BY THE COMPTROLLER GENERAL

Report To The Congress

OF THE UNITED STATES

Major Improvements Needed In The Bureau Of Indian Affairs' Accounting System

The Bureau of Indian Affairs has lost accountability over hundreds of millions of dollars of grant, contract, and trust funds because its automated accounting and finance system produces unreliable information. Also, system operating deficiencies, including inadequate controls over cash receipts and disbursements, prevent the Bureau from properly discharging its fiduciary responsibilities as trustee for Indian trust funds.

The Bureau is attempting to solve these serious, longstanding problems with $15.5 million of new computer equipment, but this is not the answer. GAO believes that the Bureau's accounting and finance system must be completely redesigned to correct design deficiencies dating back to the system's [illegible] implementation and, toward that end, makes both short and long range recommendations to the Secretary of the Interior. The agency agreed with our recommendations and promised corrective action.

GAO/AFMD-82-71
SEPTEMBER 8, 1982

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

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The President of the Senate and the
Speaker of the House of Representatives

This report discusses design and operating weaknesses in the Bureau of Indian Affairs' automated accounting system. Those weaknesses caused the Bureau to lose accountability for and control over advances to contractors and grantees and Indian trust funds, and to possibly overinvest the trust funds. We have withdrawn the system's design approval.

Copies of this report are being sent to the Secretary of the Interior, the Secretary of the Treasury, and the Director of the Office of Management and Budget.

Charles A. Bowsher
Comptroller General
of the United States

C·': 'ROLLER GENERAL'S
R: ·PT TO THE CONGRESS

MAJOR IMPROVEMENTS NEEDED IN THE BUREAU OF INDIAN AFFAIRS' ACCOUNTING SYSTEM

D I G E S T

Design and operating deficiencies in the Bureau of Indian Affairs' (the Bureau's) automated accounting and finance system have caused the Bureau to lose accountability for hundreds of millions of dollars of grant, contract, and trust funds. GAO believes these system deficiencies to be so serious that they present opportunities for improper use of funds and other resources. Bureau managers have not acted to correct these system deficiencies even though these matters have been repeatedly brought to their attention by GAO, internal auditors, and special study groups. The Bureau's January 1982 acquisition of new computer equipment will not solve its accounting system design and operating deficiencies because solving these deficiencies will require redesigning and rewriting the computer programs in the automated accounting and finance system. This review was made as part of our continuing responsibility to review the operations of agency accounting systems.

THE ACCOUNTING SYSTEM PRODUCES UNRELIABLE INFORMATION

GAO found many problems with the automated accounting and finance system. Financial information was unreliable and internal controls were inadequate. As a result, accountability for hundreds of millions of dollars of contracts and grants was lost and the Bureau did not meet its fiduciary responsibilities for the trust funds.

For 297 selected contracts and grants GAO reviewed, the unexpended balance of cash advanced to Indian contractors and grantees at the start of fiscal 1980, as shown on the Bureau's accounting system, differed by $27.4 million, or more than 500 percent from amounts reported by contractors and grantees. Also, because the system is not maintained on the accrual basis of accounting, as required by the Comptroller General, at least $7.6 million in incurred but unpaid expenses by contractors and grantees was not recorded in the system. (See pp. 6-7.)

GAO/AFMD-82-71

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Tear Sheet

GAO also found that controls over trust fund receipts and disbursements were lacking and that key trust fund accounting records were out-of-balance by millions of dollars. Detailed subsidiary ledger trust fund accounts differed from summary general ledger trust fund accounts over a 2-year period by more than $25 million. (See pp. 17-18.) GAO's computerized analysis of 3,770 trust fund disbursements totaling more than $602,000 disclosed a variety of problems which were turned over to the Department of the Interior's Inspector General for followup. Included were the names of 173 individuals who received trust fund checks but were not shown on the list of authorized trust fund recipients. (See pp. 16-17.)

The lack of reliable financial information resulted in an overall loss of accountability and precluded the Bureau from:

--Preventing Indian contractors and grantees from prematurely drawing down and maintaining excessive cash advance balances. Contractors and grantees held more than $3.6 million in excess cash at the start of fiscal 1980, costing the Treasury about $67,000 in interest income. (See p. 9.)

--Accurately determining the amount of trust fund cash available for investment in income producing securities with the result that the Bureau may have been overinvesting the trust funds at the expense of Treasury's other funds. (See pp. 19-20.)

CAUSES OF THE SYSTEM'S BREAKDOWN

GAO identified two basic causes for the breakdown of the accounting system. First, contractors, grantees, and Bureau personnel did not follow prescribed accounting and internal control procedures. For instance:

--Contractors and grantees did not file or were often late in filing required expenditure reports. For the 297 contracts and grants GAO reviewed, required reports were not filed for 34 contracts and grants and for another 97 contracts and grants, required reports were filed an average of 152 days after the due dates. (See p. 11.)

--Bureau personnel did not promptly enter reported expenditure information into the accounting system. For 295 of the contracts and grants GAO reviewed, expenditure reports filed as far back as May 1975 had not been posted to the automated system. (See p. 11.)

--Bureau personnel had not implemented required accounting and internal controls procedures for the trust funds, and cash receipts were not consistently deposited in Federal Reserve Banks on the day of receipt as required by the Bureau's accounting manual, with delays ranging up to 6 months. (See pp. 14-15.)

--Bureau personnel in the local offices generally did not complete required monthly reconciliations of detailed subsidiary ledger and general ledger control trust accounts and did not consistently make proper correcting entries to the accounts for differences shown by the reconciliations actually done. (See pp. 17-18.)

Secondly, the system suffered from serious design deficiencies, such as confusing and overly detailed financial reports, complicated procedures to enter information into the computer for processing, and redundant information in the automated files. (See pp. 23-27.)

These matters have been pointed out repeatedly over a number of years by GAO, Interior's Inspector General, and various system study groups. Bureau managers were well aware of the problems and acknowledged that the information in the automated accounting and finance system was unreliable. However, instead of aggressively acting to correct the underlying problems, the Bureau maintained extensive systems of manual records to try to get needed financial information and used estimates as a basis for trust fund investment decisions. But this information was as unreliable as the Bureau's automated accounting records.

PURCHASE OF NEW COMPUTERS IS NOT THE ANSWER

GAO found that recent efforts to enhance the accounting system are misdirected. The Bureau has focused on the acquisition of new computer equipment, awarding a $15.5 million contract in January 1982, without a redesign of the system to correct known, longstanding design and operating weaknesses. By not addressing the design and operating weaknesses concurrently with the purchase of new computers, the Bureau will continue to experience the same accounting and financial reporting problems that have permeated the system since it was implemented in 1968. Further, by acquiring new computer equipment before redesigning the system that will run on this equipment, the Bureau may acquire equipment that may not meet the needs of the redesigned system. To establish accountability and control, GAO believes the Bureau needs to take corrective action at two levels:

--Determine both the correct amounts of outstanding cash advances in the hands of contractors and grantees and the correct trust fund balances as well as purge unreliable information from the automated accounting records for contractor and grantee cash advances and trust funds.

--Ensure compliance with prescribed accounting, internal control, and financial reporting procedures.

The Bureau must also begin a project to redesign or modify the automated accounting and finance system to correct known, longstanding design deficiencies, to ensure that managers' financial information needs are met, and to take advantage of the increased processing capabilities of the new computer equipment the Bureau has acquired.

Further, the system, once it is redesigned, should be submitted to the Comptroller General for approval. The Bureau's accounting system design was originally approved by the Comptroller General in January 1953, but in 1967 underwent major redesign and was not submitted to the Comptroller General for reapproval as required. GAO has withdrawn the approval and will work with the Bureau to determine what needs to be done to correct the problems in the current system and to prepare it for submission to the Comptroller General for approval.

RECOMMENDATIONS

Because the need for major changes in the automated accounting and finance system is well recognized, GAO is making both short and long range recommendations. Short range recommendations are those that can be implemented without making extensive system changes and should be adopted regardless of eventual redesign or modification of the accounting system. (See pp. 28-29.)

For the long range, GAO recommends that the Secretary of the Interior direct the Commissioner of the

Bureau of Indian Affairs to initiate the redesign or modification of the automated accounting and finance system to provide for clear understandable reports and uncomplicated methods to enter information into the computer for processing and to eliminate redundant information from the automated files. When the system redesign is complete, the new system should be sent to the Comptroller General for approval. (See pp. 29-30.)

AGENCY COMMENTS

The Department of the Interior commented that the report reiterates some of its primary concerns with financial management at the Bureau of Indian Affairs. The Department stated that improving the Bureau's financial management is one of its top priorities. It agreed with both short and long range recommendations and pledged corrective action. The Department stated its intention to redesign the Bureau's accounting system as recommended and said that the redesigned system will be submitted to the Comptroller General for approval. (See app. I). The Department raised a few technical questions regarding the report which GAO addresses in footnotes to the Department's comments. (See pp. 35 and 36.)

The Treasury Department agreed with the thrust of the report and fully supported GAO's recommendations. Treasury pledged to work with the Bureau in implementing the recommendation to make greater use of the services offered by Treasury's division of disbursements. (See app. II).

