

IN THE UNITED STATES DISTRICT COURT
FOR THE DISTRICT OF COLUMBIA

ELOUISE PEPION COBELL, et al.,)
)
 Plaintiffs,)
)
 v.)
)
 GALE NORTON, Secretary of the Interior, et al.,)
)
 Defendants.)
)
 _____)

Case No. 1:96CV01285
(Judge Lamberth)

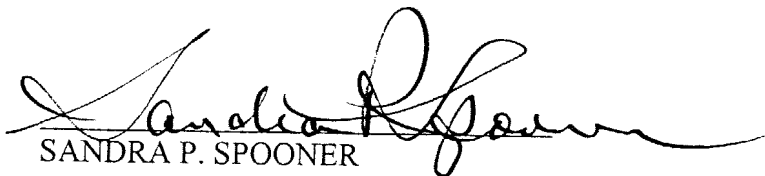
NOTICE OF FILING

The Secretary of the Interior and the Assistant Secretary - Indian Affairs hereby give notice of the filing of the attached *Historical Accounting Plan for Individual Indian Money Accounts* pursuant to the Court's September 17, 2002 Order.

Respectfully submitted,

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Dated: January 6, 2003



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The Historical Accounting Plan For Individual Indian Money Accounts

Prepared for the U.S. District Court
for the District of Columbia



Department of the Interior

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EXECUTIVE SUMMARY

The U.S. Department of the Interior (Interior) is presenting a Plan to conduct a historical accounting for about 260,000 Individual Indian Money (IIM) accounts as directed by the United States District Court for the District of Columbia (Court).¹ The work described in this Plan is expected to take five years to complete and is preliminarily estimated to cost approximately \$335 million. The successful implementation of this Plan is dependent upon sufficient appropriations.

Interior intends to conduct the historical accounting by a combination of: (1) transaction-by-transaction reconciliation methods (all transactions in certain account types), (2) reconciling all transactions over a certain dollar threshold, and (3) reconciling a statistical sample of lower dollar-value transactions. By using these different methods, Interior believes the IIM account holders will receive their Historical Statements of Account much sooner than if a transaction-by-transaction method for all IIM accounts was used. Further, the IIM account holders should also be able to place a high degree of confidence in the accuracy of those Statements.

Interior plans to separate the historical accounting into three distinct types of IIM accounts. These types are Judgment and Per Capita IIM accounts, land-based IIM accounts, and Special Deposit accounts. The reconciliation process will be different, and appropriate, for each type of account.

- For the approximately 42,200 Judgment and Per Capita IIM accounts, Interior intends to reconcile 100 percent of the transactions in each account transaction history, using transaction-by-transaction methods.
- For the approximately 200,000 land-based IIM accounts, Interior intends to undertake the historical accounting using both transaction-by-transaction and statistical methods. Interior plans to reconcile all transactions that are equal to or greater than \$5,000, which in aggregate represent more than \$1.5 billion, or 45 percent of the post-1985 dollar throughput of the land-based IIM accounts. Interior intends to examine transactions that are less than \$5,000 through the use of statistically valid samples. Two statistically valid samples of about 80,000 transactions each will be selected from the Electronic Records Era (1985-2000). A similar approach will be used to sample transactions from the Paper Records Era (pre-1985). This statistically valid sampling methodology is expected to result in Interior being able to determine the accuracy rate of the historical accounting within each of the strata with 99 percent confidence.
- For the approximately 21,500 Special Deposit accounts, Interior intends to pursue a project to distribute the funds to the proper owners and to close those accounts.

¹ *Cobell v. Norton*, 226 F. Supp. 2d 1, 148 (D.D.C. 2002).

Interior also plans to conduct a number of system tests of the historical IIM Trust Fund operations to determine whether the various systems have been functioning properly. Taken together with the Judgment and Per Capita, land-based, and Special Deposit account reconciliations, the system tests are intended to show whether there was integrity in the overall processes and systems used to administer the IIM Trust Fund for the period at issue.

The historical accounting described in the Plan covers all IIM accounts that were open as of December 31, 2000, and all IIM accounts that were open as of October 25, 1994, or opened thereafter, but closed as of December 31, 2000.

Interior has engaged 14 consulting firms to assist it in the historical accounting effort, including five accounting firms (four of which are among the five largest firms in the United States), the largest commercial trust operator in the United States, two historian firms which have specialized in Indian issues for many years, and firms to assist in statistical matters, trust legal matters and other areas pertaining to historical accounting. Representatives from these firms have been instrumental in designing the Plan Interior is submitting to the Court.

At the end of the historical accounting process, Interior intends to be in the position to provide each IIM account holder with a Historical Statement of Account with sufficient information so that they can readily ascertain whether Interior has faithfully carried out its IIM Trust Fund accounting duties. Interior plans to provide information on how much money was credited to each account and from what sources, the amount of interest credited to each account, and the disbursements made from the account. Interior intends to provide its assessment of the accuracy of the account transaction history. This information should enable IIM account holders to ascertain whether their money has been properly accounted for.

Interior also intends to be in the position to provide the IIM account holder with information regarding their land assets as of December 31, 2000. The information on assets will be prepared by the BIA Land Title and Records Offices as a separate part of the package to be provided to IIM account holders. Together with the Historical Statements of Account, this will provide IIM account holders more information on their trust assets as of December 31, 2000. In the future, Interior intends to provide a listing of trust assets along with a report on the management of the funds generated from those assets and from other sources with each quarterly statement.

Overall, Interior's Plan is designed to allow Interior to draw conclusions regarding the accuracy of the account transaction histories and the integrity of the overall processes and systems used to administer the IIM Trust Fund for the period at issue. Moreover, Interior believes the implementation of this Plan will provide an important part of the foundation upon which to perform its IIM Trust Fund accounting obligations in the future.

I. INTRODUCTION TO THE HISTORICAL ACCOUNTING PLAN

The U.S. Department of the Interior (Interior) is presenting this Plan to conduct a historical accounting for about 260,000 Individual Indian Money (IIM) accounts as directed by the United States District Court for the District of Columbia (Court).¹

Interior estimates that the accounting will take five years and cost \$335 million. There is a high level of uncertainty in the cost estimates for the historical accounting project because many parameters continue to be refined and could significantly change the estimates developed. The successful implementation of this Plan is dependent upon sufficient appropriations.

Interior has made the performance of a historical accounting of IIM funds a priority. In July 2001, the Secretary established the Office of Historical Trust Accounting (OHTA). OHTA is engaged in the ongoing process of performing historical accountings for individual accounts and verifying their accuracy. As of November 1, 2002, Interior has reconciled 14,235 Judgment accounts with balances totaling over \$40 million and has made substantial progress on reconciling a significant number of transactions in Per Capita accounts.

Interior intends to reconcile the account transaction histories of all 42,218 Judgment and Per Capita IIM accounts on a transaction-by-transaction basis by examining the original financial documents and related records to determine whether the transaction, as recorded, accurately reflects the proper allocation of collection, interest, or disbursement of funds (reconciliation). For the land-based IIM accounts, Interior intends to reconcile all transactions that are equal to or greater than \$5,000. In addition, Interior proposes to review and test the accuracy of all transactions that are less than \$5,000 through the examination of statistically valid samples. For the Special Deposit accounts (SDAs) that are inactive, Interior intends to pursue a project to distribute the funds to the proper owners. Interior also intends to conduct system tests to assess the underlying reliability of the IIM Trust Fund system.

Upon completion of the historical accounting, Interior will be in a position to provide each IIM account holder a Historical Statement of Account detailing the account transaction history. Interior will also be in a position to provide each IIM account holder with its conclusions about the accuracy of the account transaction history and the account balance as of December 31, 2000. Examples of quarterly account statements provided to account holders are included in Appendix A – *Examples of Quarterly Statements of Account to Account Holders*.

Interior has assembled a group of contractors to assist it in conducting this Plan.

- *Accounting Firms* — A total of five accounting firms are under contract to OHTA and working on projects already underway. These include: (1) Chavarria, Dunne & Lamey LLC (CD&L), (2) Deloitte & Touche LLP, (3) Ernst & Young

¹ *Cobell v. Norton*, 226 F. Supp. 2d 1, 162 (D.D.C. 2002).

LLP, (4) Grant Thornton LLP, and (5) KPMG LLP. These include four of the five largest accounting firms in the United States. The other firm—CD&L—has experience with numerous Bureau of Indian Affairs (BIA) and Office of Special Trustee for American Indians (OST) projects over the years.

- *Commercial Trust Operations* — The Bank of America, which has the largest commercial trust operation in the United States, is actively advising OHTA.
- *Statistical Consultant* — The National Opinion Research Center (NORC), an affiliate of the University of Chicago, has been working with OHTA.
- *Historians* — Morgan, Angel & Associates, L.L.C., and Historical Research Associates Inc., which have specialized in Indian issues over the years, are under contract to OHTA to provide information on leasing, the allotment process, reservation histories, and other matters.
- *Trust Legal Advisor* — The Washington-based law firm, Hughes & Bentzen PLLC, has trust law expertise, and is providing expert trust law advice.
- *Integration Contractor* — Booz Allen and Hamilton, Inc. has been working with OHTA providing information technology consulting, management coordination, and assistance for over a year.
- *Information Technology Security Advisor* — OHTA has engaged Government & Business Solutions Inc. to provide consulting on security of trust data and information technology security advice.
- *Cost Estimating and Control* — Upper Mohawk Inc., an Indian-owned business, provides cost estimating and cost control consulting to OHTA.
- *Geology Consultant* — OHTA had previously employed Gustavson Associates for assistance in identifying records relating to oil and gas leases on Indian allotted lands. Gustavson works with a number of U.S. government agencies on issues related to mineral leases (and may retain the firm—or another firm—in the future).

