



# United States Department of the Interior

OFFICE OF INSPECTOR GENERAL  
Washington, D.C. 20240

July 28, 2000

## INDEPENDENT AUDITORS REPORT

### Memorandum

To: Assistant Secretary for Indian Affairs

Subject: Independent Auditors Report on Bureau of Indian Affairs Financial Statements for Fiscal Year 1999 (No. 00-I-597)

### SUMMARY

In our audit of the Bureau of Indian Affairs (BIA) financial statements for fiscal year 1999, we found the following:

- The principal financial statements were fairly presented in all material respects. BIA's principal financial statements consist of the Consolidated Statement of Financial Position as of September 30, 1999; the Consolidated Statement of Net Cost and Consolidated Statement of Change in Financial Position for the fiscal year ended September 30, 1999; and the Statements of Budgetary Activity and Financing for the fiscal year ended September 30, 1999.

- Our tests of the internal controls identified weaknesses in the following areas that we consider to be material: construction-in-progress; property, plant and equipment; budgetary accounts; financial information integrity reviews; and automated information systems. In addition, we believe that the identified weaknesses in accounts and interest receivable and related revenue and allowance for doubtful accounts and deferred maintenance are reportable conditions.

- Our tests of compliance with laws and regulations identified five noncompliance issues that are required to be reported relating to the Chief Financial Officers Act of 1990, the Federal Financial Management Improvement Act of 1996, the Debt Collection Improvement Act of 1996, the Prompt Payment Act, and managerial cost accounting management and reporting requirements.

Our conclusions are detailed in the sections that follow.

### OPINION ON PRINCIPAL FINANCIAL STATEMENTS

In accordance with the Chief Financial Officers Act of 1990, we audited BIA's principal financial statements for the fiscal year ended September 30, 1999 as contained in BIA's

accompanying Annual Report for fiscal year 1999. These financial statements are the responsibility of BIA, and our responsibility is to express an opinion, based on our audit, on these principal financial statements.

Our audit was conducted in accordance with the "Government Auditing Standards," issued by the Comptroller General of the United States, and with Office of Management and Budget (OMB) Bulletin 98-08, "Audit Requirements for Federal Financial Statements," as amended. These audit standards require that we plan and perform the audit to obtain reasonable assurance as to whether the accompanying principal financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures contained in the principal financial statements and the accompanying notes. An audit also includes assessing the accounting principles used and the significant estimates made by management. We believe that our audit work provides a reasonable basis for our opinion.

In our opinion, the principal financial statements (pages IV-1 to IV-6) present fairly, in all material respects, the financial position of BIA as of September 30, 1999 and its consolidated net cost and change in financial position and budgetary activity and financing for the fiscal year ended September 30, 1999 in conformity with generally accepted accounting principles.

Our audit was conducted for the purpose of forming an opinion on the consolidated principal financial statements taken as a whole, and our opinion relates only to the principal financial statements. The supplemental segment information following the notes to the principal financial statements in BIA's Annual Report were subjected to auditing procedures that were applied to the consolidated principal financial statements and, in our opinion, is fairly stated in all material respects in relation to the principal financial statements taken as a whole.

BIA's Annual Report for fiscal year 1999 contains certain information that is not a required part of the principal financial statements. The Management Discussion and Analysis section of the report contains selected performance goals and results required by the Government Performance and Results Act. We reviewed the internal controls related to the transactions and other data that support the performance measures to determine whether the transactions were properly recorded, processed, and summarized in accordance with the criteria stated by management. In addition, the deferred maintenance and supplementary stewardship information (pages VI-b-1 to VI-c-4) is not a required part of the principal financial statements but is supplementary information required by the Federal Accounting Standards Advisory Board. We applied certain limited procedures, including discussions with management, to ensure compliance with OMB guidance and consistency with the financial statements. However, we did not audit the information and therefore do not express an opinion on this supplementary information.

## **REPORT ON INTERNAL CONTROLS**

Our audit was conducted in accordance with the "Government Auditing Standards," issued by the Comptroller General of the United States, and with Bulletin 98-08, as amended.

Management of BIA is responsible for establishing and maintaining an internal control structure which provides reasonable assurance that the following objectives are met:

- Transactions are properly recorded, processed, and summarized to permit the preparation of the principal financial statements and required supplementary stewardship information in accordance with Federal accounting standards.

- Assets are safeguarded against loss from unauthorized acquisition, use, or disposition.

- Transactions are executed in accordance with laws governing the use of budget authority and other laws and regulations that could have a direct and material effect on the principal financial statements or required supplementary stewardship information and any other laws, regulations, and Governmentwide policies identified by OMB.

- Transactions and other data that support reported performance measures are properly recorded, processed, and summarized to permit the preparation of performance information in accordance with criteria stated by management.

Because of inherent limitations in any internal control structure, errors or fraud may occur and not be detected. Also, projections of any evaluation of the internal controls over financial reporting to future periods are subject to the risk that the internal controls may become inadequate because of changes in conditions or that the degree of compliance with the policies or procedures may deteriorate.

In planning and performing our audit, we obtained an understanding of the relevant internal control policies and procedures, determined whether these internal controls had been placed in operation, assessed control risks, and performed tests of controls in order to determine our auditing procedures for the purpose of expressing an opinion on the principal financial statements and not to provide assurance on the internal controls. Accordingly, we do not provide an opinion on the internal controls. We also reviewed BIA's most recent report required by the Federal Managers' Financial Integrity Act of 1982 and compared it with the results of our evaluation of BIA's internal control structure.

