preparation of budgets.
- Reliable results to serve as a basis for preparing and supporting the Bureau's budget requests and for controlling the execution of its budgets.

## CHAPTER 2

### BUREAU MADE REDUCTIONS INCONSISTENT WITH CONGRESSIONAL COMMITTEE INSTRUCTIONS

In acting on appropriation requests for fiscal years 1977 and 1978, congressional committees asked the Bureau to reduce the amounts requested for administrative costs by about \$8.5 million. Instead of applying all of this amount to administrative costs, the Bureau took several actions that will result in about \$7.6 million of the reductions going directly to programs intended to benefit the Indians.

The Bureau said that the requested reductions in administrative costs would have prevented it from providing essential administrative services to the Indians. However, several available internal and external reports suggest the possibility of substantially reducing the number and costs of the Bureau's personnel.

### BUDGET REDUCTIONS MIXED WITH OTHER CHANGES

The Bureau's budget office combined the administrative cost reductions requested by congressional committees for fiscal year 1977 with other program increases and decreases and allocated them to the various Bureau organizations. Because the office did not specify the amount administrative costs should be reduced, no action was taken on about \$3.6 million of the committees' requested decrease.

Congressional committees asked the Bureau to reduce its administrative costs for fiscal year 1977 by about \$4.5 million. Included in this amount was about \$3.2 million to cover a reduction of 200 administrative positions and about \$0.2 million in anticipated pay increases associated with these positions. The committees also asked for a reduction of about \$1.1 million in travel costs. Bureau officials said they combined these reductions as an overall reduction to the operation of Indian programs. The Bureau's records indicate specific action was taken to reduce the Bureau's budgeted administrative costs by about \$0.9 million, including about a \$0.4 million reduction in administrative costs at headquarters level and about a \$0.5 million reduction in travel costs.

The Bureau applied the remaining \$3.6 million of the reduction to funds budgeted by area offices and agencies to finance Indian programs. The reductions actually lost their identity because they were combined with other program increases and decreases made by the Bureau, including those requested by the committees.

The Bureau's budget office did not specifically instruct area offices and agencies on how to handle the reductions. Bureau budget officials confirmed this condition, saying that they treated the reduction as a general cut in funding for Indian programs rather than a reduction in the Bureau's administrative costs.

We visited the Albuquerque and Navajo Area Offices and inquired about the reductions they had made in their budgeted administrative costs for fiscal year 1977. As no instructions were received from the Bureau's headquarters to reduce administrative costs, we found no reductions were made. It seems likely that, lacking specific instructions, other Bureau area offices and agencies may not have taken specific action to reduce administrative costs either.

The Bureau also specifically instructed its offices to reduce their travel costs for fiscal year 1977 by only \$0.5 million instead of the approximately \$1.1 million requested by congressional committees. According to Bureau officials, the \$1.1 million reduction was viewed as an unattainable goal or target. We found no evidence of the Bureau asking the committees for relief from implementing the full amount of this reduction.

#### COMPUTER COSTS SHIFTED FROM ADMINISTRATIVE TO PROGRAM OPERATION

In implementing actions to absorb committee requested reductions in the 1978 appropriation request, the Bureau decided to change its computer operation to a reimbursable operation. An acceptable management practice is to allocate costs of computer operation to programs so management can determine the total costs of programs. The Bureau's system provides for this at yearend, and the proposed change, when implemented, probably will not give management any better cost data but will give the appearance of reducing administrative expenses. Moreover, the change, if fully implemented, will reduce 1978 funds available for the Indians by as much as \$2 million.

The automatic data processing operation, located in Albuquerque, is a centralized activity producing accounting records and related financial reports for use by all Bureau managers and by other program support activities. Until fiscal year 1978, the operation was totally funded through the Bureau's 3599 account which, by the Bureau's definition, controls administrative costs benefiting more than one of the programs or services provided to the Indians.

The Bureau's procedures call for costs in the 3599 account to be charged to the various programs and services at the end of the year, using a percentage based on the relationship of accumulated costs in the account to the total costs directly charged to the programs or services.

The Bureau decided to change the automatic data operation to a reimbursable operation after congressional committees asked for a \$4 million reduction in the Bureau's 1978 budget request for executive direction and administrative services. The change, when implemented, will account for \$2 million of the reduction and simply will involve a direct charge to programs or services. While the change would show a reduction of administrative costs financed through the "3599 account," which must now be disclosed in the Bureau's budget request, the apparent reduction is misleading because costs are merely shifted from administrative to specific programs.

The Bureau's plan called for a system to be developed and implemented by October 31, 1977, which could be used to identify, accumulate, and charge automatic data processing costs directly to each Indian program or service. By December 1977, however, the Bureau had not decided how to implement the system. Pending the decision, the automatic data processing operation had accumulated costs so that charges to the various Indian programs and services could be made at a later date. As of November 30, 1977, the accumulated costs amounted to about \$0.9 million.

Delaying the decision also had contributed to management actions that could eventually increase the Bureau's administrative costs; the delay had also adversely affected planning efforts by managers. For example, in November 1977, the Albuquerque Area Office director recommended that managers under his direction delay action on spending plans until the charges for computer services were known. Also, five Bureau managers of Indian land records decided that no transactions were to be processed to update their records until after the charges for processing transactions were known. One manager said it would take weeks to update the automated records once the charges became known.

#### DIRECT CHARGES PERMITTED TO INDIAN PROGRAMS

The Bureau's budget office took other actions which could result in another \$2 million of the committee requested reduction in administrative costs being passed directly to

Indian programs. This amount related to reductions specified for fiscal year 1978.

The Bureau's budget office applied about \$1 million of the reduction to funds initially budgeted for administrative costs of area offices under the 3599 account. The budget office did not specifically instruct the area offices that the reduction had to be taken and the Bureau's accounting and appropriation controls did not provide data on how the reductions were to be handled. Recognizing that the intent of the reduction would probably not be followed, an internal Bureau document discussing options for dealing with the administrative cost reductions stated:

"It should be understood that even though we would be identifying the entire reduction to 3599, most of the actual reduction effects would be to regular programs because these regular programs would be charged direct for the services rather than having 3599 charged."