Interior is confident that the historical accounting described in this Plan will provide a reasonable basis for resolving questions that have been raised about IIM Trust Fund management in the past. Interior also believes that the historical accounting will provide a reasonable foundation on which to perform its IIM Trust Fund accounting obligations in the future.

II. OVERVIEW OF THE HISTORICAL ACCOUNTING PLAN

The United States holds approximately 10 million acres of land in trust for individual Indians. Interior manages revenue-producing activities on those lands, including oil and gas leases, farming and grazing, and timber harvesting. Beneficial ownership is divided among some four million interests and Interior must allocate the revenues accordingly. Interior also handles financial accounts for individual Indians—Individual Indian Money (IIM) accounts—into which these revenues and other funds flow.

The American Indian Trust Fund Management Reform Act of 1994, Pub. L. No. 103-412, 108 Stat. 4239 (1994 Act), requires the Secretary to “account for the daily and annual balance of all funds held in trust by the United States for the benefit of an Indian tribe or an individual Indian which are deposited or invested pursuant to the Act of June 24, 1938.” 25 U.S.C. § 4011(a).

Section 4011 of the 1994 Act speaks in the present tense and imposes on Interior duties for the benefit of holders of IIM accounts open at the time of enactment. In its original understanding of the statute, Interior believed that the 1994 Act defined Interior’s prospective accounting obligations, but left the reconciliation of any historical inaccuracies to the Secretary’s discretion. On December 21, 1999, the Court issued a judgment declaring Interior in violation of applicable legal obligations.² The Court concluded that the statutory duty to account for funds applied not only to monies deposited following enactment of the 1994 Act, but extended to all funds held in the IIM Trust Fund.³

The Court of Appeals subsequently affirmed most aspects of the Court’s ruling.⁴ The Court of Appeals declared that “‘All funds’ [in Section 4011(a)] means *all funds*, irrespective of when they were deposited (or at least so long as they were deposited after the Act of June 24, 1938).”⁵ The Court of Appeals questioned “how one can give a *fair* and *accurate* accounting of *all* accounts without first reconciling the accounts, taking into account past deposits, withdrawals, and accruals.”⁶ In other words, the Court of Appeals could not understand how Interior could give a proper account of existing IIM accounts, as required by the 1994 Act, without doing a historical accounting of those accounts, i.e., without considering account transactions prior to October 25, 1994, that might affect the current balances.

² *Cobell v. Babbitt*, 91 F. Supp. 2d 1 (D.D.C. 1999).

³ *Id.* at 40-41.

⁴ *Cobell v. Norton*, 240 F.3d 1081, 1086 (D.C. Cir. 2001).

⁵ *Id.* at 1086 (emphasis in original).

⁶ *Id.* at 1102 (emphasis in original).

In light of these rulings, Interior recognizes that it has a duty under Section 4011(a) to account for “all funds held in trust” as of the date of the 1994 Act (and thereafter), including a duty to account for the pre-October 25, 1994 “history” of those funds.⁷ Accounting for this pre-October 25, 1994 “history” is what is meant by the term “historical accounting.”⁸ Interior also recognizes, as the Court of Appeals stated, that the duty to account for funds in accounts open as of 1994 may extend as far backwards as 1938, the date referenced by the 1994 Act, which provides that Interior “shall account for the daily and annual balance of all funds held in trust . . . which are deposited or invested pursuant to the Act of June 24, 1938.”⁹

On September 17, 2002, the Court ordered Interior to “file with the Court and serve upon plaintiffs a plan for conducting a historical accounting of the IIM trust accounts.”¹⁰ Interior believes this Plan is the best means of fulfilling Interior’s statutory duties within a reasonable period. The Plan builds upon progress already made, including the ongoing work in performing historical accountings for IIM accounts and verifying their accuracy.

Ultimately, Interior intends to be in a position to provide eligible IIM account holders an account transaction history—that is a history of all transactions in their accounts back to the inception of their accounts or to the passage of the Act of June 24, 1938, whichever is later. Interior proposes to verify the accuracy of IIM account transaction histories using a combination of (1) transaction-by-transaction reconciliation to underlying documentation and (2) statistical sampling techniques, a course specifically left open by the Court and the Court of Appeals.¹¹

This proposed course differs from the approach described in Interior’s July 2, 2002, *Report to Congress on Historical Accounting of Individual Indian Money Accounts*

⁷ Interior intends to present legal issues that might affect the scope of the historical accounting to the Court by way of summary judgment motions.

⁸ The term “historical accounting” does not appear in the 1994 Act.

⁹ 25 U.S.C. § 4011(a).

¹⁰ *Cobell v. Norton*, 226 F. Supp. 2d 1, 162 (D.D.C. 2002). As Interior’s brief filed in the Court of Appeals in *Cobell v. Norton*, No. 02-5374 (D.C. Cir.) explains, Interior believes that the Court’s order should not have issued.

¹¹ See *Cobell v. Babbitt*, 91 F. Supp. 2d at 40 n.32 (noting that the Court was “not ruling upon what specific form of accounting” might be required by the 1994 Act, including “whether an accounting accomplished through statistical sampling would satisfy defendants’ statutory duties”); *Cobell v. Norton*, 226 F. Supp. 2d at 116 (“[T]he Court agrees with the defendants that in the Phase I trial ruling it did not prescribe a specific accounting method for the agency to employ . . . [I]t is important to note that the Court correctly refrained at that time from ordering Interior to use a specific accounting method.”); see also *Cobell v. Norton*, 240 F.3d at 1104 (“The district court explicitly left open the choice of how the accounting would be conducted, and whether certain accounting methods, such as statistical sampling or something else, would be appropriate. Such decisions are properly left in the hands of administrative agencies.”).

(*Report to Congress*) in its proposed use of statistical sampling as a means of verifying the accuracy of account transaction histories.

Statistical sampling was previously considered by Interior for meeting its 1994 Act obligations. Shortly after taking office in February 2001, Secretary Norton “‘opted to follow’ former Secretary Babbitt’s decision to use the statistical sampling method to perform a historical accounting.”¹² However, following this decision, the Court, in contrast to the view stated in its 1999 opinion and reaffirmed in its September 17, 2002, opinion, twice indicated in remarks from the bench that use of statistical sampling would be contemptuous.¹³ In light of those remarks, Interior decided not to propose the use of statistical sampling in its *Report to Congress*. Instead, the *Report to Congress* described a transaction-by-transaction reconciliation of all the transactions in every IIM account that ever existed, and concluded that such a review would cost at least \$2.4 billion and take ten years or more to complete. The cost estimate indicated by the *Report to Congress* also reflected the cost of doing a historical accounting for all accounts open at any date with regard to monies deposited at any time, even previous to the statutory date of 1938. Such an accounting would exceed that required by Section 4011.

It should be noted that this Plan does not contemplate performing historical accounting work for the closed accounts of deceased predecessors of current IIM account holders. General trust law principles support the assumption of correctness of any property distribution made to a current account holder through the distribution of a probated estate. In other words, in providing a full accounting to a current account holder, a trustee is not also required to provide an accounting of the account from which the property was inherited. The reasons for this are well established. Traditionally, a trustee provides an accounting to current beneficiaries in order to state “‘what property has been received . . . and what funds have been paid out and for what purpose;”¹⁴ a trustee should not be obligated to prove the validity of each underlying transaction in the account for the previous beneficiary.

¹² *Cobell v. Norton*, 226 F. Supp. 2d at 42. The use of statistical sampling as described in this Plan is substantially different than the use previously contemplated, which proposed to use sampling as the only means for conducting the historical accounting. This Plan proposes the use of statistical sampling as one of the means of verifying the accuracy of the account transaction histories.

¹³ Hearing Tr. of Status Call 29:17-19 (Oct. 30, 2001) (Secretary’s decision to use statistical sampling “‘was so clearly contemptuous” that it did not understand “‘what it is that we are going to try” in the contempt trial); Trial Tr. 4386:16-21 (Feb. 13, 2002) (“‘I commented on your having signed that February 2001 memorandum endorsing Secretary Babbitt’s statistical sampling approach rather than the historical accounting that I had outlined in my order, and I had said from the bench that I thought your signature on that document was clearly contemptuous.”).

¹⁴ See George T. Bogert, *Trusts* § 142 (Practitioner’s ed. 1987) (the obligation to provide an accounting is placed on a trustee “‘in order that the beneficiary may learn by a written, orderly statement what property has been received by the trustee, and what funds have been paid out and for what purposes, and may then object to the account”); William F. Fratcher, *Scott on Trusts* § 172 (4th ed. 1987) (trustee’s accounts “‘should show what he has received and what he has expended.”).

