



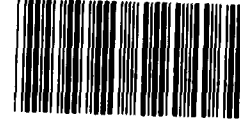
UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

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DIVISION OF FINANCIAL AND
GENERAL MANAGEMENT STUDIES

OCTOBER 2, 1980

B-200248



113456

The Honorable Cecil D. Andrus
The Secretary of the Interior

Dear Mr. Secretary:

Subject: Bureau of Indian Affairs Violated Anti-Deficiency Act in 1977 (FGMSD-80-88)

This letter discusses a Bureau of Indian Affairs violation of the Anti-Deficiency Act in fiscal 1977 which, on the basis of evidence presently available, was an overobligation of at least \$186,000 but perhaps as much as \$13 million. This condition was not reported to the Office of Management and Budget and the Congress as required by law, and because problems permitting the violation prevailed throughout most of fiscal 1978, the Bureau may have had another Anti-Deficiency Act violation that year. Details of the violation are presented in enclosure I and summarized briefly below.

The Anti-Deficiency Act was violated when the Bureau exceeded its fiscal 1977 obligational authority for the Operation of Indian Programs Appropriation. The Bureau recognized as early as September 1977 that the appropriation was overobligated, and in a January 1978 memorandum advised its area directors on how to deal with the situation. Yet, as of July 1980 the overobligation had not been reported to the President through the Office of Management and Budget, or to the Congress.

BUREAU'S ACTIONS ON THE VIOLATION

At one point, the Bureau's records showed an overobligation of \$186,000 and indicated the possibility of overobligation of as much as \$13 million. The exact amount cannot be readily established because, in an attempt to alleviate the overobligation and avoid requesting a deficiency appropriation, the Bureau made a series of questionable adjustments.

First, before closing their books for fiscal 1977, Bureau officials dropped hundreds of valid obligations from the records and transferred many of them to the fiscal 1978 appropriation. The effort fell about \$186,000 short of keeping

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the records from showing an overobligation status. After the books were closed, an unsupported adjustment of \$300,000 was made so that the Bureau's report on obligation status would show an unexpended balance. Then, of hundreds more valid obligations deobligated from the fiscal 1977 records, many also were transferred to the fiscal 1978 appropriation. In this way, many unrecorded but valid field offices' obligations found after yearend could be included in the Bureau's records without showing an overobligation.

Rather than using fiscal 1978 appropriations to cover fiscal 1977 costs, the Bureau should have sought a deficiency appropriation to cover obligations for these costs. Obligation of future year appropriations is precluded by 31 U.S.C. 712a. Moreover, the actions to shift the fund shortages unnecessarily increased the Bureau's administrative costs. For example, the Bureau canceled approximately 1,800 fiscal 1977 purchase orders, only to reissue many of them using fiscal 1978 funds. The cost to reissue each order was about \$65.

The Bureau has created a potentially perpetual situation where fund shortages are shifted forward from year to year; first from 1977 to 1978, quite likely from 1978 to 1979, and perhaps to the current fiscal 1980 appropriation. Thus, at this point, it may be practical only for the Bureau to establish and request the deficiency appropriation necessary to keep related fund shortages from being shifted to the current 1980 appropriation.

FACTORS CONTRIBUTING TO THE VIOLATION

Two factors apparently contributed to the Bureau's violation of the Anti-Deficiency Act: (1) its budgeting and fiscal reporting systems did not contain controls to keep obligations within amounts specified in appropriation acts and (2) extensive delays in recording obligations made it necessary to record numerous valid obligations after the books were initially closed for fiscal 1977.

Both fund control problems have persisted for years in the Bureau's financial system. Since 1971, the problems and appropriate action needed to correct them have been discussed in several reports by Interior's Office of Audit and Investigation and by us.

The Bureau made some improvements in its fund control system but not until the end of fiscal 1978. For most of fiscal 1978, therefore, the system remained essentially as it was in 1977 when the overobligation occurred. Moreover, the system has not been redesigned to include appropriate controls

to ensure prompt obligation recording and to alert key management officials when an Anti-Deficiency Act violation occurs.

An overobligation also may have occurred in 1978. Some Bureau officials recognized that possibility and attempted to enforce stringent measures to prevent it. However, those measures may have resulted in improperly charging the 1979 appropriation for 1978 obligations and perhaps even 1980 appropriations for 1979 obligations.

AGENCY COMMENTS

In initially responding to our findings (see encl. II), the Department agreed that (1) fiscal 1977 funds were deobligated between the end of fiscal 1977 and preparation of the final financial reports and (2) an increase in fiscal 1977 obligations occurred after the books were officially closed. The Department, however, did not acknowledge that the Bureau violated the Anti-Deficiency Act and said that additional time was needed to address this issue. Subsequently, the Department acknowledged the violation and indicated that it would be reported to the President and the Congress.

The Department's latest response contains information as to why a supplemental appropriation will not be needed to cover the overobligation. It also explains why the Department believes fund shortages related to the overobligation will not be shifted to the current year's appropriation. The Department, however, shares our concern about the possibility of the shortage being shifted and said that a review would be made of the current yearend closing to assure that this was not done.

