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BY THE U.S. GENERAL ACCOUNTING OFFICE

**Report To The Chairman, Committee
On Interior And Insular Affairs
House Of Representatives**

**Bureau Of Indian Affairs' Use Of
Selected Aspects Of Its Fiscal
Year 1984 Appropriated Funds**

The Chairman, House Committee on Interior and Insular Affairs, introduced the Bureau of Indian Affairs Fiscal Accountability Act (H.R. 1919) in the 99th Congress. This bill is intended to strengthen the Bureau's accountability to the Congress on its use of appropriated funds.

To assist the committee in considering H.R. 1919, GAO reviewed certain aspects of the Bureau's use of its fiscal year 1984 appropriated funds. GAO found that the Bureau generally used these funds in accord with congressional expectations but that design and operating weaknesses in its automated accounting system would make it difficult for the Bureau to reliably meet the financial reporting requirements in H.R. 1919.



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

ACCOUNTING AND FINANCIAL
MANAGEMENT DIVISION

B-219883

The Honorable Morris K. Udall
Chairman, Committee on Interior and
Insular Affairs
House of Representatives

Dear Mr. Chairman:

In your committee's November 13, 1984, letter regarding consideration of the Bureau of Indian Affairs Fiscal Accountability Act of 1985 (H.R. 1919), you asked us to review certain aspects of the Department of the Interior's Bureau of Indian Affairs' (the Bureau's) planned and actual use of its fiscal year 1984 spending authority. Therefore, we designed our work to obtain information on the provisions of H.R. 1919 which would require the Bureau to report to the Congress on its planned and actual use of its appropriated funds at the beginning and end of each year and that would permit the Bureau to deviate from planned fund use only under certain circumstances.

Specifically, we focused on three issues: whether (1) the Bureau allotted fiscal year 1984 funds for the Indian Services Program, which includes the social services and law enforcement subactivities, according to financial plans reflecting its 1984 appropriations, (2) the Headquarters and the Albuquerque and Phoenix area offices received allotments and they obligated funds for the social services and law enforcement subactivities according to the financial plans, and (3) financial results reports provided accurate and reliable information on allotments and obligations for the above subactivities in order that the Bureau could meet proposed provisions of H.R. 1919.

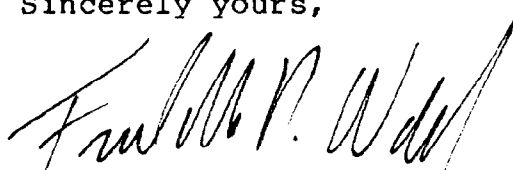
Overall, the Bureau allotted--made available--fiscal year 1984 appropriated funds earmarked for social services and law enforcement subactivities in accord with financial plans and congressional expectations. The Headquarters and the Albuquerque and Phoenix area offices, on an overall basis, obligated funds according to financial plans but deviated from these plans at the agency or tribal level. In examining the reliability of financial information currently reported, we found that the Bureau's automated accounting system did not provide information needed for the Bureau's management, control, and use of appropriated funds. The system, because of design

and operating weaknesses, does not provide the timely, complete, and accurate information managers need to ensure that operations track financial plans and reliably report on the financial results of operations. Unless these design and operating problems are addressed the Bureau will have difficulty in reliably meeting H.R. 1919 fund control and financial reporting requirements. (Appendix I contains our analysis.)

Bureau officials commented that the accounting system's operating weaknesses rather than design weaknesses would create the difficulty for the Bureau in reliably meeting the financial reporting requirements in H.R. 1919. They stated that actions are currently being taken to improve financial data produced by the system. While we agree with this view, we believe that system design problems also contribute to the Bureau's system producing unreliable financial data. (See appendix II.)

We hope the information presented in our report will be useful to the committee in its consideration of H.R. 1919. Unless you publicly announce the contents of this report earlier we plan no further distribution of this report until 5 days from the date of this letter. At that time, we will send the report to interested parties and make copies available to others upon request.

Sincerely yours,

A handwritten signature in black ink, appearing to read "Frederick D. Wolf". The signature is written in a cursive style with a long, sweeping tail that extends downwards and to the right.

Frederick D. Wolf
Director

BUREAU OF INDIAN AFFAIRS USE OF SELECTED
ASPECTS OF ITS FISCAL YEAR 1984 APPROPRIATED FUNDS

The House Committee on Interior and Insular Affairs requested us to review certain aspects of the Bureau of Indian Affairs' use of its 1984 appropriated funds to assist the committee in considering proposed legislation--Bureau of Indian Affairs Fiscal Accountability Act of 1985 (H.R. 1919)--designed to strengthen the Bureau's accountability to the Congress and to the committee on the use of appropriated funds. In this regard, the committee asked us to determine whether:

- the Bureau allotted its fiscal year 1984 appropriated funds for the Indian Services Program to its area and agency offices in accord with congressional expectations reached during the appropriation process,
- the Headquarters and two selected area offices--Albuquerque and Phoenix--used their allotments of appropriated funds for two selected subactivities--social services and law enforcement--in accord with congressional expectations reached during the appropriation process, and
- the Bureau's reports on the financial results of program and administrative operations fairly reflect the actual uses made of appropriated funds for fiscal year 1984 for social services and law enforcement subactivities by the Headquarters office and by the Albuquerque and Phoenix area offices.