This is particularly the case where the underlying transaction is a probate order. With respect to probate, there are typically procedures for both notice to interested parties and a hearing, and resulting probate orders are presumptively valid. Moreover, once the probate order is issued, there are established rehearing and appeal rights and procedures for seeking to reopen the probate proceeding even after these rights have been exhausted or have expired. For these reasons, it is reasonable for a trustee to rely on the probate order as a correct statement of the property due the beneficiary, and the trustee is not required to conduct an accounting of the decedent's trust account in order to provide a full accounting of the trust account of the current beneficiary. If a current IIM account holder has questions about the correctness of a property distribution, they can be raised in the appropriate proceeding, but not through a request for an accounting of the trust account.

Not all revenues generated from Indian trust lands are collected and managed by Interior. Some revenues are paid directly to the Indian owner of the land by a lessee or other debtor. As part of its historical accounting, Interior does not intend to account historically for funds generated from trust lands that were paid directly to the Indian owner of the land without ever coming into Interior's possession. Such funds were never "held in trust by the United States" and therefore do not fall within the requirement in the 1994 Act that Interior account for "all funds held in trust by the United States."¹⁵

Finally, Interior notes that the historical accounting period will close on December 31, 2000. As of that date, the relevant Interior offices were fully converted to the Trust Funds Accounting System (TFAS). Account information recorded since December 31, 2000, will be considered current accounting activity.

¹⁵ 25 U.S.C. § 4011(a).

III. ACCOUNTING METHODS

Overview

For purposes of this Plan, historical accounting is the presentation to each IIM account holder of his/her account transaction history—a listing of all transactions in an IIM account—and a statement regarding the accuracy of those transactions. For the post-1985 period, Interior's systems contain electronic ledger data for each IIM account. The account transaction histories for IIM accounts that existed prior to 1985 remain to be compiled from paper ledgers. To verify account transaction histories, Interior intends to reconcile transactions by examining the original financial documents and related records to determine whether the transaction, as recorded, accurately reflects the proper allocation of collection, interest, or disbursement of funds (reconciliation).

Interior intends to conduct a historical accounting of all IIM accounts that were open as of December 31, 2000, and all IIM accounts that were open as of October 25, 1994, or opened thereafter, but closed as of December 31, 2000.

The IIM Trust Fund contains three primary types of accounts:¹⁶

- Judgment and Per Capita Accounts — Accounts established for individual Indians to receive funds from tribal distributions of litigation settlements and tribal revenues, respectively;
- Land-based Accounts — Accounts for individual Indians to receive revenues derived from interests in allotted land; and
- Special Deposit Accounts — Temporary accounts for the deposit of funds that cannot immediately be credited to the rightful account holders or owners.

Table III-1 below shows the number of accounts and the account balances associated with these accounts. Additional data are available in Appendix B – *IIM Account Data*.

Table III-1 — Accounts Open as of December 31, 2000

Account Type	Number of Accounts	Account Balances (in \$ millions)	Percent of IIM Trust Fund
Judgment and Per Capita	42,218	\$150.3	36
Land-Based	193,766	198.0	48
Special Deposit	21,415	67.9	16
Totals	257,399	\$416.2	100

Source: Office of Trust Funds Management, December 31, 2000, IIM Statistics Report.

¹⁶ There is a fourth kind of account in the IIM Trust Fund. These are known as Other Administrative Accounts and are used for internal operations.

The historical accounting methods will be different and appropriate for each of these account types. Another component of the accounting work assesses the retrospective functioning of the IIM accounting system as a whole. Overall, the Plan for the historical accounting is designed so that the Plan components, in the aggregate, allow Interior to verify that the transaction histories of the IIM accounts are correct. These components are explained in more detail below, with reference to descriptive data, accounting processes, work plan schedule, and cost factors unique to each account type or component.

Interior plans to undertake the historical accounting by initially addressing all Judgment and Per Capita IIM accounts. Concurrently, Interior plans to address land-based IIM accounts in two phases. The first phase will examine transactions in the Electronic Records Era, approximately 1985 through December 31, 2000. The second phase will examine transactions in the Paper Records Era, 1938 through 1984.

In addition, Interior proposes to address two other components related to the historical accounting—SDAs and retrospective system tests. Interior will work to properly disburse funds from inactive SDAs and close those accounts. As discussed further at the end of this section, several system tests will be performed on the IIM Trust Fund at the aggregate level to assess its underlying reliability. Interior also plans to be in a position to provide some summary information to IIM account holders regarding their ownership of land assets, which will be prepared by the BIA Land Title and Records Office (LTRO).

Judgment and Per Capita IIM Accounts

Introduction

When a tribe receives money as part of a legal judgment or negotiated settlement, the tribe may elect or be required to pass along some, or all, of the money to its enrolled members or their descendants. Similarly, other income to the tribe may be distributed as per capita payments to its members. In these instances, funds are distributed to tribal members in accordance with a tribal resolution specifying the amount of the payment and the eligibility of members to receive payment. In most cases, money is distributed directly to tribal members; however, for minors or other tribal members who are not eligible to receive a direct payment, the money is deposited on their behalf into an IIM account.

Groups of Judgment and Per Capita IIM accounts are usually established from a common source and have an identical initial balance making these accounts more readily reconcilable.

Descriptive Data

Table III-2 below shows the number of and balances associated with Judgment and Per Capita IIM accounts.

Table III-2 — Judgment and Per Capita IIM Accounts Open as of December 31, 2000

Account Type	Number of Accounts	Account Balances (in \$ millions)	Percent of IIM Trust Fund
Judgment Accounts	33,205	\$80.8	19
Per Capita Accounts	9,013	\$69.5	17
Totals	42,218	\$150.3	36

Source: Office of Trust Funds Management, December 31, 2000, IIM Statistics Report.

The Accounting Process

Accounting Methodology

Interior considered a number of possible approaches that could be used to reconcile IIM accounts. In evaluating these approaches in relation to the various types of IIM accounts, Interior determined that it was most suitable to use transaction-by-transaction reconciliation for Judgment and Per Capita accounts. This is because, for a specific judgment or per capita payment, nearly all of the affected IIM accounts have identical opening balances and balances as of December 31, 2000. This means an accountant can efficiently reconcile a number of transactions. Further, this type of account is not well-suited for statistical sampling, which is used when differences potentially exist from transaction to transaction.

In reconciling the 14,235 Judgment IIM accounts (with balances of approximately \$40 million), Interior has employed the following process and intends to continue to apply this process to reconcile the remaining unreconciled accounts:

- Query relevant databases, e.g., Integrated Records Management System (IRMS) and TFAS, to produce account transaction histories;
- Use the document index to identify potential records boxes and their locations;
- Search for and obtain relevant records to support and reconcile transactions;
- Compare account details and identify types of documentation to support the transactions, e.g., judgment award, use and distribution plan, tribal resolution, and certified tribal roll;

- Calculate interest earnings based on interest distribution factors historically established by the Office of the Special Trustee Office of Trust Fund Management (OTFM) and predecessor organizations and compare calculated interest with interest actually posted; and
- Produce Historical Statements of Account outlining transaction details for the period tested.

Quality Assurance

Interior has retained the services of Grant Thornton LLP to provide quality control oversight for IIM account reconciliation efforts. Grant Thornton's role is to review the overall approach used to reconcile IIM accounts and analyze the results of reconciliation efforts (see Appendix C – *Quality Control*). Grant Thornton's review of the reconciled Judgment and Per Capita IIM accounts involves evaluating key documentation used to support the account reconciliation and recalculation of interest from time of deposit of the distribution into the IIM Trust Fund account through December 31, 2000. The quality assurance review will determine whether the accounting practices have complied with the standards in the *Accounting Standards Manual*, and its future revisions, established by the OHTA within the Office of the Secretary.

Work Plan Schedule

Statements for approximately 13,000 reconciled Judgment IIM accounts will soon be completed. Of the Judgment and Per Capita IIM accounts remaining to be reconciled, approximately 13,000 of these are proposed to be completed in FY 2003; approximately 15,000 accounts are anticipated to be completed in FY 2004.

Cost to Complete the Work

Interior estimates that it will cost approximately \$2.5 million to reconcile the remaining Judgment and Per Capita IIM accounts.

Land-Based IIM Accounts

Introduction

Land-based IIM accounts are accounts of individual Indians who have ownership interest(s) in allotted lands and who receive revenues through their IIM accounts from activities associated with the lands. Sources of revenue include surface leases from farming and grazing, sale of timber, subsurface leases (e.g., mining, oil and gas

exploration and production), and rights-of-way for roads, power lines, and other utilities. Consequently, the historical accounting for land-based accounts is complex.

The fractionation of allotment ownership further complicates this work. Fractionation is the increasing partition of ownership as allotments are divided among heirs in each generation. As a consequence, revenue receipts may be divided among dozens to more than 1,000 individual owners of a single allotment. Further, many IIM account holders have ownership interests in allotments in several locations, processed by different BIA agencies, the revenue from which must be examined when relevant account transactions are reconciled.

