

GAO

Testimony



143927

For Release  
on Delivery  
Expected at  
10:30 a.m.  
Monday  
May 20, 1991

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

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

Before the  
Subcommittee on Environment, Energy, and  
Natural Resources  
Committee on Government Operations  
House of Representatives



Mr. Chairman and Members of the Subcommittee:

We are pleased to be here today to discuss the status of the Bureau of Indian Affairs' (BIA) efforts to implement the congressionally mandated trust fund reconciliation and audit project and the steps being taken to improve Indian Trust Funds financial management. Our testimony will focus on the progress BIA has made in preparing for the reconciliation and audit project and factors that may directly affect BIA's efforts to resolve its trust fund financial management problems.

BIA has a fiduciary responsibility to ensure that proper control and accountability is maintained over each trust account. In line with BIA's fiduciary responsibility, it is critical that the tribal and Indian trust accounts be reconciled and audited. After accounts are reconciled, the balances of each of these accounts will be certified as correct by auditors independent of both BIA and the account holders and will provide a baseline for subsequent confirmations of the tribal and individual Indian monies account balances. The reconciliation will also facilitate future audits of the trust funds' financial statements. Another advantage of the reconciliation and audit project is that it gives BIA a chance to improve its image regarding its ability to manage and oversee the trust fund accounts.

As requested by the Subcommittee, I will discuss (1) a chronology of the reconciliation project's planning and development, (2) the difficulty of completing the reconciliation project, (3) the need for a strategic plan for trust fund for financial management improvement, (4) how BIA can use the Chief Financial Officers (CFO) Act of 1990 to help build a strong financial management structure, and (5) potential options for managing BIA's trust fund program.

Before I discuss these issues, I would like to provide some perspective on the size of the trust funds, their growth over the last 10 years, BIA's long-standing financial management problems, and the magnitude of the reconciliation and audit project.

The Secretary of the Interior is authorized by law to manage Tribal and Individual Indian Monies Trust Funds. These funds are collectively referred to as Indian Trust Funds. The Indian Trust Funds are comprised of payments of claims against the government; oil, gas, and minerals royalties; income from land use agreements; investment income; and income from other sources.

During the 1980s, higher royalty payments primarily from higher oil and gas prices and proceeds from a number of water and land claims settlements significantly increased the balances in these accounts. The accounts grew from about \$1.1 billion in 1980 to over \$2 billion in 1990. By the end of fiscal year 1990, there

were approximately 2,000 tribal and 300,000 individual Indian money accounts in the Indian Trust Funds with balances of \$1.5 billion and \$500 million, respectively.

BIA HAS BEEN PLAGUED BY LONG-STANDING  
FINANCIAL MANAGEMENT PROBLEMS

BIA has serious financial management problems permeating almost every one of its principal accounting systems. 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 reported<sup>1</sup> 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.

---

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

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 accounting and financial management problems and weak internal controls throughout BIA. Furthermore, since its first report under the Federal Managers' Financial Integrity Act in 1983, each year the Department of the Interior has continued to report on serious long-standing financial management problems in BIA.

Since 1983, two different public accounting firms have reported 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. 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.

#### BIA's TRUST FUND RECONCILIATION PROJECT

In 1987, to meet the demands of Indian account holders for accurate account balances, the Congress mandated that BIA reconcile and audit all trust fund accounts. Since then, the

Congress has called for the trust accounts reconciliation and audit three more times in BIA's 1989, 1990, and 1991 appropriations acts. Because it could not develop an acceptable approach for conducting the work, BIA has taken 4 years to reach the point where it can begin the trust account reconciliation and audit project.

In May 1990, BIA developed a request for proposal (RFP) to reconcile, audit, and certify the tribal and individual Indian monies trust fund accounts. At that time, Mr. Chairman, you asked for GAO's assessment of the proposal. We advised you, as did tribal representatives, that the reconciliation work should be done independently from the audit and certification of the accounts. As a result, BIA canceled this RFP and began to develop separate RFPs for reconciliation of the trust fund accounts and for audit and certification of the reconciled balances.

