

GAO

Testimony



143593

For Release
on Delivery
Expected at
10 a.m. EDT
Thursday
April 11, 1991

Bureau of Indian Affairs' Efforts to
Reconcile and Audit the Indian Trust Funds

Statement of
Jeffrey C. Steinhoff
Director, Civil Audits
Accounting and Financial Management Division

Before the
Subcommittee on Interior and Related Agencies
Committee on Appropriations
House of Representatives



Mr. Chairman and Members of the Committee:

We are pleased to be here today to discuss the Bureau of Indian Affairs' (BIA) efforts to reconcile and audit the Indian trust funds. The Secretary of the Interior is authorized by law to manage Tribal and Individual Indian Monies Trust Funds. At the end of fiscal year 1990, the Indian trust funds included about 2,000 tribal and 300,000 individual Indian money accounts with balances totaling over \$2 billion. Balances that have accumulated in the trust funds have resulted in part from payments of claims; oil, gas, and minerals royalties; land use agreements; investment income; and other sources. Receipts total around \$600 million, and disbursements run over \$500 million annually.

BIA has a fiduciary responsibility to ensure that proper control and accountability is maintained over each trust account, something BIA has been slow in achieving. Over the years, numerous audit reports have detailed a litany of problems involving weaknesses in BIA's control and oversight of these accounts. As a result, BIA has lost credibility with the account holders.

The objective of the trust fund reconciliation and audit project, which is scheduled to begin this summer, is to identify, to the extent practicable, correct account balances for the tribal and individual Indian money trust accounts. Many accounts are

between 50 and 100 years old and will have to be reconstructed before an accurate balance can be determined. The magnitude of this undertaking is tremendous. Think about trying to determine the correct balance of a personal checking account that was active for over 50 years but was never reconciled periodically. Then, think about attempting to determine the correct balance of the account when many of the supporting records were not retained. This situation is similar to what a contractor will face as it begins to perform the trust fund reconciliation work for BIA. However, the contractor will be trying to determine the balance for over 300,000 accounts, not just one. The accuracy of these accounts has been a contentious matter for many years, with tribes calling for BIA to carry out its fiduciary responsibility.

The reconciliation and audit project is one of several financial improvement initiatives that BIA has underway, or has planned for the future, that are intended to improve its financial management practices. Before discussing the status of BIA's reconciliation and audit project, I would like to provide some background regarding BIA's long-standing financial management problems. Then, I will discuss its efforts to satisfy the congressional mandate to reconcile all Indian trust fund accounts. Finally, I will discuss how BIA can use the Chief Financial Officers (CFO) Act of 1990 (P.L. 101-576) to help build a strong financial management structure to ensure that its financial responsibilities are carried out efficiently and effectively.

BIA HAS BEEN PLAGUED BY LONG-STANDING
FINANCIAL MANAGEMENT PROBLEMS

The fact that BIA has serious financial management problems that transcend virtually every one of its principal accounting systems is not a revelation. In the trust fund area, tribes and individual Indians have long been concerned about the accuracy of BIA's accounting for trust receipts and disbursements and the effectiveness of BIA's investment practices. BIA has often been criticized for erroneous allocations of receipts, erroneous payments to account holders, failure to consistently invest trust fund balances, and failure to pay interest.

Almost 9 years ago, we reported¹ that BIA's appropriation and trust fund accounting systems needed major improvements. At that time, we found that the information produced by BIA's accounting systems was unreliable, that trust accounts had not been reconciled with the general ledger to ensure correct balances, and that controls over cash receipts and disbursements were inadequate.

Since 1982, numerous audits have been performed by the Interior Department's Inspector General and public accounting firms hired by BIA. These audits have continued to point out serious

¹Major Improvements Needed in the Bureau of Indian Affairs' Accounting System (GAO/AFMD-82-71, September 8, 1982).

accounting and financial management problems and weak internal controls throughout BIA. Furthermore, beginning with its first report under the Federal Managers' Financial Integrity Act (FMFIA) in 1983, each year the Department of Interior has continued to report on serious long-standing financial management problems in BIA. In its most recent FMFIA report, Interior characterized the entire Bureau as a material internal control weakness. Some of the more recently reported concerns include a lack of general ledger control over accounts, inaccurate data, a lack of accounting systems documentation, and inadequate management of the Indian trust funds.