Descriptive Data

As of December 31, 2000, there were 193,766 land-based IIM accounts with an aggregate balance of \$198 million, constituting 48 percent of the IIM Trust Fund balance. Figure III-1 illustrates the sources of revenue for land-based IIM accounts. These data are drawn from transactions contained in TFAS. Further data can be found in Appendix B.

IRMS and TFAS include transaction histories for IIM accounts from approximately 1985 to December 31, 2000—the “Electronic Records Era.” The availability of electronic records allows Interior to define the accounts and transactions in the historical accounting during this time frame, and provide summary information on the accounts.

Prior to 1985—the “Paper Records Era”—transaction records are in books, on cards, or on other paper documents. The paper transaction records must be located, scanned, coded, and the account information digitized to compile an electronic account transaction history for the IIM accounts included in the historical accounting. Until the electronic transaction histories are compiled, it will not be possible to determine relevant account information, including how far back in time IIM accounts go, and how many transactions occurred in each account included in the historical accounting.

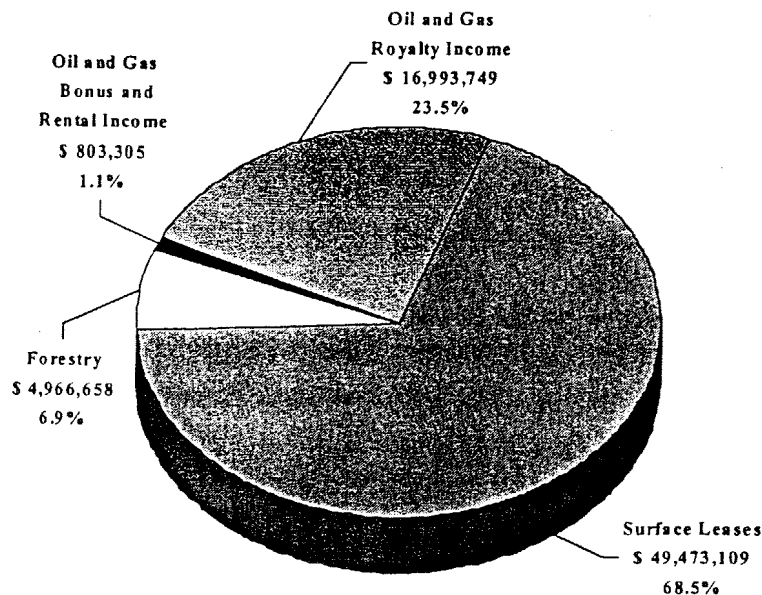
The Accounting Process

Accounting Methods Considered

The historical accounting for land-based IIM accounts consists of the account transaction history and the verification of the transaction history. Accordingly, in seeking to determine the accuracy of the account balances, Interior will undertake a historical accounting that examines how much money was collected, whether the money collected was accurately credited to the proper account, whether any interest earned on the money was accurately credited to the proper account, and whether the recorded disbursements from the account were properly documented.

Interior analyzed various approaches to performing a historical accounting of land-based IIM accounts. This process included consideration of several options ranging from a transaction-by-transaction accounting to various approaches employing statistical techniques.

Figure III – 1 Land-Based IIM Accounts - Receipts by Source for Calendar Year 2000



Receipts – For Calendar Year 2000 for these revenue type receipts totaled \$ 72,236,821 from a total of \$ 124.4 million.

Surface Leases – Receipts as a result of all types of real estate agreements, including farm and pasture lease, range lease, sand and gravel sale, land sale, right of way, and business.

Forestry – Receipts as a result of timber contracts or related timber operations.

Oil and Gas Bonus and Rental Income – Receipts from lease agreements.

Oil and Gas Royalty Income – Receipts from income generated from producing wells.

Note that this figure does not include Judgment, Per Capita, Special Deposit, Interest and Miscellaneous receipt data. Miscellaneous receipts (\$ 52,139,493 for Calendar Year 2000) are primarily coded as "miscellaneous," "other," or "transfers," but may also include to a lesser extent revenue types that do not fall into the previously defined categories, such as quarterly annuity income, estate income, transfer from another account, transfer of estate income, transfer of funds credit, among others.

Source: Chavarria, Dunne & Lamey LLC using TFAS data.

A transaction-by-transaction accounting for all accounts (as described in the *Report to Congress*) was considered by Interior. To date, members of the Senate Select Committee on Indian Affairs, the House Committee on Resources, and the House Appropriations Subcommittee on Interior and Related Agencies have expressed reservations regarding the more than ten years time to complete and the estimated \$2.4 billion cost associated with the historical accounting process described in the July 2, 2002, *Report to Congress*.

For example, on a bipartisan basis, the Chairman and Ranking Member for the House Appropriations Subcommittee on Interior and Related Agencies recently wrote to Secretary Norton that they remain convinced

such a process [the process described in the *Report to Congress*] would not yield the desired results, **but instead would simply drain resources away from effectively implementing trust reform** (emphasis added).¹⁷

Similarly, on December 9, 2002, the Chairman of the House Resources Committee expressed concern over both the cost and length of time an accounting, as described in the *Report to Congress*, would take to complete.¹⁸

Finally, at a July 25, 2002, hearing before the Senate Committee on Indian Affairs regarding the *Report to Congress*, Senator Ben Nighthorse Campbell stated

[t]here are a lot of Indian people out there that are going to die before (the historical accounting project is complete), waiting for that money, if they have to wait 10 years.¹⁹

Interior has concluded that relying solely on the transaction-by-transaction accounting approach is not warranted, and is confident that sampling is an effective technique to verify the accuracy and completeness of the land-based IIM account transaction histories. The use of sampling techniques is supported, when conducted scientifically, by powerful mathematical theories that can predict how large a sample will be needed to achieve a desired level of accuracy – and these samples need not be huge. For example, firms use statistical sampling to ensure that their product meets a quality standard. A sample that examines only 500 out of 1,000,000 “widgets” can allow the manufacturer to be about 99 percent confident that fewer than 1 percent of the production line may be defective. Although the IIM historical accounting is a more complex problem, this means that larger samples will be needed and more care must be taken in their selection.

The advantages of a statistical sampling approach are enhanced when combined with other techniques. For this reason, Interior plans to implement the historical accounting by using both transaction-by-transaction and statistical methods. Interior plans to reconcile 100 percent of the large dollar-value transactions and statistically sample the huge number of smaller transactions. As a result, Interior plans to complete the historical accounting of land-based accounts much sooner than a transaction-by-transaction accounting would permit, while achieving a high degree of confidence in the accuracy of the results.

Interior plans to verify the transactions in land-based IIM accounts by reconciling all transactions greater than or equal to \$5,000 on a transaction-by-transaction basis for the

¹⁷ Letter from the Chairman and Ranking Minority Member of the House Appropriations Committee, Subcommittee on Interior and Related Agencies, dated December 10, 2002.

¹⁸ Letter from the Chairman of the House Resources Committee, James Hansen, dated December 9, 2002.

¹⁹ Transcript of oversight hearing before Senate Select Committee on Indian Affairs, July 25, 2002, page 31.

Electronic Records Era (a similar method will be employed for the Paper Records Era). Interior will reconcile statistically valid samples of smaller value transactions. These samples will be drawn from two groups of transaction values – transactions from \$500 to less than \$5,000, and transactions from \$0 to less than \$500. A discussion of the sample design can be found in Appendix D – *Sample Design Planning Report*.

Assemble Transaction Histories and Other Preparation Activities

To prepare for verifying the land-based IIM account transactions, Interior plans to compile the Electronic Records Era account transaction history from IRMS and TFAS. Account transaction histories from the Paper Records Era will be created in an electronic format. Interior also intends to gather the relevant supporting financial documents and ownership information that will be needed to reconcile the transactions. An ongoing records indexing process (see Appendix E – *Indexing*) will facilitate location of needed records, after which the relevant records will be electronically imaged and coded. The coding process will allow the accountants to quickly access the images needed.

To verify revenue collection transactions, Interior will locate, as needed, the relevant leases, contracts, or other instruments that define the allotted lands that are included in the agreement to use Indian owned resources. Automated electronic systems that were used to distribute the collection, such as the ownership module in IRMS or other systems, will be used to verify allocation of funds. Interior will trace land ownership from the land title records in the Land Records Information System (LRIS) or other systems that have been used. Lease and ownership records are maintained by the BIA.

Additionally, as part of the historical accounting, Interior hopes to request information directly from the IIM account holders themselves. Interior intends to seek the Court's permission to send out a mass mailing requesting account holders to review their records about their IIM accounts, and voluntarily respond by identifying any known issues with their accounts and indicate the types and dates of records in their possession. This request for information is intended to supplement – not supplant – Interior's historical accounting efforts. It may alert Interior to problems or issues that the accountings should address.

The Federal Government retains a substantial number of records pertinent to IIM account transaction histories. However, if necessary, Interior plans to seek financial records from third parties such as oil companies and timber companies regarding their transactions on allotted Indian lands. Interior has not yet finalized the policies and procedures to collect missing information although a draft of the Policy and Procedures has been prepared and is undergoing internal review. Interior currently intends to:

- Alert potential third-party custodians of Interior's efforts to locate and secure possible missing trust-related information and request that they retain this information;

- Identify information needed to conduct a complete historical accounting;
- Identify and locate records held by third-party custodians; and
- Obtain third-party records.