If the Interior Department and the Treasury follow through on their promised actions, the longstanding accounting system and financial management problems at the Bureau of Indian Affairs should be corrected.

Contents

CHAPTER 1

INTRODUCTION

The Bureau of Indian Affairs (the Bureau) is the principal agent of the United States in carrying out the Government-to-Government relationships that exist between the United States and federally recognized Indian tribes. The Bureau awards contracts and grants to tribes to involve them in planning, conducting, and evaluating programs on reservations, and manages, as fiduciary, certain trust funds belonging to individual Indians and tribes. This report focuses on the accounting and financial management of these aspects of Bureau operations.

In managing contracts, grants, and Indian trust funds, the Bureau relies on information in its automated accounting and finance system. The Bureau awarded about $589 million in contracts and grants to Indian tribes between fiscal 1978 and 1980 and reported $209.7 million in outstanding cash advances at the start of fiscal 1980. It also managed, as fiduciary, about $935 million in Indian trust funds as of that date.

The Bureau is organized into a central headquarters with offices in Washington, D.C, and Albuquerque, New Mexico; and 94 area and agency offices (local offices). The central headquarters operates the Bureau's automated accounting and finance system and produces agency financial reports. The local offices have the primary responsibility for carrying out Bureau programs on the reservations, including contract and grant awards and trust fund operations, and for entering transaction information into the automated accounting and finance system.

The Bureau's accounting system design was originally approved by the Comptroller General in January 1953. In 1967 the system underwent redesign and as it is operated today, does not have the Comptroller General's approval. In addition, the Bureau has a project underway to upgrade its computer equipment.

OBJECTIVES, SCOPE, AND METHODOLOGY

We reviewed the Bureau's automated accounting and finance system. Our objectives were to determine whether the Bureau's accounting and financial management systems ensure that:

--Contract and grant cash advances, expenditures, and balances on hand are properly and accurately reported.

--Contract and grant cash advances are not requested prematurely, thus causing balances to exceed immediate and reasonable cash needs.

--Trust fund cash receipts and disbursements are properly handled and controlled, and are accurately and completely recorded in the accounting records.

--Trust funds are properly invested.

--The Bureau properly and completely discharges its fiduciary responsibilities as trustee for Indian trust funds.

We made our review at the Bureau's administration and trust responsibilities headquarters offices in Washington, D.C.; the automatic data processing and accounting management divisions and investments branch in Albuquerque, New Mexico; the Albuquerque, New Mexico, and the Eastern and Anadarko, Oklahoma area offices, and the Anadarko and Shawnee, Oklahoma agency offices.

Our work at the offices of administration and trust responsibilities headquarters concentrated on evaluating the Bureau's (1) policies and procedures and agencywide management oversight of the accounting and automatic data processing functions and (2) fiduciary responsibilities as trustee for Indian trust funds. Work at the automatic data processing and accounting management divisions focused on reviewing (1) the operations of the Bureau's automated accounting and finance system and (2) current steps the Bureau is taking to upgrade its computer equipment. Our work at the local offices included evaluating the processing of contract, grant, and trust fund transactions and the controls over these operations.

In reviewing the accounting for contract and grant advances and expenditures and the controls over the reporting of the same, we obtained written confirmations from contractors and grantees of their contract and grant amounts, cash advances, expenditures, and cash-on-hand at the start of fiscal 1980. As of the start of fiscal 1980, the Bureau's automated accounting system reported $209.7 million in unexpended cash advances in the hands of contractors and grantees. We selected 412 contracts and grants administered by the Bureau's local offices and mailed confirmations to the contractors and grantees involved. Of the confirmations sent out, 297 were returned, which covered $32.7 million in reported unexpended cash advances. We followed up on the confirmations that were not returned by phoning the contractors and grantees involved, but they did not subsequently send in confirmations. Although the results of our review cannot be statistically projected to all contracts and grants, as discussed in the following chapters, they indicate a serious lack of reliability of information in the system. We also evaluated the use that Bureau personnel made of the reports they received from the accounting and finance system and reviewed the actual processing of contract and grant transactions in 5 of 94 local offices.

In reviewing the accounting for controls over trust fund transactions for the 2-year period ended May 1980, we (1) reviewed and analyzed all available monthly reconciliations of detailed subsidiary ledger and summary general ledger trust fund accounts (many reconciliations had not been made and could therefore not be reviewed by us), (2) reviewed the actual processing of trust fund transactions in four local offices, (3) reviewed trust fund cash positions for selected days, and (4) performed a computer analysis of 3,770 trust fund disbursements totaling $602,000 made by one local office over a 2-year period ended May 1980.

The Bureau's accounting records were so unreliable that we had to do extensive work to reconstruct basic accounting information from source documents before we could complete our detailed audit tests of unexpended cash advance and trust fund balances. Our examination was made in accordance with our current "Standards for Audit of Governmental Organizations, Programs, Activities, and Functions," and accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

As discussed in chapter 4, the Bureau, in January 1982, acquired $15.5 million in new computer equipment which the Bureau believes will help alleviate some of its accounting system problems. Our review was focused on evaluating the Bureau's operation of its automated accounting system and did not address the Bureau's rationale and support for purchasing new computer equipment. Notwithstanding the computer acquisition, the Bureau must solve the design and operating problems in its automated accounting system.

CHAPTER 2

THE AUTOMATED ACCOUNTING AND FINANCE SYSTEM PRODUCES UNRELIABLE INFORMATION ON THE FINANCIAL STATUS OF CONTRACTS AND GRANTS

Information in the Bureau's automated accounting and finance system regarding the financial status of contracts and grants was unreliable. The reports that managers received were of little value in determining how much money Indian contractors and grantees actually spent and how much they held as undisbursed advanced cash. In short, financial accountability and control over contracts and grants needed strengthening.

The unexpended balance of cash advanced to Indian contractors and grantees, as recorded in the system, differed by more than 500 percent for the contracts and grants we reviewed from the amounts reported to us by contractors and grantees. In addition, most of the cash these contractors and grantees held exceeded their current cash needs and should not yet have been drawn down. We reviewed contracts and grants representing only about one-sixth of the total reported outstanding cash advance balance and found that excess cash in the hands of contractors and grantees totaled $3.6 million and cost the Treasury about $67,000 in interest. We further noted that, contrary to accrual accounting requirements, expenses incurred but unpaid by contractors and grantees were not being recorded in the system.

Bureau managers were aware that information in the automated accounting and finance system was unreliable. To compensate, they maintained extensive manual memorandum records to try to get some of the information they needed to monitor contracts and grants. Unfortunately, the information in those records was as unreliable as the information in the automated system. Also, by maintaining manual memorandum records, additional administrative costs were incurred, and much of the benefit from the automated system was lost.

The Bureau experienced accounting and financial reporting problems because Indian contractors and grantees did not comply with established financial reporting requirements, Bureau personnel did not follow prescribed accounting procedures, and it did not use the accrual basis of accounting as required by the Comptroller General. Also, the Bureau's automated accounting system has serious design problems, which are discussed in chapter 4.

CONTRACTS AND GRANTS AWARDED TO INDIAN TRIBES TO HELP THE TRIBES HELP THEMSELVES

One of the major goals of the Indian Self-Determination and Education Assistance Act (Public Law 93-638, 88 Stat. 2203) is to foster an orderly transition from Federal domination of such programs and services as schools, police and court systems on reservations, road construction and maintenance, construction of public buildings, and social welfare programs. To involve themselves in these programs and services, Indian tribes may apply to the Bureau for a contract or grant.

Under the contract option, the tribe, upon its request, takes over the operations of a specific program, provided the tribe meets certain performance standards specified by the act. For example, a tribe could contract to maintain all roads on its reservation. The Government would continue to pay for the program through contract payments to the tribe, but the program is planned and run by the tribe. Tribes usually take this option when its members are trained and experienced in running a particular program.

Under the grant option, the tribe could act in an advisory role to the Bureau in planning and running programs. The grant gives the tribe needed resources to study its needs and make recommendations to the Bureau on the operation of Government programs on the reservation. In a grant arrangement, Bureau employees do the work called for in the various programs, based on the tribe's recommendations. Tribes usually take the grant option when its members lack training and experience in planning and running programs.

Under both contracts and grants, the Indian Self-Determination and Education Assistance Act authorizes the Bureau to advance working capital to the tribes. The act requires that cash advances be timed to (1) ensure that monies are available for the timely payment of tribal obligations and (2) minimize the time between when tribes withdraw monies from the Treasury and when they actually disburse it.

In addition to requiring agencies to submit the designs of their accounting systems to the Comptroller General for approval, the Budget and Accounting Procedures Act of 1950 requires agency systems to conform to the accounting principles and standards prescribed by the Comptroller General. These principles and standards require agencies to maintain accounting systems that produce needed, accurate information on resources, liabilities, obligations, expenditures, revenues, and costs. Then that information is to be used by agency managers, other agencies, and the Congress, and ultimately the public. The Comptroller General also requires that cash advances to contractors and grant holders be recorded as assets, and that as performance occurs, the accrued expenditures be recorded and the asset account reduced accordingly. Accrued expenditures represent obligations incurred for goods and services delivered to contractors and grantees but which have not yet been paid by the contractors and grantees.