Since 1983, two different public accounting firms have issued reports, or performed studies, which have pointed out serious internal control problems in BIA's trust accounting operations. One recent report, covering Arthur Andersen & Co.'s fiscal year 1988 and 1989 financial audits of the trust funds, expressed a qualified opinion on BIA's trust fund financial statements due to an inability to confirm cash balances, major inadequacies in accounting records and related systems, and accounting errors. The report also highlighted 16 material accounting system and internal control weaknesses. For example, the auditor found that a lack of written policies and procedures and inconsistent accounting practices bureauwide caused numerous accounting errors. In addition, it reported that BIA's financial systems did not provide accurate and timely reports to Indian and tribal

account holders. These problems were similar to those discussed in our 1982 report.

Because BIA has not corrected its serious, long-standing financial management problems, in 1989, the Office of Management and Budget (OMB) included BIA in the list of the government's high risk programs. Last summer, when OMB reviewed BIA's progress in correcting these weaknesses, it noted that many remained partially, or completely, uncorrected and that BIA's action plan was inadequate because it did not fully address all necessary corrective actions. Clearly, BIA has much work to do before its financial management problems are solved.

BIA's TRUST FUND RECONCILIATION PROJECT

Mr. Chairman, last August, you asked us to monitor BIA's trust fund reconciliation project. Earlier in the year, you and others in the Congress had expressed concern that BIA was attempting to solve some of its trust fund management and accounting problems by contracting with Security Pacific National Bank for accounting and investment advisory services without first reconciling the trust accounts. Late last summer, BIA canceled its contract with Security Pacific National Bank due to this and other concerns, and began to finalize its request for proposals (RFP) for reconciliation work. Specifically, you asked us to

- monitor BIA's RFP and contracting process for the reconciliation work,
- advise you on whether the selected contractor would be able to perform the reconciliation, and audit and certification work,
- review and comment on the contractor's plans to reconcile the accounts, and
- review and comment on plans for, and implementation of, the audit and certification of the reconciled accounts.

This project is important because establishing and maintaining accurate trust account balances are critical steps to improving BIA's management of the Indian trust funds.

BIA has divided this project into two phases, each of which includes the same two processes: (1) reconciliation, which may require reconstruction of trust accounts from the earliest date practical, given the availability of supporting documentation, and (2) independent audit and certification of the reconciled balances.

Phase I will cover over 500 tribal accounts belonging to 37 of the 254 tribes. BIA selected the larger tribal accounts for Phase I because they make up over 87 percent of the tribal trust fund balance and they represent the majority of the tribal accounts. In addition, Phase I will cover 17,000 individual Indian money accounts that make up over 17 percent of the Individual Indian Monies Trust Funds balance. BIA selected individual Indian money accounts which are maintained at three of

its agency offices--Uintah and Ouray, Fort Peck, and Olympic Peninsula--because reconciliations have been completed on these accounts for most of the last 3 years, and the results would serve as a useful starting point.

Phase II will cover the remaining 1,500 tribal and approximately 283,000 individual Indian money accounts. BIA intends to use the Phase I results to develop its plans for moving this project into Phase II. In fact, the Phase I contract will require the contractor to develop a plan, for BIA's consideration, for conducting Phase II.

STATUS OF PHASE I

An earlier RFP for trust fund accounts reconciliation, issued late last spring, was canceled because it did not provide for independent audit and certification of reconciled accounts. Since then, BIA has written an acceptable RFP. During the fall of 1990, a series of meetings was held with BIA trust fund officials and the Ad Hoc Indian/Tribal Advisory Committee in order to reach consensus on what should be included in the RFP for Phase I account reconciliation. Other participants at those meetings included a member of your staff, and a staff member from the Subcommittee on Environment, Energy, and Natural Resources, and GAO staff. As a result of these meetings, BIA issued an RFP on December 28, 1990. BIA intends to develop a separate RFP to

contract for audit and certification after the accounts are reconciled.

The RFP for Phase I account reconciliation improved upon BIA's earlier attempts to prepare an RFP in four ways. It included language that (1) clarified the scope of work and contractor expectations, (2) indicated that it may not be possible to completely reconstruct each account from the date of inception due to incomplete financial records, (3) strengthened BIA's ability to control contract cost and work schedule, and (4) provided for tribes to designate representatives to work with the contractor and participate in contractor meetings with account holders.

On February 21, 1991, BIA held a pre-bid conference. The conference was attended by national, regional, and local independent public accounting firms. BIA plans to award a contract for Phase I reconciliation work in early May and expects the contractor to begin work shortly thereafter. The first results are due sometime during the early summer. Now, BIA estimates that Phase I reconciliation work will be finished sometime in the late spring of 1992. While BIA has made some progress in initiating the reconciliation project, we would caution that, at this point, the RFP is still in the contracting phase, and no reconciliation work has actually begun. So, there are no results yet.