During the summer of 1990, after the May RFP was canceled, BIA submitted a plan to the Congress for carrying out the reconciliation and audit project. 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 these accounts for Phase I because they make up over 87 percent of the tribal trust funds 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. The Phase I contract will also require the contractor to submit a plan for Phase II for BIA's consideration. Phase II will cover the remaining 1,500 tribal and approximately 283,000 individual Indian money accounts.

#### Status of Phase I

During the fall of 1990, a series of meetings was held with BIA trust fund officials and the Ad Hoc Indian/Tribal Advisory Committee to reach consensus on what should be included in the RFPs for Phase I account reconciliation and audit/certification. Other participants at those meetings included a member of your staff, a staff member from the House Appropriations Subcommittee on Interior and Related Agencies, and GAO staff. During these

meetings, a decision was made to delay work on the audit/certification RFP until the reconciliation work was underway and projections could be made for a reasonable completion date for the reconciliation work. BIA issued an RFP for Phase I reconciliation work on December 28, 1990. BIA intends to develop a separate RFP to contract for Phase I audit and certification work after the accounts are reconciled.

On April 11, 1991, we testified<sup>2</sup> before the House Appropriations Subcommittee on Interior and Related Agencies on the status of BIA's efforts to prepare for reconciliation and audit of the Indian trust fund accounts. At that time, we pointed out that Phase I of the reconciliation project was still in the contracting phase, that work on the project would probably not start until late spring 1991, and that the Bureau's plans for managing and overseeing the project had not been finalized.

Since our April testimony, BIA has continued to make progress toward awarding a contract for the Phase I reconciliation work. BIA reviewed contractor proposals from six firms and requested "best and final offers" from four firms. The winning bidder, Arthur Andersen & Co., was selected and notified on May 10, 1991. BIA estimates that Phase I reconciliation work will be completed sometime in the late spring of 1992. Audit and certification

---

<sup>2</sup>Bureau of Indian Affairs' Efforts to Reconcile and Audit the Indian Trust Funds (GAO/T-AFMD-91-2, Apr. 11, 1991).

work could begin before then, if enough accounts are reconciled. We caution that, while BIA has made progress since last fall in getting the reconciliation project started, there are no results yet. In addition, BIA still needs to take action to ensure effective project management and reporting of reconciliation results.

### Phase I Contract Management Plan

BIA's Phase I reconciliation management plan still has not been finalized. Given the importance, scope, and complexity of the reconciliation work, BIA needs to finalize this plan quickly. In our April testimony, we pointed out that BIA's management plan needed to address several key issues such as contract oversight, BIA project support and staffing, the role of the designated tribal representatives, contractor reporting, plans for audit and certification of the reconciled accounts, and how the accounts will be kept accurate once they are reconciled.

Of most immediate concern is BIA's staff support for this project. According to the project director, BIA field staff were designated to provide project support in January 1990. However, some of these staff no longer hold these positions and others are inexperienced, according to the reconciliation project manager. In addition, some of these staff will not be devoting all of their time to this project because they have other duties.

Because of the importance of this project, we are continuing to emphasize to BIA officials the need to ensure that experienced staff are dedicated to it. The project manager recently advised us that, in early May 1991, full time trust fund accountants were assigned to work on this project at 5 of the 12 area offices.

In the contractor reporting area, BIA needs to finalize the format the contractor will use to report trust account balances to account holders and to the congressional committees monitoring this project.

After the reconciliation project management plan is completed, BIA needs to develop the Phase I audit and certification RFP and a timetable for completing the audit and certification work. These tasks should be completed as soon as possible so that work proceeds smoothly throughout Phase I and into Phase II. BIA also needs to determine how the accounts will be kept accurate once they are reconciled. In this regard, BIA needs to ensure that it has consistent written policies and procedures for trust fund accounting, investment activity, and financial reporting. Finally, BIA needs to ensure that it has reliable financial systems for accounting for trust fund receipts, disbursements, and investments, and for generating periodic statements to account holders on the status of their accounts.