Our consideration of the internal controls over financial reporting would not necessarily disclose all matters in the internal control structure over financial reporting that might be reportable conditions. Under standards established by the American Institute of Certified Public Accountants and by Bulletin 98-08, as amended, reportable conditions are matters coming to our attention relating to significant deficiencies in the design or operation of the internal controls that, in our judgment, could adversely affect BIA's ability to record, process, summarize, and report financial data consistent with the assertions made by management in the financial statements. Material weaknesses are reportable conditions in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a

timely period by employees in the normal course of performing their assigned functions. We noted certain matters involving the internal controls and their operation that we consider to be material or reportable conditions as described by the American Institute of Certified Public Accountants and by Bulletin 98-08, as amended.

## **Material Weaknesses**

We discovered material weaknesses as discussed in the paragraphs that follow.

### **A. BIA Needs Improved Controls Over Construction-in-Progress Account**

BIA did not have sufficient internal controls to ensure that the construction-in-progress general ledger control account, which had a reported balance of \$51.4 million as of September 30, 1999, was stated in accordance with Federal accounting standards. Our audit tests disclosed aggregate errors (positive and negative) totaling \$69.1 million, which required a net adjustment of \$33.6 million (65 percent increase) in the account as of September 30, 1999. This occurred because BIA had not developed and implemented adequate policies and procedures to ensure that all valid projects and related costs were included in the account, completed projects were transferred timely to the appropriate fixed asset accounts, and invalid projects and project costs were removed from the account. These deficiencies are detailed as follows:

- BIA did not identify and record at least 13 valid construction projects totaling \$21 million. For example, our analytical reviews of project cost information maintained in BIA's Project Cost Accounting System disclosed that BIA had not identified and recorded project costs totaling \$10.5 million related to the rehabilitation and renovation of a BIA-owned dam. We also found that two fire station construction projects totaling \$485,000 were not recorded.

- BIA did not record project costs of at least \$16.3 million related to 15 construction projects. For example, our reviews of construction project files and site visits disclosed unrecorded dam renovation construction costs totaling \$14.5 million and September 1999 project construction costs totaling \$474,000 related to 10 construction projects.

- BIA did not transfer five completed construction projects totaling \$2.6 million to the appropriate fixed asset accounts. For example, the construction-in-progress subsidiary ledger included two projects at one school location, completed in October 1998, at a cost of \$1.5 million that had not been transferred to the buildings account as of September 30, 1999.

- BIA did not timely identify and remove invalid project costs totaling \$29.2 million related to 15 projects. For example, the construction-in-progress subsidiary ledger included project costs totaling \$13.5 million for a non-BIA-owned school (according to Facilities Management Construction Center officials) and project costs totaling \$918,000 related to the duplicate reporting of August 1999 transactions.

When informed of these deficiencies, BIA management made the necessary adjustments.

### **Recommendation**

We recommend that the Assistant Secretary for Indian Affairs direct the Chief Financial Officer to establish and implement policies and procedures to ensure that all projects and related costs are included in the construction-in-progress account, completed projects are timely transferred to the appropriate fixed asset accounts, and invalid projects and project costs are identified and removed from the construction-in-progress account.

**BIA Response:** The BIA concurs with this finding. BIA is currently implementing a plan to improve controls over Construction-in-Process (CIP) and has issued a revised CIP Manual in June 2000. BIA has issued instructions for another complete inventory to be completed by June 30, 2000. The BIA is in process of correcting the CIP Report 664 that lists all transactions for all construction projects. The corrective actions on CIP are expected to be completed by August 31, 2000.

### **B. BIA Needs Improved Controls Over Property, Plant and Equipment Accounts**

BIA did not have sufficient internal controls to ensure that the buildings subsidiary ledger, other structures and facilities subsidiary ledger, and equipment subsidiary ledger were stated in accordance with Federal accounting standards. Our audit tests showed that as of September 30, 1999 BIA's subsidiary ledgers included errors for property, plant and equipment acquisition costs totaling \$25.3 million; accumulated depreciation costs totaling \$7.0 million; and depreciation expenses totaling \$64.8 million. These deficiencies occurred because BIA had not developed and implemented effective policies and procedures. Examples of deficiencies are detailed as follows:

- Subsidiary ledger acquisition costs for six buildings did not agree with the amounts shown on the supporting documentation, which resulted in gross misstatements of at least \$1.1 million.

- The building general ledger control account and/or subsidiary ledger did not include costs totaling \$1.9 million for four buildings (costs not transferred from the construction-in-progress account to the buildings account) and \$2.2 million for three completed buildings that had not previously been recorded in the buildings or construction-in-progress general ledger accounts but that were charged directly to expenses.

- Eleven employee housing quarters (duplex and fourplex buildings) totaling \$1.1 million had been incorrectly recorded as separate apartment units and, as a result, did not meet the \$50,000 capitalization threshold for recording building assets. When we informed BIA management of the incorrect recording, they agreed that the buildings should be capitalized and included in the buildings general ledger control account.

- Five buildings and/or building improvements totaling \$106,000 were below the \$50,000 capitalization threshold and should not have been recorded in the general ledger control account.

- Improper depreciation expense computations resulted in an \$18 million overstatement for 219 buildings and a \$4 million understatement for 22 buildings.

- Six BIA-owned water towers totaling an estimated \$300,000 were not recorded in the other structures and facilities subsidiary ledger.

- Thirteen other structures and facilities items totaling \$209,000 were below the \$50,000 capitalization threshold and should not have been recorded in the general ledger control account.

- Improper depreciation expense computations resulted in a \$31.5 million understatement related to three other structures and facilities items and a \$2.6 million overstatement related to 34 other structures and facilities items.

- In-service date supporting documentation was inadequate for seven equipment items totaling \$727,000.