Once the reviews of the draft policy are complete, it will be finalized and included in the *Departmental Manual*.

Verifying the Accuracy of the Account Transactions

The verification process for each transaction examined involves reconciling the amount of the recorded transaction to both supporting financial documents and ownership information.²⁰ Interior intends to trace each collection transaction back to the original source of the revenue, usually a lease or contract. At the point of collection, the revenue is a gross payment that must be allocated to the IIM accounts. To reconcile an individual transaction, the lease or contract would be examined to determine the allotment or allotments related to the payment. The ownership interests in the allotment would then be used as the basis for verifying that the transaction under review was correctly divided and properly allocated to the IIM account.

Interior intends to apply this method to all the transactions that are verified. For example, to verify the proper allocation of a payment for a grazing unit, Interior's accountants will examine:

- The related lease or grazing permit to ascertain which allotments were or are included in the grazing unit; and
- The ownership interest of record for each respective allotment must be considered to verify whether the grazing payment was properly divided according to ownership interest, and the funds allocated to the proper accounts in the correct amounts.

For disbursements, for example, Interior's accountants will review any request for funds from the IIM account holder, a bill from a vendor to whom the account holder had requested payment on behalf of the account holder, the record verifying the issuance of a check, and, where available, information confirming the check was paid.

Figures III-2 and III-3 illustrate these verification processes.

²⁰ For example, in some cases, income from an allotment can be paid to the holders of life estates, who may not be the beneficial owners of an allotment.

Figure III-2
Verification of Collections for IIM Accounts

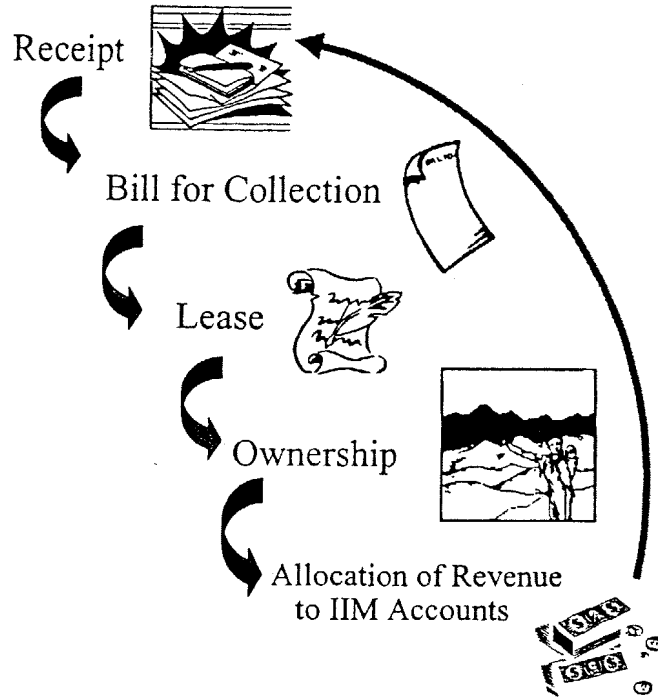
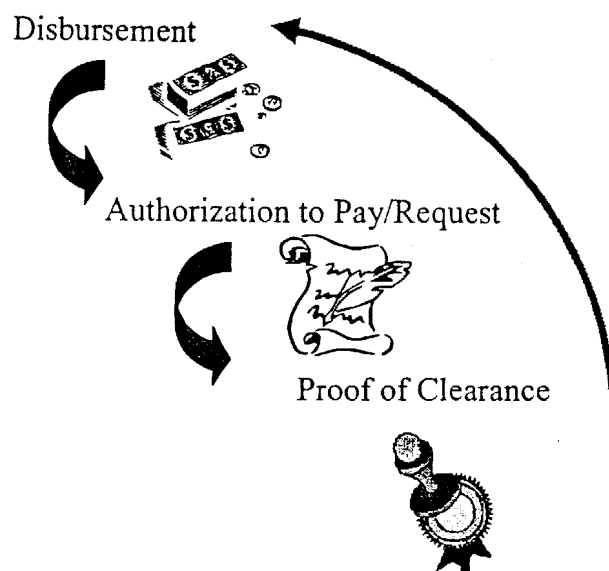


Figure III-3
Verification of Disbursements for IIM Accounts



Accounting Method to be Employed

The accounting method for the land-based IIM accounts begins by stratifying the transactions by dollar value. Table III-3 shows the division into three strata of the transactions and the aggregate amount of money associated with those transactions. All of the transactions greater than or equal to \$5,000 (for the Electronic Records Era; a similar value will be selected for the Paper Records Era) will then be reconciled. It is Interior's intention to statistically sample transactions in the other two strata—more than \$0 and less than \$500, and greater than or equal to \$500 and less than \$5,000—and each selected transaction in the two samples will be reconciled (see Appendix D – *Sample Design Planning Report*).

**Table III-3 — Transaction Data for Land-Based IIM Accounts
(1985-2000)**

Number of Transactions by Value Groups				
	>\$ 0 to <\$500	\$500 to <\$5,000	≥\$5,000	Totals
Number of Transactions	25,601,824	789,178	73,511	26,464,513
Aggregate Throughput	\$828,962,549	\$999,599,554	\$1,506,033,236	\$3,334,595,339
Percent of Throughput	25%	30%	45%	100%

By reconciling all 73,511 transactions of \$5,000 or greater, 45 percent of the dollar throughput associated with the land-based IIM accounts in the Electronic Records Era will be completely reconciled. The remaining transactions, more than 26 million, can be accurately verified to a 99 percent confidence level using a statistical sampling approach that will verify approximately 80,000 transactions from each of the two strata, i.e., together a sample of approximately 160,000 transactions.²¹

The sampling strategy will include an analysis of the transactions that comprise each of the two strata. Interior's statistical contractor, National Opinion Research Center (NORC), will construct each sample so that it is representative of geographical locations (BIA regions and agencies), and balanced with regard to types of revenue sources, disbursements, and time periods. Stratification will reduce the variability in the sample and contribute to a high degree of confidence.

Statistical testing begins by identifying the population to be tested and by making assumptions about the values of its "true" underlying attributes. It is this "true" attribute value that the test will either accept or reject. In this case, an assumption must be made about the underlying "true" error rate, i.e., the number of times reconciliation will show a mistake was made if every transaction in the population was reconciled.²² Based on previous work, e.g., the tribal reconciliation project and the "Paragraph 19" project, Interior's statistical consulting contractor is assuming a "true" error rate of 1 percent or less for sample design and size purposes. If the sample results show that the sample has an error rate greater than 1 percent, it will be concluded that the original assumption was incorrect. A new assumption will be made based on the findings from the initial sample and additional samples may be selected.

²¹ The transaction sample sizes of 80,000 were chosen to provide sufficient agency-level information such that, for each stratum, statements about transaction error rates at the national level can be made with high confidence. If the overall error rates are as low as assumed, the sample sizes also afford protection against the possibility that, in some agencies and strata, the error rates may be somewhat higher than expected (see Appendix D – *Sample Design Planning Report* for additional discussion).

²² Interior plans to employ a set of *de minimis* rules, e.g., a misposting of a transaction (1) by \$1.00, (2) 0.5 percent with limit of \$5.00, or (3) some other appropriate measure will not be considered an error. Interior is currently developing the *de minimis* rules.

Interior intends to use a 99 percent confidence level in designing its samples. In other words, if the statistical test accepts the assumed value of 1 percent or less for the underlying error rate, the historical accounting will allow Interior to state, for each stratum, that it is 99 percent confident that the Historical Statements of Account are 99 percent accurate. If Interior finds that some kind of systematic error was taking place at a location or for a time period, Interior plans to focus on this cluster of errors in an attempt to completely reconcile the affected transactions and eliminate the cluster from the sample population.

Interior plans to employ the same basic strategy after the Paper Records Era account transaction histories are created and made available electronically. Interior plans again to divide transactions into the three strata. The stratum of transactions equal to or greater than \$5,000, or other appropriate value, will be 100 percent reconciled, and for planning purposes is assumed to comprise as many as 100,000 transactions. In addition, Interior plans to sample another set of transactions, perhaps 80,000, from each of the two remaining strata drawn statistically from the rest of the transactions (see further discussion in Appendix D – *Sample Design Planning Report*).

Filling in Missing Information

It is certain that some gaps in the transaction history or in records and documentation will be encountered during the historical accounting. Such gaps may range from a single missing document to missing account transaction histories or to multiple missing supporting documents. Various options, including forensic accounting methods, can be used to address gaps in documentation.

For example, using a comparable transaction approach, accountants can identify similar transactions and project expected transaction amounts. The projected amount could then be cross-checked against actual collections as a second verification. This approach may be especially useful with regard to lease collections on multiple-allotment leases. Secondary documents may be used in place of primary supporting documents that may be missing. For example, even if a bill of collection was missing, other collection or deposit documents could be located to provide information regarding the allocation of payments. It is also possible to reconstruct missing transaction information by working from the financial documents to bridge the gap.

In many instances, a pattern of regularity may exist to explain the transaction. For example, a monthly bill (e.g., mortgage or car payments) may be missing, but the prior and subsequent months' bills document a regular payment for which the account holder had authorized payment. Other methods for addressing gaps in documentation may be employed during the historical accounting project and will depend on the particular circumstances presented.

