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FINANCIAL
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Status of BIA's Efforts to
Resolve Long-Standing
Trust Fund
Management Problems

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Mr. Chairman, Mr. Vice Chairman, and Members of the Committee:

We are pleased to be here today to discuss the Bureau of Indian Affairs' (BIA) management of the Indian Trust Funds. You requested that I address the nature of BIA's past problems, the present status of its trust fund operations, and specific actions the Bureau might take to improve future trust fund operations. My testimony today will cover these three areas. First, I will discuss some of the long-standing weaknesses that have plagued BIA's management of the trust funds. Next, I will highlight the status of BIA's efforts to reconcile the trust fund accounts, including the problems that have been identified and possible alternative approaches. Finally, I will discuss the status of BIA's efforts to develop a comprehensive strategic plan for trust fund financial management improvement, which include implementing the Chief Financial Officers (CFO) Act of 1990 (Public Law 101-576).

In summary, BIA has had difficulty in fulfilling its fiduciary responsibility to ensure that proper control and accountability are maintained over each trust fund account. Over the years, countless audit reports and internal studies have detailed a litany of problems in BIA's control and oversight of these accounts. BIA's record has been so poor that the Office of Management and Budget (OMB) has placed trust fund accounting on its high-risk list.

Most of the trust fund management problems are internal to BIA's Office of Trust Funds Management (OTFM). They include poorly designed accounting systems, weak internal controls, and untrained staff. These weaknesses have prevented BIA from reconciling trust fund accounts and providing periodic statements to account holders. However, some problems which impact trust fund accounting are external. For instance, important issues involving fractionated land ownership records are managed by another BIA office, the Office of Trust and Economic Development. Also, Bureau of Land Management (BLM) Indian lease management practices and Minerals Management Service (MMS) collections and reporting of Indian oil and gas royalties are managed by other Interior Department organizations. These issues cannot be addressed by OTFM or BIA alone.

BIA has recognized the seriousness of its problems and has initiated some corrective actions. However, recent GAO testimonies and our June 1992 report¹ have indicated limited progress in fixing what is wrong. BIA is now working on a long-term strategic plan, and OMB and the Interior Department CFO have directed high level attention at improving trust fund management. A lot remains to be done, and although the current interest in solving these problems is most encouraging, it must be sustained.

¹Financial Management: BIA Has Made Limited Progress in Reconciling Trust Accounts and Developing a Strategic Plan (GAO/AFMD-92-38, June 18, 1992).

In testimony earlier this year, we said that, in order to effectively address long-term trust fund management problems, Interior Department and BIA management need to rethink the way trust fund operations are conducted. This means first reexamining goals, roles, policies and procedures, organization, staffing, and financial management systems. Next, based on the results of this examination, BIA needs to develop a comprehensive strategic plan for addressing every facet of the trust fund operation, including interfaces between other systems and operations that impact trust fund accounting. The CFO Act provides a framework that BIA can use for improving trust fund financial management.

BACKGROUND

The Secretary of the Interior is directed by law to manage Tribal and Individual Indian Monies Trust Funds. BIA, through its Office of Trust Funds Management, is responsible for carrying out the government's fiduciary responsibility of ensuring that proper control and accountability are maintained over each trust account. The Office of Trust Funds Management, located in Albuquerque, New Mexico, oversees trust fund operations at BIA's 12 area offices and 93 agency offices.

At the end of fiscal year 1991, OTFM was responsible for overseeing maintenance of about 2,000 tribal and 291,000 Individual Indian Money accounts with reported balances of \$1.5 billion and \$440 million, respectively. Trust fund balances have accumulated in part from payments of claims, oil and gas royalties, land use agreements, and investment income. In fiscal year 1991, reported receipts totaled almost \$400 million, and disbursements ran about \$367 million.

OTFM uses several automated systems to oversee, manage, and account for the Indian trust funds. Two of the systems, the Finance System (general ledger) and the Individual Indian Monies subsystem (subsidiary ledger), are used to account for tribal and individual Indian monies. In May 1991, BIA issued a contract for a public accounting firm to reconcile tribal and individual Indian trust accounts with supporting documentation. Since then, BIA's efforts to reconcile its trust accounts by using source documents to reconstruct and verify account balances have been monitored by representatives of tribes and individual Indian account holders who comprise the Intertribal Monitoring Association. The Association is working with BIA to oversee trust fund account reconciliations and develop a strategic plan for strengthening trust fund accounting in the future.