- An improper deletion of 112 equipment items resulted in a \$5 million understatement to the equipment account.

- Twenty-three equipment items totaling \$697,000 were not recorded in the equipment subsidiary ledger.

When informed of these deficiencies, BIA management made the necessary adjustments.

### **Recommendation**

We recommend that the Assistant Secretary for Indian Affairs direct the Chief Financial Officer to establish and implement policies and procedures which ensure that property, plant and equipment physical inventories are adequate and complete; acquisitions and disposals are recorded timely and accurately; adequate supporting documentation is maintained; completed construction projects are transferred timely to the appropriate accounts; depreciation expense is timely and accurately recorded; and errors in BIA's Fixed Asset Subsystem are timely identified and corrected.

**BIA Response:** The BIA concurs with this finding. The BIA completed a new physical inventory as of March 31, 2000 and is currently performing internal reviews of the inventories at the large property Regions. In addition to this inventory, BIA is currently photographing all real property; these photographs will be loaded into a database that will be linked to the Fixed Asset System.

### **C. BIA Needs Improved Controls Over Budgetary Accounts**

BIA did not have sufficient internal controls to ensure that budgetary account transactions were timely deobligated (cleared) when completed or inactive, accurately recorded, and adequately supported in accordance with Federal accounting regulations.

The deficiencies related to the budgetary accounts occurred because BIA management had not developed and implemented adequate policies and procedures to ensure that periodic reviews were performed to determine the validity and accuracy of undelivered orders and that completed, closed, or inactive undelivered orders transactions were timely removed from the account.

Our audit tests of 182 items totaling \$82.4 million disclosed that 21 items (12 percent) totaling \$708,000 (projected over the universe to be a most likely overstatement error of \$13.9 million) should have been deobligated prior to September 30, 1999. In addition, we found one transaction totaling \$24,000 that was recorded with the wrong transaction type, which caused the undelivered orders accounts to be understated, and funds totaling \$133,000 that were incorrectly obligated twice by field office personnel, which caused the undelivered orders accounts to be overstated. Also, during our analytical tests, we found 140 undelivered orders transactions with unnatural balances totaling \$206,000 included in the subsidiary ledger at September 30, 1999. For example, one unnatural balance occurred because a check cancellation totaling \$144,000 was improperly processed within the accounting system. When informed of the deficiencies, BIA management made a \$13.8 million net adjustment to the undelivered orders-unpaid and allotment resources realized accounts.

In addition, BIA improperly posted a subsidy reestimate adjustment totaling \$21 million to budgetary accounts for an entry that should have been recorded only to proprietary accounts prior to receipt of budgetary authority and did not have sufficient internal controls to ensure that adequate documentation was available to support an \$18 million adjustment to fiscal year 1999 beginning budgetary account balances.

#### **Recommendation**

We recommend that the Assistant Secretary for Indian Affairs direct the Chief Financial Officer to establish and implement policies and procedures which ensure that budgetary account transactions are timely deobligated (cleared) when completed or inactive, accurately recorded, and adequately supported in accordance with Federal accounting regulations.

**BIA Response:** The BIA concurs with this finding. BIA issued an Undelivered Orders Manual in July 2000 that requires the program managers to reconcile the BIA Report 130s (UDOs) each month and take necessary corrective action. BIA is also sending the report on UDOs to the field in a text file that can be dropped into a data base for additional sorts as required.

#### **D. BIA Needs Improved Controls Over Financial Information Integrity Reviews**

BIA did not have sufficient internal control procedures to ensure that errors and invalid transactions contained in its general and subsidiary ledgers, listings, and reports were timely identified and corrected at September 30, 1999. In addition, BIA did not consistently have adequate internal controls to ensure that adjusting journal/accounting entries were properly recorded in the appropriate general ledger control accounts. These deficiencies occurred because BIA had not developed and implemented an effective financial information integrity review, reconciliation, and correction process. The deficiencies are detailed as follows:

- An improper transaction code used to remove non-BIA-owned structures and facilities resulted in a \$77.3 million misstatement to the loss on disposal and prior period adjustments general ledger control accounts.

- The necessary proprietary account adjusting entries were not made to properly record net upward and downward reestimates of direct loan subsidy expenses totaling \$5.3 million, loan guaranty liability decreases totaling \$17.5 million, and reestimate interest expenses totaling \$3.2 million.

- A \$4.6 million adjusting entry was improperly recorded to the bad debt expense and allowance for doubtful accounts general ledger control accounts (backward debit and credit entries).

- A \$12.7 million accounts payable adjusting entry was improperly posted to the accrued unfunded payroll general ledger control account.

- One item totaling \$676,000 was recorded in the improvements to land subsidiary ledger, but, according to the supporting documentation, the item was not owned by BIA.

- Five athletic fields had not been recorded in the improvements to land subsidiary ledger.

- Seven parcels of land (159 acres) with an undetermined cost had not been recorded in the subsidiary ledger, but supporting documentation indicated that the acreage was owned by BIA.

- BIA had not performed timely clearing and/or reconciliation of transactions from the deposit suspense liability account. For example, we found stale transactions dating as far back as fiscal year 1994 that, according to supporting documentation, should have been cleared. In addition, we identified an unreconciled difference of approximately \$168,000 between three power projects' meter deposit detail listings and the related general ledger control account.

When informed of these deficiencies, BIA management made the necessary adjustments.



## **Recommendation**

We recommend that the Assistant Secretary for Indian Affairs direct the Chief Financial Officer to establish and implement necessary controls to ensure that adjusting journal/accounting entries are properly recorded in the appropriate general ledger control accounts; effective financial information integrity reviews, reconciliations, and correction processes are performed to ensure that errors and omissions are timely identified and corrected; and transactions from the deposit suspense liability account are cleared timely and reconciled.