The Department's response also expresses concern over the Bureau's lack of fund controls in its accounting system. It said the system was being redesigned to include appropriate fund controls and that a system is being planned under which fund availability would be established when obligation documents are executed.

RECOMMENDATIONS

To properly deal with the violation and its related causes, we recommend that the Secretary of the Interior

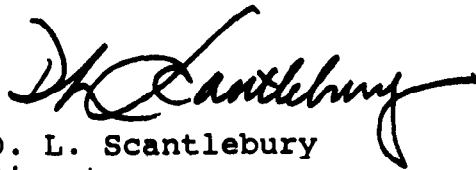
--make sure the violation is reported as soon as practicable to the President and the Congress as required by 31 U.S.C. 665(i)(2),

- have the review completed on the current year closing to make certain that fund shortages related to the violation are not shifted to future years' appropriations,
- ensure that the Bureau redesigns its accounting system to include appropriate fund controls and submits the revised system to us for approval as soon as practicable, and
- require the Bureau to use its planned interim approach to validate fund availability until the redesigned system is operational.

As you know, section 236 of the Legislative Reorganization Act of 1970 requires the head of a Federal agency to submit a written statement of actions taken on our recommendations to the Senate Committee on Governmental Affairs and the House Committee on Government Operations within 60 days of the date of the report. The act also requires a similar report to the House and Senate Committees on Appropriations with the first request for appropriations made more than 60 days after the date of the report.

We are sending copies of this report to the Committees named above and to the Senate Select Committee on Indian Affairs. Copies are also being sent to your Assistant Secretary for Indian Affairs and to your Inspector General.

Sincerely yours,



D. L. Scantlebury
Director

Enclosures - 3

GAO'S REPORT ON AN ANTI-DEFICIENCY ACTVIOLATION NOT REPORTED BY THEBUREAU OF INDIAN AFFAIRS

The Anti-Deficiency Act (31 U.S.C. 665) provides requirements for Federal agencies in controlling their obligations. As stated in the act's section 665(a) and 665(i)(2), respectively,

"No officer or employee of the United States shall make or authorize an expenditure from or create or authorize an obligation under any appropriation or fund in excess of the amount available therein * * *."

* * * * *

"In the case of a violation * * * of this section * * * the head of the agency concerned * * * shall immediately report to the President, through the Director of the Office of Management and Budget, and to the Congress all pertinent facts together with a statement of the action taken thereon."

The Anti-Deficiency Act is violated when an agency's total valid obligations for a specific appropriation exceed the obligational authority specified by law. A violation can occur any time during a fiscal year but normally surfaces at the end of the year as agencies balance their books.

This report discusses an Anti-Deficiency Act violation which, on the basis of evidence presently available, occurred when the Bureau of Indian Affairs exceeded its fiscal 1977 obligation authority for the Operation of Indian Programs Appropriation. The violation, an overobligation of at least \$186,000 but perhaps as much as \$13 million, has not been reported as required by law. To avoid requesting a deficiency appropriation, the Bureau has taken a series of questionable actions which keep its records and reports from showing the overobligation. Because the problems causing the overobligation prevailed throughout fiscal 1978, the Bureau's obligational authority may have been exceeded for that year as well.

Our findings were based on work at selected Bureau of Indian Affairs' locations--most of it at the Bureau's central office organizations in Albuquerque, New Mexico, which include the accounting management and automatic data processing divisions. Additional information was obtained during visits to the financial management office in Washington, D.C., and the Aberdeen area office in Aberdeen, South Dakota.

BUREAU'S ATTEMPTS TO AVOID
REPORTING THE VIOLATION

Agencies are required by GAO's Accounting Principles and Standards (title 2, sec. 10) to promptly and accurately record obligations when they are incurred, charging them against the related appropriation. Following this procedure should prevent an agency from incurring obligations or disbursements exceeding its appropriation or obligational authority, and thereby violating the Anti-Deficiency Act.

Our review disclosed that the Bureau may have failed to record as much as \$13 million of its fiscal 1977 obligations for the Operation of Indian Programs Appropriation until after the end of that fiscal year. As a result, the Bureau incurred an apparent Anti-Deficiency Act violation in fiscal 1977 which its officials recognized but did not report to the President and the Congress as required. The amount of the violation cannot be readily established because Bureau officials took several questionable actions that are not fully documented to eliminate the overobligation condition. However, the Bureau's records showed a violation of about \$186,000 when the books were initially closed and we believe it could be as much as \$13 million.

Deobligations before
initially closing books

Bureau officials began actions to eliminate the overobligation condition sometime between September 30 and October 15, 1977. According to Bureau officials, Bureau personnel in Washington, D.C., phoned all Bureau area offices for information on 1977 purchase orders that could be deobligated. The information was then phoned to the Bureau's Division of Accounting and Management in Albuquerque, New Mexico, and used as the basis for reducing obligated amounts shown on the Bureau's records. The records available in the Albuquerque office, however, did not indicate which purchase orders were involved in the deobligation actions for each Bureau area office. Officials in Albuquerque said that documents supporting reductions were maintained by the individual offices reporting them, especially those documents supporting reductions in response to the phone request.