We performed work at the Bureau's Headquarters in Washington, D.C., and at the Albuquerque and Phoenix area offices. We examined the Bureau's use of appropriated funds for the Indian Services Program, with particular emphasis on the social services and law enforcement subactivities, but we did not review the Bureau's use of fiscal year 1984 appropriations for other purposes such as its construction, loan guaranty and insurance, or trust funds operations. We did not evaluate the propriety or programmatic results of the transactions that we examined because of time constraints and the limited scope of our review.

Our analysis of the Bureau's use of its spending authority involved tracing this authority from fiscal year 1984 appropriations acts and related committee reports, through the allotments to the Bureau's area offices, to the actual obligation of these funds. Specifically, we

- examined the Bureau's budget development and presentation system, including program plans prepared by the Headquarters and by the Albuquerque and Phoenix area offices;
- identified expectations agreed to during the fiscal year 1984 appropriations process on the allotment of the

Bureau's 1984 appropriation by analyzing the Bureau's budget request, its financial plans, appropriation acts, and relevant congressional committee reports;

- identified the Bureau's actual allotments of its fiscal year 1984 appropriated funds for operation of the Indian Services Program to area offices and compared these allotments to expectations reached during the appropriations process;
- determined the actual obligations by the Albuquerque and Phoenix area offices for the social services and law enforcement subactivities;
- compared the Bureau's actual allotments and obligations for social services and law enforcement subactivities with information recorded in and reported by its automated accounting system, including the Bureau's monthly budget-execution reports submitted to the Office of Management and Budget and year-end reports submitted to the Department of the Treasury; and
- surveyed the operation of the Bureau's automated accounting system, making tests of the accounting records as we deemed necessary under the circumstances, to identify design and operating weaknesses and to assess the effect these weaknesses would have on the Bureau's ability to respond effectively to the requirements of H.R. 1919.

We conducted our review between January 1985 and May 1985 in accordance with generally accepted government auditing standards. We obtained agency comments from the Bureau.

BACKGROUND

The Bureau of Indian Affairs is the United States government's agent in dealing with federally recognized Indian tribes and is responsible for several program and administrative operations on Indian reservations.¹ It discharges its responsibilities, in a large part, by issuing contracts and grants to tribes to involve them in planning, conducting, and evaluating program and administrative operations. The Bureau also manages certain Indian trust funds as fiduciary.

The Bureau carries out its responsibilities through its central offices in Washington, D.C., and Albuquerque, New

¹The departments of Health and Human Services, and Housing and Urban Development as well as the Economic Development Administration also fund and run programs on Indian reservations.

Mexico,² and through local offices consisting of 12 area offices and 82 agency offices. Agency offices, which are usually located on Indian reservations, may serve one or more tribes.

Overview of the budget development process and the Congress' current budget execution controls

The Congress provides the Bureau with an annual appropriation to carry out program and administrative operations. Allotments of the appropriation by program and administrative operation, by activity and subactivity, and by Indian tribe are set forth in detailed program and financial plans prepared by the Bureau's Headquarters and local offices. The program plans support the Bureau's annual budget request and are used by the Congress during the annual appropriations process. The financial plans are prepared after the Bureau receives its annual appropriation.

The Bureau's program and financial plans and appropriation cover seven³ broad program activities. The program activities are, in turn, broken down into subactivities, for which each area office receives an allotment. For example, the Indian Services Program, the focus of our work, is made up of five subactivities: aid to tribal government, social services, law enforcement, community services, and self-determination services. The plans detail the program activities and subactivities to be carried out on each Indian reservation served by the Bureau. For example, the financial plan prepared by the Bureau's Phoenix area office showed how much money the Bureau planned to spend for social services and law enforcement subactivities for each Indian tribe under its jurisdiction.

The detailed program plans play a key role in the annual congressional appropriations process for the Bureau. These plans provide the cognizant congressional committees with the details on how the Bureau plans to distribute and use its annual appropriation. The financial plans, prepared on the basis of appropriations actually provided the Bureau, reflect expectations by the Congress on how the Bureau will use its spending authority.

²The Bureau's Headquarters accounting operation and financial management systems staff are located in Albuquerque, and the accounting policy and budget formulation, presentation, and execution staff are located in Washington, D.C.

³The seven program activities covered by the Bureau's annual budget request and resulting appropriation include (1) Education, (2) Indian Services Program, (3) Economic Development, (4) Natural Resource Development, (5) Trust Responsibilities, (6) Facilities Management, and (7) General Administration.