ACCOUNTING SYSTEM'S UNRELIABILITY PRECLUDES FINANCIAL CONTROL OVER CONTRACTS AND GRANTS

Information in the automated accounting and finance system regarding the financial status of contracts and grants was unreliable. The reports that Bureau managers received were of little value in determining how much money contractors and grantees had actually spent and how much they held in unexpended cash balances. In short, financial accountability and control over contractors and grantees was inadequate and Bureau managers did not have assurance that contractors and grantees (1) had properly expended funds in accordance with contract and grant agreements and (2) have the proper amount of cash on hand.

For the contracts and grants we reviewed, the unexpended balance of cash advanced to contractors and grantees, as recorded in the Bureau's automated accounting system, differed by more than 500 percent from amounts reported to us by contractors and grantees. Although the results of our review cannot be statistically projected to all contracts and grants, they indicate a serious lack of reliability of information in the system.

Manual memorandum records Bureau managers used to supplement the automated system data also grossly overstated unexpended cash advances in the hands of contractors and grantees. The memorandum records did not agree with information on source documents--individual contracts and grants as well as cash advance records. Further, both the automated and manual memorandum records did not include $7.6 million in accounts payable for expenses incurred but not yet paid under the contracts and grants included in our review.

The unreliable information on the financial status of contacts and grants precluded Bureau managers from restricting Indian contractors and grantees to cash balances that met their immediate and reasonable cash needs. In the case of the contracts and grants we reviewed--which represented only about one-sixth of the total reported balances--contractors and grantees held $3.6 million in excess cash, which cost the Treasury about $67,000 in interest.

<u>Cash advance balances are grossly overstated</u>

With selected Indian contractors and grantees, we requested confirmation for $32.7 million of the $209.7 million in unexpended cash advances shown in the automated accounting and finance system and included in financial reports sent to the Treasury at the start of fiscal 1980. The confirmations we received, involving 297 contracts and grants, disclosed that the information in the accounting and finance system was very different from the information reported to us by contractors and grantees. They reported that only $5.3 million of the $32.7 million shown on automated accounting and finance systems was reported by contractors and grantees as unexpended--a difference of over 500 percent.

For 295 of those 297 contracts and grants, we found differences between the amount of unexpended cash advances reported by the system and the amount actually held by Indian contractors and grantees. For example, the system stated that

--a contractor had $1.6 million in unexpended cash advances, while the contractor had reported that all advanced funds had been spent;

--another contractor had unexpended cash advances of $2.2 million, while the contractor had confirmed that all but $134,000 had been spent; and

--$1.5 million in cash advances was held by another contractor, while that contractor stated that all cash had been spent.

For 26 of the 295 contracts and grants for which differences existed, not only had the entire unexpended cash advance balance shown by the system been spent, but the contractors and grantees spent an additional $280,000. Examples follow:

--For one $2.3 million contract, the tribe received $1,785,191 in cash advances; it spent $1,873,658 in funds under the contract, and thus had to use tribal funds totaling $88,467.

--On another contract for $49,545, the tribe received $10,000 in cash advances; it spent $16,007, thus having to use $6,007 of its own cash.

As a result, Bureau managers did not know how much in cash advances contractors and grantees held as of any given date. In turn, financial reports to the Treasury on cash advances were inaccurate since they were based on the information in the accounting and finance system. The Treasury consolidates the financial reports received from the Bureau with reports received from other Federal agencies to develop annual Government financial statements. Consequently, the error is carried forward to the monthly Treasury Bulletin and the annual Treasury Combined Statement of Receipts, Expenditures, and Balances of the U.S. Government.

Bureau managers at headquarters and the local offices readily acknowledged that the information in the automated system was totally unreliable. Bureau managers--particularly in the local offices--have turned to extensive systems of manual records. Information in those memorandum records, however, was also unreliable. To test the reliability of the memorandum records, we selected contract and grant awards under letters of credit to two tribes and compared the information in the memorandum records with information confirmed to us by the two tribes at the start of fiscal 1980. As summarized in the table on the next page, our tests disclosed disagreement.

	Cash advances made	Expenditures	Cash balance
Tribe 1:			
Confirmations from contractors and grantees	$1,592,477	$1,420,081	$ 172,396
Memorandum accounting records	1,116,048	1,813,335	-697,287
Tribe 2:			
Confirmations from contractors and grantees	$ 990,406	$990,406	-
Memorandum accounting records	1,198,132	431,676	$ 766,456

The Bureau had not reconciled the above differences--a problem that Bureau officials also readily acknowledged. Consequently, managers did not have the kind of accurate, up-to-date information needed to effectively monitor the financial operations of Indian contractors and grantees. Overall, the Bureau's accounting for contracts and grants was so inadequate that Bureau managers could not be assured that contract and grant funds were properly expended.

Contractors and grantees maintain excessive cash balances

The confirmations we received also showed that of the $5.3 million reported by contractors and grantees as unexpended, $3.6 million exceeded their current cash needs. We estimate that this excess cash alone cost the Treasury about $67,000 in interest income.

The Indian Self-Determination and Education Assistance Act as well as Treasury regulations require that the Bureau make cash advances to ensure that contractors and grantees do not maintain balances of Federal cash that exceed their immediate and reasonable cash needs. Cash can be advanced in two ways--by direct Treasury check and by letter of credit. The direct Treasury check method is to be used when the annual advances total less than $120,000 and the relationship with the Government is expected to last less than a year. The letter-of-credit method is to be used when the annual advances total $120,000 or more and the relationship with the Government is expected to be for 1 year or more. Letter-of-credit financing was used for 221 of the 297 contracts and grants we reviewed.

Under the direct Treasury check method, Treasury regulations require agencies to time advances so that funds are available only immediately before their disbursement by the contractors or grantees. Under the letter-of-credit method, contractors and grantees can withdraw cash from the Treasury concurrently with disbursements and as frequently as disbursements occur, but are limited to no more than one drawdown daily and to amounts not less than $5,000.

These regulations also specify that contractors and grantees maintain cash balances not to exceed $5,000. Organizations usually need no more than a 3-business-day supply of Federal cash when obtaining advances under letters of credit, but this is restricted by the $5,000 minimum drawdown requirement. In this regard, Office of Management and Budget regulations provide that contractors and grantees may be required to explain letter-of-credit cash advance balances in excess of a 3-day supply and to specify actions taken to reduce the excess cash balances. On the other hand, contractors and grantees receiving advances by Treasury check are generally limited to a 30-day cash supply.

As stated previously, Bureau personnel acknowledged that the inaccurate information in the automated system and in the memorandum records made it difficult to monitor and control drawdowns of Federal cash. Consequently, contractors and grantees could have held excess Federal funds without being questioned by agency personnel.

The confirmations demonstrated that this, in fact, happened. For the 297 confirmations received, 48 contractors and grantees reported more than $3.6 million in excess cash--35 under the letter-of-credit method had cash exceeding a 3-day supply for a total of more than $3.5 million, and 13 under the direct Treasury check method had cash exceeding a 30-day supply totaling nearly $75,000.

We estimated that this excess cash was held by contractors and grantees an average of 85 days, costing the Treasury about $67,000 in interest income. 1/ This income loss could have been avoided had the automated accounting and finance system provided Bureau managers with reliable information on outstanding cash advances.

1/In computing this cost, we used the 11.18 percent interest rate the Treasury earned on its tax and loan accounts during September 1979. These accounts are maintained in commercial banks throughout the country, and amounts due the Federal Government--such as Federal payroll taxes--are directly deposited in them. The banks pay interest to the Treasury on these funds. Treasury operating accounts--the accounts used to honor checks and letter-of-credit drawdowns on Treasury funds--are funded in part from the tax and loan accounts.

The above figures are conservative. For another 76 of the 297 contracts and grants, we question the validity of the contractors' and grantees' assertions that their cash balances, which totaled $1.2 million, were within the 3- or 30-day criterion for payments. For example:

--A tribe reported it had drawn down cash for the full contract amount of $59,138 and had disbursed $40,882, leaving $18,256 on hand. It certified that this was less than a 3-day supply of cash even though it reported no unpaid expenses.

--For another contract, the tribe reported that it had drawn down the full contract amount of $36,367 and had disbursed $30,840, leaving $5,527 in cash on hand and no unpaid expenses. The tribe reported that this amount represented a 3-day supply of cash.

--For one grant, the tribe reported drawdowns of $25,000--the full grant amount--and disbursements of $15,824, leaving $9,176 cash on hand. The tribe did not respond to our question regarding the number of days of cash supply it had on hand, but it reported no unpaid obligations.

--For another grant, the tribe reported drawdowns of $10,000 on a $58,000 grant, and disbursements of $4,938. That left $5,062 in cash on hand and only $215 of incurred but unpaid bills. This tribe also did not respond to our question regarding the number of days of cash supply it had on hand.

Expenditures understated and accrued expenditures not recorded

For 63 of the 297 contracts and grants we confirmed, contractors and grantees reported $7.6 million in incurred but unpaid expenses--accrued expenditures. Although this information was routinely reported to the Bureau, it was not recorded in the automated accounting and finance system nor the supplementary manual memorandum records and, consequently, was not included in financial reports to the Treasury.