The individual offices we visited, however, did not have the records supporting the adjustments readily available. For example, Albuquerque area office officials said they reported about \$280,000 for deobligation in response to the phone request but could not document the canceled purchase orders. They said this amount covered fiscal 1977 purchase orders for

school buses and other vehicles. Through Albuquerque's central office records, however, we established that only about \$170,000 was actually deobligated and included in the yearend reduction of obligations.

Unsupported adjustments
reported to Treasury

In October 1977, after reducing the reported obligations for fiscal 1977, officials prepared the Bureau's Status of Allotments and Allocations Report as of September 30, 1977. The report showed an overobligation of approximately \$186,000 for the Operation of Indian Programs Appropriation. Bureau officials used that figure to complete another report, the Report on Budget Execution (SF 133), for the Office of Management and Budget. However, a Bureau worksheet for the OMB report showed a \$300,000 adjustment to the \$186,000 overobligation figure. As a result, the budget execution report showed an unobligated balance of about \$114,000 rather than an overobligation of about \$186,000.

A Bureau official said the \$300,000 adjustment was made to eliminate duplicate obligations for General Services Administration motor pool charges. But officials could not document any such duplicate obligations. Also, even though the budget report was adjusted before December 31, 1977, the adjustment was not reflected in Bureau records until April 1978.

Additional deobligation actions
after January 1978

After the unsupported adjustment was made, the Bureau found more unrecorded obligations for fiscal 1977 which, when recorded, again overobligated its Operation of Indian Programs Appropriation. The condition prompted Bureau officials to send a memorandum to area offices requesting a final review of fiscal 1977 transactions that could be deobligated. The memorandum, signed by the Deputy Assistant Secretary for Indian Affairs on January 14, 1978, acknowledged that many fiscal 1977 obligations were not recorded in the accounts until after the books were closed and, as a result, the obligational authority for fiscal 1977 was exceeded. The memorandum instructed area directors, field administrators, and the assistant director of financial management to review undelivered orders against the fiscal 1977 appropriation. The memorandum also instructed them to

--record any recoveries that could be legitimately made at that time,

- report estimated recoveries that would probably be realized by September 30, 1978,
- review documents for early fiscal 1977 obligations and make adjustments for any that could be properly charged to fiscal 1976,
- review documents for late fiscal 1977 obligations to determine those that could properly be charged to fiscal 1978, and
- report their findings.

Amount of overobligation
not properly documented

The Bureau's financial records for fiscal 1977 were initially closed on October 15, 1977. On that date, the records showed that the Operation of Indian Programs Appropriation was overobligated by about \$186,000. However, the amount did not consider numerous fiscal 1977 obligations that Bureau officials deobligated in response to the specific actions previously discussed.

We believe that the Bureau's overobligation in fiscal 1977 may be as much as \$13 million. This is the dollar amount of unsupported adjustments we identified on the Bureau's accounting records. The adjustments were made between September 30, 1977, and July 31, 1978, as summarized below.

	<u>Amount</u>
Sept. 30 - Oct. 15, 1977 Obligations deobligated when initially closing books	\$ 8,321,081
Oct. 16, 1977 Overobligations shown after initially closing books	186,028
Oct. 16, 1977 - July 31, 1978 Additional obligations recorded after initially closing books	<u>4,900,000</u>
Total	<u>\$13,407,109</u>

After the books were closed on October 15, 1977, Bureau officials acknowledged that some valid obligations against the Operation of Indian Programs Appropriation for fiscal 1977 had not been recorded. By July 31, 1978, over \$4.9 million in such

obligations were recorded in the Bureau's fiscal 1977 records without indicating an overobligation status. Bureau officials said this was possible because they canceled numerous purchase orders and reissued new ones against their 1978 appropriation. Again, the Bureau could not document the amount of fiscal 1977 obligations deobligated when the purchase orders were canceled.

IMPROPER ACTIONS TO AVOID
SEEKING A DEFICIENCY APPROPRIATION

Once the Anti-Deficiency Act violation was detected, the Bureau should have taken all reasonable steps to reduce the amount of the deficiency appropriation that would be required to cover the overobligation. However, the Bureau's actions caused fiscal 1977 contract costs to be covered by 1978 appropriations--a practice which is not permitted by law. Also, 1978 funds were used for goods and services that were covered by the canceled fiscal 1977 purchase orders. Cancellation of these purchase orders unnecessarily increased the Bureau's administrative costs and simply passed fund shortages from one year to the next.