The Congress and its committees with oversight and appropriation responsibilities for the Bureau, however, do not receive information on the results of the Bureau's actual distribution and use of appropriated funds in the format and level of detail comparable to the Bureau's financial plans. The required reports on the financial results of program and administrative operations the Bureau annually prepares and sends to the Office of Management and Budget and to Treasury do not request information on actual distribution and use of appropriated funds by subactivity and Indian tribe. Consequently, the Congress cannot use these reports to determine whether the Bureau distributed and used its appropriated funds in accord with congressional expectations.

Key provisions of H.R. 1919

To enhance the Congress' control over the Bureau's distribution and use of appropriated funds, the Chairman, House Committee on Interior and Insular Affairs, introduced H.R. 1919 in the 99th Congress. If enacted, H.R. 1919 would require the Bureau to report to designated congressional committees on its planned and actual distribution and use of appropriated funds at the beginning and end of each fiscal year, respectively. It would also restrict the Bureau's latitude in deviating from its planned distribution and use of funds during the year. Specifically, the bill would require the Bureau, among other things, to:

- report to designated congressional committees on its allotment--planned distribution and use--of appropriated funds to its local offices within 60 days of appropriation acts or at the end of the second quarter of the fiscal year, whichever is later. This report is to detail allotments by program activity and subactivity (agency office and individual Indian tribe).
- report to designated congressional committees on its obligation and expenditure of allotted funds--actual distribution and use--compared with its planned allotment of appropriated funds along with complete explanations of any differences. The report is to be in the same format as the report submitted at the beginning of the fiscal year and is to be sent within 30 days after the President sends his budget request to the Congress for the following fiscal year.

In limiting the Bureau's latitude to deviate from the planned distribution and use of funds during the fiscal year, the bill would preclude the Bureau from transferring allotted funds from one program activity, subactivity, or tribe to another activity, subactivity, or tribe except in cases where:

- the Congress directs the transfer of funds through supplemental appropriation acts or approves a presidential

request for rescission or deferral under the Impoundment Control Act of 1974, or

- Indian tribes served by the Bureau request or consent to the transfer of funds and the transfer does not exceed 10 percent of the initial allotment.

BUREAU ALLOTTED FISCAL YEAR 1984 FUNDS IN ACCORD WITH FINANCIAL PLANS BUT SOME ALLOTMENTS WERE MADE LATE IN THE FISCAL YEAR

Overall, the Bureau allotted its fiscal year 1984 appropriated funds for the Indian Services Program, which includes the social services and law enforcement subactivities, in accord with financial plans and congressional expectations reached during the appropriation process. However, some allotments were made late in the fiscal year, and, in making these allotments, the Bureau Headquarters office asked local offices whether they could obligate these funds before the end of the fiscal year.

The Bureau had almost \$974 million in spending authority available for fiscal year 1984 for operations of its various programs, as shown in the following table.

<u>Sources of Spending Authority</u>	--(thousands)--
New Appropriations	\$822,302
Supplemental Appropriations	34,471
Unobligated Balance From Prior Years	61,622
Estimated Reimbursements for 1984	<u>55,133</u>
	<u>\$973,528</u>

Bureau financial plans, as revised to reflect actual 1984 appropriations, earmarked about \$226 million of the \$974 million for the Indian Services Program. As detailed in the following table, of the \$226 million the Bureau allotted about \$224 million to its Headquarters and local offices. The remaining \$2 million was held in Headquarters' reserve accounts, which the Bureau has established to respond to unforeseen changes in conditions during the year.

Financial Plan Amount for Indian Services Program

	<u>Amounts</u>	
	---(thousands)---	
<u>Total planned allotment</u>		\$226,049
<u>Allotments made to:</u>		
Aberdeen Area Office	\$36,279	
Albuquerque	14,760	
Andarko	7,509	
Billings Area Office	14,024	
Eastern Area Office	9,962	
Juneau Area Office	11,409	
Muskogee Area Office	8,320	
Minneapolis Area Office	10,273	
Navajo Area Office	46,371	
Phoenix Area Office	37,907	
Portland Area Office	19,007	
Sacramento Area Office	4,186	
Haskell College	20	
Bureau Headquarters Office	<u>3,689</u>	<u>(223,716)</u>
Not allotted and held in reserve accounts		<u>\$ 2,333</u>

The Bureau did not complete allotting the full \$224 million to its Headquarters and local offices until the end of the fiscal year. Because it started fiscal year 1984 on a continuing resolution, it could not allot any funds until it received its fiscal year 1984 appropriation on November 6, 1983. The Bureau, however, waited until March 1, 1984, to allot about \$208 million to its Headquarters and local offices for the Indian Services Program. Subsequently, it allotted an additional \$16 million and reprogrammed funds previously allotted. From July through September 1984, the Bureau allotted about \$11 million of the \$16 million to its Headquarters and local offices. Because the Bureau made some allotments of funds late in the fiscal year, in several instances local offices receiving allotments were asked to notify the Bureau's Headquarters if they could obligate these funds before the end of the fiscal year. Examples of these kinds of allotments include

- an allotment on September 4, 1984, of \$700,000, and another on September 20, 1984, of \$250,000 to the Phoenix area office for social services general assistance grants;
- an allotment on September 4, 1984, of \$151,556 to the Albuquerque area office for contract support funds; and
- an allotment on September 17, 1984, of \$80,000 to the Albuquerque area office under the Indian Child Welfare Act.