**BIA Response:** The BIA concurs with this finding. The BIA has implemented a two level review process for all journal vouchers that are to be entered into the accounting system. This change, along with management changes currently underway, should result in improved controls over financial information.

## **E. BIA Needs Improved General Controls Over Automated Information Systems**

BIA did not have adequate controls over its Operations Service Center automated information systems in accordance with Bulletin 98-08. Detailed findings and recommendations and BIA's response and remedial actions taken are discussed in the April 1997 audit report "General Controls Over Automated Information Systems, Operations Service Center, Bureau of Indian Affairs" (No. 97-I-771). In addition, our June 1998 audit report "Followup of General Controls Over Automated Information Systems, Operations Service Center, Bureau of Indian Affairs" (No. 98-I-483) stated that the general control weaknesses and risks identified in our April 1997 report still existed. Our audit work performed for fiscal year 1999 determined that the general control weaknesses still existed and that recommendations made in the prior years' audit reports were not fully implemented.

## **Recommendation**

We recommend that the Assistant Secretary for Indian Affairs direct the Chief Financial Officer to develop and implement procedures to strengthen the reported internal control weaknesses over automated information systems.

**BIA Response:** The BIA concurs with this finding. BIA is addressing identified inadequate controls over automated systems in its new Reston Offices.

## **Reportable Conditions**

We discovered reportable conditions as discussed in the paragraphs that follow.

### **F. BIA Needs Improved Controls Over Accounts and Interest Receivable and Related Revenue and Allowance for Doubtful Accounts**

BIA did not have sufficient internal control procedures to ensure that accounts and interest receivable and related revenue and allowance for doubtful accounts general ledger control account balances were stated in accordance with Federal accounting standards. These deficiencies occurred because BIA had not developed and implemented adequate procedures to ensure that adequate documentation was available to support all recorded receivable balances; all recorded receivable balances were valid, accurate, and properly classified; all receivable and revenue transactions were timely entered into the appropriate general and subsidiary ledgers; and accurate receivable aging data were used to compute the allowance estimate.

Our audit tests showed that receivables of \$2.1 million were unsupported and receivables of \$2.4 million were invalid, inaccurate, or improperly classified. When informed of these deficiencies, BIA management made adjustments of \$1.8 million (out of \$4.5 million identified) to correct the deficiencies noted in the receivable general ledger control accounts; however, BIA financial management did not make an adjustment to correct the remaining identified errors of \$2.7 million.

In addition, because of the effect that the accounts receivable transactions have on the related revenue accounts, we determined that revenues totaling \$2.4 million were invalid, inaccurate, or improperly classified. When informed of the deficiencies, BIA management made the necessary adjustments.

Our audit tests also identified deficiencies in power receivables and revenue as follows:

- Power receivables and revenue related to fiscal year 1998 transactions totaling \$224,000 were not recorded in the appropriate general or subsidiary ledgers until fiscal year 1999.
- Power receivables and revenue related to fiscal year 1999 transactions totaling \$80,000 were not timely recorded when earned in the appropriate general or subsidiary ledgers.

These deficiencies occurred because BIA had not established policies and procedures for periodically updating its power project receivable balance to reflect current year billing transactions when executed. Further, BIA did not use the correct receivable aging data for \$16.4 million of irrigation accounts receivable when computing its allowance for doubtful accounts estimate because it used the Federal Financial System receivable aging summary rather than the National Irrigation Information Management System receivable aging detail

report to compute the estimate. This resulted in a \$4.6 million misstatement in the receivable allowance and bad debt expense general ledger control accounts at September 30, 1999. When informed of this deficiency, BIA management made the necessary adjustments.

### **Recommendation**

We recommend that the Assistant Secretary for Indian Affairs direct the Chief Financial Officer to establish and implement policies and procedures to ensure that adequate documentation is available to support all recorded receivable balances; all recorded receivable balances are valid, accurate, and properly classified; all receivable and revenue transactions are timely entered into the appropriate general and subsidiary ledgers; and accurate receivable aging data are used to compute the allowance estimate.

**BIA Response:** BIA concurs with the finding. While recruiting for a CFO, BIA has contracted with NBC to setup better controls over accounts receivables including updating written procedures.

### **G. BIA Needs Improved Controls Over Deferred Maintenance Management and Reporting**

In accordance with Statement of Federal Financial Accounting Standards No. 6, "Accounting for Property, Plant and Equipment," as amended, and Statement of Federal Financial Accounting Standards No. 14, "Amendments to Deferred Maintenance Reporting," we reviewed the internal controls related to transactions and other data that support the reported supplementary information on deferred maintenance to determine whether BIA estimates totaling \$5.2 billion were properly supported, processed, and summarized. We found that formal policies and procedures for conducting periodic condition assessment surveys and for computing, compiling, and reporting deferred maintenance funding estimates needed to be established to promote consistency and improve reliability of the data. In addition, the supervisory and monitoring controls over deferred maintenance required strengthening to ensure that deferred maintenance estimates are accurate, complete, and supported by adequate documentation.

### **Recommendation**

We recommend that the Assistant Secretary for Indian Affairs direct the Chief Financial Officer to establish and implement policies and procedures for conducting periodic condition assessment surveys and estimating deferred maintenance needs, including the requirement that the data and methodologies used to compute the estimate should be documented, reviewed, and approved at the appropriate management levels.

**BIA Response:** The BIA agrees that improved controls over deferred maintenance and reporting are needed. The BIA is currently developing programs to implement the Departments guidelines that were issued in December, 1999.