The Bureau's budget office applied the remaining \$1 million of the fiscal year 1978 reduction to program activities of the area and central office level. Of this amount, only about \$0.1 million was applied to activities specifically identified as administrative. The remaining \$0.9 million was charged to Indian program activities such as education, welfare, and social services; thereby the funds available to finance such activities for the Indians were reduced.

#### NO ACTION TAKEN TO MAKE PERSONNEL REDUCTIONS

In requesting reductions in administrative costs for fiscal years 1977 and 1978, congressional committees stated that the number of personnel should be reduced by 300. Although there are strong indications that the House Appropriations Committee expected positions and personnel to be reduced accordingly, the Bureau related the reductions to Bureau-wide ceiling decreases and took no action to reduce either personnel or positions.

The House Appropriations Committee discussed how the Bureau should apply permanent position reductions in its report on the Department of the Interior and Related Agencies Appropriation Bill for 1977 (report no. 94-1218, June 8, 1976). The report indicated that the position reductions should be converted to personnel ceiling reductions

but cautioned Interior against "playing the ceiling game,"-- separating employees before the end of the fiscal year and rehiring them when the new year begins. It also indicated that the Committee expected the personnel ceiling to be based on permanent positions, as shown in Bureau budget justifications, taking into account a reasonable lapse rate to account for normal personnel turnover.

The Bureau converted the authorized permanent positions, as adjusted by the committees, to a Bureau-wide personnel ceiling using about a 6-percent "lapse" factor. This action resulted in a Bureau-wide personnel ceiling reduction of 190 for the 200 position reductions requested for fiscal year 1977. Bureau officials did not provide documentation showing positions or personnel eliminated to comply with the reduction, saying this information would be available at the Bureau's area offices.

The Bureau allocated 72 of the fiscal year 1977 personnel ceiling reductions to the area offices we visited. These offices had been advised of the reduction by the Bureau's Central Office, but they took no action to eliminate positions; they said they considered the information from the Central Office to be advisory, requiring no actual position reductions. Moreover, area office officials said the Central Office's letter only asked for information of programmatic impacts and, that they sent such a statement to Washington in June 1977.

The Bureau considered the 1978 committee reductions of 100 positions in setting personnel ceilings for its organizations for fiscal year 1978. As converted by the Bureau, the 100-position reduction resulted in a personnel ceiling reduction of 94 for all Bureau organizations. Twenty-five ceiling reductions were allocated to the area offices we visited. This reduction means that the offices should have 25 fewer employees on board as of September 30, 1978, but does not mean that 25 employees have to be released. Actually the Bureau's records showed that as of November 1977, the actual employment of both the offices exceeded their established ceiling. For example, the Navajo Area Office's actual employment at that date was 4,290, while the employment ceiling for fiscal year 1978 was set at 4,180. In a letter to Bureau offices dated June 21, 1976, the Commissioner of Indian Affairs encouraged the practice of Bureau offices' exceeding their personnel ceilings at all times except on the last day of the fiscal year.

Bureau personnel ceilings for its organizations are set each year based on total authorized positions as shown in the Bureau's budget. Although estimates, these totals should reasonably approximate the authorized positions as shown on the Bureau's personnel records. However, the Bureau showed estimates in its budgets for fiscal year 1977 and 1978 that were considerably less than the total authorized positions of its personnel records for those fiscal years. For example, the Bureau's personnel records in November 1977 showed about 15,700 authorized permanent positions, whereas the Bureau's budget for fiscal year 1978 included an estimate of about 13,980 for such positions. Bureau officials said the difference resulted from the Bureau's failure to eliminate unneeded positions from personnel records.

In the Bureau's budgets were estimates of vacant positions that were substantially lower than the number shown in Bureau personnel records at any given time. For example, the Bureau's budget for 1978 estimated its Bureau-wide vacancy in permanent positions at about 890. The two area offices we visited had over 960 vacant permanent positions as of November 1977. Some of the positions had been vacant for years while others were established as a part of the \$40 million provided by congressional committees in fiscal years 1976 to 1978. Overall, the Bureau reported over 2,670 vacant permanent positions as of November 1977.

The Bureau, therefore, exercises wide latitude in reporting how personnel reductions are administered since at any one time there are three elements of reporting: (1) authorized positions, (2) employment ceiling, and (3) vacant positions. The principal element of control is the employment ceiling which only becomes critical on the last day of the fiscal year. The Bureau, however, circumvents this control by terminating full-time, nonpermanent employees on the last day of the fiscal year and rehiring them the following day. This practice is further discussed in chapter 3.

**BUREAU ARGUMENTS FOR MAINTAINING  
ADMINISTRATIVE COST LEVEL INCONSISTENT  
WITH AUDIT REPORT DISCLOSURES**

The Bureau maintained that the reduction in employment requested by the committees would adversely affect its administrative and program services to the Indians. As discussed below, however, reports by the Civil Service Commission and Interior suggest the requested reductions could have been made without adversely affecting the Bureau's services to the Indians.



The Civil Service Commission and Interior issued 12 reports between 1974 and 1977 on organizations controlling most of the Bureau's work force. These reports cited serious shortcomings in the Bureau's personnel management practices and described conditions that result in unneeded employees and excessive administrative costs. Some of the conditions were:

- Overgrading of personnel. Four reports identified over 200 instances of employees being paid higher salaries than their job warranted. Other reports stated that numerous positions were overgraded but did not give totals. The reports suggested that this condition was unnecessarily increasing the Bureau's administrative costs. For example, one report said overgrading at the Navajo Area Office cost the Bureau about \$202,000 annually in unwarranted pay benefits. This estimate was based on the overgrading of 41 positions.
- Layering and overlapping of duties. Six locations were reported to either have too many supervisors over nonsupervisory employees, or "layering," or to have more than one person doing the same job, called "overlapping." For example, the report on the Albuquerque Area Office said the ratio of supervisors to nonsupervisory employees was 1:2.6 or that almost 1 out of every 4 employees was a supervisor. And the report on the Bureau's Central Office West said that there was confusion, duplication, and overlap of functions performed within the Indian Education Resources Center. The reports pointed out that unnecessary costs were incurred by the layering or overlapping but did not specify amounts.
- Using unqualified personnel. Most reports discussed numerous instances where the Bureau used unqualified personnel. Some reports cautioned that this condition results in higher pay costs because more people are needed because unqualified employees are less productive and are hesitant to assume responsibility.

