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FINANCIAL
MANAGEMENT

Focused Leadership and
Comprehensive Planning
Can Improve Interior's
Management of Indian Trust
Funds

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Mr. Chairman and Members of the Subcommittee:

We appreciate the opportunity to be here today to discuss our work on the Department of the Interior's management of the Indian trust funds. My statement today summarizes information contained in our report¹ on trust fund management improvement options, which is being released today. I will also provide an update on the Bureau of Indian Affairs' (BIA) efforts to (1) reconcile Indian trust fund accounts and (2) develop a trust fund loss policy and restore lost funds to account holders.

Interior's long-standing Indian trust fund management problems, which permeate all facets of the trust fund business cycle, include (1) the lack of accurate, up-to-date ownership information to ensure that revenue is distributed to the correct account holder, (2) inadequate management of natural resource assets to ensure that all earned revenues are collected, (3) weaknesses in trust fund management systems, policies and procedures, and internal controls, including the lack of periodic trust account reconciliations to ensure the accuracy of trust fund balances, and (4) the failure to consistently and prudently invest trust funds and pay interest to account holders.

Interior has management and systems improvement initiatives planned or under way which, if effectively implemented, could help to improve its management of the Indian trust funds. However, progress has been slow and many of these initiatives will not be completed for several years. In addition, as detailed in our report, we identified six primary options that could help Interior make additional improvements. They include (1) eliminating backlogs in land title and beneficial ownership determinations and recordkeeping, (2) expanding or undertaking new initiatives with the Departments of Agriculture and Energy for support services, (3) providing training and technical assistance to tribes who wish to assume responsibility for managing their natural resources under self-determination initiatives, (4) obtaining reliable trust fund accounting and subsidiary systems and contracting for banking services, (5) contracting for investment advisors and a custodian to settle trades, safeguard securities, and track investments, and (6) establishing index investment fund options for tribes.

In the past, Interior has not demonstrated the leadership or management commitment needed to accomplish planned improvements and many previous corrective actions have failed outright or resulted in only incremental improvements. In addition, Interior still lacks a comprehensive strategic plan for trust fund management, as

¹Financial Management: Focused Leadership and Comprehensive Planning Can Improve Interior's Management of Indian Trust Funds (GAO/AIMD-94-185, September 22, 1994).

recommended in our June 1992 report.² We stated that Interior needed to reevaluate key program objectives and rethink the basic concept underlying trust fund management, including the Secretary's fiduciary responsibility and the wishes of tribes and Indians under self-determination initiatives. For example, to support a goal of helping tribes and Indians to become self-sufficient, a strategic plan would need to be directed at providing necessary financial and technical assistance and training to help tribes and Indians assume greater responsibility for managing their natural resource and financial assets.

Pending trust fund reform legislation (H.R. 4833) would establish an Office of Special Trustee for American Indians in the Department of the Interior. The Special Trustee, who is to have expertise and experience in trust management-related operations, would be responsible for (1) preparing, in consultation with tribes and appropriate Indian organizations, a comprehensive strategic plan for all phases of the trust management business cycle to ensure proper and efficient discharge of the Secretary's trust responsibilities to tribes and individual Indians, (2) providing oversight of all reform efforts within BIA, the Bureau of Land Management (BLM), and the Minerals Management Service (MMS) related to the Secretary's trust responsibilities, and (3) coordinating the development of systems and policies and procedures of BIA, BLM, and MMS related to the discharge of the Secretary's trust responsibilities. Interior does not currently have a single manager or office with overall responsibility for Indian trust programs.

STATUS OF THE TRUST FUND RECONCILIATION PROJECT

As we reported in April 1994,³ BIA undertook its first effort to reconcile the Indian trust fund accounts in May 1991. The objective of this effort was to identify, to the extent practical, correct account balances for tribal and individual Indian accounts by using source documents to reconstruct trust account transactions to give account holders as accurate an accounting as possible.

In March 1992, BIA decided not to proceed with reconciliations of Individual Indian Money (IIM) accounts, based on its contractor's report that reconciliations of these accounts were not feasible due to the lack of supporting documentation and the level of effort and associated cost to review millions of transaction documents. In January 1993, BIA created a Work Group to study settlement or other

²Financial Management: BIA Has Made Limited Progress in Reconciling Trust Accounts and Developing a Strategic Plan (GAO/AFMD-92-38, June 18, 1992).

³BIA Trust Fund Reconciliations (GAO/AIMD-94-110R, April 25, 1994).

alternatives to IIM account reconciliations. In April 1994, the IIM Work Group was finalizing a proposed IIM account reconciliation discussion paper for comment by tribes and Indians. However, the Work Group has not met since that time and an IIM reconciliation discussion document has not been completed. According to the Work Group leader, the Group hopes to hold a meeting in the fall of 1994, with a number of Indian groups and the InterTribal Monitoring Association (ITMA), to review the draft IIM reconciliation options paper.

