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

DIVISION OF FINANCIAL AND
GENERAL MANAGEMENT STUDIES

MAR 11 1976

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The Honorable
The Secretary of the Interior AGC 00033

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Dear Mr. Secretary:

This report presents the results of our survey of the Bureau of Indian Affairs' accounting system. The Bureau is presently redesigning its accounting system pursuant to its statement of accounting principles and standards approved by the Comptroller General in November 1972.

Our survey was made at the Administrative Services Center (ASC), where the Bureau's accounting system is maintained, at the Albuquerque Area Office, and at three agency offices, all in Albuquerque, New Mexico. Our survey included an evaluation of internal controls in the accounting system.

Our survey showed that the Bureau needs improvement in (1) controlling receivables and advances, (2) recording and reporting obligations, (3) taking available discounts, (4) controlling and documenting its automated personnel-payroll system, and (5) managing and accounting for personal property. We also noted that the Bureau has not taken adequate action on recommendations made by the Department's Office of Audit and Investigation (OAI). Since 1970 OAI has issued three reports on reviews of the Bureau with recommendations for improvements in matters discussed in this report. We believe the Bureau should take more aggressive action to follow OAI's recommendations.

In the enclosed summary of findings, we have made a series of recommendations to you designed to improve the Bureau's accounting system. Although our survey was limited to Bureau locations in the Albuquerque area, we noted that OAI's reports contained similar findings at other Bureau locations. Apparently Bureau-wide improvement of the matters discussed in this report is needed, and we have addressed our recommendations accordingly. ASC officials have generally agreed with our findings.

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As you know, section 236 of the Legislative Reorganization Act of 1970 requires the head of a Federal agency to submit a written statement on actions taken on our recommendations to the House and Senate Committees on Government Operations not later than 60 days after the date of the report and to the House and Senate Committees on Appropriations with the agency's first request for appropriations made more than 60 days after the date of the report.

We are sending copies of this report to the House and Senate Committees on Government Operations and to the House and Senate Committees on Appropriations. Copies of this report are also being sent to the Commissioner, Bureau of Indian Affairs, and to the Director, Office of Audit and Investigation.

We wish to express our appreciation for the courtesies and cooperation extended our representatives during this survey. We would appreciate your comments and advice as to any actions taken or planned on the matters discussed in this report.

Sincerely yours,

D L Scantlebury

D. L. Scantlebury
Director

Enclosure

GAO SURVEY OF ACCOUNTING SYSTEM

BUREAU OF INDIAN AFFAIRS

DEPARTMENT OF THE INTERIOR

SUMMARY OF FINDINGS

The Congress emphasized the need for reliable accounting systems when it passed the Budget and Accounting Procedures Act of 1950. This act authorized the Comptroller General to prescribe the principles, standards, and related requirements for executive agency accounting systems. This act also made the head of each executive agency responsible for establishing and maintaining accounting systems that conformed to the Comptroller General's principles, standards, and requirements.

The Department of the Interior accounting system for the Bureau of Indian Affairs was approved by the Comptroller General in January 1953. However, the Bureau now plans to submit a revised accounting system design for GAO approval in late 1977. This revised system design should conform to the Bureau's statement of accounting principles and standards approved by the Comptroller General in 1972.

We observed and made limited tests of the procedures used to control and account for revenues and collections, disbursements, obligations, and property. Our survey also included a test of the controls of the Bureau's personnel-payroll system. In addition, we tested the internal and external reports derived from the accounting system.

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Our survey showed there were opportunities to improve the Bureau's accounting system. Our findings and recommendations follow.

NEED TO RECONCILE AREA OFFICE AND ASC ACCOUNTS RECEIVABLE AND TRAVEL ADVANCE RECORDS

Detailed records for accounts receivable and travel advances maintained by the Albuquerque Area Office could not be reconciled with monthly automated accounting reports prepared by the Administrative Services Center (ASC). As a result, we found unreconciled differences of about $12,800 for accounts receivable and $3,935 for travel advances.

We believe these differences resulted from (1) failure to account for data in transit between the area office and ASC, (2) computer input coding errors, (3) transactions rejected by the automated accounting system but not corrected, and (4) inadequate identification of individual accounts owing money to the Bureau.

The principles, standards, and related requirements prescribed by the Comptroller General in 2 GAO 12.4 require that:

--"Amounts receivable shall be recorded accurately and promptly on completion of the acts which entitle an agency to collect amounts owed to it (billing for performance of services or sales of materials, loans or advances made, etc.)."