Interior's report, issued by its Office of Audit and Investigation in October 1974, dealt with the Bureau's Central Office West in Albuquerque. The report discussed several conditions that tend to increase administrative costs, such as producing too many detailed financial reports and distributing such reports to organizations which did not need them.

As discussed in detail in chapter 4, these conditions still exist in the Bureau.

### CONCLUSIONS

The congressional committees instructed the Bureau to reduce both its administrative costs and personnel in fiscal years 1977 and 1978. Instead, the Bureau took a number of actions that will result in funds for Indian programs being reduced. The Bureau's actions to avoid the reductions requested in 1977 are now history, and the actions to avoid those requested in 1978 are well underway. Yet, the Bureau still has time to make most, if not all, of the requested administrative reductions for fiscal year 1978.

The Bureau could reduce its administrative costs by removing unqualified personnel from administrative positions and by eliminating personnel in positions that overlap or layer others. The Bureau's past actions, however, suggest that it will not take positive action to bring about the reductions unless directed to do so by the Secretary of the Interior.

### RECOMMENDATIONS TO THE SECRETARY OF THE INTERIOR

The Secretary of the Interior should direct the Bureau of Indian Affairs to:

- Act immediately to reduce its administrative cost for fiscal year 1978 by most, if not all, of the \$4 million as requested by the committees.
- Discontinue plans to show reimbursements for computer services as reductions in administrative costs.
- Identify and eliminate (1) positions that overlap or layer another position and (2) unqualified personnel.

### CHAPTER 3

#### OTHER CONDITIONS CAUSED CONGRESSIONAL COMMITTEE REDUCTIONS TO BE INEFFECTIVE

Since administrative costs became an issue during congressional hearings on the Bureau's fiscal year 1977 budget, congressional committees have annually instructed the Bureau to reduce its budgeted administrative costs by certain amounts and to eliminate a specified number of personnel positions. This approach to controlling costs is effective when agencies' budgets and related justifications contain full disclosure of administrative costs and personnel. However, the Bureau's budget, appropriation, and fund control system permitted it to avoid the requested reductions. Moreover, the Bureau's budget justifications did not provide full disclosure of the Bureau's administrative operation.

The Bureau's administrative costs substantially exceeded the amount disclosed to the House and Senate Appropriations Committees during hearings on the Bureau's budgets for fiscal years 1976 to 1978. Also, the Bureau's budget and related justifications provided insufficient data on the size of the Bureau's work force and, as a result, reductions in personnel were directed at only part of the work force.

#### APPROPRIATION METHOD PERMITTED BUREAU ACTIONS

From fiscal years 1976 to 1978, the Bureau received budget authority for administrative costs and for activities to benefit the Indians under 13 different appropriations and revolving and other funds. Most of the authority came from six appropriations under which the Congress provided lump-sum amounts without any restrictions on amounts to be used for administration; thus, the Bureau was not legally required to make reductions specified in congressional committee reports and could have used as much of the appropriations as it wished to cover administrative costs.

The "Operation of Indian Program" appropriation provides a large portion of the funds to finance the Bureau's administration. 1/ The language of the annual appropriation

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1/Other appropriations used are: Construction, Road Construction, Indian Loan and Guaranty Insurance Fund, Alaska Native Fund, and Miscellaneous Trust Fund.

for fiscal year 1978 states that the amounts are provided for the following:

"For expenses necessary to provide education and welfare services for Indians, either directly or in cooperation with States and other organizations, including payment (in advance or from date of admission), of care, tuition, assistance, and other expenses of Indians in boarding homes, institutions, or schools; grants and other assistance to needy Indians; maintenance of law and order, and payment of rewards for information or evidence concerning violations of law on Indian reservation lands or treaty fishing rights and tribal use areas; operation of Indian arts and crafts shops; for management, development, improvement, and protection of resources and appurtenant facilities under the jurisdiction of the Bureau of Indian Affairs, including payment of irrigation assessments and charges; acquisition of water rights; advances for Indian industrial and business enterprises; operation of Indian arts and crafts shops and museums; development of Indian arts and crafts, as authorized by law; and for the general administration of the Bureau of Indian Affairs, including such expenses in field offices." (Underscoring supplied.)

Because the language does not specify the amounts for the various mentioned services, programs, and activities, the Bureau is not restricted to amounts specified in the budget requests. Also, it is not legally required to make reductions or increases as specified in congressional committee reports and may allocate the total amount appropriated as it wishes. It is, however, a generally accepted practice for executive agencies to implement budget changes specified in congressional committee reports finally approved by the Congress.

The lump-sum fund approach provides the Bureau with considerable flexibility in managing programs. It can distribute funds among the many Indian programs and use the funds as necessary to finance unexpected increases in administrative costs without congressional approval. The approach also unquestionably allows the Bureau to meet unforeseen needs of the Indians more promptly. The flexibility was the basis for the Bureau seeking and congressional committees approving the lump-sum appropriation for Operations of Indian Programs, which funds most of the Bureau's programs, services, and activities.

The Congress, however, has relinquished a considerable amount of its controls over the Bureau's budget by providing the lump-sum appropriation. The Congress can specify desired changes to budgets in committee reports, but the Bureau is not legally required to make them. As indicated in chapter 2, the Bureau has not reduced its budgeted administrative costs for fiscal years 1977 and 1978 by the large amounts specified in congressional committee reports.

ADMINISTRATIVE COSTS NOT FULLY  
DISCLOSED TO THE CONGRESS

The Bureau has substantially understated its administrative costs in budget justifications submitted to the Congress for fiscal years 1976 through 1978 and in records of appropriation hearings for those years. The understatement can be attributed to many factors; however, in our opinion, the underlying cause appears to be the Bureau's reluctance to include in its estimates administrative costs charged directly to Indian programs.

The Bureau included administrative costs in the budget activities justified under its six appropriations for Indian programs, including the Operation of Indian Programs appropriation. The Bureau's budget justifications for fiscal years 1976 through 1978 contained estimates of its total administrative costs for those years. Additionally, during hearings the Bureau provided the House Appropriations Committee with estimates of its administrative costs for those years differing from estimates shown in the budget justifications.