Improper transfer of contract costs

According to Bureau officials, in decreasing its recorded obligations for fiscal 1977, the Bureau processed nearly 200 contract changes and cancellations. Because of the condition of the Bureau's records, we could not determine the extent to which such actions resulted in contract costs being covered with fiscal 1978 funds, but we noted that this practice was occurring. Some fiscal 1977 contracts were changed to permit payments with fiscal 1978 appropriations. Other contracts were canceled and the items or services were picked up later under 1978 contracts. In our opinion, these actions are precluded by 31 U.S.C. 712a which states in part:

"Except as otherwise provided by law, all balances of appropriations contained in the annual appropriation bills and made specifically for the service of any fiscal year shall only be applied to the payment of expenses properly incurred during that year, or to the fulfillment of contracts properly made within that year."

The purpose of this provision is to restrict the use of annual appropriations to expenditures required for the service of the particular fiscal year for which they are made. On this basis, we have held that the direct or indirect transfer of contract costs from the appropriation of one year to another is precluded by 31 U.S.C. 712a (see 55 Comp. Gen. 768

(1976)). The Bureau violated this restriction by transferring the contract costs of fiscal 1977 to the 1978 Operation of Indian Programs Appropriation.

Improper use of future funds
for current needs

Bureau officials canceled about 1,800 purchase orders, simultaneously reissuing many of them using fiscal 1978 funds. Such action was apparently taken to limit the need for a deficiency appropriation. Since most of the canceled purchase orders represented valid obligations against the 1977 appropriation, the Bureau's actions were improper.

In some cases, the cancellation of such valid obligations impairs the Bureau's ability to effectively operate or execute programs to improve the livelihood of Indian people. For example, the Bureau unilaterally deobligated about \$310,200 covering purchase orders to the General Services Administration for police cars and for school buses and other types of vehicles used to transport Indian children to school. The Bureau subsequently obligated fiscal 1978 funds to cover these purchases. However, because each year's appropriation includes a ceiling on vehicle purchases, about \$32,500 for school buses could not be reobligated in fiscal 1978. Had the deficiency appropriation been requested and approved, the full contingent of buses could have been purchased.

Since the fiscal 1978 ceiling was established in the appropriation act, it could not be increased to include vehicles allowed but not purchased under the fiscal 1977 ceiling. The Bureau must request that the Congress increase this vehicle procurement ceiling before it can buy the vehicles represented by the canceled fiscal 1977 purchase orders.

Uneconomical cancellation
of purchase orders

The Bureau's cancellation of the 1,800 purchase orders not only affected Bureau programs but, in all likelihood, increased fiscal 1978 administrative costs. For example, the Bureau estimates a cost of about \$65 to process a purchase order; thus, assuming all items covered by the 1,800 canceled purchase orders were reordered (and we know many were), it may have cost the Bureau as much as \$117,000 to issue new purchase orders. Because the Bureau's records were in such poor condition, we could not establish how much of this additional cost the Bureau actually incurred.

The Bureau's actions to avoid seeking a deficiency appropriation by transferring contract costs were clearly improper

and resulted in shortages related to the violation being shifted to its fiscal 1978 appropriation. The Bureau should have sought a deficiency appropriation for some of the fiscal 1977 overobligation. Its failure to do so has precipitated a situation where fund shortages are shifted forward from year to year--first from 1977 to 1978, quite likely from 1978 to 1979, and perhaps to the current fiscal 1980 appropriation. At this point, it may be practical only for the Bureau to establish and request the deficiency appropriation necessary to keep related fund shortages from being shifted to the current 1980 appropriation.

REASONS FOR THE ANTI-DEFICIENCY VIOLATION

Two principal conditions enabled the overobligation to go undetected until near the end of fiscal 1977--(1) inadequate control of funds and (2) delays in reporting obligations. These are discussed in the following paragraphs.

Inadequate fund controls

The Bureau's accounting system, which has been revised since it was approved by the Comptroller General in 1953 but not resubmitted for approval, does not use approved budgets as a means of controlling costs within approved amounts of obligational authority. As a result, the system accepts obligations that substantially exceed amounts allocated for specific programs or functions--a condition we reported to the Congress in February 1978 (FGMSD-78-17) and which has not been corrected.

In developing its appropriation request, the Bureau requires that a budget, or financial plan, be prepared by each of its organizations authorized to incur costs. These budgets, after being adjusted for increases and decreases imposed by the Congress and the Office of Management and Budget, should be used to control obligations. However, the Bureau's automated accounting system was not programmed to use operating budgets to control costs or amounts obligated. Consequently, the system frequently accepted charges that substantially exceeded amounts budgeted or for which no budget existed. As of September 10, 1977, for example, the system allowed the Albuquerque area office to charge costs in fiscal 1977 to 46 subaccounts for which no budget existed.

Bureau officials acknowledged that the organizational budgets were not used as a means of controlling costs. Instead, to ensure that obligations did not exceed total budget authority, each organization's obligations were periodically

compared against amounts allotted to them. That control apparently was ineffective because in fiscal 1977 six Bureau offices were allowed to overobligate more than \$11 million.