## **STEWARDSHIP AND PERFORMANCE MEASURES**

We reviewed BIA's internal controls over the required supplementary stewardship information (pages VI-b-1 to VI-b-9) by obtaining an understanding of BIA's internal controls relating to the preparation of the required supplementary stewardship information, determining whether these internal controls had been placed in operation, assessing the control risk, and performing tests of these controls as required by Bulletin 98-08. However, providing assurance on these internal controls was not an objective of our audit, and accordingly, we do not provide assurance on such controls.

### **H. BIA Needs Improved Controls Over Stewardship and Performance Measure Reporting**

During our internal control review, we noted certain existence and/or completeness issues as follows:

- BIA omitted the reporting of investments in non-Federal assets for expenses incurred for alterations/renovations of facilities, purchases of equipment, and other improvements of physical assets for educational facilities and irrigation structures under contract and/or grant with tribal entities or owned by tribal entities. Statement of Federal Financial Accounting Standards No. 8 requires that an annual investment in non-Federal assets be reported as supplementary stewardship information. The BIA official responsible for education stewardship reporting stated that this decision was made by BIA and/or Departmental officials during fiscal year 1998, but he could not provide a rationale for the decision.

- The Construction-in-Progress in the Indian Schools section (page VI-b-8) did not include at least four construction projects that were determined by BIA to be tribally owned and that therefore should have been reported as stewardship investments as required by Statement of Federal Financial Accounting Standards No. 8 (Section 83). In addition, one of the construction projects reported in this section was duplicated and also reported as construction-in-progress on BIA's Statement of Financial Position.

- The Human Capital Investment (Investment in Indian Education) totaling \$493 million reported as "expended" in fiscal year 1999 was actually the obligated amount rather than the expended amount as required by Standard No. 8 (Section 94).

- The Museum Property Collection section included in reported Heritage Assets did not identify the number of museum property items added and/or withdrawn during fiscal year 1999 as required by Standard No. 8 (Section 50).

- The Accomplishment Report for Fiscal Year 1999 Indian Reservation Roads and Bridge Programs showed 4,707 miles of road construction accomplishments; however, BIA's regional offices' reports totaled 3,127 miles for road construction accomplishments for fiscal year 1999. Although BIA described its program accomplishments as road construction and

maintenance, we determined that BIA reported information only on road construction accomplishments and omitted information on road maintenance accomplishments.

We considered BIA's internal controls over the performance measures included in the Management Discussion and Analysis by obtaining an understanding of BIA's internal controls relating to the preparation of the performance measures information to determine whether these internal controls had been placed in operation and performed tests of these controls as required by Bulletin 98-08, as amended. However, providing assurance on these internal controls was not an objective of our audit, and accordingly, we do not provide assurance on such controls.

During our review, we noted certain existence and/or completeness issues that adversely impacted the information provided in BIA's Management and Discussion Analysis. For example, the Analysis did not identify target goals for nine performance measures profiled in the Department's Accountability Report for fiscal year 1999 and did not address three of the nine performance measures profiled in the Report. Also, information in the report did not agree with information in BIA's Performance Report actual results for four performance goals.

### **Recommendation**

We recommend that the Assistant Secretary for Indian Affairs direct the Chief Financial Officer to establish and implement stewardship and performance measure management systems that include the necessary control procedures to ensure that timely, complete, and reliable stewardship and performance measure information, including all supporting documentation and listings, is adequately maintained and available.

**BIA Response:** The BIA agrees with the recommendation that the CFO improve the control procedures over stewardship and performance measure management systems.

## **REPORT ON COMPLIANCE WITH LAWS AND REGULATIONS**

We conducted our audit in accordance with "Government Auditing Standards," issued by the Comptroller General of the United States and with Bulletin 98-08, as amended.

Management of BIA is responsible for complying with applicable laws and regulations. As part of obtaining reasonable assurance as to whether BIA's financial statements are free of material misstatement, we performed tests of BIA's compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts, and certain other laws and regulations specified in OMB Bulletin 98-08, as amended, including the requirements referred to in the Federal Financial Management Improvement Act of 1996.

Under the Act, we are required to report whether BIA's financial management systems are in substantial compliance with Federal financial management system requirements, Federal

accounting standards, and the U.S. Government Standard General Ledger at the transaction level. To meet these requirements, we performed tests of compliance using the implementation guidance for the Act included in Appendix D of Bulletin 98-08, as amended. However, providing an opinion on compliance with certain provisions of laws and regulations was not an objective of our audit, and accordingly, we do not express such an opinion.

## **I. BIA Needs Improved Controls Over Compliance With Applicable Laws and Regulations**

The results of our tests of compliance disclosed no instances of noncompliance with other laws and regulations except as discussed in the paragraphs that follow that are required to be reported under the "Government Auditing Standards" or Bulletin 98-08, as amended. However, the results of our tests of compliance with laws and regulations identified five instances of noncompliance that are required to be reported as follows:

- Chief Financial Officers Act of 1990. In our opinion, BIA did not effectively establish and implement general and financial management practices and improve its systems of accounting, financial management, and internal controls to ensure the issuance of reliable financial information related to the production of complete, reliable, timely, and consistent financial reports and subsidiary ledgers, as discussed in the previous finding paragraphs. As such, BIA was not in compliance with the Act.

- Federal Financial Management Improvement Act of 1996. We noted certain matters which we believe indicate that ineffective general controls existed over BIA's automated information systems and are significant departures from certain requirements of Office of Management and Budget Circulars A-127, "Financial Management Systems," and A-130, "Management of Federal Information Resources," and are therefore instances of substantial noncompliance with the Federal financial management systems requirements under the Federal Managers' Financial Integrity Act of 1982.