Because of the significant differences in the Bureau's estimates, we estimated the Bureau's administrative costs using the Bureau subaccounts for the many budget activities to which administrative costs should be charged. <sup>1/</sup> Our estimate included all subaccounts that the Bureau identifies as controlling administrative costs, which are actually administrative costs benefiting more than one program. It also included subaccounts that the Bureau identifies as

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<sup>1/</sup>The Bureau's accounting system is very complex, containing over 55 budget activities for the 13 different appropriations and revolving and other funds. The budget activities in turn contain numerous program elements which are further broken down into many components. For the sake of simplicity we call each of these accounting breakdowns a "subaccount."

controlling program support costs under each budget activity for the Indian programs, which are really administrative costs benefiting a program and charged directly to it. Excluded from our estimates were subaccounts controlling the Bureau's costs for services directly benefiting the Indians; these included the costs of (1) operating schools, (2) operating other facilities, including those housing administrative offices, and (3) police officers directly employed by the Bureau.

As shown below, the Bureau's estimates during committee hearings on its budgets for fiscal years 1976 to 1978 usually fall between amounts shown in budget justifications for those years and the amounts recorded in the Bureau's accounting records controlling its administrative costs. Also, the comparison below shows the administrative costs, as recorded in the Bureau's accounting records, to be a much greater portion of total budget authority than its previous estimates suggested.

	<u>Administrative costs</u>	<u>Budget authority</u>	<u>Percent</u>
	(millions)		
Fiscal year 1976:			
Budget justifications	\$ 13.1	\$ 836.7	1.6
Hearing records	12.6	836.9	1.5
Accounting records (actual)	177.4	836.9	21.2
Fiscal year 1977:			
Budget justifications	13.3	1,045.8	1.3
Hearing records	40.6	1,045.8	3.9
Accounting records (actual)	171.5	1,045.8	16.4
Fiscal year 1978:			
Budget justifications	31.2	1,252.3	2.5
Hearing records	72.5	1,252.3	5.8
Accounting records (budgeted)	172.3	1,252.3	13.8

The subaccounts we considered indicated that the Bureau's administrative costs were decreasing from 1976 through 1978. This decrease, however, primarily resulted from specific actions that shifted administrative costs from the accounts

we reviewed to other accounts rather than reducing the Bureau's total administrative costs. Some of the specific actions were:

- The Indian tribe's assumption of more administrative functions under self-determination programs.
- The Bureau offices' inconsistency in recording similar administrative costs, as discussed in detail on p. 26.

Also, the 1978 amount represents the amount budgeted by the Bureau. In each of the preceding years, the Bureau exceeded its budgeted amounts for the subaccounts we considered.

The Bureau's budget justifications for fiscal years 1976 and 1977 disclosed only the amounts recorded in the subaccounts for one budget activity--General Management and Facilities Operations. This budget activity covers some of the Bureau's costs of operating its headquarters in Washington, D.C., and its Central Office West in Albuquerque, N.M. Other costs for operating these offices are covered by the Bureau's internal budget activity account, the 3599 account; this account controls administrative expense not directly charged to the Bureau's budget activities controlling funds for specific Indian programs under the Operation of Indian Programs appropriations. <sup>1/</sup> The Bureau's budget justifications for fiscal year 1978 disclosed administrative costs to be controlled through the 3599 budget activity, accounting for the large increase shown in that record between fiscal years 1977 and 1978.

The Bureau's estimates in hearings included amounts reported in the budget justifications and estimates covering some of the operating costs of area offices directly charged to the many subaccounts of the budget activities controlling funds for Indian programs.

One Bureau official admitted the Bureau may not have been altogether candid in dealing with congressional committees on administrative costs. For example, he stated that the \$72 million estimate for fiscal year 1978 did not consider the administrative costs incurred at the agency level because the

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<sup>1/</sup>The activities changed from fiscal years 1976 to 1978. In 1976 and 1977, the principal ones were Indian Education, Indian Services, Tribal Resource Development, Trust Responsibilities and Services, and Navajo - Hopi Settlement Program. In 1978, the Economic Development and Manpower Program was added and the Navajo - Hopi Settlement Program was incorporated into Indian Services.

committees did not ask for it. According to other officials, the Bureau believes none of the agencies' operating costs would be considered administrative because most of their personnel work on specific programs and very few perform administrative work.

Our estimate included administrative costs for all the Bureau's agencies, area offices, and central offices. It covered the administrative subaccounts for all the appropriations and revolving and other funds under which the Bureau received budget authority. The subaccounts we used are discussed in more detail on p. 26.

#### PERSONNEL CEILING REDUCTIONS EASILY CIRCUMVENTED

The Bureau's budgets and related justifications provided estimates on permanent positions to be funded with congressional appropriations requested. Bureau officials related congressional committee reductions in permanent positions to personnel ceiling reductions. However, the Bureau's personnel ceiling only limits the number of people that can be on its employment records on the day the fiscal year ends, and the Bureau usually circumvents this control.

The Office of Management and Budget set the Bureau's personnel ceiling for fiscal years 1976 through 1978 at about 94 percent of the Bureau's total authorized positions as shown in its budget for each of those years. The Bureau then adjusted the ceiling to include congressional committee increases and decreases in permanent positions. For example, the Bureau converted the requested reduction of 100 permanent positions to a 94 personnel ceiling reduction and adjusted the Bureau-wide ceiling accordingly.

The Bureau's personnel ceiling for each of its organizations included the increases and decreases requested by congressional committees in permanent positions for fiscal years 1977 and 1978. Some offices apparently ignored the personnel ceilings for fiscal year 1977 as their yearend employment exceeded the specified ceilings. Other offices reported their employment at the end of the fiscal year at or below their yearend ceiling.

We visited two Bureau offices that had reported their yearend employment for fiscal years 1976 and 1977 below their established ceilings. These offices were below ceilings on the last day of the fiscal year as reported. However, they had taken a number of costly and inefficient actions to reach that level. For example:



- The Bureau's Albuquerque Area Office had dismissed 17 employees to reach its fiscal year 1976 ceiling by June 1976, and rehired these same employees in July 1976, the beginning of the next fiscal year.
- The Bureau's Central Office West in Albuquerque processes the necessary paperwork to show temporary employees in permanent positions at the end of fiscal year 1975, and back in temporary positions at the beginning of fiscal year 1976. A personnel classification specialist said the action was taken to bring the number of staff members closer to the office's personnel ceiling for that year.
- In July 1977 the Albuquerque Area Office started action to fill all its authorized but vacant positions because, according to a memo to its managers, "If we do not reduce the vacancy rate, we will lose the employment ceiling."

