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

HUMAN RESOURCES
DIVISION

B-197343

SEPTEMBER 30, 1980

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The Honorable Sidney R. Yates
Chairman, Subcommittee on Interior
Committee on Appropriations
House of Representatives

Dear Mr. Chairman:

Subject: Unexpended Fund Balance in the Indian Health Service Water and Sanitation Facility Construction Program (HRD-80-124)

This report responds to your September 19, 1979, request concerning the unexpended fund balance in the Indian Health Service's (IHS') water and sanitation facility construction program.

As agreed, we examined the program to determine whether:

--IHS budgeting procedures can be changed to reduce the amount of appropriated funds needed for facility construction in a given year.

--IHS allocation and obligation procedures are contributing to the size of the unexpended balance.

--IHS is receiving more funds than it can effectively use for water and sanitation facility construction.

--The Congress should consider different ways of providing funds to IHS for water and sanitation facility construction.

--IHS' use of the memorandum of agreement as an obligating document is legal.

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During our review, we visited IHS' headquarters and five of its eight area offices. The five area offices selected--Aberdeen, Anchorage, Billings, Navajo, and Oklahoma--accounted for 70 percent of the unexpended fund balance reported as of September 30, 1979.

FACTORS CONTRIBUTING TO THE AMOUNT OF UNEXPENDED PROGRAM FUNDS

The reported unexpended balance was $95 million at the end of fiscal year 1979, but it averaged about $112 million for fiscal years 1977-79. About one-third of the unexpended balance pertained to projects that were not started or for which construction was interrupted because of unforeseen problems that occurred after funds had been obligated.

Project construction delays

The area offices visited generally obligated funds for a project after IHS and the benefiting tribe or community signed a memorandum of agreement specifying the type, the cost, and the parties' operation and maintenance responsibilities. Our review of files for 251 construction projects (funded in fiscal years 1977-79) in the five areas we visited disclosed a time lapse between when funds were obligated and when construction began on 66 of the projects. Total funds obligated for the 66 projects were $28.2 million. At the time of our visit, construction had not started on 17 of the 66 projects, and we noted delays on other projects of as much as 30 months between obligation and construction.

Data in the project files showed various reasons for delays in starting or continuing project construction, including:

--Problems in obtaining right-of-way or resolving problems concerning historical preservation of land (15 projects).

--Problems encountered with contractors; e.g., bankruptcy, slow subcontractors, and faulty bids (13 projects).

--Tribal tardiness in providing required data (11 projects).

--Curtailment pending completion of other projects linked to planned projects (7 projects).

--Inclement weather (5 projects).

--Problems in obtaining adequate water supply (3 projects).

Posting financial transactions

When funds are obligated for a construction project, the area office Sanitation Facilities Construction Branch prepares a commitment register to record the amount obligated. When funds are expended, branch personnel record the transactions in the commitment register and send the invoices or other documentation to the area office finance personnel for payment and recording in the official financial records. At the time of our visit, the finance offices had 3- to 5-month backlogs in posting the transactions to the financial records. As a result, the reported unexpended balance was overstated by several million dollars.

Area office finance personnel attributed the backlog to a staff shortage. The chief, IHS Financial Management, told us that the agency has been authorized 10 additional clerical positions in the 1981 budget, which should alleviate the problem and result in more timely recording of financial transactions.

BUDGETING, ALLOCATING, AND OBLIGATING PROCEDURES DO NOT CONTRIBUTE TO THE UNEXPENDED BALANCE

The annual budget requests prepared by the area offices are based on the estimated total costs of construction projects to be started in the budget year. This practice is known as full funding. The planned projects support new housing activities. IHS has generally allocated to the areas less funds than were initially requested.

At the five area offices visited, the funds allocated to each area during fiscal years 1977-79 were obligated before the end of each fiscal year, including the supplemental appropriation of $75 million provided in June 1977. However, since much of the $75 million was authorized for upgrading substandard water and sanitary facilities in existing Indian housing, delays in expending the funds occurred in areas that had many substandard facilities. For example, one of eight service areas (which are subunits of an area office) on the Navajo reservation was allotted almost 50 percent of the total funds made available to the Navajo Reservation. As a result, a large burden was placed on the engineering staff of that service area to make the necessary studies before contracting for the required work.

Regarding the Committee's interest in an alternative to the present funding system, we discussed with IHS officials the possibility of budgeting, allocating, and obligating funds based only on expenditures that are anticipated to be incurred during a fiscal year (phased funding). IHS officials expressed reservations about phased funding because of the uncertainty of funding in later years to complete projects under construction. They added that, because of inflation, delays in contracting for portions of projects would likely increase overall contruction costs as well as area offices' administrative costs. Also, phased funding negates the flexibility provided by the Congress in allowing IHS to use a no-year appropriation for the water and sanitation program.

From a congressional perspective, phased (or incremental) funding can cause problems of budgetary disclosure and control. When funding for only 1 year's cost of a multiyear project is requested, the full cost may not be visible. This incremental funding can lead to a lack of budget control when the Congress must provide funding in the future to carry out past commitments.

We believe that full funding 1/--providing funds for the total cost of a project at the outset--is the most appropriate way of funding multiyear commitments like IHS construction projects. It provides full disclosure of total costs in congressional budget decisionmaking and increases control over future allocations of budget authority.

1/For a more complete discussion of full funding, see our report "Further Implementation of Full Funding in the Federal Government" (PAD-78-80, Sept. 7, 1978).

MEMORANDUM OF AGREEMENT IS A
LEGAL OBLIGATING DOCUMENT

IHS and the Indian tribe or Alaska Native community sign a memorandum of agreement to ensure a mutual understanding of each party's responsibilities for project construction and subsequent operation and maintenance of the water and sanitation facilities. The memorandum of agreement is also used by the area finance offices as documentary evidence for obligating funds for project construction.

We found that the memorandum of agreement contained the required documentary evidence needed to support an obligation by a Federal agency, pursuant to 31 U.S.C. 200. In addition, the memorandum of agreement used by IHS contains the basic elements necessary to represent a binding contract between the Federal Government and Indian or Alaska Natives. Therefore, where delays have interfered with the start or completion of project construction, we do not believe that IHS can terminate or modify a signed memorandum of agreement without the consent of the Indian or Alaska Native beneficiaries. Where the start or completion of project construction will be delayed indefinitely, mutual agreement to terminate or modify the memorandum of agreement could enable IHS to deobligate the funds for use on other unfunded priority projects.

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We discussed this report with IHS officials and, where appropriate, have incorporated their comments.

As arranged with your office, we are sending a copy of this report to the Secretary of Health and Human Services and will make copies available to others upon request.

Sincerely yours,

Gregory J. Ahart
Director