Our review also disclosed that BIA's National Irrigation Information Management System (NIIMS), a subsidiary irrigation accounts receivable system, did not meet Joint Financial Management Improvement Program Core Financial System requirements. Specifically, NIIMS did not support the functions required to track financial events; did not provide information required for the preparation of financial statements; and did not collect, transmit, and report data about financial events. We also found that NIIMS did not maintain sufficient information to distinguish between prior fiscal year and current fiscal year transactions. All bills entered into NIIMS during the current fiscal year are assigned a current fiscal year billing document number regardless of the actual fiscal year of the revenues being billed. As a result, if a bill is canceled and subsequently reissued, the revenue accrual is duplicated, resulting in an overstatement of current year revenue in the Federal Financial System. In addition, at the beginning of each fiscal year, NIIMS's electronic interface with the Federal Financial System identifies all irrigation receivables as current and does not allow for the accurate aging and reporting of delinquent receivables from data within the Federal Financial

System. Also, NIIMS's electronic interface with the Federal Financial System does not distinguish between government and non-government receivables and does not allow for the identification of other Federal entities for the purpose of providing accurate financial statement year-end eliminations. Further, we noted from our reviews of BIA internal documents that NIIMS does not contain information such as the time, terminal, or date for billing and collection information; does not allow for the date of partial payment to be entered for computation of interest, penalty, and administrative charges, resulting in inaccurate accruals and assessments of interest and penalties; and allows for the overwrite of user identification codes when lease or land master records are updated.

- Debt Collection Improvement Act of 1996. The Debt Collection Improvement Act of 1996 requires that all eligible receivables delinquent for more than 180 days be referred to the U.S. Treasury for collection or offset. Eligible receivables are those receivables that are not in bankruptcy, litigation, or foreclosure status and that have not been referred to a private collection agency or the Internal Revenue Service for tax refund offset.

BIA did not timely transfer all eligible accounts receivable that were delinquent for more than 180 days to the Treasury for collection or offset. For example, BIA reported that it had referred delinquent accounts receivable of \$3 million to the Treasury for collection or offset at September 30, 1999. However, we found that BIA had accounts receivable of at least \$22.8 million that were delinquent for more than 180 days and were eligible for referral at September 30, 1999.

- Prompt Payment Act. The Prompt Payment Act requires that Federal agencies pay their bills on time, pay interest penalties when payments are made late, and take discounts only when payments are made within the discount period and are advantageous to the Government. A January 24, 2000 quality control review prepared by the Chief, Accounting Operations Branch, National Business Center, covering the fourth quarter of fiscal year 1999 stated that the accuracy of BIA's Prompt Payment Report was not acceptable because of the number of payment processing errors found. Our review of all fiscal year 1999 quality control quarterly reports disclosed that BIA made incorrect data entries into the Federal Financial System ranging from 12 to 36 percent for those items tested.

- Managerial Cost Accounting Management and Reporting. In accordance with the full cost financial reporting requirements contained in Statement of Federal Financial Accounting Standards No. 4 and OMB Bulletin 97-01, we reviewed the processes related to the data that supported the reported information for managerial cost accounting. We found that BIA had not developed managerial cost accounting systems that adequately captured all elements necessary for assigning indirect costs on a reasonable basis. Specifically, BIA did not allocate indirect costs of \$114.2 million to its responsibility segments as of September 30, 1999. In addition, BIA did not present segment information for its Statement of Changes in Net Position, as required by Bulletin 97-01.

## **Recommendation**

We recommend that the Assistant Secretary for Indian Affairs direct the Chief Financial Officer to develop and implement procedures which ensure compliance with the Chief Financial Officers Act of 1990, the Federal Financial Improvement Act of 1996, the Debt Collection Improvement Act of 1996, the Prompt Payment Act, and managerial cost accounting management and reporting requirements.

**BIA Response:** BIA concurs with this finding. The BIA is currently advertising the Chief Financial Officers job as recommended by the National Association of Public Administration's study.

## **CONSISTENCY OF OTHER INFORMATION**

We reviewed the financial information presented in BIA's management discussion and analysis (pages I-1 to III-5) and supplementary information (pages VI-b-1 to VI-b-9) to determine whether the information was consistent with the principal financial statements. Based on our review, we determined that the information in the management discussion and analysis and in the required supplementary information sections were consistent with the principal financial statements.

## **PRIOR AUDIT COVERAGE**

We reviewed prior Office of Inspector General and General Accounting Office audit reports related to BIA's financial statements to determine whether these reports contained any unresolved or unimplemented recommendations that were significant to BIA's financial statements or internal controls. We found that there were no General Accounting Office reports that contained significant unresolved or unimplemented recommendations related to BIA's financial statements or internal controls. However, the Office of Inspector General had issued nine reports that had significant unresolved or unimplemented recommendations which we considered to be reportable weaknesses as follows:

- The report "Bureau of Indian Affairs Consolidated Comparative Financial Statements for Fiscal Years 1998 and 1997" (No. 99-I-937), issued in September 1999, stated that the fiscal year 1998 consolidated financial statements and accompanying notes were presented fairly except for the amounts reported in the financial statements for 13 accounts (accounts and interest receivable and the related revenue, advances, allowance for doubtful accounts, and bad debt expense; construction-in-progress; buildings, other structures and facilities, land improvements, equipment, and the related accumulated depreciation and depreciation expense; and undelivered orders) and the effect that these accounts had on the overall net position, change in financial position, budgetary resources and outlays, and the related notes to the financial statements. In addition, the report stated that BIA was not in compliance with the Chief Financial Officers Act of 1990, the Federal Financial Management Improvement Act of 1996, the Debt Collection Improvement Act of 1996, the Credit Reform Act of 1990, and the Prompt Payment Act. The report contained 23 recommendations, of



which 1 was considered resolved but not implemented and 22 were considered unresolved because BIA did not specifically address those recommendations in its response.