The automated accounting system and manual records were maintained on the cash basis of accounting; that is, expenses were only recorded when paid. This practice was followed, notwithstanding the Comptroller General's requirement that agencies file financial reports on the accrual basis to more fully disclose the financial results of Government operations. Under accrual accounting, expenses are recorded when incurred rather than when paid, and a liability, or accrued expenditure, is recorded in the accounting records when goods and services are received. When payment is subsequently made, the accrued expenditure is eliminated. Accrual accounting more fairly shows the results of Government operations by providing for the full disclosure in the financial statements of claims by others against Government assets.

Under accrual accounting the Bureau should have recorded an additional $7.6 million in expenses and $7.6 million in accrued expenditures in its accounting records and subsequent reports to the Treasury to show claims against Government assets. The Bureau, however, did not do so even though tribes report accrued expenditures on quarterly financial status reports.

CAUSES OF UNRELIABLE INFORMATION: DISREGARDED PROCEDURES AND SYSTEM DESIGN PROBLEMS

The unreliable information in the Bureau's automated accounting and finance system occurred because Indian contractors and grantees and Bureau personnel did not (1) promptly report and enter transaction information into the system, (2) follow prescribed accounting procedures, and (3) maintain the records on an accrual accounting basis. Even though well aware of all these problems for years, the Bureau did little to correct them. The system also has design and other operating problems which are discussed in chapter 4.

As discussed below, our review of the selected contracts and grants disclosed that procedures necessary for the development of reliable financial information were not followed.

--Contractors and grantees did not file or often were late in filing required expenditure reports. Expenditure reports had not been filed for 34 of the 297 contracts and grants we confirmed, and another 97 reports were submitted an average of 152 days late. Bureau regulations require contractors and grantees to file expenditure reports 15 days after the end of each quarter and provide for suspending funds for noncompliance.

--Contractors and grantees, who were late or did not submit required reports, did not have their funds suspended as provided for in Bureau regulations, even in a case where an expenditure report had not been filed for almost 4 years.

--Where reports were filed, Bureau personnel did not promptly enter expenditure information into the accounting system. For 295 of the 297 contracts and grants confirmed, we identified expenditure reports that had not been posted to the automated accounting system at the start of fiscal 1980. Expenditures covered by these reports dated back to May 2, 1975.

--Inactive contracts and grants were not promptly closed out. For 74 of the 297 contracts and grants confirmed, contractors and grantees reported that all work had been completed and all funds expended, yet those contracts and grants were carried on the automated accounting system as active, with outstanding cash advances of $4.8 million. This was the case, even though final expenditure reports for the $4.8 million had been submitted as far back as 1976 stating that all advanced funds had been expended.

--Department of the Interior financial regulations require that cash advances made to contractors and grantees be reviewed at least quarterly to determine, among other things, whether drawdowns are in accordance with Treasury regulations and whether cash balances held by contractors and grantees are reasonable. The Bureau is required to report the results of these reviews to the Department within 30 days after the end of each quarter. We found, however, that the Bureau had neither reviewed cash advances nor made any of the required quarterly reports to Interior.

Bureau officials readily admitted that lack of the reliability of the Bureau's automated accounting records prevented them from effectively monitoring and controlling the financial operations of contractors and grantees. They attributed the problem with the accounting records primarily to staff shortages, which they said precluded compliance with prescribed accounting procedures. A shortage of qualified and trained staff in financial operations has been a longstanding problem in many Federal agencies. This is a problem that has to be addressed because of the increased attention to financial management in the Federal Government. In addition, the proposed Financial Integrity Act, which is now being considered by the Congress, will require, among other things, that agency heads attest to the adequacy of their internal control systems in reports to the Congress.

CHAPTER 3

OPERATING DEFICIENCIES PRECLUDE THE PROPER DISCHARGE OF TRUSTEE RESPONSIBILITIES

As with contracts and grants, the automated accounting and finance system does not provide for accountability for the more than $900 million of Indian trust funds managed by the Bureau. The system lacks the internal controls necessary to assure that receipts are properly accounted for and disbursements made only in proper amounts to entitled persons. Information on the financial status of the trust funds is unreliable. Financial reports are of little value in determining the actual amount of trust funds on hand and, therefore, available for investment. Overall, the Bureau has many problems in managing the trust funds and has not properly discharged its fiduciary responsibilities.

Bureau managers acknowledged that these problems have long plagued trust fund operations. They blamed the problems on staff shortages. We offer an alternative to alleviate some of the staffing problems. One of the most time consuming tasks in trust fund operations is the preparation and distribution of checks to trust beneficiaries. If the Bureau used the check preparation and distribution services offered by the Treasury Department, and used by all other civilian Federal agencies, it could free up staff resources to implement needed accountability.

BUREAU HAS FIDUCIARY RESPONSIBILITY AS TRUSTEE

The Bureau of Indian Affairs manages, as trustee, funds belonging to individual Indians and tribes. The funds come from two main sources: (1) monetary judgments awarded Indians by the Indian Claims Commission and the U.S. Court of Claims for the appropriation of Indian lands by the Federal Government and (2) revenues from the sale or lease of Indian resources such as land, timber, minerals, and water rights. At the start of fiscal 1980, the Bureau reported that it held $935 million in Indian trust funds and earned $89 million in investment income on these funds during the prior year. Our work focused on trust funds called individual Indian monies, which amounted to $275 million of the overall $935 million in trust funds managed by the Bureau.

The Bureau was required by one court of claims case to assure that trust funds earn the highest investment income practicable, while protecting the principal from losses. The law (25 U.S.C. 161, 162a) authorized the Bureau to invest trust funds in (1) interest-bearing Treasury accounts, (2) time certificates issued by private financial institutions for which the repayment of both principal and interest is guaranteed by the Federal Government, and (3) Government securities such as Federal National Mortgage Association and Government National Mortgage notes.

The Bureau manages and accounts for Indian trust funds on a decentralized basis. Its local offices, central accounting office, and investment branch handle day-to-day trust fund operations. The central trust office is responsible for establishing policies and procedures.

The local offices are responsible for (1) receiving, recording, and depositing cash receipts in Federal Reserve Banks, (2) determining the amount and timing of individual disbursements of trust funds to trust beneficiaries and actually making these disbursements, and (3) maintaining detailed subsidiary ledger trust accounts. The central accounting office maintains summary general ledger trust fund control accounts based on information reported to it by the local offices and the investment branch. The investment branch, using available financial information, buys and sells securities.

CONTROLS OVER CASH RECEIPTS INADEQUATE

The local offices we visited did not maintain adequate controls over cash receipts. There was no assurance that all cash and checks received were recorded in the accounting system and deposited.

Because cash and checks received in the mail are extremely susceptible to theft and loss, the Bureau's financial manual requires that:

--All receipts be listed as soon as received, by two persons opening the mail who are not assigned to the accounting or cashier's offices.

--The duties of handling and depositing receipts in banks and making related entries in the accounting records be strictly separated.

--All receipts be, to the extent possible, deposited in a Federal Reserve Bank on the day received.

--Receipts be kept in a fire retardent safe with a combination lock and that access to the safe be restricted to the cashier.

These control requirements were not adhered to at any of the offices we visited. For instance, at one local office cash and checks received in the mail were not listed by the individuals opening the mail but were simply turned over to an accounting clerk. Further, duties were not separated. The accounting clerk listed the receipts, prepared the deposit ticket, and made the related accounting entries before turning the receipts listing over to the cashier. Without adequate separation of receipt and recording duties, there is no assurance that all of the checks received were accounted for.

Compounding these control weaknesses, the cashier routinely held the cash receipts for extensive periods before depositing them--a practice the cashier readily acknowledged. On May 2, 1980, we made a surprise cash count and found 57 checks totaling more than $15,800. The oldest check was dated July 19, 1979, and the most recent was dated April 22, 1980. Further, since three individuals knew the combination to the safe, receipts were not properly safeguarded.

At another local office, which generally received more than $1 million a month, receipts again were not listed by the individual opening the mail but were turned over to the cashier. With the cashier doing everything from listing and depositing receipts to making entries in the accounting records, there was no separation of duties. On August 19, 1980, we made a surprise count of the safe and found 180 checks totaling about $140,500. The oldest check was received May 8, 1980, and the most recent on August 18, 1980.

CONTROLS OVER CASH DISBURSEMENTS INADEQUATE

The local offices also did not maintain adequate controls over cash disbursements and related blank Government checks, checkwriting machines, and check signature plates. There was no assurance that disbursements were made in proper amounts to entitled persons and that funds had not been misappropriated. A computerized analysis of disbursements at one local office identified a wide range of inconsistencies which we turned over to the Interior Department's Inspector General. Also, the Bureau detected one case of fraud involving trust fund disbursements.

Repetitive cash disbursements in relatively small amounts, as is the case with most disbursements to Indian trust fund beneficiaries, are extremely susceptible to manipulation and erroneous payments. The Bureau's financial manual requires that:

--The duties of (1) determining trust fund disbursement amounts and timing of disbursements, (2) authorizing disbursements, (3) maintaining the accounting records, and (4) preparing and distributing checks be strictly separated.

--Trust fund disbursements be approved by the local office manager before checks are prepared and distributed.