As stated earlier, non-Federal third parties may have records that could serve as supporting documentation.

The absence of supporting documentation does not imply an error. The transaction may still be correct, it just cannot be completely checked. Interior plans to include this information in the account transaction history, but Interior does not plan to include such occurrences in the calculated national error rates for the two statistical strata. However, wherever the filling of data gaps may increase the uncertainty in the estimates, this uncertainty will have to be measured.

Quality Assurance Activities

Quality assurance is important and a part of every step in the process of verifying the land-based IIM accounts. Overall quality assurance measures are described in Appendix C. Specific to the land-based IIM accounts, the results of the sampling design process and the statements of statistical conclusions from the reconciliation of the sampled transactions will be peer reviewed by qualified independent statisticians. The work of the accounting firms in reconciling transactions will be reviewed internally by the accounting firm performing the work, and then reviewed again by Interior's independent certified public accounting firm, Grant Thornton.

Work Plan Schedule

Verification of the transactions in the land-based IIM accounts will occur in two stages, starting with the transactions from the Electronic Records Era, and proceeding to transactions from the Paper Records Era. Verification of Electronic Records Era is anticipated to begin by mid-FY 2003 and conclude late in FY 2005. Verification of Paper Records Era is projected to begin in mid-FY 2004 and conclude in FY 2006.

Interior plans to start the reconciliation of transactions in the Alaska Region because allotments in Alaska are comparatively recent, have been subject to limited fractionation of ownership, and have revenue derived principally from land sales or leases. This will provide a good testing ground for Interior's records search procedures and the accounting methods. The verification of the account transaction histories for land-based IIM accounts will start in January 2003.

A contractor, under direction of the Office of Trust Records (OTR), has already begun work to index IIM financial and related records at records facilities in Albuquerque, NM, and Lee's Summit, MO. OTR expects the contractor to complete this work by mid-FY 2004.

Cost to Complete the Work

Interior estimates the cost to complete the land-based portion of the IIM accounts to be approximately \$200 million. More than two-thirds of the costs are for reconciling the Paper Records Era transactions because this requires creating an electronic transaction

history from the paper records, and assumes that missing records will increase costs for reconciling each transaction. This estimate does not include administrative and other costs that apply to the overall historical accounting. Details on the costing assumptions and calculations are contained in Appendix F – *Cost Assumptions*.

Special Deposit Accounts

Introduction

SDAs were designed to be temporary accounts for the deposit of trust funds that cannot immediately be credited to the rightful account holders. For example, a payment may be received by the BIA for farming and grazing on tribal lands and allotted lands. The payment is deposited in an SDA so that interest can be earned until the funds can be allocated to the proper IIM and tribal accounts. Once the farming and grazing payment funds and associated interest earned have been transferred to the IIM and Tribal accounts, the SDA should have a balance of zero. The account can then be closed or reused to temporarily hold other payments. A common example of SDAs created prior to December 31, 2000, involves the handling of funds from third parties, such as bid deposits or performance bonds. These funds, temporarily placed in an SDA, were intended to be returned to the third parties, such as return of losing bids when a lease is issued or return of a performance bond, as appropriate, but were not. All SDAs must be analyzed to determine their original source of funds and disposition.

Historically, there has been no uniform practice for the use of SDAs within BIA. Funds held in SDAs have not always been distributed in a timely fashion, nor have funds always been distributed with the interest earned while on deposit in the SDA.

In response to the 1994 Act, Interior has identified various projects to address trust administration improvements. The SDA project addresses the following:

- Interior's Inspector General findings that cite the misuse of SDAs for purposes other than temporary suspense accounts. An example of incorrect use of an SDA is to retain bid deposits of respondents to a timber contract while appeals of unsuccessful bidders are unresolved; these deposits should never have been credited to the IIM Trust Fund, but held in an Interior liability account; and
- The number of SDAs that have been opened and remained inactive for over 18 months has grown.

As part of the historical accounting, OHTA will be working with OST and BIA to distribute funds in inactive SDAs that were opened on or before December 31, 2000. OST will address SDAs opened after that date. OHTA's work is different from its IIM historical accounting in that the end result is to properly distribute the funds remaining in the inactive SDAs and close the accounts.

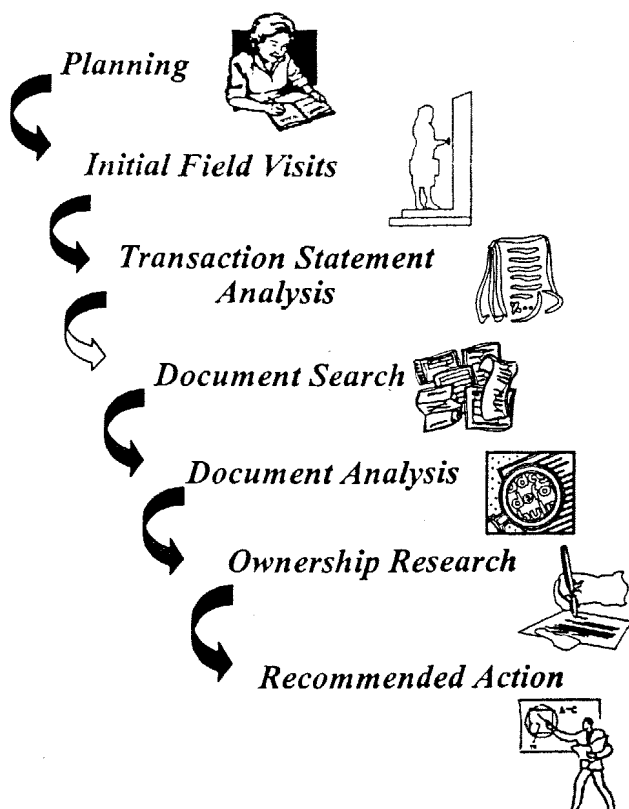
Descriptive Data

As of December 31, 2000, there were approximately 21,500 SDAs that were inactive—no longer being used as suspense accounts—but still contained nearly \$68 million. These funds belong to tribes, IIM account holders, or third parties, however, the actual ownership and proper disposition of the funds must be researched before the funds can be distributed. To date, the certified public accounting firm, Chavarria, Dunne & Lamey LLC (CD&L), together with OST and BIA, have identified the proper ownership of about \$22 million of the \$68 million.

Review and Allocation

The SDA review and allocation process was developed as a result of earlier pilot efforts. The primary objective of the pilot was to define objectives further and to design, test and refine the procedures to analyze undistributed residual balances in SDAs. Certain procedures were modified based on the lessons learned and differences noted among BIA agencies. Figure III-4 summarizes the overall approach of the SDA review and distribution process.

Figure III – 4 Special Deposit Account Review and Allocation Process



To perform this work, accountants look to the history of the SDA, as contained in related financial records and documents. From these records, the accountants ascertain the source and purpose of the original funds, understand what, if any, portion of the funds and interest have already been distributed, determine why funds remain in the SDA, and make a recommendation for allocation of the funds and closure of the SDA. This is the current accounting method being used to resolve the ownership and proper allocation of funds in inactive SDAs.

The final determination of the allocation of funds in SDAs is made jointly by BIA and OST. The transfer of funds is processed by OST, and any transfers to IIM accounts (as well as tribal accounts) would be made as a current deposit to the respective accounts. Account holders would be notified of the transfer in their regular quarterly statements. In the case of third-party funds, the funds would be disbursed directly to the third party. Thus, while the funds would be properly allocated, the transfer of funds would be posted in a year after 2002 and would not appear as part of a Historical Statement of Account.

Work Plan Schedule

OHTA plans to continue the SDA effort in FY 2003. The entire project is scheduled for completion in early FY 2007.

Cost to Complete the Work

The SDA project's estimated cost is \$27 million based on the number of accounts, value of accounts, and difficulty of analyzing accounts.

IIM System Tests

Introduction

Interior intends to perform various tests on the IIM Trust Fund at the aggregate level in addition to those tests performed at the individual transaction or account level. These aggregate, high-level system tests will enable Interior to assess the underlying reliability of the IIM Trust Fund system. These aggregate tests are intended to determine whether significant systematic flaws, which might have allowed for gross or repeated error, exist within the historical accounting system.

These tests will examine key points of vulnerability in the historical ledgers that will serve as the basis for the historical accounting by assessing whether:

- Significant data are missing;

- Accounts or balances were lost or inappropriately “dropped” from the system during conversions from paper records into IRMS, or from IRMS into TFAS;
- The calculation of interest was performed accurately;
- The monies collected by Interior were actually deposited into the IIM Trust Fund; and
- The land ownership records are accurate.

Taken together with the Judgment and Per Capita, land-based, and Special Deposit account tests described above, system tests will show whether there was integrity in the overall processes and systems used to administer the IIM Trust Fund for the period at issue.

Completeness of Data Tests

This section addresses the first two possible “points of vulnerability” identified above. These tests are intended to ensure that the data Interior will rely on are complete, which in addition will facilitate many of the other tests to be performed.