Apparently because of the extent of its organizations' over and underobligations, at the end of the year the Bureau automatically shifted funds between activities to balance out. For example, in fiscal 1977 funds were shifted from some Bureau offices to cover the overobligations of \$11 million by six area offices without attempting to determine why such large overobligations existed. An effective control system would (1) flag those organizations which exceed budgeted amounts so that problems leading to excessive obligations could be corrected and (2) ensure that unused budget authority in other activities is available to cover these overexpenditures.

On February 15, 1978, we reported the fund control deficiencies we have described to the Chairman, Subcommittee on the Department of the Interior and Related Agencies, Senate Committee on Appropriations. Our report to the Congress, "More Effective Controls Over Bureau of Indian Affairs Administrative Costs are Needed" (FGMSD-78-17), includes recommendations that the Secretary of the Interior direct the Bureau of Indian Affairs to:

- Revise its accounting system to use organizational operating budgets approved by the Bureau's budget office to control costs and prevent unauthorized deviations from operating budgets.
- Develop edit routines in the automated system to reject (identify or challenge) all invalid and improper transactions and correct rejected transactions promptly.
- Establish fund controls to keep area offices within amounts budgeted and require them to obtain prior approval from the Bureau's budget office for any significant deviations.

In a May 30, 1978, reply, the Department of the Interior acknowledged that the Bureau needed to (1) improve the use of its operating budgets as a fund control mechanism, (2) improve the accuracy of its accounting records, and (3) streamline its financial reporting system. The Bureau agreed in principle with these recommendations and said it was taking actions that are slightly different from those we recommended but would accomplish the same purpose. As of July 1979, the Bureau had still not taken action to provide for the type of controls that we recommended.

Delays in recording obligations

The second factor contributing to the overobligation was extensive delays by officials in recording numerous valid obligations. The recording delays are a longstanding problem that we and the Department's internal auditors have repeatedly reported.

The Bureau's financial records do not readily show the total amount of unrecorded fiscal 1977 obligations. Although they show at least \$4.9 million in unrecorded obligations added after yearend, the records do not readily disclose the amount of unrecorded obligations added to the books that were simultaneously offset by deobligating recorded obligations.

In 1971 and 1974, Interior's Office of Audit and Investigation reported on problems with the Bureau's obligation accounting procedures. Although both reports discussed delays in recording obligations, the 1974 report emphasized the problem:

"Another serious problem which continues to confront BIA is the recording and control of obligations. * * * obligations are understated because they aren't recorded in the correct accounting period and because BIA does not always obligate the full amount of contracts. On the other hand, they are overstated because the files are not consistently reviewed to remove invalid amounts. The net result is that BIA does not really know where it stands with respect to its obligational authority."

* * * * *

"Obligations are not being recorded in the correct accounting period for two reasons. In some cases, the obligating transaction did not get processed until the month following the date of the transaction. In other cases, the obligating transaction did not get processed at all, i.e., it wasn't recorded until the disbursement occurred. We estimated that as of December 31, 1973, the unrecorded obligations caused by these two factors totaled \$4.4 million * * *."

In March 1976, we reported to the Secretary of the Interior on the Bureau's actions to correct deficiencies noted in Interior's internal auditors' reports. Our report emphasized that most of the reported problems still existed and that action should be taken to improve the timeliness of obligation recordkeeping and reporting (FGMSD-76-15, Mar. 11, 1976). We recommended that the Secretary of Interior direct the Bureau to

- record obligations when they are incurred,
- provide area and agency office program managers with timely and accurate monthly fund status reports, and
- require that Administrative Services Center's monthly fund status reports be reconciled to area and agency offices' supporting obligation documents.

Despite our emphasis on the need to improve the timeliness of recording obligations, delays continued and were a principal cause of the fiscal 1977 overobligation.

POTENTIAL FOR MORE OVEROBLIGATION

In 1978, the Bureau attempted to improve its fund control system by adding two new features--(1) query-response capability for obtaining the fund status of individual offices and (2) management review capability for checking compliance with established procedures. Although these new features were needed, they were not implemented in time to ensure that an overobligation did not occur in fiscal 1978. Moreover, we do not feel that these controls can provide the discipline necessary to prevent an overobligation. The Bureau recognized the possibility of an overobligation in fiscal 1978 and some offices attempted to impose severe measures to prevent it, including a restriction on procurements after August 1, 1978.

Changes to the Bureau's fund control system

The major change in the Bureau's fund control system during fiscal 1978 was the implementation of a query-response reporting system. The system was implemented in August 1978 and, according to Bureau officials, will provide daily financial balances for the area offices. A Bureau official said the system would give an area office immediate access through its local terminal to such information as estimated reimbursements and appropriation receipts, net allotments, accrued expenditures, and current year program obligations. Access to such information should enable administrators to determine the current status of funds at any time.

According to Albuquerque central office officials, another change in the Bureau's fund control system is a plan to make financial management operational reviews at selected area offices to ensure system compliance. However, the officials said the only such review during fiscal 1978 was made in September at the Phoenix area office.

Both changes--the implementation of a query-response reporting system and a plan to review financial management operations at selected area offices--were needed in the Bureau's fund control system. The changes, however, were not implemented in time to reduce the potential for an overobligation in fiscal 1978. Furthermore, the changes alone will not prevent an overobligation. The query-response will give a status of recorded obligations, but still no mechanism exists which ensures that all obligations are recorded or which automatically signals an overobligation.