The Bureau's overall employment practices were influenced by the necessity of meeting the yearend ceiling. For example, on July 11, 1977, Interior notified the Bureau of a revised fiscal year 1977 permanent employee ceiling. On July 14, 1977, the Acting Deputy Commissioner of Indian Affairs lifted a hiring freeze that was in effect and notified all his directors they could hire new employees as long as they stayed within the revised employment ceiling.

We have consistently believed that personnel ceilings are ineffective. In our report, "Personnel Ceilings--A Barrier to Effective Manpower Management" (FPCD-76-88), June 2, 1977, we discussed many problems created by personnel ceilings. We also pointed out that when imposed on managers, they become more concerned with not exceeding the number of persons actually employed on the last day of the fiscal year than with getting essential work done through the most effective, efficient, and economical use of personnel.

Our report on personnel barriers mentioned monetary controls as an alternative to personnel ceilings. The Office of Management and Budget objected to implementing such a control at that time; perhaps it would be premature to attempt to control the Bureau's personnel solely by monetary limitations. However, a limitation on the amount

that can be used for personnel employment might be appropriate for the Bureau in light of its continued disregard for its personnel ceiling.

TOTAL WORK FORCE SIZE NOT  
EMPHASIZED IN BUDGET DOCUMENTS

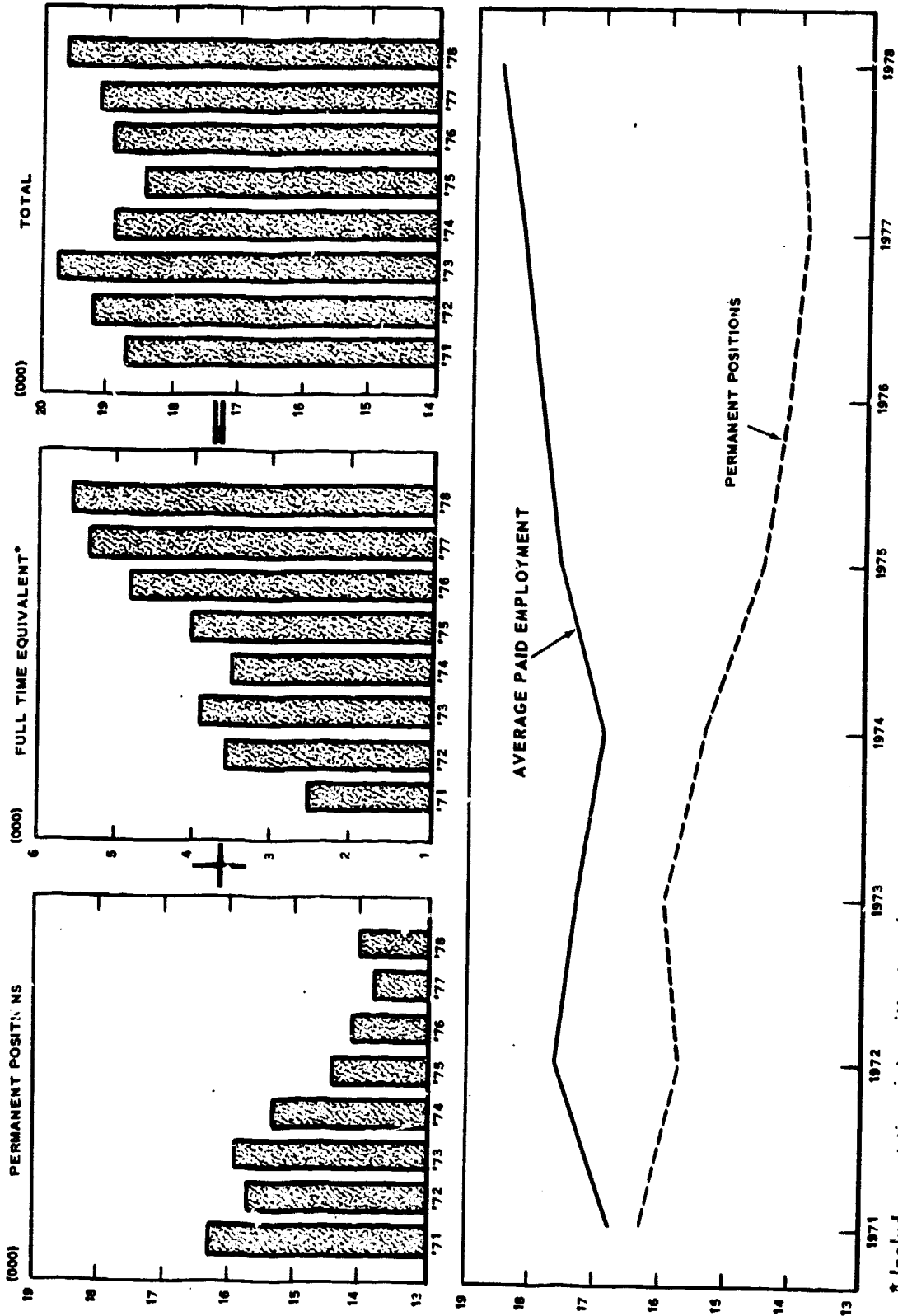
The Bureau seeks appropriations for a category of employees called "permanent" positions and another called "full-time equivalent" positions. Because the Bureau did not emphasize the size of the full-time equivalent category in budget documents, the congressional committees did not act to control a category of employees that has now grown to about one-third of the Bureau's work force.

The Bureau's budgets and related justifications have for years shown it uses the two categories of employees for budgetary purposes. As specified in the Office of Management and Budget's criteria, permanent positions should be those occupied or to be occupied by full-time employees. The criteria also says full-time positions should include positions authorized or occupied for indefinite periods or for specific periods over 1 year. Positions not falling in this criteria should be classified as full-time equivalent positions and should include positions for temporary employees and for employees working on an irregular basis.

The Bureau's classification of employees did not always conform to the Office of Management and Budget's criteria. For example, the Bureau considered its teachers as being in full-time equivalent positions, even though they occupied positions established for indefinite periods. Other Bureau positions had been considered as full-time equivalents even though they had been occupied by the same employee for years.