Electronic Data Gaps

Before account transaction histories can be produced for land-based IIM accounts, electronic data gaps will have to be identified and “filled” in order to provide complete Historical Statements of Account. Interior will search for other records of the transactions posted to accounts in an attempt to close identified gaps.

A gap in the transaction history can be identified in several ways—(1) an account for which the system balance does not equal the transaction balance (i.e., the previous balance plus the sum of the transactions should equal a subsequent balance), (2) an account for which interest cannot be appropriately recalculated, or (3) a BIA agency for which there are no available transactions for a given month. Interior plans to review information for BIA agencies that have no electronic data for a given month to determine whether the agency processed transactions for the month in question. Additionally, Interior plans to compare historical electronic account balance files and electronic account transaction files to identify gaps. Identified gaps will be researched to determine if the account transaction history is missing historical transactions. The identification and resolution of gaps will provide IIM account holders with assurances that a “loss” of transactions did not occur system-wide.

System Conversions

System conversions—moving from one records system to another—represent the largest potential opportunity for “loss” of transactions or accounts from the IIM accounting systems in the modern era. Two system conversions have taken place in connection with the Electronic Records Era. The first conversion occurred in the late 1970s into the 1980s when the BIA regions and agencies were converting from maintaining IIM accounts on paper ledger cards to maintaining IIM accounts on the IRMS. The second conversion occurred in the late 1990s through early 2000 when the electronic data in IRMS was transferred to the TFAS. Interior has electronic data available for the conversion from IRMS to TFAS, which was contemporaneously reviewed at the time of the conversion. Interior will verify that account balances in IRMS were properly transferred to TFAS and that the balances in the transferred accounts remained the same before and after conversion. This process will determine whether monies were lost or whether accounts were inappropriately “dropped” in the conversion process.

A statistical sample of the transfer of accounts and balances from the paper-based records to IRMS in the mid-1980s is planned to determine whether accounts and balances were correctly converted. If accounts are identified that were not transferred from one system to the subsequent system or any accounts are identified whose balance was incorrectly transferred, the issue will be researched and resolved.

System-Wide Tests

The final three tests further verify the underlying integrity of the data by addressing three remaining “points of vulnerability.”

Interest Test

After the centralization of investment activities in the late 1960s and early 1970s, Interior computed interest factors that were utilized to calculate and apply interest earnings to all IIM accounts in the IIM Trust Fund. An analysis of the IIM Trust Fund’s rate of return and the calculation of interest factors is planned. These factors will be applied to all accounts according to Interior’s policies in effect at the time to recalculate expected interest payments in each account subject to the historical accounting. The recalculated amounts will then be compared to the amounts posted. Recalculating interest is expected to reconcile almost half of the transactions in IRMS and TFAS as well as the majority of the transactions in each IIM account. This process should also facilitate Interior’s identification and resolution of data gaps in the electronic records.

Posting Test

The historical accounting process verifies transactions in an IIM account by reconciling the reported transaction with the supporting documentation. This might be called an “upstream” reconciliation, checking that the information and calculations that led to the transaction posting are accurate. However, by checking IIM accounts upstream from the transactions Interior would not learn if transactions are missing, i.e., never posted to the electronic systems or paper ledgers.

Further testing may be performed to confirm that the amounts reported by Interior as documented by collection or disbursement documents were posted to the accounting system. This would be a “downstream” test, tracing the information from the documents to verify that a posting was made to an account. This test would determine whether transaction postings that should be present actually appear in the system or in the ledgers.

Ownership Tests

Interior intends to verify, via a statistical sample of allotments, that land-based receipts were appropriately distributed. This process will involve checking that ownership records at the LTRO agree with the electronic ownership modules, and that surface or subsurface lease revenue is allocated in accordance with these ownership data, regardless of whether the allotment was owned by a single individual or, more likely, multiple individuals. Confirming ownership interests will involve selecting a statistical sample of land parcels to test ownership records. Title information recorded on paper records in a LTRO will be compared to LRIS electronic title records and the IRMS ownership module. Completion of these tests will allow Interior to determine whether its ownership records are accurate and appropriately serve as a basis for the allocation of receipts at the allotment level.

Cost to Complete the Work

Based on certain broad estimates of sample size and the expected number of accounts for which interest postings will need to be manually identified, Interior has estimated that these tests may cost as much as \$25 million and be completed by FY 2006.

IV. WORK PLAN, SCHEDULE AND ESTIMATED COST

This section provides Interior's schedule and work plan for completing the Historical Accounting Project (Figure IV-1). It is based on a number of assumptions related to how long it may take to locate needed records, how much accounting work can be accomplished over a given period of time, and the availability of sufficient funding from Congress. It is important to note that there are few precedents to rely on in estimating how long it may take and how much it will cost to complete the historical accounting work described in this Plan. Interior will be constantly learning and will revise its estimates, as appropriate. To the extent that funding does not meet the levels shown in Table IV-1, it will take longer to meet the historical accounting schedule shown in Figure IV-1.

Table IV-1 summarizes Interior's preliminary cost estimates through FY 2007 for the historical accounting proposed in this Plan. OHTA proposes to accomplish the Plan activities with both full-time Interior staff and a group of contractors, as described in Section I – Introduction to the Historical Accounting Plan—in accordance with the schedule illustrated in Figure IV-1.

The scope and complexity of the historical accounting requires an assessment of costs for each of the tasks associated with the accounting work. The objective is to establish the cost of the historical accounting based on significant cost drivers (activities), such as whether transactions are in electronic or paper form, the level of document location, collection, and scanning required, and the number of transactions that must be reconciled. However, there is a high level of uncertainty in the cost estimates for the historical accounting project because many parameters continue to be investigated and could significantly change the estimates developed.

Work Plan and Schedule

Interior plans to have historical accounting work underway in several segments concurrently. Additionally, the workload will provide broad coverage of IIM accounts—by geography, by resource type, and by time period. This will assist Interior's statisticians in analyzing the results of the reconciliation of the land-based IIM account transactions.

The Historical Accounting Plan for Individual Indian Money Accounts

Figure IV – 1 Historical Accounting Schedule

Accounting Steps	Timing
1. Ongoing Accounting Projects <ul style="list-style-type: none"> - Judgment and Per Capita Accounts - Special Deposit Accounts - Cobell/Named Plaintiffs' Accounts - Eastern Region Accounts - New TFAS Accounts 	
2. Land-Based Accounts in the Electronic Era <ul style="list-style-type: none"> - Index Records - Transactions ≥ \$5,000 - Sample Transactions ≥ \$500 - < \$5,000 - Sample Transactions \$ 0 - < \$500 	
3. Land-Based Accounts Paper Records Era <ul style="list-style-type: none"> - Index Records - Ledger Creation - Transactions ≥ \$5,000 - Sample Transactions ≥ \$500 - < \$5,000 - Sample Transactions \$0 - < \$500 	
4. IIM System Tests <ul style="list-style-type: none"> - Paper to IRMS Conversion - IRMS to TFAS Conversion - Electronic Data Gaps - Posting Test - Interest Recalculation - Ownership Tests 	

TABLE IV-1 — Preliminary Estimated Costs of the Individual Indian Money Historical Accounting Plan

Accounting Activity Segments	FY 2003		FY 2004		FY 2005		FY 2006		FY 2007		Multi-Year Cost (\$000)
	No. of Accounts	No. of Trans.	Cost (\$000)	No. of Accounts	No. of Trans.	Cost (\$000)	No. of Accounts	No. of Trans.	Cost (\$000)	Cost (\$000)	
1. Ongoing Projects											
Eastern Region	100	1,650	\$ 150								\$ 150
New TFAS Accounts			150								150
Cobell Plaintiffs			260								260
Judgment and Per Capita Accounts	12,665		1,140	15,318		\$ 1,329					2,469
Special Deposit Accounts	1,500		2,000	5,000		7,000	5,000		\$ 7,000	\$ 4,000	27,000
2. Electronic Records Era											
All Transactions ≥\$5,000		10,000	3,550		63,511	14,608					18,158
Sample of Transactions >\$500 - <\$5,000		10,000	3,550	60,000	13,800	2,300	10,000				19,650
Sample of Transactions \$0 - <\$500				60,000	13,800	4,600	20,000				18,400
3. Paper Records Era											
Reconstruct Ledgers				17,788		17,788	23,275		18,937		60,000
All Transactions ≥\$5,000					20,000	5,800	30,000		14,500		29,000
Sample of Transactions >\$500 - <\$5,000						10,150	35,000		13,050		23,200
Sample of Transactions \$0 - <\$500						10,150	35,000		13,050		23,200
4. IIM System Tests						5,000			10,000		25,000
5. Modeling and IT											
Accounting Model			400			250			250		1,400
Data IT Needs			2,000			15,000			13,988		50,988
6. Outreach*											
Agency Visits	50		125			375			375		1,625
Surveys	4		400			600			600		2,800
Call Center—Number of Calls	1,000		300			300			300		300
Web and Media			300								1,500
7. Administrative											
			1,025			4,350			7,950		29,825
Total			\$ 15,350			\$100,000			\$100,000		\$19,725
											\$335,075

Limitations: This depiction is indicative of the costs that Interior estimates would be needed to accomplish the Plan. Of course, these estimates are based on assumptions, and, as a consequence, the estimates are likely to change. It must be noted that this is not Interior's budget request, but rather is representative of the levels of effort and funding needed. The President's budget request and subsequent Congressional appropriations will drive how much work can be done, and how quickly.
 *To the extent appropriate under Court rulings.