RECONCILING THE ACCOUNTS  
WILL BE DIFFICULT

The reconciliation and audit work will not be easy and expectations must be realistic because the reconciliation work may involve reconstructing accounts from source documents. However, all records to support the transactions in these accounts may not be available. This issue was raised in an October 1989 letter to this Subcommittee from Arthur Andersen & Co., the accounting firm that 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.

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 ultimately be trying to determine the balance for over 300,000 accounts, not just one.

The reconciliation RFP attempts to address some of the concerns about the potential records availability problems by specifying that accounts will be reconciled as accurately as possible back to the earliest date practicable. The intent of this language is to openly acknowledge that all records pertaining to these accounts may not be available. This language was agreed to by BIA, the Ad Hoc Indian/Tribal Advisory Committee, and congressional staff at the meetings held during the fall of 1990.

Any attempt to reconstruct accounts, if the records are not readily available, would be futile and costs for such an effort would be excessive. Therefore, everyone's expectations of what can be reasonably achieved by this project have to be realistic. In recognition of this, the RFP also contains a cost containment measure. This measure requires the firm performing the reconciliation to provide, after the initial 2 to 4 weeks of work at each location, an assessment of the level of effort and cost required for the Phase I reconciliation work. We will advise you of these estimates when they become available.

BIA officials realize that a complete set of trust fund records is important and they are aware of the problems that 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 and that records of account activity should be available for the last 10 years for most BIA Area Offices. As indicated earlier, this is the period when the size of the trust funds grew very rapidly--from about \$1.1 billion in 1980 to over \$2 billion in 1990. However, there is still no guarantee that all of the necessary records for reconciling these accounts have actually been located.

#### Potential Outcomes of Phase I

Despite the significant potential for incomplete records and the problems this will cause, BIA and the account holders believe the reconciliation work will disclose account overpayments, underpayments, and instances where BIA did not always consistently invest the trust monies, which resulted in lost interest to many account holders.

Therefore, after Phase I is completed, BIA and the Congress might be facing some difficult issues. Mr. Chairman, you recently introduced legislation that would require BIA to pay interest on individual Indian money accounts. Other issues also need to be addressed. For example, due to incomplete records, the balances of some accounts may still be unknown. Or, where reconciliation is possible, the account holders may not agree with the balances. The work might show that certain tribes

and/or individual Indians owe money to BIA due to overpayments. This could be a contentious issue because errors may go back many years. On the other hand, BIA may owe money to account holders due to unpaid interest or underpayments of interest.

Both 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.

#### STRATEGIC PLANNING IS NEEDED

While an accurate snapshot of account balances today is important, completion of the reconciliation and audit project should not be viewed as the ultimate goal. After the accounts are balanced, BIA must keep them in balance. Therefore, completion of the reconciliation and audit project should really be viewed as a first step in BIA's efforts to improve trust fund management.

As noted in our April testimony, BIA's trust fund financial management problems are long-standing, and BIA does not have an adequate, comprehensive strategy for addressing them. BIA officials are aware of the need for corrective action, and they have identified a number of initiatives to improve their current operations. However, these actions are identified in a number of

different documents. For example, we obtained four different BIA documents that collectively identified 24 separate trust fund financial management initiatives. Mr. Chairman, on March 26, 1991, BIA provided you with a list containing 41 separate initiatives, many of which are included in the four documents we were provided earlier. After reviewing these documents, we are concerned about the lack of a comprehensive approach that would tie these projects together. For example, reconciliation and audit of the trust fund accounts is not tied to an initiative that adequately addresses how these accounts will be kept accurate after they are reconciled. Moreover, we noted that 10 of the 41 financial management improvement initiatives, including the more significant and more difficult initiatives, are assigned to one individual who has had only one staff member assigned to him. For example, this individual is responsible for managing the reconciliation and audit/certification project--a full-time job in itself.

