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Accounting and Information
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June 10, 1994

The Honorable Bonnie Cohen
Assistant Secretary for Policy, Management,
and Budget and Chief Financial Officer
U.S. Department of the Interior

Dear Ms. Cohen:

This letter responds to questions your office raised on two of the recommendations in our April 12, 1994, testimony before the House Appropriations Committee, Subcommittee on Interior and Related Agencies (GAO/T-AIMD-94-99), on the Bureau of Indian Affairs' (BIA) efforts to reconcile Indian trust fund accounts and implement management improvements. The two recommendations are directed toward (1) using the ongoing reconciliation to better ensure that earned revenues were billed and collected and (2) using information from the reconciliation process to develop an accounts receivable system.

Regarding the first recommendation, your office expressed concern that our recommendation for an additional reconciliation procedure might be interpreted by some as calling for a halt or delay of the current reconciliation process. This is not our intent. To verify the accuracy of recorded receipts, BIA's reconciliation contractor had been matching receipt documents to leases. While this approach would help to determine whether revenues were posted to the correct account, it would not identify lease revenues that should have been collected, but were not. Tracing revenues from leases to receipt tickets, which the contractor had planned to do for only a small portion of the revenues, would provide greater assurance that revenues earned but not collected are identified.

Your office also asked us whether such additional steps would be practical in light of the fact that BIA is having difficulty locating all lease documents. We have long recognized limitations to the reconciliation effort caused by

the unavailability of some documentation. Specifically, our June 1992 report¹ recommended limiting the reconciliation project to periods for which adequate records are available. Clearly, if BIA determines that copies of relevant leases cannot be found, or that the costs for such a procedure would be excessive, the additional steps should not be performed. In a May 19, 1994, meeting with Interior and BIA officials and staff from the House and Senate Appropriations Committees, Subcommittees on Interior and Related Agencies, BIA officials informed us that the procedure we recommended in our April 1994 testimony would be performed in cases where lease documents are available. We agree with this approach. However, lack of a complete lease universe would not allow projections of transaction error rates or any firm conclusions on the results of this reconciliation work.

Your office also questioned the need for an accounts receivable system for trust fund revenues. BIA currently does not have such a system, and we recommended that BIA use the ongoing reconciliation effort, which is dealing with revenue information, to build a receivables system. Your question stemmed in part from the fact that, currently, oil and gas revenues, which make up a large portion of the trust fund revenues, are recorded simultaneously as revenues and collections. Therefore, these revenues never are in a "receivable" status. Your office added that the lack of available documentation would also impact BIA's ability to implement this recommendation.

At the same May 19 meeting, Interior officials discussed our recommendation and the possibility of developing a lease-based revenue control system, along the lines of the Minerals Management Service's revenue control system, that would indicate when payments are due. Development of such a system would be responsive to our recommendation, as long as it is used to consistently document all income transactions.

I hope this additional information is helpful to you as you develop a response on actions that the Secretary of the

¹Financial Management: BIA Has Made Limited Progress in Reconciling Trust Accounts and Developing a Strategic Plan (GAO/AFMD-92-38, June 18, 1992).

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Interior plans to take to address our recommendations. If you would like to discuss these issues further, I can be reached at (202) 512-3406.

Sincerely yours,



George H. Stalcup
Associate Director
Financial Integrity Issues

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