Before discussing the status of BIA's reconciliation project and strategic planning, I will briefly review some of the problems that have affected BIA's trust funds management over the past several years.

LONG-STANDING FINANCIAL MANAGEMENT PROBLEMS

For many years, BIA has had serious financial management problems. These problems permeate almost every one of its principal accounting systems. Tribes and individual Indians have long been concerned about the accuracy of BIA's accounting for trust receipts and disbursements and the effectiveness of BIA's investment practices. BIA has often been criticized for erroneous allocations of receipts and payments to account holders and for failure to consistently invest trust fund balances and pay interest.

In 1982, we reported² that BIA's appropriation and trust fund accounting systems needed major improvements. At that time, we found that the information produced by BIA's accounting systems was unreliable, trust accounts had not been reconciled with the general ledger to ensure correct balances, and controls over cash receipts and disbursements were inadequate. Since 1982, numerous audits by the Interior Department's Inspector General and two public accounting firms have identified similar accounting problems and weak internal controls throughout BIA.

Reports on the results of BIA's trust funds financial statement audits for fiscal years 1988, 1989, and 1990 contained qualified opinions due to an inability to confirm cash balances, major inadequacies in accounting records and related systems, and accounting errors. The auditor's 1990 report highlighted 8 material accounting system and internal control weaknesses and provided a status report on 67 open recommendations from the fiscal year 1988 and 1989 audits. For example, the auditor's report continued to document the lack of written policies and procedures and inconsistent accounting practices bureauwide that caused numerous accounting errors. The auditor's report also stated that BIA's financial systems did not provide accurate data and recommended that BIA submit timely reports to Indian and tribal account holders.

Since 1983, the first year such reports were legally mandated, the Secretary of the Interior, in the Department's annual report to the President and the Congress under the Federal Managers' Financial Integrity Act (FMFIA), cited trust fund accounting as a material weakness. In October 1989, OMB designated BIA in its entirety as a high-risk area. In his 1990 FMFIA report, the Secretary again characterized the entire Bureau as a material internal control weakness. Some of the concerns reported at that time included a lack of general ledger control over accounts, inaccurate data, a lack of accounting systems documentation, and inadequate management of the Indian trust funds. In June 1991, OMB

²Major Improvements Needed in the Bureau of Indian Affairs' Accounting System (GAO/AFMD-82-71, Sept. 8, 1982).

added specific weaknesses in BIA's trust fund operations to the high-risk list because of their continuing uncorrected status. The Secretary's most recent FMFIA report, dated December 1991, showed that most of these weaknesses were still uncorrected.

Areas of concern, which are receiving increased congressional interest, involve trust fund losses and unpaid interest. In May 1991, BIA provided a schedule to the House Committee on Government Operations, Subcommittee on Environment, Energy and Natural Resources disclosing a total of over \$12 million in potential trust fund losses and amounts owed to tribes and individual Indians. Since then, BIA has not completed action to recover losses and pay account holders for amounts owed. Examples of unpaid amounts include:

- as much as \$9 million, plus interest, owed for losses at certain failed financial institutions, some dating back to 1984, where BIA invested trust fund monies beyond insured levels. In January 1992,³ we reported to the Chairman of the House Committee on Government Operations, Subcommittee on Energy, Environment and Natural Resources that we had confirmed that \$4 million, plus interest, in losses were not federally insured.
- an estimated over \$1 million in uncashed trust fund checks, dated on, or before, September 30, 1989, that were canceled in October 1990 as a result of the provisions of Public Law 100-86, Title X of the Competitive Equality Banking Act of 1987. BIA is responsible for restoring these funds to each account holder.
- an estimated \$1 million in unpaid oil and gas royalty interest dating back to 1985. According to BIA's Office of Trust Funds Management, on June 23, 1992, over \$446,000 was distributed to account holders at four agencies under the jurisdiction of the Anadarko Area Office. BIA expects to begin distributing the remaining unpaid interest by the end of December 1992.

Subsequent to our April testimony and June 1992 report, both the House and Senate Appropriations Committees' Reports on BIA's fiscal year 1993 appropriations recognized the need for BIA to reimburse Indian account holders for certain losses. Both Committees' reports requested BIA to identify the amount of these losses so that the Congress could make funds available for this purpose.

³Letter to the Chairman, Subcommittee on Environment, Energy and Natural Resources, Committee on Government Operations, House of Representatives (GAO/AFMD-92-36R, January 13, 1992).