--Access to blank checks, checkwriting machines, and check signature plates be restricted to authorized persons only; blank checks be inventoried every month; and checks and check signature plates be stored in a fire retardent safe.

--Dormant trust accounts (individual accounts on which payments have not been made for 6 months) be segregated from active accounts and periodically reviewed.

However, these controls were usually ignored at the five local offices we visited, making it almost impossible to independently assess the propriety of individual disbursements. Duties were not sufficiently separated at the local offices we visited; one person generally managed and did all work related to the trust funds. For example, at one office, one individual was responsible for all phases of trust fund operations, including determining beneficiaries, authorizing disbursements, preparing and sending out checks, and maintaining and reconciling the accounting records. In addition, disbursements were not approved by the local office manager, increasing the possibility of theft or error.

Controls over blank Government check stock, checkwriting machines, and check signature plates were also inadequate. For example, at one area office, blank Government checks, along with the check signature plate, were stored in a non-fire-retardent filing cabinet for which three people knew the combination of the file lock, and one of those people no longer worked for the Government. The checkwriting machine was in an unlocked office that opened onto a public hallway, and the blank check stock had never been inventoried. In another area office, we found that blank Government check stock was stored with miscellaneous office supplies in a safe to which all area office personnel had access. There was no evidence that the blank Government check stock had ever been inventoried.

In addition, dormant accounts were not segregated from active accounts and periodically reviewed, making the fraudulent use of funds in dormant accounts easier. At one area office we visited, a tribal employee was convicted of embezzling more than $26,000 from a dormant account belonging to an aged, incompetent adult Indian in a nursing home. It was simple to do. The employee had the tribal chief sign blank requests for disbursements of trust funds, filled in disbursement requests, periodically submitted them to the Bureau's local office for payment, and picked up checks at the local office. This fraud was discovered only after a local office employee questioned the frequent and large checks being drawn on a dormant trust fund account.

Because of the complete lack of internal controls over trust fund disbursements, we tested the disbursements at a local office in which one person handled all phases of trust operations. We found that the propriety of disbursements could not be determined from the records maintained by the office.

Our tests, which we conducted for a 2-year period ending in May 1980 and which included a computerized analysis of 3,770 disbursements totaling more than $602,000, identified:

--173 individuals, who were receiving trust fund checks, but were not listed on the tribal roll (the list of authorized trust fund recipients).

--64 individuals who were not eligible based on age to receive certain old age benefits but who were receiving such benefits.

--46 individuals for whom a mailing address was not shown, thereby raising questions as to how these checks were being delivered and even as to the existence of the recipients.

--137 tribal identification numbers under which more than one person received payments. From two to six individuals were receiving payment under each identification number, even though each Indian is assigned a unique number.

We also noted 460 individuals who were eligible for but not receiving certain old age trust fund payments.

Local office records were not adequate to assess the propriety of the questionable payments we identified. We provided information on these payments to the Department of the Interior Inspector General's office in November 1981. The Inspector General has work currently underway to follow up on the payments. This work is part of an overall review of fraud and abuse in the Bureau's Indian trust fund operation.

INFORMATION ON FINANCIAL STATUS OF TRUST FUNDS IS UNRELIABLE

In addition to not implementing prescribed controls over receipts and disbursements, local offices also did not reconcile and correct detailed subsidiary ledger and summary general ledger trust fund accounts. (Subsidiary ledger accounts comprised individual accounts for all trust beneficiaries. General ledger accounts included summary totals for detailed information in individual trust accounts in the subsidiary ledgers.) As a result, differences between these accounts have continued to run into the millions of dollars, differences which precluded us from determining the actual amount of trust funds the Bureau manages. Also, since the information in the summary general ledger accounts was used by the Bureau's investment branch to determine the amount of trust fund cash available for the purchase of securities, there was no assurance that the trust funds were being properly invested.

Local offices do not complete required account reconciliations

Only 8 of the 51 local offices completed all required monthly reconciliations of detailed subsidiary and general ledger control accounts. The number of local offices completing reconciliations has declined steadily over a year with only 24 percent completing reconciliations in May 1980. As a result, these two sets of records, which should be in balance, continuously disagreed by millions of dollars.

In a decentralized system, such as the Bureau uses, whereby detailed trust accounts are maintained by the local offices and summary control accounts are maintained by the central accounting office, it is vitally important that the accounts are periodically reconciled to ensure that transactions recorded in individual trust accounts are accurately and completely summarized and recorded in general ledger summary control accounts. The Bureau's financial manual places this responsibility on the local offices. They are to reconcile monthly the information in their detailed subsidiary ledger accounts with related information in the summary general ledger control accounts maintained on the automated accounting and finance system. All differences disclosed by the reconciliations are to be investigated and appropriate correcting entries made in both the subsidiary and general ledger accounts.

We found, however, that only half of the required reconciliations were performed and, even then, correcting entries often were not made. Between June 1978 and May 1980, on the average only half of the local offices completed reconciliations, including a steady decline after September 1979 to only 24 percent by May 1980.

Our analysis of trust fund account reconciliations completed during the same 2-year period showed that the detailed subsidiary records differed by a total of $25 million. Further, the variances were wide from month to month. For example, in December 1979, subsidiary ledger accounts were $3.5 million less than related balances in the general ledger accounts, while in January 1980 the subsidiary ledger accounts totaled $1.6 million more than related balances in the general ledger accounts. Overall, for the 2-year period, the subsidiary and general ledger accounts were never in agreement.

Although reconciliations completed by local offices highlighted millions of dollars in differences between the accounts, these differences were generally described by local offices as failures to post transactions to general ledger accounts or simply "net errors" with no further explanation. Little or no effort was made to investigate the causes of the differences, which were often carried forward from month to month. For instance, reconciliations completed by one local office for the 6-month period ended May 1980 identified differences between detailed subsidiary and summary general ledger accounts that grew steadily from $595,000 in December 1979 to $1,327,000 in May 1980. These differences were not adequately explained on the account reconciliations, but only attributed to "net errors" and "unexplained errors" and no followup was attempted. No entries were made in the subsidiary and general ledger accounts to correct these differences.

Headquarters and local office managers acknowledged that entries to correct millions of dollars of differences between subsidiary and general ledger trust accounts were not made in the accounting records. We found that, in many cases, local office personnel did not fully understand how to prepare correcting transactions for entry into the general ledger accounts maintained on the Bureau's automated accounting and finance system. Also, local office and headquarters personnel disagreed about whose responsibility it was to make the needed entries. Because local offices did not fully reconcile and post correcting entries to the accounting records and, as discussed on pages 15 to 18, did not follow prescribed control procedures for cash receipts and disbursements, they could not determine which, if either, set of records was correct.

Investment decisions based on unreliable information

In addition to causing a loss of control, the unreliability of the accounting records may have adversely affected investment decisions. The investment branch had to estimate cash available for investment, and because of the condition of the accounting records, there was no assurance that these estimates were proper. In fact, indications were that the Bureau often invested more cash than was available in the trust fund, at the expense of Treasury's other funds.

In making investment decisions, the investment branch estimated the amount of available cash by taking the general ledger balance and adjusting it by the value of

--cash receipts and disbursements over $100,000 that are telephoned in each day by the local offices and

--investment transactions from the previous day.

In this way, the investment branch hoped to account for any transactions that had not yet been posted to the general ledger.

As discussed previously, large differences exist between the subsidiary and general ledger accounts--differences that are being carried from month-to-month without reconciliation. Therefore, using the general ledger balance as a starting point for any calculation of cash available for investment raises serious questions, even when investment branch adjustments are taken into account.

We analyzed cash estimates made by the investment branch and used in investment decisions for the last business day of the month for the 2-year period ended May 1980. Our review indicated that the trust funds may have been overinvested for 9 of the 24 months by an average of $2.5 million. For example, the general ledger showed a negative cash balance of $4.2 million on January 30, 1980. Taking into account adjustments of cash receipts and disbursements telephoned in by the local offices and investment transactions from the previous day, the negative cash balance grew to $5.4 million, which means the trust funds were overinvested by this amount. To the extent that the Bureau invested more cash than it had on hand, it earned interest income on money it did not have. On the other hand, during 2 of those months funds were apparently underinvested at month end by an average of $275,000, applying investment branch criteria. Both over and underinvestment of trust funds is possible because Treasury's central accounting system is designed to rely on the accounting and related internal control systems of agencies' managing trust funds to prevent these events from happening.

However, any analysis of investment decisions is hindered by the poor condition of the accounting records, and we cannot be certain of the true cash position. As discussed previously, the general and subsidiary ledger records have generally not been reconciled, and millions of dollars of differences existed. The only way to resolve this problem is to assure that transactions are posted to the accounting records accurately and on time and that accounts are reconciled and correcting entries made. Because of the condition of the accounting records, there was also no assurance that the Bureau was complying with the Anti-Deficiency Act, which prohibits the overobligation or overexpenditure of funds. We are separately evaluating whether or not the Anti-Deficiency Act or other statutes were violated as a result of the possible overinvestment of the Trust funds.