Table IV-1 includes the components of the historical accounting and the projected workload and expected accomplishments by fiscal year. The table is divided into seven segments:

- Ongoing Accounting Projects;
- Land-Based IIM Accounts in the Electronic Era;
- Land-Based IIM Accounts in the Paper Records Era (including digitizing the Paper Records Era ledgers);
- IIM System Tests;
- Modeling and IT Needs;
- Outreach; and
- Administrative.

The work is shown using metrics such as number of accounts and number of transactions, but in some cases, only when the work will be conducted is noted. This schedule does not specifically identify a number of supporting activities, including preliminary work, research into the accounts, searching for documents, imaging and coding of supporting documents, quality control, and addressing new information and appeals. The costs for these activities are subsumed within the overall cost estimates of the categories.

Preliminary and Ongoing Accounting Work

There are a number of preliminary steps to reconciling transactions:

- Indexing the records of BIA and OST;
- Analyzing transaction histories for the IIM accounts in question;
- Defining and drawing of the samples (in the case of the portion of the land-based IIM transaction verification based on samples);
- Searching for records using the new OTR records index/inventory;
- Imaging and coding the supporting documents; and

- Providing the transactions and imaged records in the prescribed accounting tool and data systems.

Work on these preliminary steps has already begun (see Figure IV-1). Work is being assigned so that reconciliation can begin as soon as possible in areas where the preliminary work has been completed. In other words, preliminary work in some areas will overlap with accounting work in others.

The work plan calls for the continued reconciliation of Judgment and Per Capita IIM accounts, with anticipated completion of that work in FY 2004. Some accounting projects—*Cobell* named plaintiffs, Eastern Region, and New TFAS²³ accounts—are expected to be completed in FY 2003. These are all complete reconciliations of all transactions in a small number of IIM accounts.

OHTA is still in the planning process for review and allocation of the SDAs. The SDA project is an integral part of the historical accounting because it will help ensure that IIM funds are allocated to the correct IIM accounts. A pilot project to review and allocate a small number of SDAs indicates that this effort will be challenging. For this reason, FY 2003 is a learning period for the accountants engaged for the SDA project.

Land-based IIM Account Transactions

Verification of the transactions in the land-based IIM accounts will proceed in two stages, starting with transactions from the Electronic Records Era, and then transactions from the Paper Records Era. However, the same approach will be applicable to both stages once the paper ledgers are digitized to create an account transaction history.

Once the relevant accounts and transactions of \$5,000 or greater (or the appropriate value for the Paper Records Era) are identified, and the sample transactions are taken for the two other strata of transactions, OHTA will organize to focus the work by BIA region and agency, with the intent of having some accounting work underway in each BIA region. This will facilitate the search for supporting documentation, and build knowledge that will be useful in reconciling transactions from both eras and in addressing SDAs.

OHTA plans to start the reconciliation of transactions in the Alaska Region in FY 2003. With approximately 2,000 transactions of \$5,000 or greater to reconcile in Alaska, and a sample of

²³ New TFAS accounts are those IIM accounts opened in 1998 and later.

smaller transactions, OHTA's accountants can quickly achieve results and refine the methods that will be carried forward to other BIA regions.

IIM System Tests

As noted, five system tests will be undertaken. These tests are expected to be completed in FY 2006, at a cost of approximately \$25 million. To the extent possible, records used in the reconciliations and information ascertained through the analysis of transactions will be used to accomplish the system tests, thereby minimizing cost and increasing efficiency.

Assigning Work

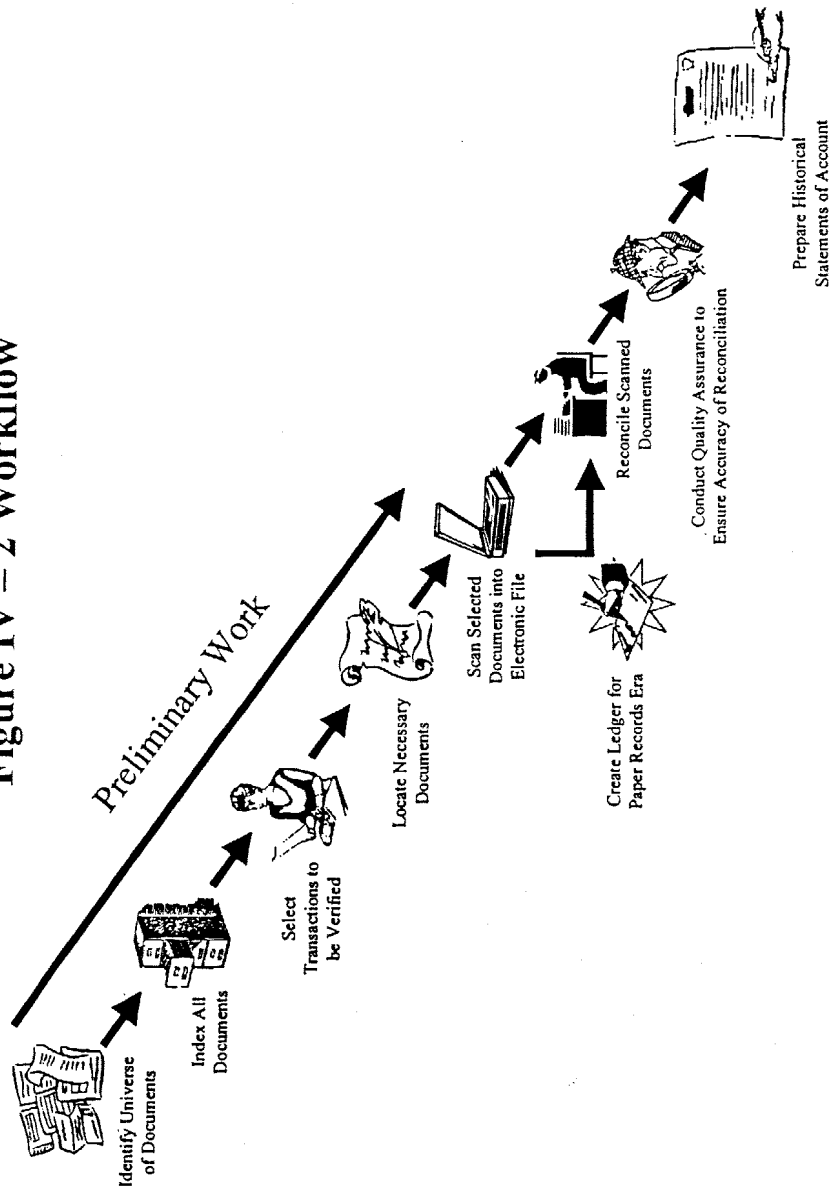
Figure IV-2 presents graphically how Interior intends to progress on multiple projects simultaneously. Figure IV-2 depicts the basic work sequence for document search, imaging and coding, reconciliation of transactions, quality assurance review, and reporting. Interior plans to create a number of teams that will provide a regular flow of document images and data that will be provided to the accountants. Interior plans to assign multiple teams of accountants to work on: (1) land-based account transaction verification in each BIA region, (2) Judgment and Per Capita accounts, and (3) the SDA project.

The initial verification of land-based account transactions will start in the Alaska Region. Interior plans to have the accounting firms presently under contract participate in the Alaska accounting to ensure that all firms are using consistent, appropriate methods, and to develop a cadre of experienced team leaders to expand the accounting capability to multiple teams. The Alaska work will help Interior standardize accounting systems, define standards, and test quality review of accounting results, and will ensure that each team of accountants is using comparable methods and producing accurate results.

Following the Alaska work, accounting teams will be assigned to work on groups of IIM account transactions associated with BIA regions. Interior intends to have multiple accounting teams working by the end of FY 2004, and will continue to add teams commensurate with record production capabilities.

The effort to locate, image, code, and digitize ledgers from the Paper Records Era has already started as part of the records indexing project. Converting the paper ledgers to an electronic record of transactions will begin by FY 2004, and continue to completion. During this time, portions of the transaction records will be made available so that the large transactions in the 100

Figure IV – 2 Workflow



percent stratum can be identified and reconciled. The selection of samples of smaller transactions cannot start until the needed paper ledgers are fully digitized.

Reconciliation of the Judgment and Per Capita account transactions is being performed by a single accounting firm, CD&L, and will continue to completion into FY 2004.

The work on SDAs already in progress as a pilot project started by CD&L will be continued in FY 2003. OHTA will assign other teams of accountants to participate in this effort as well.

Estimated Cost

The overall cost of the historical accounting is estimated to be \$335 million. Table IV-1 presents the cost and associated workload segments by fiscal year. This depiction is indicative of the costs that Interior estimates would be needed to accomplish the plan described above. Of course, these estimates are based on assumptions, and, as a consequence, the estimates are likely to change. It must be noted that this is not Interior's budget request, but rather is representative of the levels of effort and funding needed. The President's budget request and subsequent congressional appropriations will drive how much work can be done, and how quickly. Appendix F lays out the assumptions used to develop the estimated cost.