BIA is currently reconciling tribal accounts for the 20-year period from 1992 back to 1973 and is performing reconciliations between its various trust fund accounting systems and between its general ledger system and Treasury balances.

Changes in the reconciliation status since our April 1994 report include:

- BIA is conducting pilot reconciliations for five tribes⁴ before proceeding with reconciliation work for all tribes. BIA has completed field reconciliation work for all five tribes and has issued preliminary reports for four of them. We have reviewed preliminary reports prepared for three of the five tribes. These reports describe (1) problems in completing reconciliations due to missing records, (2) weaknesses in internal controls, and (3) noncompliance with laws and regulations. The reports also include recommendations for corrective actions. BIA has requested source documents in order to begin reconciliation work for the remaining tribes. However, we believe that it is important for BIA to carefully consider the lessons learned from the five tribes' pilot reconciliations, particularly with regard to the limitations on these reconciliation efforts due to missing records, before determining whether or how to proceed with reconciliations of the remaining tribes' accounts.
- During the week of August 22, 1994, BIA began efforts to develop a reconciliation approach to determine whether MMS Indian oil and gas royalty accounting data and payments transferred to BIA were reliable. BIA has expanded the scope of this work and prepared a contract modification to include royalty payments for hard minerals, such as coal. The work is to include a review of MMS procedures and documents in order to evaluate the feasibility and level of effort needed to perform detailed work

⁴The five tribes agreeing to participate in the pilot reconciliation procedures are (1) the Assiniboine and Sioux Tribes of Fort Peck, Montana; (2) the Confederated Salish-Kootenai of Flathead, (3) the Confederated Tribes of the Yakama Nation, Washington; (4) the Hopi Tribe of Arizona; and (5) the Three Affiliated Tribes of Fort Berthold, North Dakota.

on MMS receipts and recommend test procedures. However, BIA's reconciliation contractor has determined that MMS requires supporting documentation to be retained for only 6 years. As a result, transactions prior to 1988 cannot be reconstructed.

- BIA selected fiscal year 1990 as a pilot year for testing procedures for reconciling its trust fund general ledger systems data to Treasury data. The pilot, which began in January 1994, has not been completed due to complications associated with (1) BIA's practice of consolidating BIA general operating funds and other non-trust related funds with tribal and IIM funds for Treasury reporting purposes and (2) the number of missing records.

As we stated in our June 1992 report, the unreconciled accounts are only a symptom, and not a cause of BIA's trust fund financial management problems. BIA will need to deal with the root cause of its problems or it will continue to lack assurance that account balances are accurate. For example, BIA needs to maintain adequate supporting documentation, including leases and other contractual agreements, to ensure that all earned revenues are collected, and it also needs to maintain accurate, up-to-date ownership records to ensure that revenues are posted to the correct account.

STATUS OF BIA'S EFFORTS TO DEVELOP
TRUST FUND LOSS POLICY AND RESTORE
LOST FUNDS TO ACCOUNT HOLDERS

In January 1992⁵ and January 1994⁶, we reported that BIA's attempts to draft a trust fund loss policy did not fully address (1) the need for systems and procedures to prevent and detect losses and the need to instruct BIA staff on how to resolve them if they did occur, (2) what constitutes sufficient documentation to establish the existence of a loss, and (3) interest that was earned but not credited to the appropriate account.

In May 1994, BIA finalized its Indian Trust Fund Account Loss Policy. The Policy responds to our earlier concerns by defining trust fund losses, including the failure to invest tribal and IIM funds and pay interest, and by providing for (1) daily reviews of account activity and source documents to identify needed adjustments and corrections, (2) submission of supporting documentation to the Office of Trust Funds Management (OTFM) for review and determination of a loss, (3) written notification to account holders of OTFM determination that a loss has occurred

⁵BIA Reconciliation Monitoring (GAO/AFMD-92-36R, January 13, 1992).

⁶BIA's Trust Fund Loss Policy (GAO/AIMD-94-59R, January 14, 1994).

within 60 days of identification of any losses, errors, or overpayments, (4) maintenance of detailed case files, and (5) preparation of monthly, quarterly, and annual reports on trust fund losses.