Mr. Chairman, you asked us to determine whether the contractor will be in a position to successfully perform the reconciliation. Without a complete set of financial records, it may not be possible to determine the correct balance for each account. This issue was raised in an October 1989 letter to the Chairman of the House Subcommittee on Environment, Energy, and Natural Resources by Arthur Andersen & Co., which performed BIA's fiscal year 1988 and 1989 financial statement audits. The letter stated that a complete audit and reconciliation of all account activity back to inception might not be possible, or practicable, due to the lack of available records at certain locations. However, the letter did point out that this opinion was formed without a complete survey of records availability at all necessary locations.

BIA officials are well aware of the need for complete trust fund records and of the problems incomplete account records will cause. Therefore, since last summer, BIA employees have been gathering, and centrally locating, trust records to facilitate the Phase I reconciliation work. At this point, BIA feels it has gathered most of the available records needed to support Phase I of the project.

However, despite the fact that BIA is making an effort to gather the records, there is no guarantee that all of these records have actually been located. As a result, it may not be possible to

reconstruct and reconcile many of the older accounts back to the dates of their inception. As I stated earlier, these accounts can go back 50 to 100 years. The RFP attempts to address this problem by specifying that accounts will be reconciled as accurately as possible back to the earliest date practicable, depending on supporting documentation.

Any attempt to reconstruct accounts where records are not readily available would be futile, and costs for such an effort would be excessive. Therefore, expectations of what can be reasonably achieved have to be realistic. In recognition of this, a cost containment measure was included in the contract. This measure requires the firm performing the reconciliation to provide, after the initial 2 to 4 weeks of work, an assessment of the level of effort and cost required for Phase I reconciliation work. We will advise you of these estimates when they become available. While this is the only realistic approach to completing the project, it must be recognized that this will probably not satisfy all account holders.

FINALIZATION OF PHASE I PLAN

Before the contractor actually begins work, BIA should begin to think about how it will manage and oversee the reconciliation project, how it will plan for and manage the audit and certification work, and how the accounts will be kept accurate

once they are reconciled. In the case of managing the reconciliation process, BIA still has not finalized its Phase I project management plan. The plan should address key issues such as contract oversight, BIA project support and staffing, the role of the designated tribal representatives, contractor reporting, and plans for audit and certification of the reconciled accounts.

To ensure effective contractor oversight, BIA needs to designate staff to monitor contractor progress. BIA also needs sufficient staff in the field to support the contractor. In early January, BIA designated staff to monitor and assist the contractor. However, according to the reconciliation project manager, these staff are inexperienced and will not be devoting all of their time to this project because they have other duties. We believe BIA needs to ensure that experienced staff are dedicated to this project. BIA should also consider using a few of its new Office of Trust Fund Management positions, recently authorized by the 1991 appropriations act, to monitor the project. BIA also needs to fully define the relationship between the designated tribal representatives, the contractor, and its own project staff.

Other things that BIA needs to finalize are the format the contractor will use to report on trust account balances, the Phase I audit and certification RFP, and a timetable for completing audit and certification of the reconciled accounts.

These tasks should be completed as soon as possible to ensure that work proceeds smoothly throughout Phase I.

POTENTIAL OUTCOMES OF PHASE I

We believe that BIA will be faced with a number of unresolved issues and difficult choices at the end of Phase I. There are various possibilities. For example, balances of some accounts may remain undetermined due to incomplete records. On the other hand, where reconciliation is possible, the account holders may not agree with the balances. The work might show that tribes and individual Indians owe money to BIA due to overpayments. This could be a contentious issue because of errors that may go back many years. On the other hand, BIA may owe money to account holders due to unpaid interest or underpayments.

BIA and the Congress need to be prepared to address these issues. Legislation may be needed to provide appropriations for monies owed to account holders, or relief may be needed for unrecoverable overpayments that go back many years.

While completion of this project is an important step toward establishing a reliable trust accounting program, further action is needed to ensure that the balances remain accurate once the accounts are reconciled. In this regard, BIA must ensure that it has appropriate written policies and procedures and reliable

financial systems in place and that BIA employees apply policies and procedures consistently. Given its history, this is no small task. As I will discuss in further detail later, BIA must get to the root cause of its problems--which the reconciliation and audit project are not intended to accomplish. BIA may need to consider obtaining outside help to resolve these problems as well.

IMPLEMENTATION OF THE CFO ACT:
A KEY TO LASTING IMPROVEMENT

I will now discuss, as requested by the Subcommittee, BIA's overall financial management problems and how implementation of the Chief Financial Officers Act of 1990 can help BIA correct them. This law, enacted at the close of the last Congress, represents the most comprehensive financial management reform package in the last 40 years. The legislation is a bipartisan effort to deal with the government's serious financial management problems and represents an agreement between the Comptroller General, the Director of OMB, and the Secretary of the Treasury as to the essential elements of a meaningful reform initiative.