The congressional committees did not apply their reductions in administrative positions to the Bureau's total work force. For example, the House Appropriations Committee's reduction of 100 permanent positions for fiscal year 1978 was accepted in conference with the Senate Appropriations Committee. The Committee's report tied the reductions to the Bureau's 13,987 permanent positions as shown in the budget. But the Committee had not applied any reduction to the other category of employment which had grown from 2,527 positions in 1971 to 5,605 positions in 1978. During this same period, there had been a great decrease in the Bureau's permanent positions while total employment had increased. (See p. 23 for graph illustrating this trend.)

# BUREAU OF INDIAN AFFAIRS PERMANENT POSITION SCHEDULE



\* Includes part time, intermittent, and temporary employment.

Despite the importance of the full-time equivalent positions to the total work force, they have not been summarized in the Bureau's budgets and related justifications. Thus, the committees were not alerted that they were not considering a part of the Bureau's work force that was growing at the time they were directing cuts.

The Bureau has included the size of its work force occupying full-time equivalent positions in monthly employment reports to the Congress. These monthly reports, however, are designed to show whether the Bureau is exceeding its personnel ceiling and do not emphasize the size or the extent of growth of this category of employees.

### CONCLUSIONS

The Congress needs to change the way it appropriates funds for the Bureau's administrative costs if it desires to exercise better control over such costs and to insure that future reductions are made. We believe this can be done by either providing the Bureau with a separate administrative expense appropriation or placing a percentage or dollar limitation on the amount of the Bureau's total appropriations that can be spent for administrative costs. These alternatives are used to control the appropriations of many Federal agencies. In fact, the Bureau, before 1973, had a separate appropriation for general and administrative expenses.

Our position is based on the advantages of the separate appropriation or the limitation for these type costs. These alternatives allow the appropriation law to contain specifics on the type of activities and costs to be considered administrative and on the organizations to use the appropriations. The language of the appropriation then becomes criteria the Bureau must follow in using the appropriations. Finally, they provide the opportunity to place financial controls over personnel costs when the Congress decides to reduce personnel. Such an appropriation structure should provide for allocating administrative costs to specific programs so it can determine total program costs for management purposes.

The adoption of one of the alternatives should be accompanied by changes in the Bureau's budget and related justifications to fully disclose all its administrative costs. Also, the budget documents should be changed to show the Bureau's total work force and total personnel employed by each Bureau office.

RECOMMENDATIONS TO THE SUBCOMMITTEE  
AND TO THE SECRETARY OF THE INTERIOR

Along with the Subcommittee on the Interior, House Committee on Appropriations, the Subcommittee on the Department of the Interior and Related Agencies, Senate Committee on Appropriations, should:

- Provide the Bureau of Indian Affairs with a separate appropriation for administrative expenses or place a percentage or dollar limitation on the amount of its total appropriations that can be spent for administrative costs.
- Specify in future appropriations the amounts that can be used to pay personnel costs, especially when desiring to reduce the number of administrative personnel.

Should either of these alternatives be adopted, the Secretary of the Interior should require the Bureau to change its budgets and related justifications to show total administrative costs and personnel by specific Bureau offices and by each program category. Also, the Secretary should direct the Bureau to include statistics on the Bureau's total work force and total personnel employed by each Bureau office in its budgets and related justifications.

## CHAPTER 4

### WEAKNESSES IN BUREAU'S FINANCIAL MANAGEMENT

#### SYSTEM PREVENT BUDGET PERFORMANCE ANALYSIS

The Bureau's financial management system should produce data to show whether its budgets are executed as justified to the Congress and to identify instances of significant deviations. The present system cannot do this because of weaknesses which prevent the Bureau from effectively controlling costs and which contribute to high administrative costs.

#### ACCOUNTING SYSTEM HANDLES SIMILAR COSTS DIFFERENTLY

The Bureau allows each of its organizations to charge costs to many different combinations of the approximately 1500 subaccounts it uses to accumulate Bureau-wide costs. As adequate controls had not been established to assure uniformity of cost charges, similar administrative costs had been charged differently by organizations and even within an organization. Sometimes administrative costs were charged directly to specific Indian programs because of administrative-fund shortages; at other times such charges resulted from confusion over Bureau criteria identifying the proper activity to be charged.

The Bureau's accounting system is designed to accumulate administrative costs under about 340 different subaccounts. Included are

- over 150 subaccounts for Bureau program support costs, or administrative costs, which are charged directly to Indian programs funded by the Operation of Indian Programs appropriations;
- over 40 subaccounts for accumulating those costs benefiting more than one Indian program which are charged to Bureau clearing accounts including the 3599 account;
- over 40 subaccounts for accumulating costs of executive direction and other administrative costs related to general management and facilities operation; and
- over 110 subaccounts related to appropriations other than Operation of Indian Programs or to revolving and other funds.

The Bureau's Accounting Handbook describes each of the administrative subaccounts, and its automated accounting system identifies the various combinations of subaccounts to which each Bureau organization can charge costs. To determine whether system controls provided consistent charges, we reviewed charges made to the Navajo and Albuquerque Area Offices and selected agencies under their jurisdiction. These organizations were authorized to charge costs to many different subaccounts. For example, we reviewed charges at the Navajo Area Office which could charge its operating costs to over 590 different subaccounts. Our review was made to determine whether charges were consistent with Bureau criteria requiring administrative costs that benefit a single program to be charged directly to the program and costs that benefit more than one program to be charged to the 3599 clearing account.

The offices we reviewed had not always followed the Bureau's criteria in charging their administrative costs to the subaccounts. Some offices charged personnel and other administrative costs to administrative subaccounts for a specific Indian program even though the costs were provided to more than one program. Most of the improper charges were attributed to inadequate funds being available for administrative subaccounts of the 3599 activity. A few times the improper charges were attributed to unclear criteria for selecting the proper account. For example:

- In fiscal year 1977, all salaries of budget office personnel in the Albuquerque Area Office were charged to the proper subaccount. In fiscal year 1978, however, the salaries were sometimes charged to a subaccount controlling costs for operating facilities. According to the budget officer, the change was made because adequate funds had not been budgeted in the administrative subaccounts.
- At the Northern Pueblo Agency, one official's travel costs for fiscal year 1977 were initially charged to the proper administrative subaccount; however, after realizing the subaccount's funds were insufficient to meet all of his travel needs, some of his expenses were then charged to a subaccount controlling costs directly charged to Indian programs.
- At the agencies under the Navajo Area Office, census clerks supported more than one Indian program but their salary costs were charged to a subaccount controlling direct administrative costs for the clerks

for an Indian education program. A Navajo Area Office official said this practice was followed because adequate funding had not been provided for the administrative subaccounts.