HEADQUARTERS AND THE ALBUQUERQUE AND PHOENIX AREA
OFFICES ON AN OVERALL BASIS USED ALLOTTED FUNDS
IN ACCORD WITH FINANCIAL PLANS BUT DEVIATED
FROM PLANS AT AGENCY AND TRIBAL LEVEL

Out of the \$224 million allotted for the Indian Services Program, Albuquerque received about \$14.8 million, Phoenix received \$37.9 million, and the Bureau's Headquarters received about \$3.7 million. In the aggregate, these offices obligated allotted funds for the purposes established in their financial plans. Individual tribes under their jurisdictions, however, did not always receive funds according to financial plans as revised to reflect amounts actually appropriated.

As discussed in more detail in the following sections, we identified variances between the planned and actual use of funds for individual Indian tribes. We used the best documentary evidence available on the actual uses of funds for social services, law enforcement, and other subactivities under the Indian Services Program. This evidence included reports produced by the Bureau's automated accounting system, supplementary manual records maintained by local office managers, contract and grant documents, and computer coding sheets--special forms to record information for entry into the Bureau's automated accounting system. We had to work with all these records because the accounting system did not produce reliable information. (See page 13.)

Albuquerque area office's
use of allotted funds

Of the \$14.8 million allotted to the Albuquerque area office for the Indian Services Program, about \$5.1 million was for social services, \$3.8 million for law enforcement, and \$5.9 million for all other subactivities. We reviewed obligating documents such as purchase orders or contracts for about 93 percent of the social services obligations and about 97 percent of the law enforcement obligations. We also summarized the obligations reported by the Bureau's accounting system related to the \$5.9 million allotted for other subactivities under the Indian Services Program. This work showed that all but about \$70,000 of the \$14.8 million was obligated and that funds allotted for these subactivities were obligated for functions and programs within these subactivities. Details are shown in the following table.

	<u>Financial plan</u>	<u>Obligations</u>	<u>Differences</u>
	----- (thousands) -----		
Social Services			
Subactivity	\$ 5,121	\$ 5,053	\$68
Law Enforcement			
Subactivity	3,777	3,849	(72)
All Other			
Subactivities	<u>5,879</u>	<u>5,805</u>	<u>74</u>
Totals	<u>\$14,777</u>	<u>\$14,707</u>	<u>\$70</u>

On an individual tribe or agency basis, however, funds actually obligated for subactivities varied from the original area office financial plans. We analyzed in detail the financial plans and obligations for the social services subactivity. For example, this analysis showed that the original plan for the Mescalero Agency proposed \$682,000 while actual obligations totaled about \$830,000. On the other hand, the Ramah Navajo Agency had \$462,000 originally proposed, while actual obligations totaled about \$410,000. The following table compares planned and actual uses of funds for social services for individual tribes and agencies under the Albuquerque area office's jurisdiction.

	<u>Financial plan</u>	<u>Obligations</u>	<u>Differences</u>
	----- (thousands) -----		
Albuquerque Area Office	\$ 531	\$ 442	\$ 89
Southern Pueblos Agency	1,213	1,196	17
Laguna Agency	387	363	24
Northern Pueblos Agency	356	363	(7)
Southern Ute Agency	141	189	(48)
Ute Mountain Agency	834	828	6
Mescalero Agency	682	830	(148)
Zuni Agency	155	155	0
Ramah Navajo Agency	462	410	52
Jicarilla Agency	300	277	23
Albuquerque Field			
Operations	<u>60</u>	<u>-</u>	<u>60</u>
Totals	<u>\$5,121</u>	<u>\$5,053</u>	<u>\$ 68</u>

We did not evaluate the reasons for or the programmatic effects of the variances in the planned and actual uses of funds. In discussing these variances with area office officials, they told us that they resulted, among other reasons, from changing conditions and needs of individual Indian tribes, which necessitated the area offices using funds differently from financial plans.

Phoenix area office's
use of allotted funds

Of the \$37.9 million allotted for the Indian Services Program, the Phoenix area office received about \$20.9 million for social services, \$7.5 million for law enforcement, and \$9.5 million for all other subactivities. We reviewed obligating documents for about 99 percent of the obligations for social services and 84 percent of the law enforcement obligations. We also summarized the obligations reported by the Bureau's accounting system related to the \$9.5 million allotted for other subactivities under the Indian Services Program. This work showed that funds set aside for these subactivities were obligated for the intended functions. All but about \$11,000 of the \$37.9 million was obligated. Details are shown in the following table.