USE OF TREASURY'S CHECK PREPARATION AND DISTRIBUTION SERVICES WOULD FREE UP NEEDED STAFF

Bureau managers attributed the Bureau's problems in financial management of the trust funds primarily to staff shortages at the local offices. One of the most time consuming tasks in trust fund operations is the preparation and distribution of checks to trust beneficiaries. We believe that one solution to the staffing problem would be to have the Treasury Department make most trust fund disbursements--a service the local offices generally do not now use. This could make as many as 20 staff-years available in the local offices.

In 1936, the Bureau received statutory exemption from the Permanent Appropriation Repeal Act of 1934 (31 U.S.C. 725 et seq.) which created the Treasury's division of disbursements and required that all agencies use the Treasury to make disbursements of Federal funds. The Bureau was granted this exemption in part because trust beneficiaries generally resided in remote locations far from Treasury disbursing points and U.S. Postal facilities. These beneficiaries would likely experience inordinate delays in receiving payments if Treasury and postal facilities were used to prepare and distribute trust fund disbursements.

As discussed earlier, the Bureau's local offices have failed to implement prescribed internal controls over trust fund operations and have not taken steps to ensure that information on trust fund operations in the automated accounting and finance system is reliable. Bureau managers attributed these problems primarily to staff shortages.

A senior Bureau official conducted a study of trust fund operations and recommended restructuring to provide for, among other things, use of the Treasury check preparation and distribution services. In a draft report on the study, this official pointed out that check preparation and distribution had placed a sizable burden on the local offices. The study concluded that if trust fund operations were restructured to include the use of Treasury services, the Bureau could save from 10 to 20 staff-years in the local offices--resources that could be used to implement prescribed internal controls and improve the reliability of accounting information. This Bureau official, in discussing the use of Treasury's services, stated that 90 percent of trust fund disbursements could be made without delaying receipt of payments by trust beneficiaries. For about 10 percent of trust fund disbursements, the Treasury's services would delay receipt of funds by trust beneficiaries because they reside in remote locations far from banking facilities.

In the 46 years since the Bureau was granted the exemptions, Treasury disbursing and U.S. Postal facilities and services have vastly expanded and improved and many Indians have moved to cities and towns with good postal services. Consequently, beneficiaries should not experience delays in receiving funds if the Treasury made payments as they do for other agencies. Recognizing this, a few local offices have already turned to the Treasury to make trust fund disbursements. One local office, which disburses an average of $1 million a month in trust funds, said they were pleased with the services Treasury provided and stated that the local office administrative burden was significantly reduced.

The Bureau must continue to move in this direction--especially in light of Federal budget constraints. It would still have to maintain a very limited capability to issue checks to trust fund beneficiaries residing in remote locations. This should not present a problem since the Treasury has procedures whereby agencies can issue checks in special or emergency situations.

CHAPTER 4

SYSTEM REDESIGN EFFORT

DOES NOT ADDRESS DESIGN AND

OPERATING WEAKNESSES

Bureau managers have been aware of the automated accounting and finance system's unreliable information on the financial status of contracts, grants, and Indian trust funds since its 1968 implementation. It was not until January 1980, however, that the Bureau started to plan for upgrading its system to correct these problems. Unfortunately, it focused on the acquisition of new computer equipment, awarding a $15.5-million contract in January 1982 to acquire 13 computers and 225 computer terminals. Because the Bureau has no plans to correct known, longstanding design and operating deficiencies, new computer equipment will not solve the Bureau's financial accounting and reporting problems.

BUREAU MANAGERS LONG AWARE OF SERIOUS SYSTEMS DESIGN PROBLEMS

Bureau managers implemented and have continued to operate an automated accounting system they knew did not produce reliable information. The system replaced the system originally approved by the Comptroller General in 1953. It has not been submitted to the Comptroller General for review and approval in its current form and has serious system weaknesses. In a series of audit reports issued by GAO, the Department of the Interior's Inspector General, and internal auditors, and system studies, these weaknesses were brought to the attention of Bureau managers, who did not correct them.

A private contractor engaged by the Bureau in 1967 to design the current automated accounting system never finished the system design, stopping work on the project in 1968. The Bureau accepted and implemented the partially designed system, originally intending to complete the system and prepare the documentation needed to submit the system design to the Comptroller General for approval. Unfortunately, this has never come to pass. Instead, the Bureau has been continually involved with solving system operational crises as they developed. Since the system no longer operates as approved in 1953, we have withdrawn approval of the system.

Reports issued by us and by a number of system study groups have repeatedly pointed out the serious problems with the Bureau's automated accounting and finance system. For example, in February 1978, 1/ we reported that financial reports produced by the system

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1/More Effective Controls Over Bureau of Indian Affairs Administrative Costs Are Needed, FGMSD-78-17, Feb. 15, 1978.

were inadequate and did not give managers the information they needed to effectively monitor and control program and administrative operations. We pointed out that the system produced too many reports in too much detail with the result that many managers did not understand the reports they received and consequently did not use them. The automated accounting system also did not provide for needed computer edits of transaction information to ensure that transactions were completely and accurately processed through the system. As a result, the financial reports it produced contained many errors, which also discouraged Bureau managers from using them.

The deficiencies we reported in 1978 have also been covered in reports issued by special system study groups. These reports are summarized below.

Report	System deficiencies
March 1976--Part 1 of a Report on a System Study by the General Services Administration of the Bureau's Automated Accounting and Finance System.	The Bureau's computer equipment was inadequate to meet its information processing requirements.
	Financial reports produced by the Bureau's automated accounting system did not meet managers' information needs.
September 1976--Report on the Results of a Study on the Management of the Bureau by the American Indian Policy Review Commission.	The Bureau's computer equipment was obsolete, inefficient, slow, and inadequate to handle the Bureau's information processing needs.
	The Bureau's automated accounting system did not produce the reports managers needed. Specifically, reports produced by the system were voluminous, inaccurate, and confusing.
	Reports produced by the Bureau's automated accounting system were not used, and agency managers maintained and used manual memorandum records.
	Bureau personnel did not know how to prepare and enter transaction information into the system for processing.

Reports	System Deficiencies
December 1977--Part 2 of a Report On a System Study by the General Services Administration of the Bureau's Automated Accounting and Finance System.	The Bureau's automated accounting system included excessive amounts of redundant information. Complicated procedures are required for entering transaction information into the system. Reports that did not meet users' information needs were produced.
April 1979--A Report on a System Study--Project Integrity--Done by a Private Consulting Firm of the Bureau's Automated Accounting and Finance System.	The reports Bureau managers receive from the automated accounting system were infrequently used and the Bureau should take the necessary steps to (1) expedite processing of transactions and (2) develop and implement controls to ensure that information is not lost during processing and can be traced through the various processing steps.

Despite repeated reports of system deficiencies, the Bureau did not take action to redesign its automated accounting and finance system. In January 1980, a Bureau official commented in an internal memorandum that the automated accounting system was operationally unpredictable and extremely difficult to technically maintain, and thereby almost impossible to document. The official placed most of the blame on the fact that the current system was not tested before implementation to see if it met design objectives and could do the job required. The official cited several major deficiencies as the causes of unreliable information. Among those deficiencies are:

--The lack of audit trails to assure that all financial transactions submitted for processing to the system are actually posted.

--The lack of reconciliations of information in the general and subsidiary ledger accounts.

--The lack of strict controls over the 150 to 200 modifications to the automated system made each year to ensure that the modifications are implemented and that they operate as intended.

Two other Bureau computer system managers commented that the system produces too many reports that are neither meaningful nor useful. They blamed the lack of written procedures and guidelines for system users who must enter transaction information into the system and properly interpret and use reports produced by the system. The lack of written procedures, together with high employee turnover in local offices, has resulted in inaccurate and incomplete information and loose operational control over the system.

Our present review confirmed that longstanding system design and operating deficiencies and computer equipment problems have still not been corrected. We found that:

--Bureau personnel still generally ignore the reports produced by the system because the information presented is incomplete, inaccurate, and out of date and because the formats of the reports are confusing and too detailed.

--Bureau managers continue to use manually maintained memorandum records to try to get some of the financial information needed in doing their jobs.

--No written procedures and guidelines have been developed to help system users (1) prepare and enter transaction information into the automated system for processing and (2) interpret and use reports produced by the system. As a result, much transaction information is not processed through the system, and many Bureau managers do not use the reports produced by the system.

--The computer equipment the Bureau had been using was old, broke down frequently, and was generally unreliable. Consequently, many reports produced by the system were not timely.

--Documentation for the automated accounting system is totally out of date, so Bureau personnel responsible for maintaining and updating the system cannot be sure that system modifications actually operate as intended.

To correct these problems the Bureau will have to completely rewrite all the computer programs in the automated accounting and finance system to provide for (1) gathering and entering needed information into the system, (2) storing the information in the automated files, and (3) reporting information in formats managers can understand and use. This would be a large undertaking. It would involve a complete redesign and rewrite of all computer programs in the system, development of instruction manuals on systems procedures, and a training program for the Bureau's staff in using the new system.

BUREAU MANAGERS KNEW ACCOUNTING PROCEDURES WERE NOT FOLLOWED

In addition to being fully aware of serious, longstanding design deficiencies in the automated accounting and finance system, Bureau managers were also aware that Bureau personnel, contractors, and grantees did not follow prescribed accounting and control procedures. But they did not take effective corrective action and continued to operate a system that produces unreliable information.