The Office of Management and Budget (OMB) has also been critical of BIA's plans for correcting these long-standing problems. Last summer, under its high risk monitoring program, OMB reviewed BIA's progress in correcting a number of financial management weaknesses. OMB noted that many weaknesses remained partly, or completely, uncorrected and that BIA's action plan was inadequate because it did not fully address all necessary corrective actions.

If BIA is to make significant progress in addressing its trust fund financial management problems, it needs to develop an overall strategic plan and provide the necessary resources to implement the plan. BIA officials acknowledge the need for a strategic financial management plan. However, they explained that developing such a plan was postponed based on a decision to wait until the position of Office of Trust Fund Management (OTFM) Director has been filled. This position has not been filled on a permanent basis since OTFM was established a year ago. BIA's latest vacancy announcement closed on April 26, 1991, and a selection is expected soon.

A very critical element to the success of BIA's financial management improvement efforts is the need to seek the participation of key external groups. In the past, BIA has taken action to correct problems without properly consulting the client groups that have an interest in the outcome of these projects. In two instances projects were abandoned after complaints that BIA did not consult with the tribal and individual Indian account holders. In 1985, BIA was pursuing the use of a third-party contractor to carry out certain basic trust fund accounting and investment activities, but it did so without consulting with the account holders. The account holders appealed to the Congress to cancel the project. In 1990, another contract was also canceled, partly because BIA again failed to consult with account holders

prior to entering into the contract. To avoid these problems, BIA, trust fund account holders, tribal and Indian leaders, OMB, and the Congress need to be included in the strategic management process. Without the support of these key groups, any attempts to plan and execute a trust fund management improvement program could be unsuccessful.

IMPLEMENTATION OF THE CFO ACT:  
A KEY TO LASTING IMPROVEMENT

BIA's need to solve its overall trust fund problems is part of the larger set of problems of governmentwide financial management that the Chief Financial Officers (CFO) Act of 1990 (P.L. 101-576) is intended to address. This law, enacted at the close of the last Congress, represents the most comprehensive financial management reform package in the last 40 years. The CFO Act provides a framework that BIA can use to help address its financial management problems.

In implementing the 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.

The trust fund reconciliation project 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. 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.

POTENTIAL OPTIONS FOR  
TRUST FUND MANAGEMENT

As BIA begins to think about key program objectives and how to achieve them, it needs to consider various options for managing and overseeing the trust fund program. For example, BIA could continue to collect, account for, invest, and disburse trust fund monies. To do this successfully, however, BIA will need to ensure that it has adequate financial management processes and systems in place to accurately maintain trust fund accounts once they are reconciled. Otherwise, we will continue to revisit these problems. Given BIA's past track record, however, there is no assurance that BIA can correct these problems by the time the Phase I accounts are reconciled in the spring of 1992.

Other options for handling trust fund financial management could include BIA (1) contracting with a third party for certain account maintenance services, (2) leasing an accounting system that BIA would operate itself, or (3) entering into a cross-

servicing arrangement with another federal agency. Another option, which would involve an alternative to BIA's continued handling of trust fund accounting and investment activities, would be to transfer trust fund account management to another federal agency. This option may require legislation.

As BIA and the Congress begin to assess these, or other options, they need to consider that basic trust fund account data must still come from BIA and other Interior components such as the Minerals Management Service (MMS). For example, MMS collects oil, gas, and mineral royalties and processes these payments to BIA. BIA then distributes this income to multiple beneficiaries using allocation tables. Therefore, these components must ensure that this data, which has been questioned in the past, is reliable.

### CONCLUSIONS

There are no easy solutions to the BIA's trust fund financial management problems. These problems did not happen overnight, and they cannot be resolved overnight. Whatever option is selected for trust fund management, a strategic trust fund financial management plan needs to be developed and staffed with talented, committed people, who will faithfully execute trust fund management improvement initiatives.

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