BIA faces many challenges in overcoming the cumulative effects of years of poor financial management systems and practices. The CFO Act provides a framework that BIA can use to help address its financial management problems. In implementing the CFO Act,

the overall objective for both Interior and BIA should be to ensure that they have (1) an adequate financial management organizational structure, (2) a cadre of qualified and trained accounting professionals that has the capacity to carry out the broad authorities envisioned by the Act, (3) modern, integrated accounting, budget, and financial systems, (4) strong internal controls, (5) audited financial statements which can pass the test of relevance and usefulness established in the Act, (6) financial information on costs and performance measurement which tie into financial reports, as well as program operations, and (7) annual reports prepared by the CFO that present the results of BIA's financial operations. In each of these areas, BIA has a long way to go.

During the past year, BIA has instituted a number of initiatives to correct its trust fund and overall financial management problems. Interior has developed a six-part plan to modernize BIA's appropriated fund accounting systems and operations. Selected objectives of the plan include, implementing control over BIA's fund accounting transactions, reconciling all account balances, and preparing for implementation of a new Interior-wide accounting system. The new system's implementation at BIA was originally scheduled for October 1990; then moved to October 1989. We recently reported² that the implementation date was

²Interior's Implementation of the Federal Financial System
(GAO/AFMD-91-29BR, March 6, 1991).

moved again to October 1, 1991. Whether it will be ready then is not yet certain.

The trust fund reconciliation project, the focus of this hearing, is clearly a step forward. However, the unreconciled accounts are really only a symptom, and not a cause of BIA's trust fund financial management problems. In the long-term, BIA has to deal with the root cause of its problems or it will revisit the issue of unreconciled accounts over and over. Some of the causes of these problems were discussed in Arthur Andersen & Co.'s fiscal year 1988 and 1989 trust fund financial statement audit report. The auditor pointed out that (1) accounting policy and procedural manuals were out of date, (2) minimum standards for key positions in the accounting process were lacking, (3) supervisors throughout BIA were inexperienced, (4) accounting positions throughout BIA were understaffed, and (5) training programs were inadequate. These are the types of problems the CFO Act seeks to resolve, and they are areas that must be addressed before BIA's trust fund financial management problems can be corrected. In implementing these initiatives, BIA should ensure that they tie into, and support, the objectives of the CFO Act.

If BIA achieves the goals of its financial management improvement initiatives, many of its trust fund and overall financial management weaknesses can be corrected. However, in

accordance with the CFO Act, BIA needs to take a broad view of its financial management improvement program. Areas that need particular attention include accountant staffing levels, staff qualifications, and financial systems.

With regard to staffing and staff qualifications, the CFO Act provides for a financial management organization structure wherein an agency CFO has ultimate responsibility for all financial management activities, operations, and personnel. CFOs in agency component organizations would direct financial management in their areas of responsibility and report to the agency CFO. This ensures a clear separation of financial and programmatic responsibilities. The act also specifies professional qualification standards for key financial management personnel and requires training for staff.

We have encouraged BIA to address the CFO Act requirements for its financial management structure and staffing qualifications at the area and agency offices, as well as the headquarters level. With respect to staffing, BIA officials discussed their plan with congressional staff and advised us that trust fund financial management positions will be filled with staff who are professionally qualified as accountants. This should ensure that qualified staff are available to help correct BIA's financial weaknesses and to improve internal controls.

We understand that BIA is currently looking at ways of reorganizing, perhaps along programmatic lines. One item for the reorganization agenda is a discussion of how the CFO Act should be addressed within BIA's reorganization plans. We have discussed this with BIA officials, and they agree that the reorganization task force should consider this issue.

Reliable financial management systems are essential for maintaining accurate and timely accounting information. BIA needs to develop a comprehensive financial management plan for both its appropriated funds and trust funds operations. The CFO Act requires agencies to develop comprehensive 5-year financial management plans, including a strategic plan for financial management improvements, a financial systems plan, and useful reports on performance and costs. Within the 5-year plan, BIA should rank its financial management improvement projects and initiatives and develop realistic milestones within the framework of the Department's comprehensive plan. In this regard, BIA should consider the appropriateness of using both in-house and contractor expertise. These initiatives should be under the direction and control of the Interior Department's Chief Financial Officer.

The CFO Act is directed at substantive change, and substantive change is what BIA needs in order to go beyond the symptoms of its problems to find the cure. It needs to seize the opportunity

this important legislation provides in order to establish credibility over its trust fund and other financial operations and to develop a modern financial management system and operation.

Mr. Chairman, this concludes my remarks. I would be happy to answer any questions you or members of the Committee may have at this time.