Indicators of additional overobligations

In June 1978, the Aberdeen area office recognized the overobligation potential and instructed its agency offices that procurement action taken after August 1, 1978, would not be processed except for emergency purchases. This restriction was hampered somewhat by a May 25, 1978, temporary restraining court order prohibiting the Bureau from reducing general assistance and other welfare payments to the Indian people until a further hearing could be held. A later hearing became unnecessary when the Bureau agreed to maintain all welfare payments at the full level until its appropriation for social service benefits was exhausted.

At one point the Bureau estimated it would be \$5.5 million short for this budget line item by the end of the year. The \$5.5 million shortage was expected to result in a fiscal 1978 overobligation. September 30, 1978, financial reports to the Office of Management and Budget and to the Treasury did not show that the Operation of Indian Programs Appropriation was overobligated for fiscal 1978. These reports may be inaccurate, however, due to the poor condition of accounting records supporting the reports and the lack of control over recording obligations. Also, as was the case with the fiscal 1977 overobligation, an overobligation does not necessarily surface until months after the yearend reports are initially prepared and it may never be reflected in the Bureau's reports and records.

We did not extend our review to determine if an overobligation did occur. However, because it seems quite likely, we believe the Department's Inspector General should check to see if a violation occurred.

CONCLUSIONS

The Bureau is required by law to keep its obligations within amounts administratively distributed to each of its organizations and within the total amounts authorized by the Congress. When the Bureau exceeds those limits, it violates

the Anti-Deficiency Act and the violation must be reported to the President and the Congress. However, the Bureau's obligation obviously exceeded the authorized amounts for the fiscal 1977 Operation of Indian Programs Appropriation, a fact recognized by its key officials, and no report was filed. Also, indications are that the Bureau may have incurred another Anti-Deficiency Act violation in 1978.

The Bureau's actions on the violation were clearly improper. Fund shortages are being transferred from one year to the next, so that subsequent year funds are being improperly used to cover shortages related to prior year contracts and other types of costs. At this point, the only practical step for the Bureau to take is to make sure that related fund shortages are not shifted to the current 1980 appropriation.

Since 1971, GAO and Interior auditors have pointed out weaknesses in the Bureau's financial system which could lead to undetected Anti-Deficiency Act violations. As suggestions to correct the weaknesses still have not been acted on, future Anti-Deficiency Act violations could occur that would be undetected by the Bureau's top management. The Bureau, therefore, should take immediate action to include appropriate controls in its financial system to minimize the possibility of a violation and to promptly alert appropriate officials should one occur.

AGENCY COMMENTS

Our findings were initially reported to the Department in a February 1980 draft report. In initially responding to the draft (see encl. II), the Department agreed that (1) fiscal 1977 funds were deobligated between the end of fiscal 1977 and preparation of the final financial reports and (2) an increase in fiscal 1977 obligations occurred after the books were officially closed. The Department, however, did not acknowledge that it had violated the Anti-Deficiency Act and requested additional time to gather information to better address that issue.

The Department's comments also contained information attempting to explain why the unsupported \$300,000 adjustment mentioned in our report was appropriate. However, the accounting data the Bureau provided showed the \$301,504 mentioned in the Department's comments to be unrelated to the unsupported adjustment. In fact, the data showed this amount to be related to a series of adjustments made to the Bureau's accounting records in October, November, and December 1977, whereas the unsupported adjustment mentioned in our report was recorded in the Bureau's records in April 1978. The data also showed

that \$90,557 of the adjustments mentioned in the comments was recorded between November 15 and December 31, 1977--over a month after the books were officially closed. Consequently, the Bureau's data demonstrated that other adjustments were made after the books were closed and thus substantiated our position that an Anti-Deficiency Act violation had occurred.

Subsequently, the Department advised us that the Bureau had violated the Anti-Deficiency Act in fiscal 1977 (see encl. III). This later response set the amount of the violation at about \$3.1 million but acknowledged that the amount was not exact. The response also said that, because of the poor state of related documentation, establishment of an exact amount would require a complete reconstruction of the Bureau's accounting transactions for fiscal 1977. As pointed out by the Department, such an extraordinary effort would be beyond the Bureau's current accounting staff's capability.

In commenting on our other specific suggestions related to the violation, the Department said a supplemental appropriation would not be necessary to cover the violation because sufficient funds are now available to cover it. The fund availability resulted from efforts to purify and liquidate the 1977 obligations and the fund balance for that year was said to be now over \$1.6 million.

The Department also said that the Bureau had not obligated all funds available for operating Indian programs in fiscal 1978 and 1979. According to the comments, the availability of over \$10 million in such funds had elapsed, or expired, as of June 30, 1980, because it was not needed to cover obligations for those years. Because of this, the Department said it was unlikely the Bureau had shifted fund shortages from the overobligation to the current fiscal year but acknowledged that the absence of appropriate fund controls could permit such shifting. They further said the review we suggested would be required on current yearend closing to assure that fund shortages were not shifted.