- The report "Deferred Maintenance, National Park Service, U.S. Fish and Wildlife Service, U.S. Geological Survey, Bureau of Indian Affairs, Bureau of Land Management, and Bureau of Reclamation" (No. 99-I-874), issued in September 1999, stated that the bureaus needed to implement actions to ensure that deferred maintenance information was reliable for budgetary and accounting purposes. We made three recommendations to the Assistant Secretary for Policy, Management and Budget. As of September 30, 1999, management had concurred with but had not implemented any of the recommendations related to (1) establishing additional criteria for bureaus to use in determining the types of projects or items that should be included in their deferred maintenance listings; (2) establishing a requirement that bureaus should prepare and maintain documentation to support their condition assessments and deferred maintenance cost estimates; and (3) requiring bureaus to establish management and system controls to ensure that deferred maintenance data are reviewed, approved, and validated.

- The report "Followup of General Controls Over Automated Information Systems, Operations Service Center, Bureau of Indian Affairs" (No. 98-I-483), issued in June 1998, stated that the general control weaknesses and risks identified in our audit report for fiscal year 1996 continued to exist during fiscal year 1997. The report made eight new recommendations to address weaknesses found during the followup audit. As of September 30, 1999, BIA had implemented procedures relating to establishing the use of the U.S. Geological Survey's host computer, holding the Information Technology Security Manager accountable for performing the position's responsibilities, and removing the safety hazards. BIA concurred with but had not implemented the remaining five recommendations related to (1) developing and approving an Office of Information Resources Management strategic plan that provides direction to and defines the functions of the Operations Service Center; (2) performing a periodic evaluation of the system security program's effectiveness and including any resultant corrective actions in future BIA security plans; (3) redetermining, based on the Office of Information Resources Management's strategic plan, when BIA can begin to perform risk assessments and classifying BIA's resources; (4) obtaining security clearances for automated data personnel who are not assigned to the Center that are commensurate with their positions; and (5) requiring BIA staff to review and validate the appropriateness of users' levels of access to BIA's IBM applications.

- The report "Bureau of Indian Affairs Consolidated Financial Statements for Fiscal Years 1995 and 1996" (No. 97-I-834), issued in May 1997, stated that the fiscal year 1996 consolidated financial statements and accompanying notes were presented fairly except for the amounts reported in the financial statements for four accounts (other structures and facilities, accounts receivable, revenue, and bad debt expense) and the effect that these accounts had on the net position. In addition, the report stated that BIA had not timely collected its accounts and loans receivable and therefore was not in compliance with the Debt Collection Act of 1982. We made three recommendations to address these deficiencies. As of September 30, 1999, BIA had implemented two of the recommendations. BIA concurred

with but had not implemented the recommendation relating to monitoring transactions recorded in its accounting system to ensure that the transactions are recorded to the correct accounts.

- The report "General Controls Over Automated Information Systems, Operations Service Center, Bureau of Indian Affairs" (No. 97-I-771), issued in April 1997, stated that BIA's general controls over its automated information systems at the Center were not effective. Specifically, according to the report, BIA did not (1) have an effective system security program and had not enforced personnel policies and procedures to ensure adequate system security, (2) classify its resources to determine the level of security needed, (3) monitor visitor activities and perform adequate housekeeping to safeguard computer hardware, (4) perform periodic reviews to ensure that users' access levels were appropriate, (5) ensure that the proper version of an application was used in production, (6) have segregation of duties for the system support functions, (7) have controls over system software to effectively detect and deter inappropriate use, and (8) have an effective means of recovering or of continuing computer operations in the event of a system failure. We made 13 recommendations to address these deficiencies. As of September 30, 1999, BIA had implemented procedures to address five of the recommendations. BIA concurred with but had not implemented seven recommendations, related to (1) elevating the automated information system security function, (2) developing and documenting a system security program, (3) performing system environment risk assessments, (4) developing and implementing personnel security policies, (5) developing and implementing policies to classify BIA's computer resources in accordance with OMB Circular A-130, (6) developing and implementing policies to match personnel files with system users periodically, and (7) developing and implementing policies and procedures to identify individuals responsible for application development and changes. A followup audit report (No. 98-I-483) found that the remaining recommendation, relating to moving the applications residing on the Unisys computer, was no longer applicable, and the recommendation was not referred for further tracking of implementation.

- The report "Direct and Guaranteed Loan Programs, Eastern Area Office, Bureau of Indian Affairs" (No. 97-I-504), issued in March 1997, stated that BIA's Eastern Area Office did not adequately manage its loan programs in compliance with applicable requirements. Specifically, the Area Office did not ensure that (1) loan applications were screened and analyzed for reasonable assurance of the borrower's ability to repay, (2) outstanding loans were monitored adequately, (3) debt collection activities were initiated when appropriate, and (4) loan write-offs were adequately justified. We made six recommendations to address these deficiencies. As of September 30, 1999, BIA had implemented procedures for five recommendations and had concurred with but had not implemented the recommendation related to complying with the Departmental Manual.