--"Accounting records for receivables shall be maintained so that all transactions affecting the receivables for each reporting period, and only such transactions, are included."

The Bureau's accounting principles and standards, 42 BIAM 1.8G(2), require that general ledger control accounts be reconciled with the subsidiary records on a monthly basis.

We analyzed $47,384 of the total of $72,593 comprising the Albuquerque Area Office accounts receivable as of April 30, 1975, and found that:

--About $6,700 (117 items) of outstanding receivables shown in the ASC's automated accounting report were not supported by outstanding bills at the Albuquerque Area Office.

--About $6,100 (23 items) of outstanding bills in the Albuquerque Area Office were not recorded in the ASC's automated accounting report.

Bureau officials had not identified these differences because they did not reconcile area office detailed records with ASC monthly accounting reports.

We also compared documents for outstanding travel advances maintained by the Albuquerque Area Office with ASC monthly automated accounting report at March 31, 1975. Documents for outstanding travel advances in the area office totaled $37,481 compared to $41,416 shown on the ASC automated accounting report--a difference of $3,935.

We could not reconcile the $3,935 difference because:

--The ASC travel advance report usually did not identify an advance by the individual traveler or his social security number.

--Many travel vouchers were in process.

--Some travel advances were improperly coded in ASC's automated records.

The Department's Office of Audit and Investigation (OAI) also found that the Bureau's controls over, and accounting for, accounts receivable and travel advances needed improvement. OAI has reported this condition several times, most recently in 1974.

Recommendations

We recommend that, to properly maintain the status of accounts receivable and travel advances, you direct the Commissioner, Bureau of Indian Affairs, to analyze prior- and current-year transactions for accounts receivable and travel advances as needed to reconcile and correct area office and ASC records. Thereafter, monthly reconciliations should be made between area office detailed records and ASC automated accounting reports.

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We also recommend that the reasons for differences be determined and proper action be taken to prevent recurring errors.

Agency comments

ASC officials agreed to draft instructions for Bureau approval requiring (1) reconciliations of area office detailed records with ASC accounting reports and (2) monitoring of area office accounts receivable and travel advance balances.

NEED TO IMPROVE MANAGEMENT OF CONTRACT ADVANCES

Outstanding contract advances, for the most part, had not been reconciled with the ASC March 31, 1975, automated accounting report and contract files at area and agency offices. Also, our tests showed that excess contract advances of about $24,400 were given to 10 contractors in the Albuquerque area.

As of March 31, 1975, ASC automated accounting records showed about $13,700,000 as outstanding fiscal year 1975 contract advances. On the same date, these records showed prior-year outstanding advance balances of $6,100,000 and offsetting balances of $1,300,000 which had not been identified to specific contracts. Some of the prior-year outstanding amounts were at least 4 years old. Lacking identification information, we could not determine which contracts should have been identified with the offsetting balances.

Most prior-year outstanding advances shown in the ASC March 31, 1975, accounting report had not been reconciled to contract files at area and agency offices. We found that ASC does not identify prior-year outstanding advances by contractor in its monthly accounting reports and, therefore, appropriate reconciliation with contract files could not be made.

Albuquerque Area Office personnel examined three prior-year contract files to determine the accuracy of outstanding advances. They found that the contractors should have returned $9,087 to the Bureau. One contractor repaid $5,118, but the other two contractors disputed Bureau figures. Albuquerque Area Office personnel said they lacked manpower to examine other contract files.

We tried to reconcile 19 outstanding advances in Albuquerque Area Office and agency contract files to the ASC March 31, 1975, accounting report. We were unable to reconcile 5 of the 19 advances because Bureau personnel could not explain differences between entries in ASC's automated accounting records and information in area and agency contract files.

Our examination of contract files showed that the Bureau generally advanced contract amounts up to 30 percent to contractors. The Code of Federal Regulations (41 C.F.R. 1-30.4) generally allows advances to meet minimum cash flow needs when no other feasible means of financing is available.

At March 31, 1975, the Albuquerque Area Office had 24 outstanding fiscal year 1975 contract advances totaling $139,386. We estimated minimum cash flow needs for 16 of these contracts and determined that advances ranged from 10 to 46 percent of the contract prices. The excess advances totaled about $24,400 for 10 of the 16 contracts. These excess advances were outstanding for an average of 273 days. Had these excess advances been avoided, the Treasury might have been able to reduce its interest costs by $1,100.