The Department acknowledged the inadequacies of the Bureau's fund control and concurred with our suggestion to have the system redesigned to include fund controls that would provide management with information on obligation status. It said that the accounting system is being redesigned to include the controls and that an interim prevalidation system is being planned under which fund availability would be established when executing obligation documents. In view of the Bureau's longstanding problems in controlling its obligations, such a system would be appropriate.

The Department said that it would work with the Bureau in reporting the violation to the President and the Congress as we suggested.

RECOMMENDATIONS

To properly deal with the violation and its related causes, we recommend that the Secretary of the Interior

- make sure the violation is reported as soon as practicable to the President and the Congress as required by 31 U.S.C. 665(i)(2),
- have the review completed on the current year closing to make certain that fund shortages related to the violation are not shifted to future years' appropriations,
- ensure that the Bureau redesigns its accounting system to include appropriate fund controls and submits the revised system to us for approval as soon as practicable, and
- require the Bureau to use its planned interim approach to validate fund availability until the redesigned system is operational.



United States Department of the Interior

OFFICE OF THE SECRETARY
WASHINGTON, D.C. 20240

MAR 7 1980

Mr. D. L. Scantlebury
Director, Division of Financial and
General Management Studies
U.S. General Accounting Office
Washington, D.C. 20548

Dear Mr. Scantlebury:

We have reviewed your draft letter report concerning the Bureau of Indian Affairs' (BIA) violation of the Anti-Deficiency Act in Fiscal 1977 against the Operation of Indian Programs (OIP) appropriation. A review of the Bureau's financial records does show that deobligations of Fiscal 1977 funds occurred between the end of the Fiscal Year and the preparation of final financial reports. Also, an increase in Fiscal 1977 obligations after the books were officially closed did occur. It is not yet clear, however, that an Anti-Deficiency Act violation occurred. BIA officials have initiated a process to better answer that question.

Documentation of the deobligation directive could not be located, and BIA officials have not yet interviewed all appropriate field and headquarters employees to obtain their personal knowledge of the surrounding events. We understand that the directive to review obligations was communicated by telephone. Consequently, the criteria used by the Bureau's area offices to select those obligations for deobligation is unknown.

At the end of each fiscal year, 31 U.S.C. 200 requires that heads of agencies certify as to the validity of obligations. In the absence of any documented deobligation criteria, it is possible that area offices were directed to determine the validity of the obligations against Fiscal 1977 and deobligate those that were invalid. Written instructions of that nature were given to the Bureau's area offices by the Deputy Assistant Secretary of Indian Affairs on January 14, 1978, as a result of an increase in obligations against Fiscal 1977 funds disclosed by the Bureau's financial reports. In response, at least one area identified several contracts against Fiscal 1977 funds that had been completed with savings but not closed on the books or which should have been cancelled for nonperformance but the transaction not entered into the accounting system. These should have been classified as invalid obligations at yearend.

Due to the above circumstances, the specific obligation documents that were deobligated after the end of Fiscal 1977 have been identified and a listing of them sent to the respective BIA area director by the Commissioner of Indian Affairs with instruction to investigate the validity of the original obligation against Fiscal 1977 and to provide an explanation of the disposition of the document, i.e., cancelled, reissued, and/or reobligated against Fiscal 1978. Also identified and provided to BIA area directors are those documents that caused Fiscal 1977 obligations to increase after the close of the year with instructions to identify each transaction as to the purpose of the expenditure, its validity as a Fiscal 1977 charge, and the circumstances as to why the obligations were not recorded on the books at the close of Fiscal 1977. Furthermore, all deobligations, by document number, of Fiscal 1977 funds occurring after the above-cited January 14, 1978 memorandum have been provided to the area directors with instructions to describe the reason for the deobligation.

A representative copy of the requests is enclosed for your information.

The \$300,000 adjustment that was made at yearend was investigated and found to represent charges against Fiscal Year 1977 that should have been transferred to appropriations other than the Operation of Indian Programs. Many of the service agencies such as GSA, OPM, and GPO utilize the Simplified Intragovernmental Billing and Collection (SIBAC) System for charging their costs of service to Federal agencies. Since the charges are made against an agency through the Treasury SF-224 reporting system, they must be recorded on the agency's books. In many instances, the documentation provided with the SIBAC billings does not sufficiently identify the specific appropriation to charge. Therefore, to stay in balance with Treasury and to disclose the charges on the Bureau's books, a working activity was established within the Operation of Indian Programs appropriation. As SIBAC bills are received, they are charged to the working activity and the SIBAC documentation sent to the appropriate BIA area office for identification of the correct appropriation and transfer of the charges from the OIP appropriation. Included in the activity are unidentified (as to appropriation) motor pool charges as well as other service charges.