	<u>Financial plan</u>	<u>Obligations</u>	<u>Differences</u>
	------(thousands)-----		
Social Services Subactivity	\$20,931	\$21,218	\$(287)
Law Enforcement Subactivity	7,504	7,460	44
All Other Subactivities	<u>9,471</u>	<u>9,217</u>	<u>254</u>
Totals	<u>\$37,906</u>	<u>\$37,895</u>	<u>\$ 11</u>

As with the Albuquerque area office, however, on an individual tribe or agency basis, actual obligations for Indian Services Program subactivities varied from original financial plans. We analyzed in detail the financial plans and obligations for the social services subactivity. This work showed that for social services, the Eastern Nevada Agency was originally scheduled to receive \$888,000, but only about \$485,000 was obligated. The Pima Agency, on the other hand, had originally been scheduled to receive \$2.2 million, but it actually obligated \$2.5 million. A complete listing comparing financial plans with obligations for social services for tribes and agencies under the jurisdiction of the Phoenix office follows.

	<u>Financial plan</u>	<u>Obligations</u>	<u>Differences</u>
	----- (thousands) -----		
Phoenix Area Office	\$ 1,214	\$ 868	\$ 346
Phoenix Field Ops.	91	132	(41)
Pascue Yaqui	582	587	(5)
Colorado River Agency	634	691	(57)
Fort Apache Agency	2,428	2,256	172
Papage Agency	5,034	4,928	106
Fort McDowell	186	215	(29)
Salt River Agency	831	913	(82)
Pima Agency	2,208	2,479	(271)
San Carlos Agency	3,272	3,494	(222)
Western Nevada Agency	1,638	1,596	42
Uintah Ouray Agency	155	105	50
Fort Yuma Agency	236	227	9
Duck Valley	141	436	(295)
Eastern Nevada Agency	888	485	403
Hopi Agency	708	943	(235)
Truxton Canyon Agency	454	530	(76)
Southern Paiute Field Sta.	231	333	(102)
	<u>\$20,931</u>	<u>\$21,218</u>	<u>\$(287)</u>

As at Albuquerque, we did not evaluate the reasons for or programmatic effects of the variances in planned and actual uses of funds, but in discussing variances with area office officials, they told us that the variances resulted from, among other reasons, changes in tribal conditions and needs.

Headquarters offices'
use of allotted fund

The Bureau Headquarters offices received about \$3.7 million for the Indian Services Program. About \$.4 million was planned to support social services, \$1.1 million for law enforcement, and about \$2.2 million for all other subactivities. We analyzed obligating documents for the social services, law enforcement, and all other subactivities. We found that, while \$372,000 was originally planned for social services, about \$554,000 was actually obligated. For law enforcement, with about \$1.1 million originally planned, about \$1.3 million was actually obligated. Overall, obligations totaled about \$4.1 million, which was \$500,000 more than the \$3.6 million in the financial plan. The \$500,000, therefore, had to be reprogrammed from other program accounts. Details are shown in the following table.

	<u>Financial plan</u>	<u>Obligations</u>	<u>Differences</u>
	------(thousands)-----		
Social Services Subactivity	\$ 372	\$ 554	\$(182)
Law Enforcement Subactivity	1,090	1,340	(250)
All Other Subactivities	<u>2,161</u>	<u>2,275</u>	<u>(114)</u>
Totals	<u>\$3,623</u>	<u>\$4,169</u>	<u>\$(546)</u>

As in the Albuquerque and Phoenix area offices, we did not evaluate the reasons for or programmatic effects of the variances in planned and actual uses of funds, but in discussing variances with Headquarters officials, they told us that the variances resulted from, among other reasons, changes in tribal conditions and needs.

BUREAU'S ACCOUNTING SYSTEM CANNOT RELIABLY
MEET H.R. 1919 REPORTING REQUIREMENTS

The Bureau's financial reports do not accurately reflect the financial results of program and administrative operations. The automated accounting system does not produce reliable information needed by officials in the Bureau's Headquarters and local offices to (1) manage and control appropriated funds and ensure that actual operations track financial plans and (2) report reliably on the financial results of program and administrative operations. Consequently, the system does not meet its intended purpose as the Bureau's main accountability and control mechanism for its appropriated funds. Bureau officials realize that the system does not function as intended because of known, long-standing design and operating weaknesses. We reported on these weaknesses in September 1982,⁴ and the Secretary of the Department of the Interior reported on January 7, 1985, pursuant to the Federal Managers' Financial Integrity Act of 1982, that the Bureau's system of internal accounting and administrative control does not provide reasonable assurance that control objectives are achieved and that its accounting system does not meet the Comptroller General's requirements. Unless the Bureau corrects these weaknesses, it will have difficulty reliably satisfying the financial reporting requirements in H.R. 1919.