Recommendations

We recommend that, to properly maintain the status of contract advances and avoid excess advances, you direct the Commissioner, Bureau of Indian Affairs, to:

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--Reconcile contract advance files with ASC accounting records by examining prior- and current-year transactions, including offsetting entries not applied to specific contracts, and by making necessary correcting entries.

--Determine the causes for differences and take necessary action to improve management and accounting for contract advances.

--Collect prior-year contract advances which should be returned to the Bureau upon contract completion or after contractor minimum cash flow needs have been met, whichever occurs first.

--Limit future contract advances to contractors' minimum cash flow needs and monitor these advances during the contractual period to insure their timely return to the Bureau.

Agency comments

ASC officials agreed to draft instructions for Bureau approval requiring (1) reconciliations of area and agency contract files with ASC accounting reports and (2) monitoring of area and agency office contract advance balances.

NEED TO IMPROVE ACCOUNTING FOR OBLIGATIONS

In its 1971 and 1974 reviews of ASC, OAI identified problems in the Bureau's obligation accounting procedures. Obligations were recorded late or sometimes not at all, the automated obligation reports were not timely, and the accuracy of the automated reports was questionable. As a result, area and agency offices made little use of the reports. We surveyed the Bureau's current obligation practices and found that most of the problems reported by OAI still exist.

The GAO Policy and Procedures Manual for Guidance of Federal Agencies (7 GAO 17.1) requires that all obligations be promptly recorded as charges against the applicable appropriations in such a manner as will meet the requirements for control over funds, provide essential management information, and facilitate preparing statements and required reports. The Bureau's accounting principles and standards, 42 BIAM 1.7, require that obligations be controlled at the area office level by allotment. They also requires that obligation data be reported so that area and agency offices can use the information to properly control the use of funds.

We reviewed 15 obligation transactions and found that 4 totaling $2,048 were recorded after the month the obligation was incurred, as follows:

--$680 for emergency employment assistance paid in December 1974 was obligated in January 1975.

--$618 for cleaning supplies ordered in December 1974 was obligated in January 1975.

--$705 for use of a copy machine in October 1974 was obligated in November 1974.

--$45 for business school tuition in December 1974 was obligated in January 1975.

Southern Pueblo agency officials said the monthly reports on obligations received from ASC were late, inaccurate, and difficult to analyze. The program managers therefore relied mainly on informal records to control obligation of their funds. Some program managers, however, were not comparing or reconciling their informal records to ASC monthly accounting reports.

The GAO Policy and Procedures Manual for Guidance of Federal Agencies, (7 GAO 17) prescribes that:

"* * * When the amount of an obligation is not known at the time it is incurred, it should be estimated. Where an estimate is used, the basis for, and computation of, the estimate will be shown on the obligating document. Appropriate adjustment will be made where it is later disclosed that the obligation was incorrectly estimated by a significant amount. Otherwise, one adjustment may be made at the end of the month for such differences * * *"

"* * * The records maintained should, in all cases reflect the status of each limitation; that is, the amount available, the amount obligated, the amount expended, the amount disbursed, and the balances remaining. * * *"

We believe control over recording of obligations can be improved through (1) more timely recording of obligations at the area office level, (2) prompt monthly reconciliations of area office records to ASC monthly fund status reports, and (3) closer adherence to requirements for recording, reporting, and controlling obligations.

Recommendations

We recommend that, to improve accuracy and timeliness of obligation recordkeeping and reporting, you direct the Commissioner, Bureau of Indian Affairs, to:

--Record obligations when they are incurred.

--Provide area and agency office program managers with timely and accurate monthly fund status reports.

--Require reconciliations of ASC monthly fund status reports to area and agency offices' supporting obligation documents.

Agency comments

ASC officials said that area and agency offices are responsible for timely recording of obligations, and they plan to recommend that the Commissioner, Bureau of Indian Affairs, emphasize to area and agency offices the need to properly carry out this responsibility.

IMPROVEMENTS NEEDED TO PREVENT LOSS OF DISCOUNTS

From July 1974 through February 1975, the Bureau lost about 30 percent, or $25,000, of purchase discounts available to it, $22,900 of which were lost on discount terms of more than 20 days.

The Bureau's accounting principles and standards state that payments should be made promptly when due and in time to take advantage of discounts offered by vendors. The Chief, Finance and Accounting, ASC, told us that existing Bureau instructions provide for special handling of vouchers with available discounts. He said the special handling includes priority processing at ASC and/or sending vouchers from area offices directly to the Treasury Regional Disbursing Office (RDO) for payment.