In February 1978, we reported that the Bureau did not have adequate control over contracts or grants. 1/ Again in September 1981, we reported that with contractors and grantees not submitting timely expenditure reports or justifying cash drawdowns, control was inadequate. 2/

In a June 1978 report on the administrative activities of the Bureau's Muskogee office, Department of the Interior internal auditors reported that because of inadequate monitoring and follow-up, contractors and grantees drew down Federal cash advances prematurely and failed to file required expenditure reports. An August 1978 Interior Department internal audit report on selected program and administrative activities of the Anadarko office included similar findings.

In separate reports on its review of selected program activities of the Albuquerque and Phoenix offices, the Interior Department's Inspector General, in July 1979, again found problems with premature cash drawdowns and the lack of filing required expenditure reports. The auditors also reported that modifications increasing the dollar amount of contracts and grants were not always prepared and posted to the accounting system and that expenditure reports submitted were often not recorded in the system. In an October 1979 report on selected program and administrative activities of the Portland office, the Inspector General generally echoed these findings.

As discussed in chapter 2, our review of the financial status of 297 selected contracts and grants showed that contractors, grantees, and Bureau personnel still did not comply with prescribed accounting and internal control procedures, and the years of neglect may have compounded the problem. Sufficient priority has not been placed on improving the accounting system.

1/"Controls are Needed Over Indian Self-Determination Contracts, Grants, and Training and Technical Assistance Activities to Insure Required Services are Provided to Indians," CED-78-49, Feb. 15, 1978.

2/"Still No Progress in Implementing Controls Over Contracts and Grants With Indians, "CED-81-122, Sept 10, 1981.

ACTIONS TO IMPROVE THE ACCOUNTING SYSTEM FOCUS ON ACQUISITION OF NEW COMPUTER EQUIPMENT

It is generally accepted automatic data processing practice to base the acquisition of new computer equipment on the capabilities required by the systems that will be run on the equipment. If computer equipment is acquired before the systems are designed, or if the systems need extensive redesign or modification, the equipment may not have the needed capabilities. When this happens, the systems will have to be modified to "fit" the computer equipment. In many cases, this means that needed controls and other features may be dropped, which may ultimately adversely affect the reliability of the information produced by the systems.

Nevertheless, the Bureau's actions to improve its automated accounting and finance system focus on acquiring new computer equipment and not on redesigning or modifying the system to correct known, longstanding design and operating weaknesses. In January 1982, in consonance with its January 1980, 5-year automated data processing management plan, the Bureau awarded a $15.5 million contract for the acquisition of 13 computers and about 225 computer terminals and related operating and communication software. This equipment is scheduled for delivery during fiscal 1982.

By not concurrently redesigning or modifying the existing system, the Bureau will continue to experience the same accounting and financial reporting problems that have permeated the current system since it was implemented in 1968. Further, acquiring computer equipment before redesigning or modifying the systems that will be run on the equipment may result in the Bureau acquiring the wrong kind of computer equipment for the job that needs to be done. When redesigned, the system should be submitted to the Comptroller General for approval. As discussed previously, we have withdrawn the system's approval. We will work with the Bureau to determine what needs to be done to correct the problems in the current system and prepare it for submission for approval by the Comptroller General.

CHAPTER 5

CONCLUSIONS AND RECOMMENDATIONS

Accounting for contracts, grants, and Indian trust funds has lacked attention. Because managers are not receiving reliable information from their accounting system, they cannot properly discharge their fiduciary responsibility as trustee for the trust funds or control millions of dollars of cash advances to contractors and grantees. The accounting system is not functioning properly, and little action has been taken to resolve known problems.

The Bureau's recent efforts to enhance its accounting system are misdirected. Its acquisition of new computer equipment for $15.5 million will not solve the serious design and operating problems with the system. The Bureau has put the cart before the horse by buying new computers before redesigning the accounting system.

To reestablish accountability and control, the Bureau needs to take corrective action on two levels:

--Purge unreliable information from the automated accounting records for contractor and grantee cash advances and trust funds.

--Develop and implement management controls to ensure compliance with prescribed accounting, internal control, and financial reporting procedures.

The Bureau must also redesign or modify the automated accounting and finance system to correct known, longstanding deficiencies to ensure that managers' financial information needs are met. The redesigned system should be submitted to the Comptroller General for approval.

RECOMMENDATIONS

Because the need for major changes in the automated accounting and finance system is well recognized, the recommendations that follow are both short and long range. Short range recommendations are those that can be implemented without making extensive system changes and should be adopted regardless of eventual modification or redesign of the accounting system.

We recommend that the Secretary of the Interior direct the Commissioner of the Bureau of Indian Affairs to:

--Determine the actual amount of expenditures made and outstanding cash advances held by Indian contractors and grantees and record this information in the automated accounting system.

--Recover any excess cash held by contractors and grantees.

--Maintain the accounting records for contracts and grants on the accrual basis of accounting.

--Reconcile detailed subsidiary and summary general ledger trust fund accounts, investigate differences disclosed, and make appropriate correcting entries in the accounts. In doing so, all trust fund securities and cash should be counted.

--Make the maximum use practicable of the check preparation and distribution services of the Treasury's division of disbursements in making trust fund disbursements.

--Develop written procedures for entering transaction information into the automated accounting and finance system.

--Ensure that prescribed accounting procedures are followed by making sure that

- Indian contractors and grantees file required expenditure reports on the prescribed due dates;

- Bureau personnel enter expenditure information promptly in the accounting system;

- Bureau personnel suspend letter-of-credit drawdown privileges for Indian contractors and grantees who fail to comply with prescribed financial reporting and accounting procedures;

- Bureau personnel responsible for trust funds complete all required monthly reconciliations of subsidiary and general ledger accounts and promptly enter appropriate correcting entries in the accounts;

- local office managers provide for prescribed separation of duties in handling trust fund transactions; and

- investment branch personnel do not exceed available trust fund cash in making investments.

We also recommend, for the long range, that the Secretary of the Interior direct the Commissioner of the Bureau of Indian Affairs to initiate the redesign or modification of the automated accounting and finance system to eliminate design deficiencies and operate on the accrual basis of accounting. The new system should be adequately documented and the documentation kept up to date. Also, controls should be established to ensure that systems modifications are approved before implementation and that the modifications are fully documented.

When the system redesign is complete, the new system should be sent to the Comptroller General for approval.

AGENCY COMMENTS AND ACTIONS

The Department of the Interior commented that the report reiterates some of its primary concerns with financial management at the Bureau of Indian Affairs. The Department stated that improving the Bureau's financial management is one of its top priorities. It agreed with both our short and long range recommendations and pledged corrective action. The Department stated its intention to redesign the Bureau's accounting system as we recommended and said that the redesigned system will be submitted to the Comptroller General for approval. (See app. I.)

The Department of the Interior expressed some technical concerns regarding our definition of the information in the advances account, the exact nature of the unreliable information in the trust accounts, specific design deficiencies in the Bureau's accounting system, and the type of written instructions that need to be developed for the Bureau's system. We address these concerns in footnotes to the Department's comments. (See app. I, pp. 36 and 37.)

The Treasury Department agreed with the thrust of our report and fully supported our recommendations. Treasury pledged to work with the Bureau in implementing our recommendation to make greater use of the services offered by Treasury's division of disbursements. (See app. II.)

United States Department of the Interior

BUREAU OF INDIAN AFFAIRS
WASHINGTON, D.C. 20245

IN REPLY REFER TO

JUN 2 1 198[illegible]

Mr. W. D. Campbell
Acting Director
Accounting and Financial Management Division
United States General Accounting Office
Washington, D.C. 20548

Dear Mr. Campbell:

Enclosed are our comments on the Draft Report - "Major Improvements Needed in the Bureau of Indian Affairs Accounting System." The report has reiterated some of our primary concerns. We are committed to achieve needed improvements in BIA financial management as one of our top priorities. We welcome GAO's suggestions as reflected in our statement and will appreciate any additional assistance they may wish to provide.

We will continue to upgrade the system redesign and upon completion it will be submitted to the Comptroller General for approval.

Sincerely,

Assistant Secretary - Indian Affairs

Enclosure

Corrective Actions:
"Purge unreliable information from the automated accounting records for contractor and grantee cash advances and trust funds."

The nature of the advances account in the finance system is misinterpreted in the report. The report calls the amounts "unexpended cash advances." Advances in the Bureau's finance system represent amounts advanced to contractors through cash or letters of credit for which invoices have not been received and entered into the system. There is nothing in the finance system which reports the unexpended cash in the contractors accounts. We do not do the cash collection/disbursement accounting for the contractors. The method of purging "unreliable information" should emphasize the program managers and contracting officers enforcing provisions of contracts and grants concerning invoicing and liquidating advances. (See GAO note 1, p. 35.)

The records in the automated system for trust are based on certificates of deposit and checks entered into the system. We cannot "purge" this information since it represents the automated system's only source of cash reporting and recording. We are continually pushing the field organizations to get the entries into the system quickly so that the system will reflect proper balances. We will intensify this effort. (See GAO note 2, p. 35.)

"The Bureau must also begin immediately to redesign or modify the automated accounting and finance system to correct known, long standing deficiencies."