Apparently in Fiscal 1977, the account was not cleared at yearend by the area offices. In October, November, and December 1977 (Fiscal 1978) charges against Fiscal 1977 amounting to \$301,504 were transferred by areas to other appropriations. We have compiled a listing of the transfer documents, the amount of each, and the appropriation charged.

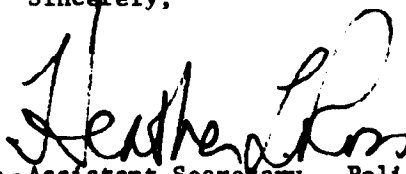
The \$300,000 adjustment appears to be appropriate, but it should have been adequately documented in accordance with accepted accounting principles and procedures at the time the original entry was made.

In regard to fund controls, in 1977 and 1979 the BIA issued financial management procedures to facilitate the accurate and timely reporting of obligations into the accounting system. Additionally, the Bureau's FASTOR reporting system had been redesigned to report quarterly financial plan data and instructions have been given to allottees to enter financial plans by quarter. This data will assist in strengthening the monitoring of obligations and will be reinforced by mid-year and third-quarter reviews by the Assistant Secretary, Indian Affairs and the Commissioner of Indian Affairs with allottees. A redesign of the Bureau's accounting system to include appropriate fund controls is underway, with basic system concept completion scheduled for the end of June 1980. At this time, we will begin our consultation with GAO to institute the accounting system approval process.

Insofar as the balance of your recommendations, we prefer to delay comment and action pending the outcome of the above-described investigation of the deobligations and obligations that occurred against Fiscal 1977 funds after September 30, 1977. We estimate that the review will be completed by BIA and the results known by April 30, 1980.

Based upon these findings, the Department will initiate all appropriate actions.

Sincerely,


Deputy Assistant Secretary - Policy,
Budget and Administration

Enclosure



United States Department of the Interior

OFFICE OF THE SECRETARY
WASHINGTON, D.C. 20240

JUL 23 1980

Mr. D. L. Scantlebury
Director, Division of Financial
and General Management Studies
U.S. General Accounting Office
Washington, D.C. 20548

Dear Mr. Scantlebury:

This is to further respond to your draft letter report concerning the Bureau of Indian Affairs' (BIA) violation of the Anti-Deficiency Act in fiscal 1977 against the Operation of Indian Programs appropriation. Since our March 7, 1980 letter on this matter, BIA has completed a review of the records available at their central accounting office in Albuquerque, New Mexico. The review of these records indicates that an overobligation in the amount of \$3,085,072 did occur. This amount could be subject to substantial refinement if a thorough field review were made of obligation and other accounting documents since the Albuquerque office review was confined to transactions subsequent to September 30, 1977. Because of the poor state of the related documentation, such a review would apparently require a full reconstruction of the transactions and accounts for fiscal year 1977 which would take an extraordinary staff effort on the part of BIA and which is clearly beyond BIA's current accounting staff capability. Nonetheless, we believe the estimate is reasonable and the Department's Division of Financial Administration will work with BIA staff to prepare an appropriate notification to the Congress and the President of this overobligation.

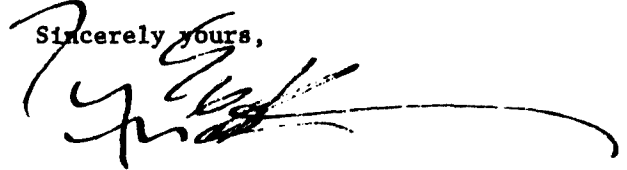
While there remains a degree of uncertainty, it is clear that some erroneous deobligations were made during the closing of the 1977 records. Although some deobligations were in error, most were valid and removed from the books since all liability on the part of the United States had been liquidated. The year-end obligation situation is further clouded by the multiyear availability of funds for service and other contracts pursuant to P.L. 93-638.

BIA has determined that a supplemental appropriation is not necessary to cover the antideficiency since deobligations resulting from the purification and liquidation of 1977 obligations have made funds available in excess of any antideficiency amount. The current positive account balance F.Y. 1977 amounts to \$1,624,300.

Your draft report indicates a concern that any F.Y. 1977 overobligation may have been "rolled forward" to fiscal year 1978 and possibly even to the current fiscal year. We think that this is unlikely since BIA had unobligated funds of \$1,522,303 at the end of F.Y. 1978, and \$6,260,258 at the end of F.Y. 1979. This amount has now grown to a positive lapse balance of \$10,372,109 as of June 30, 1980. We share your concern, however, over the lack of positive fund control which could lead to such a "roll-forward" and will request a review of the current year closing to assure that this has not occurred.

Additionally, we agree with your concerns about the BIA accounting system and concur that the system needs to be redesigned to provide timely, accurate and meaningful information to the managers, especially in the area of fund control. BIA installed an automated monitoring system during the latter part of F.Y. 1978 to provide day-to-day status of funds to managers. A prevalidation system is being planned to ensure fund availability at the time the obligation document is executed. These modifications are "quick fix" actions being taken while the overall accounting system is being redesigned.

Sincerely yours,



Larry E. Meierotto
Assistant Secretary - Policy,
Budget and Administration