We examined 41 vouchers and found that 21 of the discount periods had expired before ASC received the voucher package from area offices. The area offices were not following existing instructions to send vouchers with available discounts directly to the Treasury RDO for payment.

Recommendation

We recommend that, to realize maximum benefit of discounts offered, you direct the Commissioner, Bureau of Indian Affairs, to have all payment vouchers with available discounts to be sent directly from area offices to the Treasury RDO for payment.

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Agency comments

ASC officials agreed to draft instructions for Bureau approval requiring all vouchers with discounts offered to be sent directly from area offices to RDO for payment.

IMPROVEMENTS NEEDED IN PERSONNEL-PAYROLL SYSTEM CONTROLS AND DOCUMENTATION

Additional computer system controls are needed to prevent improper payments to employees. In addition, improvements in documentation of the Bureau's personnel-payroll system are needed to simplify computer program revisions, improve computer operations, and aid in instructing new personnel.

Computer system controls

Our tests of system controls using simulated transactions and discussions with Bureau personnel disclosed the need for the following additional automated edits (internal controls for automatic data processing systems used to validate data input before use in the system):

--Automated personnel edits need to be expanded to prevent non-General Schedule (construction wage rate schedule and Federal wage system) employees from being paid annual premium differentials for uncontrolled and irregular overtime.

--Automated time and attendance edits need to include data consistency checks to prevent erroneous or inconsistent transactions from being processed and paid.

--Automated edits need to be expanded to identify time and attendance cards for manual review in cases in which employees are not entitled to pay for a full pay period (terminated employees) to prevent overpayment or improper accrual of leave.

These automated controls, in our opinion, can be integrated into existing system programs.

The Bureau's payroll separation unit is responsible for auditing the leave and pay records of every employee whose employment with the Bureau is terminating. If an overpayment is identified during this audit, the Bureau will first try to settle the debt by deducting the amount from the employee's last regular paycheck or from a lump sum payment owed to the employee for accrued annual leave. If the employee is not entitled to a lump sum payment, the Bureau's last resort before billing the employee directly would be to deduct the debt from the employee's withdrawal of accumulated retirement contributions. The withdrawal of retirement contributions, however, can only be reduced by the debt if the employee requests the withdrawal and if the withdrawal has not yet been made. When none of these options is available, the Bureau sends bills for collection to the terminated employee.

Had automated edits been adequate, erroneous time and attendance reports submitted by timekeepers for terminating employees may not have been processed. As of February 28, 1975, $6,344 was owed the Bureau for pay and leave overpayments made to terminated Albuquerque Area Office employees from 1966 to 1974. The Bureau's audit of final pay for terminated employees, in many cases, was made after the final pay had been processed. When overpayments occurred, the Bureau sent the terminated employee a bill, but collection of overpayments has been limited.

Computer system documentation

The documentation of the Bureau's personnel-payroll system is currently limited to generalized input and output system flow charts, input and output record descriptions, and limited narrative in the timekeepers' and other procedure manuals. Additional system documentation is needed for user and program maintenance manuals which explain the operation of the computer and describe in detail the computer programs.

Recommendations

We recommend that you direct the Commissioner, Bureau of Indian Affairs, to:

--Expand automated edits to prevent non-General Schedule employees from being paid annual premium differentials for uncontrollable and irregular overtime.

--Include data consistency checks in automated time and attendance edits to prevent erroneous or inconsistent transactions from being processed and paid.

--Expand automated edits to prevent terminated employees from being overpaid and/or accruing excess leave.

--Improve documentation of the personnel-payroll system for user and program maintenance manuals.

Agency comments

ASC officials agreed to implement the computer edits we recommended. They also agreed that improved documentation is needed but this would take 1 man-year to complete and is of low priority compared to other changes needed for continued system operation.

IMPROVEMENTS NEEDED IN PERSONAL PROPERTY MANAGEMENT AND ACCOUNTING

In its 1974 reviews of personal property management in the Navajo and Southeastern areas, OAI identified several problems. These problems included inadequate protection and physical control, inefficient use of property, incomplete annual inventories, excess or inoperable items not transferred or disposed of promptly, and unreconciled differences between property on hand and recorded property. Our survey of personal property identified some of the same problems in the Albuquerque area.

The GAO Policy and Procedures Manual for Guidance of Federal Agencies (2 GAO 12.5) and the Bureau's accounting principles and standards (42 BIAM 1.14) require that:

--All transactions affecting the agency's investment in property be recorded in accounts.

--Appropriate records be kept of physical quantities of Government-owned property and its location, including identification of property excess to needs and plans for transfer or disposal.