We are unable to identify, from the draft report, the "design deficiencies" in the automated portion of the system. Most studies of the finance system have pointed out (this one also) that the major problems with the system are in enforcement of the BIA procedures for timely entry into the automated system of data, timely reconciliation of data in the system with locally controlled data files, and timely entry of corrective actions by local offices. We have begun an aggressive action to require field offices to enter, reconcile and correct in a more timely manner. (See GAO note 3, p. 35.)

Another item mentioned as a "severe design deficiency" is "complicated procedures to enter information into the computer." We would very much like to have GAO's recommendations for less complicated procedures to enter data into the computer system as an aid in simplifying our processes. (See GAO note 3, p. 35.)

The report also mentions reports as a "severe design deficiency". The "Project Integrity" study conducted by Price Waterhouse recommended changes to reports. The requirements for these reports have been completed and submitted to BIA's ADP organization for programming.

Short Range Recommendations:

"Determine the actual amount of expenditures made and outstanding cash advances held by Indian contractors and grantees and record this information in the automated accounting system."

The recommendations to record in the automated accounting system the "actual amount of expenditures made" by Indian contractors seems to be counterproductive. It implies that BIA does the disbursing for its contractors and grantees. Any recording in the automated system of this information would seem to serve no purpose. We do have the "outstanding cash advances" recorded into the system. We will take immediate steps to get invoices from our contractors and grantees to reduce the outstanding advances and will also begin to monitor more closely the cash held by contractors and recover excess amounts.

"Maintain accounting records for contracts and grants on the accrual basis of accounting."

The automated accounting system provides for accrual accounting. Contracting offices will be instructed to estimate and enter contract and grant information into the automated system on a monthly basis. (See GAO note 4, p. 35.)

"Reconcile detailed subsidiary and summary general ledger trust fund accounts ***."

We will require that these reconciliations be done, with copies submitted to the Division of Accounting Management periodically.

"Make maximum use practicable of the check preparations and distribution services of the Treasury's Division of Disbursements ***."

We intend to use the Regional Disbursing Officers (RDOs) for more check issuance in the future. Since the RDOs are reluctant to accept hard copy SF 1166's for check issuance, full implementation will be accomplished when all disbursing points have access to computer facilities to prepare the magnetic tapes required by the RDOs.

"Develop written procedures for entering transaction information into the automated accounting and finance system."

The procedures for coding are available in 42 BIA Manual Supplements 2 & 3. Entry of this coded information into the computer is a standardized procedure for key entry operators. (See GAO note 5, p. 35.)

"Ensure that prescribed accounting procedures are followed by making sure that Indian contractors and grantees file required expenditure reports."

BIA's Contract Management staff will immediately strengthen their monitoring process to insure timely submission of expenditure reports.

"Bureau personnel enter expenditure information in the accounting system."

Expenditure reports show contractors' cash transactions for contracting officers and finance officers. These reports will be monitored to keep contractors' cash balances to a minimum.

"Suspend letter of credit drawdown privileges."

This is done now by many of our field offices. We will re-emphasize their responsibility for letter of credit monitoring and control.

"Reconciliation and corrections of trust funds."

All units having Individual Indian Money (IIM) accounts will be instructed to reconcile and correct immediately. The Division of Accounting Management in Albuquerque will monitor this effort.

"Separation of duties."

All units having IIM operations will be instructed to examine their operation for prescribed separation of duties and to take corrective action.

BIA's Investment Branch will be advised not to exceed available cash in making investments.

<u>Long Range</u>:

We agree that our systems need to be redesigned to fit our new computer environment. The original automated system was designed and installed by the Management Assistance Corporation to run on CDC 3100 series computers which were not interactive and had very limited capacity and capabilities.

Last year our CDC equipment was discontinued and our systems were moved to Martin Marietta Data Systems (MMDS). The Bureau and the Department of the Interior agreed that time constraints prevented any action other than conversion to MMDS. Sufficient time for redesign was not available. The same situation exists today with our move from MMDS to BIA Burroughs equipment since we will not be able to use MMDS past November 15.

We intend that the Bureau's system should be redesigned without further delay. We are studying recent State Department solicitation documents as an aid in developing a BIA request for proposals for a redesigned financial management system.

The BIA system is designed to operate on an accrual basis. Field offices will be instructed to comply with accrual accounting requirements.

AO NOTES:

/We believe our report properly discusses the nature of the advances account. As the report points out, the advances account is the basis for the Bureau to monitor contractor and grantee use of advanced cash and to preclude the premature drawdown of cash. To do this, the advances account must reflect the amount of unexpended cash balances in the hands of contractors and grantees as of specified report periods. Our report clearly demonstrates that the advances account is overstated because contractors and grantees do not report expenditures promptly, nor do Bureau personnel enter reported expenditures into the Bureau's accounting system promptly. We believe the report sufficiently emphasizes that if contractors, grantees, and Bureau personnel followed the Bureau's prescribed expenditure reporting and accounting procedures, the advances account would properly show unexpended cash advances in the hands of contractors and grantees and would give Bureau program managers and contracting officers the information needed to preclude contractors and grantees from holding excessive cash advance balances. Whether these balances are called "unliquidated cash advances," as the Interior Department seems to prefer, or "unexpended cash advances," which we believe to be more descriptive, is irrelevant. We note that Interior does agree with our recommendation that the Bureau take immediate steps to (1) determine the actual amount of expenditures made by contractors and grantees and record this information in the Bureau's accounting system and (2) ensure that contractors, grantees, and Bureau personnel follow prescribed expenditure reporting and accounting procedures.

/Our report clearly points out that the unreliable information in the trust accounts in the Bureau's accounting system stems from two facts. One, the Bureau's local offices have not fully reconciled subsidiary trust accounts with control trust accounts in the Bureau's accounting system, and two, they have not made the required adjusting entries in the accounting records when reconciliations actually completed have disclosed differences between subsidiary and control trust accounts. (See p. 17.) These issues have nothing to do with certificates of deposit and checks relating to trust fund investments since these items are entered into the accounts by the Bureau's central investment branch. Consequently, we recommended that the Bureau take steps to reconcile detailed subsidiary and summary general ledger trust fund accounts, investigate differences disclosed, and make appropriate correcting entries in the accounts. The Department of the Interior agreed to act on this recommendation.

3/Our report clearly states that in addition to contractors, grantees, and Bureau personnel not following prescribed expenditure reporting and accounting procedures, the Bureau's accounting system is plagued by design deficiencies. The major design deficiencies pointed out in the report are (1) complicated procedures for entering information into the system and (2) reports produced by the system that are confusing and overly detailed. (See pp. 24-25.) As a result, Bureau managers and personnel do not fully enter transaction information into the system and do not use the reports produced by the system. Instead, they turn to systems of memorandum records to try to get needed financial information. Consequently, we recommended that the Bureau's accounting system be redesigned or modified. The Department of the Interior agreed to initiate redesign of the Bureau's accounting system. The actual techniques to be used to simplify procedures for entering information into the automated accounting system should be determined after the new computer equipment is installed and its information processing capabilities are fully determined and tested.

4/See discussion on page 11.

5/The written instructions referred to in the Department of the Interior's comments cover only instructions to keypunch operators for entering information into the Bureau's automated accounting system. However, our report clearly addresses the additional need to develop written instructions for system users, particularly in the Bureau's local offices, on how to prepare information for keypunching and what information should be submitted for keypunching. (See pp. 25-26.) As part of its accounting system redesign effort, the Bureau should develop instruction manuals on system procedures for use by all Bureau staff members in using the new system.

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

FISCAL ASSISTANT SECRETARY

JUN 17 1982

Dear Mr. Campbell:

The draft of a proposed report, "Major Improvements Needed in the Bureau of Indian Affairs' Accounting System", was circulated to the Bureau of Government Financial Operations' management for review and comment. In general, we are in agreement with the thrust of the report and fully support the recommendations contained in such.

The Division of Disbursement and the Division of Government Accounts and Reports are BGFO's organizations that provided specific comments with respect to the various recommendations contained in the draft report. The main points I would like to address are as follows:

- It appears that the use of check preparation and distribution services offered by the Division of Disbursement will benefit BIA, as recommended on pages 14, 21 and 30 of the draft report. The Division of Disbursement would be pleased to meet with representatives of BIA to explain their requirements and capabilities and to explore the best means of providing these services.

- In terms of the Division of Government Accounts and Reports' check reconciliation responsibilities, the use of Treasury disbursing facilities would streamline and simplify both the check reconciliation processes and accounting controls. It should be noted, however, that a conversion to Treasury disbursing services would require changes in reporting procedures to meet the requirements of the Central Accounting Reporting System.

- The Division of Government Accounts and Reports is also responsible for governmentwide accounting and reporting. Agencies must comply with reporting requirements as set forth in Volume I of the Treasury Fiscal Requirements Manual (TFRM). Therefore, systems redesign by the Bureau of Indian Affairs must take into consideration and conform to the TFRM requirements.

Thank you for the opportunity to comment on this draft document.

Sincerely,

Paul H. Taylor

Paul H. Taylor

Mr. W.D. Campbell, Acting Director
Accounting and Financial Division
United States General Accounting Office
Washington, D.C. 20548

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