- The report "Indian Irrigation Projects, Bureau of Indian Affairs" (No. 96-I-641), issued in March 1996, stated that BIA had not taken corrective actions to recover operation and maintenance charges of \$3 million owed eight projects for fiscal years 1993 and 1994, collect reimbursable construction costs totaling \$7.7 million from non-Indian landowners at

five projects, and include reimbursable construction costs of about \$3.3 million in repayment contracts for two irrigation projects. We made 13 recommendations to address the deficiencies. As of September 30, 1999, BIA had implemented procedures for seven recommendations. BIA concurred with but had not implemented the remaining six recommendations.

- The report "Bureau of Indian Affairs Principal Financial Statements for Fiscal Years 1993 and 1994" (No. 95-I-598), issued in February 1995, stated that we were unable to complete the audit and render an opinion on the reliability of the principal financial statements because BIA did not provide information to support the balances reported for accounts receivable, accounts payable, and the fund balance with Treasury for the irrigation and power accounts. BIA also could not substantiate the amounts reported for real property, construction-in-progress, and personal property. We made six recommendations to address the deficiencies. As of September 30, 1999, BIA had implemented procedures for four recommendations and concurred with but had not implemented the remaining two recommendations, related to reconciling subsidiary ledger balances with appropriate general ledger accounts and developing and implementing procedures to ensure that accounting activities related to the construction-in-progress account are properly coordinated, accurate and updated as needed and that the amounts reported in BIA's general ledger accounts for five accounts (construction-in-progress; buildings; other structures and facilities; roads, bridges, and trails; and improvements to land) are also properly coordinated, accurate, and updated.

- The report "Wapato Irrigation Project, Bureau of Indian Affairs" (No. 95-I-1402), issued in September 1995, said that the Wapato Project Office was not adequately assessing, billing, or collecting annual operation and maintenance charges. We made six recommendations to address the deficiencies. As of September 30, 1999, BIA had implemented procedures for four recommendations and had concurred with but had not implemented the remaining two recommendations, related to determining the full cost of properly operating and maintaining the Project and establishing reserve funds to rehabilitate and replace facilities and equipment.

## **OBJECTIVE, SCOPE, AND METHODOLOGY**

Management of BIA is responsible for the following:

- Preparing the principal financial statements and the required supplementary information referred to in the Consistency of Other Information section of this report in conformity with generally accepted accounting principles and for preparing the other information contained in the Annual Report for fiscal year 1999.

- Establishing and maintaining an internal control structure over financial reporting. In fulfilling this responsibility, estimates and judgments are required to assess the expected benefits and related costs of internal control structure policies and procedures.

- Complying with applicable laws and regulations.

We are responsible for the following:

- Expressing an opinion on BIA's principal financial statements.
- Obtaining an understanding of the internal controls based on the internal control objectives contained in Bulletin 98-08, which require that transactions be properly recorded, processed, and summarized to permit the preparation of the principal financial statements and the required supplementary information in accordance with Federal accounting standards; that assets be safeguarded against loss from unauthorized acquisition, use, or disposal; and that transactions and other data that support reported performance measures be properly recorded, processed, and summarized to permit the preparation of performance information in accordance with criteria stated by management.
- Testing BIA's compliance with selected provisions of laws and regulations that could materially affect the principal financial statements or the required supplementary information.

To fulfill these responsibilities, we took the following actions:

- Examined, on a test basis, evidence supporting the amounts disclosed in the principal financial statements.
- Assessed the accounting principles used and the significant estimates made by management.
- Evaluated the overall presentation of the principal financial statements.
- Obtained an understanding of the internal control structure related to safeguarding assets; compliance with laws and regulations, including the execution of transactions in accordance with budget authority; financial reporting; and certain performance measures information reported in the annual report.
- Tested relevant internal controls over the safeguarding of assets; compliance with laws and regulations, including the execution of transactions in accordance with budget authority; and financial reporting.
- Tested compliance with selected provisions of laws and regulations.

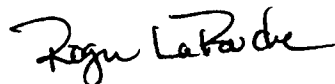
We did not evaluate all of the internal controls related to the operating objectives as broadly defined by the Federal Managers' Financial Integrity Act, such as those controls related to preparing statistical reports and ensuring efficient operations. We limited our internal control testing to those controls needed to achieve the objectives outlined in our report on internal controls.

Based on BIA's July 13, 2000 response, we consider Recommendations C.1 and D.1 resolved and implemented and Recommendations A.1, B.1, E.1, F.1, G.1, H.1, and I.1 resolved but not implemented. Accordingly, the unimplemented recommendations will be referred to the Assistant Secretary for Policy, Management and Budget for tracking of implementation.

Since the recommendations are considered resolved, no further response to the Office of Inspector General is required (see Appendix 1).

Section 5(a) of the Inspector General Act (5 U.S.C. app. 3) requires the Office of Inspector General to list this report in its semiannual report to the Congress. In addition, the Office of Inspector General provides audit reports to the Congress.

This report is intended for the information of management of the Department of Interior and OMB and the Congress. However, this report is a matter of public record, and its distribution is not limited



Roger La Rouché  
Acting Assistant Inspector General  
for Audits

*[CONTACT THE BUREAU OF INDIAN AFFAIRS FOR INFORMATION ON ITS FINANCIAL STATEMENTS FOR FISCAL YEAR 1999, WHICH ARE NOT INCLUDED]*

## STATUS OF AUDIT REPORT RECOMMENDATIONS

Findings/Recommendation Reference	Status	Action Required
A.1, B.1, E.1, F.1, G.1, H.1, and I.1	Resolved; not implemented.	No further response to the Office of Inspector General is required. The recommendations will be forwarded to the Assistant Secretary for Policy, Management and Budget for tracking of implementation. The target dates and titles of the officials responsible for implementation should be provided to the Office of Financial Management.
C.1 and D.1	Implemented.	No further action is required.