⁴See Major Improvements Needed in the Bureau of Indian Affairs' Accounting System (GAO/AFMD-82-71, September 8, 1982).

Overview of the Bureau's accounting system

The Bureau's Headquarters and local offices are responsible for capturing financial transaction information, and preparing and submitting this information for computer processing.⁵ The Bureau's accounting system was designed to maintain its general ledger accounts, to produce reliable internal and external financial reports, to be the Bureau's chief control mechanism to account for and control appropriated funds, and to help managers ensure that actual operations track financial plans. Specifically, the system was designed to (1) record the Bureau's detailed financial plans, as revised to reflect actual appropriated amounts, (2) record actual obligations and expenditures, and (3) report financial plan information compared with actual obligations and expenditures.

A major purpose of the reports produced by the system is to help Bureau managers track the financial results of operations. For example, the Report on Status of Obligations is prepared for three organizational levels--Headquarters, area, and agency offices. The report is prepared monthly and provides year-to-date obligation amounts by program activity or subactivity. Specifically, the report shows financial plan amounts and related obligations and unobligated funds available, and presents the information by object class (salaries, travel, etc.), project description, location, and program activity or subactivity. The system also produces several other reports to provide Bureau officials with additional information to help them monitor the use of appropriated funds.

System design and operating weaknesses

Known, long-standing design and operating weaknesses, however, preclude the Bureau's accounting system from fulfilling its design goal of being the Bureau's chief control mechanism over its appropriated funds. These weaknesses cause the information in the system's files and in the reports produced to be incomplete, inaccurate, and untimely.

The two major design weaknesses in the accounting system are inadequate controls over who can enter information into the system and inadequate computer edit checks over financial transaction information entered into the computer for processing. As a result, erroneous information is entered into the system, posted to the accounting records, and included in financial reports. Specifically:

- The system maintains accounts for all Bureau Headquarters and local offices, but it is not designed to prevent a local office from entering financial transaction

⁵The Bureau's accounting system is run on a computer system operated by Martin Marietta in Orlando, Florida.

information--an obligation of funds for example--into a Headquarters account and vice versa. Consequently, responsibility for recorded obligations and other financial transactions cannot be fixed and the transactions are difficult to validate.

--The system is designed to first record financial plan information and subsequently record obligations and expenditures. If financial plan information is not recorded in the system before an obligation is recorded, the system will record and report an erroneous overobligation of funds. Computer edit checks for obligation transactions do not check to ensure that financial plan information has been entered into the system before accepting and processing the obligation transaction. As a result, status of obligation reports produced by the system include:

- ° erroneous reported overobligations,
- ° erroneous totals of financial plan and unobligated balance amounts, and
- ° erroneous unobligated balances and object class amounts.

In commenting on a draft of this report, the Bureau stated that its accounting system, with minor modifications, could restrict input through system edits and not allow different offices to enter transaction information in other offices' accounts. However, it is the Bureau's policy to allow interagency/area/headquarters transactions. The Bureau further acknowledged that financial plan information is not always entered into the accounting system before entering obligation transactions. The Bureau also commented that commitments rather than obligations should be compared to financial plans. (See appendix II, page 21.)

The major operating weakness is that Bureau Headquarters and local office personnel do not enter financial transaction information into the system completely, correctly, and promptly. For example, our review of selected transactions and financial reports disclosed that:

--At Albuquerque:

- ° A transaction for a contract modification, which should have reduced the contract amount, was entered as an increase to the contract, causing a \$95,600 overstatement of obligations for that contract.
- ° Another transaction for more than \$220,000 canceled or deobligated amounts on three grants. The transaction was processed through the system near the

end of fiscal year 1984 to prevent reporting an overobligation. The three grants were subsequently obligated in fiscal year 1985.

--At Phoenix:

- ° Transactions for one law enforcement contract resulted in the system reporting an overobligation of more than \$68,000 because a social services obligation was erroneously recorded against the contract. Another obligation, already recorded against another contract, was recorded again against this same contract.
- ° Three other transactions resulted in duplicate obligations for social services contracts and an incorrect reported overobligation of almost \$149,000 which remained uncorrected at the end of fiscal year 1984.
- ° Several other transactions were never entered into the system for processing. For example, obligations totaling \$217,000 should have been processed through the system in January 1984. By June 1984, however, transactions for only \$142,000 of this amount had been processed. The remaining \$75,000 had still not been processed by April 1985.

--At Headquarters:

- ° Fiscal year 1984 year-end reports on the status of appropriated funds excluded more than \$640,000 in obligations because transactions relating to them had not been processed through the accounting system before the end of the fiscal year. These transactions were processed through the system after year-end reports were prepared.