--At the Navajo Area Office and at its agencies warehouse personnel supported many Indian programs; but generally their salary costs were charged directly to subaccounts controlling costs for a single Indian program or to subaccounts other than those controlling administrative costs. A Navajo Area Office official admitted the personnel costs were improperly charged because adequate funds had not been budgeted in the administrative subaccounts. By contrast, salary costs for motor vehicle operators at the Shiprock Agency were properly charged to a subaccount controlling administrative costs.

At these offices, we observed numerous instances where portions of employees' salary costs were not charged to an administrative subaccount even though the employees had performed administrative functions. For example, the Northern Pueblo Agency had five employees performing administrative tasks such as preparing budgets and financial reports, performing clerical duties, working as stenographers, and managing vehicles. The salaries of these individuals were directly charged to subaccounts controlling the costs of law enforcement and detention; the subaccounts were normally used for accumulating salaries for criminal investigation work.

We found the Bureau criteria to be basically adequate for its organizations' use in selecting the proper account to charge their administrative costs. Because there are many different subaccounts they can charge costs to, however, some additional guidance may be needed.

#### ORGANIZATIONAL BUDGETS NOT USED TO CONTROL COSTS

Despite cost control being the most widely known use of budgets, the Bureau does not use approved budgets for its organizations as a means of controlling their costs within their budgeted amounts. As a result, many Bureau organizations frequently exceeded their budgeted amounts; also, the Bureau avoided exceeding its total obligation authority only because some Bureau organizations frequently failed to use all their budgeted amounts. This problem is so acute that the Bureau has developed procedures whereby funds are



automatically transferred among its organizations to balance out over- and underexpenditures.

Authorities on cost accounting principles and standards emphasize the importance of organizations using approved budgets to control costs. For example, one widely used cost accounting textbook discusses the importance of budgets and lists cost control as one of the three major objectives of budgeting. The textbook also points out that cost control is perhaps the most widely known use of budgets. Our Policy and Procedures Manual for Guidance of Federal Agencies, in Title 2, mentions the budget's importance in controlling agencies' costs. And the Bureau's Statement of Accounting Principles and Standards, approved by the Comptroller General in November 1972, recognizes the importance of budgets for Bureau organizations and implies that the approved budgets will be used to control costs.

The Bureau requires a budget, or financial plan, to be prepared by each of its organizations authorized to incur costs for use in developing the Bureau-wide appropriation request. The budgets should be adjusted for increases and decreases imposed by the Office of Management and Budget and by the Congress.

The initial budgets, once adjusted, become the operating budgets against which costs or obligations should be controlled. The automated accounting system should contain operating budgets for each organization preparing one and be broken down by amounts for each subaccount for which amounts were included; for effective control the mechanized system should report on organizations exceeding the amount budgeted for the subaccounts.

The Bureau's automated accounting system is not programmed to use operating budgets to control costs or amounts obligated. Consequently, the system accepted charges to subaccounts substantially exceeding amounts budgeted for them and even charges against subaccounts for which no budget exists. Also, the system allowed an organization to substantially exceed its total budgeted amount for a fiscal year. For example, in fiscal year 1977, the Phoenix Area Office made charges to many subaccounts exceeding amounts budgeted for them and even several charges to subaccounts containing no budgeted amount. By the end of the fiscal year, the Phoenix Area Office had obligated about \$5.1 million more of the Operation of Indian Programs Appropriation than it was allocated by the Bureau.

The Bureau's automated accounting system also does not contain complete and accurate budgets for its organizations that could be used to control costs. For example, as of September 30, 1977, the system showed no amounts or negative amounts budgeted for 46 out of the 215 subaccounts to which the Albuquerque Area Office charged costs in fiscal year 1977.

Bureau officials acknowledged that the organizational budgets were not used as a means of controlling costs. They said, instead, each organization's obligations were compared periodically against amounts allotted to them to make sure their costs did not exceed total budget authority. This alternate control apparently is ineffective because overall six Bureau offices had spent over \$11 million more than was allocated in fiscal year 1977 under the Operation of Indian Programs Appropriation. The Bureau only avoided exceeding its total obligation authority because some Bureau offices had underspent the amounts budgeted for their use by a slightly greater amount.

Apparently because of the extent of overexpenditures and underexpenditures by its organizations, the Bureau has developed a program to automatically shift funds at the end of the year to balance out underexpenditures and overexpenditures by activities. The funds are shifted automatically, and no attempts are made to determine the reason for changes. In fiscal year 1977, funds were shifted to cover overexpenditures of \$11 million by six area offices. Most of this amount was obtained from funds allocated to the Anadarko and Navajo Area Offices, and the Central Office in Washington.

#### FINANCIAL REPORTS INADEQUATE AND EXCESSIVE FOR EFFECTIVE MANAGEMENT

In October 1974 the Department of the Interior's Office of Audit and Investigation indicated that the Bureau's financial reports did not comply with our standards of usefulness; specifically, it said the Bureau produced too many reports with too much detail. At the time of our review, we found this condition still existed and that generally the Bureau's financial reports did not comply with our standards of accuracy and reliability.

In Title 2, of our Policy and Procedures Manual for Guidance of Federal Agencies, we caution agencies that their financial reports should meet the standard of usefulness. Specifically we said:

"Financial reports should be carefully designed to present information that is needed by and useful to the persons to whom the reports are sent. The preparation and distribution of reports that are unnecessary, not useful, or excessively detailed should be avoided, as this causes an unnecessary expenditure of public funds."  
(Underscoring supplied.)

The Office of Audit and Investigation's report of October 1974, entitled "Review of Financial Operations, Bureau of Indian Affairs," commented on the usefulness of the Bureau's financial reports. The report specifically described adverse conditions which tend to increase administrative costs or hold such costs at an unnecessarily high level. In summary it stated:

"About 15 basic reports are produced. In general terms, there are too many reports, containing too much detail and going to too many different organizational levels. The ASC (Administrative Service Center) estimated that it is distributing 10-1/2 tons of paper a year in the form of computer printouts. Some of the same data is included in two or three reports. In some cases, detail is included when only summary information is needed. And in other cases, the recipient does not understand the report and consequently does not use it. Because of the sheer number of reports, timeliness is another problem."