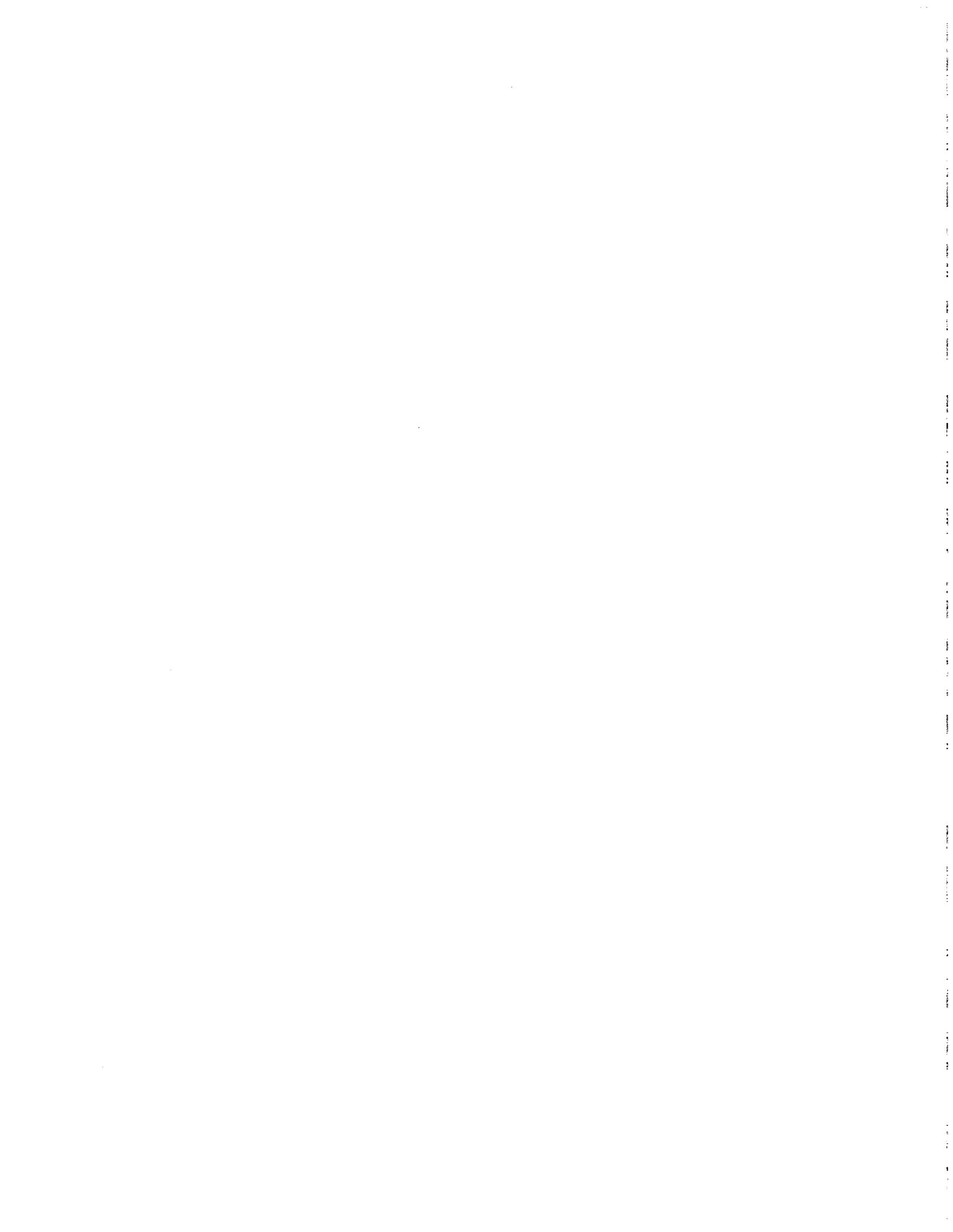
BIA has also made progress in restoring lost funds to trust account holders. In 1992, BIA owed account holders about \$11 million in trust fund account losses, including losses of principal and interest related to failed financial institutions, claims, and cancelled Treasury checks. Since that time, BIA has received \$6 million in appropriations to repay losses to account holders and it has made \$1 million in adjustments related to the cancelled Treasury checks, leaving a balance of \$4 million to be repaid from future appropriations.

BIA has resolved most of the \$2 million in potential account holder claims related to Treasury's mass cancellation of uncashed checks under the limited payability provision of Public Law 100-86, the Competitive Equality Banking Act of 1987. BIA has repaid about \$846 thousand to tribal and IIM account holders. BIA also made \$1 million in adjustments. Further, because available documentation was not sufficient to identify all affected account holders, BIA has established a \$500,000 fund for any future claims for reimbursements due to cancelled checks.

In summary, Interior has initiatives planned or under way to address some of the long-standing trust fund management problems, and there are additional options that could help it make other needed improvements. However, Interior's track record on past attempts for corrective action has not been good. Interior needs a comprehensive plan, focused leadership, and management commitment if it is to carry through on needed improvements.

Mr. Chairman, this concludes my statement. I would be glad to answer any questions that you or the Subcommittee Members might have.

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