Officials in Headquarters and the Albuquerque and Phoenix area offices are aware that the reports produced by the automated accounting system include unreliable information and cannot support the effective control and use of appropriated funds. To cope with the unreliable information in accounting reports, managers in the Albuquerque office start with the accounting reports and then make manual analyses of reported information to determine the actual status of obligations. Managers in the Phoenix office maintain extensive supplementary manual accounting records to give them the information they need to monitor obligations and to ensure that operations track financial plans. Such efforts are time-consuming.

The Albuquerque office designed an automated system which would complement the Bureau's existing accounting system. This new system would replace the manual analyses currently done and provide its managers with the financial information they need to control and use appropriated funds. This system, called the Financial Accountability and Documentation System (FADS), produces daily information on the status of appropriated funds in clear, understandable report formats. Bureau Headquarters, instead of testing FADS at other local offices, will enhance its current accounting system to provide for improved financial reporting. Until the enhancements to the Bureau's accounting system are fully implemented, we cannot evaluate whether they will be effective in helping to solve the Bureau's problems in managing and controlling appropriated funds and in reliably reporting on the financial results of operations.

CONCLUSIONS

Overall, the Bureau's automated accounting system does not meet Bureau officials' financial information needs to manage and control appropriated funds effectively, to ensure that actual operations track financial plans, and to report reliably on the financial results of program and administrative operations. Consequently, unless the design and operating weaknesses in the Bureau's automated accounting system are corrected, the Bureau will have difficulty in satisfying the fund control and financial reporting requirements in the proposed Bureau of Indian Affairs Fiscal Accountability Act of 1985 (H.R. 1919).

AGENCY COMMENTS AND OUR EVALUATION

We obtained comments from the Bureau on a draft of this report (appendix II). In commenting, Bureau officials stated that:

- The automated accounting system design would not create difficulty for the Bureau in meeting the requirements of H.R. 1919; the operating weaknesses create the difficulty. Actions are being taken to correct the operating weaknesses.
- Some enhancements to the Bureau's accounting system are currently underway. However, additional enhancements would be required to bring it into conformance with the Comptroller General's accounting principles and standards. These enhancements, however, will not be done until the Department of the Interior completes a study of the feasibility of integrating the Department's and the Bureau's current accounting systems. This study is scheduled for completion by the second quarter of fiscal year 1986.

In commenting on the report, Bureau officials also made a few suggestions for technical clarifications to certain issues

discussed in the report. These suggestions, as appropriate, have been incorporated into the report. (See our notes in appendix II.)

We agree with the Bureau's overall comment that system operating weaknesses--primarily the lack of promptness and accuracy in entering financial transaction information into the accounting system--are the primary reasons for the difficulty the Bureau will have in reliably meeting the financial reporting requirements in H.R. 1919. We also believe, however, that system design problems--specifically the inadequate computer checks as discussed in the report--contribute to the Bureau's accounting system producing unreliable financial reports. These design problems must be addressed either in the redesign of the Bureau's system or in any effort to merge the Bureau's and the Department of the Interior's accounting systems.

The efforts the Bureau has said are underway to solve the operating and financial reporting weaknesses in its accounting system have not yet been completely designed and implemented, and consequently, we cannot now express an opinion whether they will, in fact, solve the targeted weaknesses and permit the Bureau to reliably meet the financial reporting requirements in H.R. 1919.

ADVANCE COMMENTS FROM THE
BUREAU OF INDIAN AFFAIRS

Note: GAO comments supplementing those in the report text appear at the end of this appendix



IN REPLY REFER TO:

United States Department of the Interior

BUREAU OF INDIAN AFFAIRS

WASHINGTON, D.C. 20245

AUG 12 1995

J. Dexter Peach, Director
 United States General Accounting Office
 Washington, D.C. 20548

Dear Mr. Peach:

The draft audit report, Bureau of Indian Affairs Use of Selected Aspects of Its Fiscal Year 1984 Appropriated Funds (GAO/APMD-85-74), has been reviewed by the responsible management officials within the Bureau of Indian Affairs and at the Departmental level.

We appreciate the opportunity to review the report and have enclosed our comments for your consideration in preparing the final report to the committee.

Sincerely,

James S. Bergman
 ACTING Deputy Assistant Secretary - Indian Affairs

Enclosure

Comments on Draft Audit Report
GAO/AFMD-85-74

Background

The Bureau is not responsible for all federal Programs and operations on reservations. Other agencies (HHS, HUD, EDA) are involved. The footnote should be revised. The headquarter's financial management staff is located in Washington, D.C. and Albuquerque. Specifically, the headquarter's accounting operations and financial management systems staff are located in Albuquerque. The accounting policy and budget formulation, presentation, and execution staff are located in Washington.

See comment 1.
Now on pp. 5-6.

Overview of the budget development process and the Congress' current budget execution controls, pages 6 and 7.

A distinction needs to be made between financial plans and program plans. Detailed program plans are developed in support of the Bureau's annual budget request. Financial plans are prepared to carry out authorized programs during the budget execution phase, based on tentative or actual allotments.

See comment 2.