The Bureau had altered its financial reports substantially since Interior's review, deleting some reports and adding others; however, at the time of our review, the remaining reports still contained too much detail for managers to effectively use. For example, a report on monthly status of expenditures by organizations contained numerous transactions processed by the organization. As a result, the report for each Bureau office contained too much detail for effective management. To illustrate, the report of September 1977 for Navajo Area Offices had over 770 pages of data for managers to review.

Some Bureau officials acknowledged that the reports are still duplicative and overly detailed with unnecessary data making them difficult to use. Some also said the reports were generally not very accurate or reliable. Because of the conditions of these reports, and the continuing

problems with timeliness, several Bureau managers said that they maintained informal or "cuff" financial records which were used to manage their programs.

We also noted many obvious errors in the financial reports such as subaccounts for organizations showing negative balances for operating budgets, allotments, and obligations. Such reports do not meet the standards of accuracy and reliability as specified in Title 2 of our Policy and Procedures Manual for Guidance of Federal Agencies.

AUTOMATED ACCOUNTING SYSTEM DOES NOT  
CONTAIN ALL ESSENTIAL EDITS

As previously mentioned, the Bureau's financial reports contained obvious errors such as negative amounts shown for financial programs, allotments, and obligations. These obvious errors could have been avoided had the Bureau's automated accounting system contained the essential computer edits to insure that financial transactions were completely and properly processed.

An automated accounting system should include routines, or edits, to check transactions processed mechanically. The objectives of the edits are to insure that the transactions are recorded against proper accounts and that they are complete and valid. To be effective, the edit routines must identify errors in transactions and the system must provide for the errors to be promptly corrected.

The Bureau's automated system includes some edit routines, including one to insure that each Bureau organization processes its transactions against one of the many subaccounts to which it is authorized to charge costs. If the transaction is processed against an unauthorized subaccount, it is included on the error listing returned to the organization for corrective action. We noted that organizations were taking months to correct many erroneous transactions and many organizations had not corrected many of these transactions by the end of the fiscal year in which they were initially processed.

The Bureau's automated system does not have edit routines to identify as errors transactions resulting in negative balances. The system processed innumerable such transactions each year, resulting in negative amounts in the (1) operating budgets established for many subaccounts, (2) fund allotment balances, and even (3) total obligations

charged to them. Allotment, obligation, and operating budget balances by their nature have meaning only if they are zero or positive. For example, an allotment balance represents the amount of money a manager has authority to spend; it either has to show nothing or a positive amount. A negative allotment is, therefore, meaningless and should make suspect any report on which it appears. The same applies to negative obligations and operating budgets.

The negative balances appeared in the end-of-year records that we were given to review. The negative balances could understate the Bureau's total operating budget and obligations as shown in the records, providing the records did not contain offsetting errors in other accounts. Bureau officials assured us that records contained offsetting errors, but we did not attempt to verify this information because of the time constraints for issuing our report.

### CONCLUSIONS

The Bureau obtains funds for Indian programs and its administrative costs on the basis of budgets justified to the Congress. The Bureau's financial management system should provide the necessary data so it--as well as the Congress--can determine whether authorized programs are carried out in the most effective and least costly manner possible. The system, therefore, must include the necessary controls to insure consistency in accumulating costs and accuracy in financial reports. It should also disclose any significant deviations from approved budgets for specific programs and the reasons for the deviations should be explained.

As discussed in the preceding pages, the Bureau's financial system contains serious weaknesses, making the information generated through the system inadequate for program evaluation. Because the system's weaknesses also kept the Bureau's administrative costs at a high level, the Secretary of the Interior should insure that positive action is taken to eliminate the weaknesses and improve the system. The improvements should provide for, among other things, operating budgets to be approved by the Bureau's budget offices and used as the basis for controlling costs.

### RECOMMENDATIONS TO THE SECRETARY OF THE INTERIOR

The Secretary of the Interior should direct the Bureau of Indian Affairs to:

- Revise its accounting system operations to use its organizations' operating budgets as approved by the Bureau's budget office to control costs and prevent unauthorized deviations from operating budgets.
- Issue instructions to identify the specific sub-accounts to which each Bureau organization can charge its administrative costs, consistent with any changes requested by congressional committees to the appropriation structure, and emphasize the need to comply with the instructions.
- Eliminate the production of all financial reports not needed for effective and efficient program management and revise all retained reports to only include essential data.
- Develop edit routines in the automated system to reject all invalid and improper transactions and provide for prompt correction of rejected transactions.
- Establish fund controls that will keep area offices within amounts budgeted and require them to obtain prior approval from the Bureau's budget office for significant deviations.
- Resubmit the revised system to us for approval.

## CHAPTER 5

### SCOPE OF REVIEW

On August 9, 1977, the Chairman, Subcommittee on the Department of the Interior and Related Agencies, Senate Committee on Appropriations, formally asked us to review the Bureau of Indian Affairs, including an evaluation of controls over administrative costs. Later the Chairman's office asked us to obtain the Bureau's actual or estimated administrative costs for fiscal year 1976 through 1978 and to evaluate the effectiveness of the entire budget and appropriation process to control such costs within approved budgets. Because a report was desired by February 15, 1978, we focused our review on suspected control weaknesses that would be of interest to the Subcommittee.

The report target date also influenced our decision to perform work at only six Bureau organizations administering Indian programs or exercising control over administrative costs. Nonetheless, the organizations we reviewed represent the Bureau's administrative operation, and we believe their conditions prevail throughout the Bureau. These organizations were

- the Central Office in Washington, D.C.;
- the Central Office West in Albuquerque, N.M.;
- the Navajo Area Office in Gallup, N.M.;
- the Eastern Navajo Agency in Crown Point, N.M.;
- the Albuquerque Area Office in Albuquerque, N.M.; and
- the Northern Pueblo Agency in Santa Fe, N.M.

At the organizations mentioned above, we reviewed applicable congressional committee reports and hearings related to the Bureau's request for funds to operate Indian programs. We also examined budgetary and accounting records; evaluated budgetary and accounting policies and procedures; tested accounting system controls; analyzed administrative control procedures; and assessed the usefulness of financial reports of the Bureau's accounting system.

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