The Bureau has seven program activities. The footnote should reflect (6) Facilities Management, and (7) General Administration. Each Area Office receives allotments for program activities and allocations for subactivities. Program plans, on a Bureau-wide basis at the program element level, are provided to the cognizant committees.

See comment 3.

The Office of Management and Budget and Treasury do not require the Bureau to report on distribution and use of appropriated funds by subactivity and Indian tribe.

See comment 4.
Now on p. 7.

Bureau Allotted FY 1984 Funds, p. 9

The Bureau received the FY 1984 appropriation on November 6, 1983, but allotments were not issued until March 1, 1984. The total spending authority for FY 1984 was \$973,528,000 (New Appropriations \$822,302,000; Supplemental Appropriations \$34,471,000).

See comment 5.
Now on p. 9.

Headquarters and the Albuquerque and Phoenix Area Offices, p. 13

The "Totals under Differences" needs to be corrected to show a positive amount (remove the brackets).

See comment 6.

25 CFR 271.66(c) authorizes the redistribution of Social Service Grant Funds included in P.L. 93-638 contracts between locations, based on need.

See comment 7.
Now on p. 13.

Bureau's Accounting System Cannot Reliably Meet H.R. 1919 Reporting Requirements, p. 18, 19

The unreliable financial information produced by the automated accounting system is not the result of a design weakness. The unreliability is directly related to the lack of disciplined input of financial transactions.

See comment 8.

The accounting system is run on the Martin Marietta Computer System in Orlando, Florida.

Now on pp. 14-17. System Design and operating weaknesses, p. 20

Corrective actions are being taken to improve the accuracy and promptness in recording financial transactions. Internal controls are being strengthened at all operating accounting locations. The operational conditions which allowed the cited transactions to happen are being corrected. Internal control improvements include: (1) defining financial management authorities, roles, and responsibilities more clearly, (2) updating prescribed procedures for accounting system operation to reflect current operating requirements, (3) providing sufficient orientation and training to ensure an adequate level of competence of employees operating the accounting system, (4) revising accounting reports to enhance understandability by management and program users, and (5) revising fund control edits to ensure reporting of accurate obligation information.

The system design does contain input control screens. The capability to restrict input through system edits and not allow cross coding does exist and can be implemented with minor modifications. However, the Bureau policy has been to allow inter-agency/area/headquarters transactions just as the federal accounting system allows the use of SIBAC, OPAC, and other SF-1081 processes.

See comment 9.

Although each operating program and administrative operating office is required to develop a financial plan, the same weakness as described in recording accounting transactions exists. However, the editing of obligation transactions against financial plan information would be contrary to the provisions of the Anti-deficiency Act. Once an obligation is incurred by an official acting within his or her authorities on behalf of the government, it must be recorded and reported whether or not funding is available. We feel an editing of transactions against available funds should be at the requisition stage (commitment accounting).

See comment 10.

The Albuquerque Area Office FADS system is a local application developed for use within that Area. There has been no testing authorized. However, the Bureau recognizes that local offices need timely information in a format which is understandable at the program operating level. Enhancements to the official accounting system which will correct some of the known deficiencies are currently underway. These include: (1) expanded capabilities relating to accounts receivable billing, collection, and reporting; (2) detailed information and employee control checks for travel management; (3) electronic transmission of accounting system standard form reports and other financial information to internal (program) and external users; (4) interface capabilities with BIA budget formulation and execution, loans, property management, and social service payments systems; (5) development of a separate trust fund subsystem to provide daily cash balances of individual Indian monies and tribal accounts available for investment purposes, and to compute and distribute correct interest earnings; and (6) other internal control improvements planned to increase the overall effectiveness of the system, including its compatibility with other Department systems, operating efficiency, reporting capability, and access to users.

See comment 11.

Additional enhancements of the accounting system would be required for it to generally conform to the principles and standards prescribed by the Comptroller General. However, major redesign has been suspended pending completion of the Department's Financial Integration Review for Management (FIRM) study. FIRM addresses the potential integration of Interior's bureau/office accounting systems and is scheduled to be completed by the second quarter of FY 1986.

Conclusions

The automated accounting system design would not create difficulty for the Bureau in meeting the requirements of H.R. 1919. The operating weaknesses create the difficulty. The automated system functions as designed; however, the system cannot completely edit out or correct human errors.

The following are GAO's comments on the Bureau of Indian Affairs letter dated August 12, 1985

GAO Comments

1. Report amended. See footnotes 1 and 2 on pages 4 and 5.
2. Report amended. See pages 5 and 6.
3. Report amended. See footnote 3 on page 5.
4. No change to report is needed because comment simply restates point made in the report.
5. Table on page 7 corrected.
6. Table on page 10 corrected.
7. No change to report needed.
8. Report corrected, see pages 14 and 15.
9. Agency comment included on page 15.
10. Agency comment included on page 15.
11. Report amended. See page 17.

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