While most of the Office of Trust Funds Management's problems, such as those discussed above, are internal, others are external. External problems, which were discussed at this Committee's July 2, 1992, hearing, include the impact of fractionated interests, the BLM Indian lease management practices, and MMS collections and reporting of Indian oil and gas royalties, which cannot be addressed by BIA alone.

STATUS OF BIA'S EFFORTS
TO RECONCILE THE TRUST ACCOUNTS

Over the years, two of the difficult issues facing BIA have been the accuracy of the Indian trust fund accounts and BIA's failure to provide account holders with periodic statements. In the 1987 Supplemental Appropriations Act Conference Report, the Appropriations Committees stated their intent that BIA was to reconcile and audit all trust fund accounts in order to meet the demands of Indian account holders for accurate account balances. The Congress continued to call for a reconciliation and audit of these accounts in BIA's 1989, 1990, and 1991 appropriations acts.

In May 1991, BIA awarded a contract for reconciling the Indian trust fund accounts. This work entails using source documents to reconstruct trust account transactions so that account holders are provided as accurate an accounting as possible. After the contract was awarded, BIA and its contractor gathered and organized thousands of boxes of accounting records, developed a methodology to reconstruct and reconcile the accounts, and provided an estimate of the level of effort and cost to complete various segments of the reconciliation work.

The contractor's assessment indicated that the reconciliation effort would be very difficult and that many accounts, particularly the Individual Indian Money accounts, could not be fully reconciled due to missing records, poorly documented accounting transactions, and the volume of data to be reviewed. Further, the contractor's cost estimates for completing the reconciliation work confirmed our earlier assertion that reconstructing accounts would be costly, even after factoring in some cost-saving measures.

The projected cost to reconstruct accounting transactions for approximately 2,000 tribal accounts that BIA maintained from 1983 through 1991 was over \$3 million. This figure did not include the \$1.7 million expended through January 15, 1992, to collect and organize accounting documents; purchase equipment, computer hardware, and software; and develop procedures for the reconciliation project. The contractor's initial cost estimate for reconciling the 291,000 accounts maintained in the Individual Indian Money subsystem ranged from \$211 million to nearly \$400 million. Subsequently, a scope reduction decreased the estimate to between \$180 million and \$281 million. The reported balance of these accounts was \$440 million as of September 30, 1991.

After receiving the contractor's assessment, BIA halted the reconciliation of the Individual Indian Money accounts and decided to use its own staff, aided by the reconciliation contractor, to complete the tribal reconciliations. Currently, the Interior Department, OMB, BIA, and the Intertribal Monitoring Association are revisiting the decision to use BIA staff to perform the tribal reconciliation and reconsidering using the contractor to complete this work.

BIA's ongoing efforts to reconcile the trust fund accounts is a challenge of tremendous magnitude. It can be compared to trying to determine the correct balance for about 300,000 personal bank accounts that have been active for 10 to 50 years or more, using a system that historically has been replete with accounting errors, which were not reconciled and corrected along the way, and involving a high volume of small dollar value transactions with incomplete supporting records. For instance, at three agency offices where BIA tried to reconcile the trust accounts, 30 percent of the transactions were less than \$1--nickels, dimes, quarters, and even fractions of a penny; another 27 percent were for \$1 to \$9; and an additional 23 percent were for \$10 to \$49.

In our June 1992 report, we recommended that BIA seek alternatives to the current reconciliation project and develop a proposal for reaching a satisfactory resolution of the trust fund account balances with account holders. In developing this proposal, we suggested that BIA consider the following alternatives:

- limiting contractor reconciliation efforts for tribal trust fund accounts to periods for which adequate records are available;
- accepting audited balances from tribes;
- negotiating agreements with individual Indians on balances reported on their account statements; and/or
- requesting legislated settlements on all, or selected accounts, based on the results of the other alternatives.

Account reconciliation is just one of the many challenges BIA faces. As we stated in our June 1992 report, even if BIA were able to reconcile all accounts and reach agreement with the account holders on their balances, new discrepancies could arise unless long-standing problems with BIA's trust fund accounting systems are corrected. These unreconciled accounts are only a symptom and not a cause of BIA's trust fund financial management problems. In the long term, BIA has to deal with the root cause of its problems.

STRATEGIC PLAN NEEDED TO GUIDE
FUTURE TRUST FUND MANAGEMENT

BIA's trust fund management problems and needed corrective actions are well documented and fully acknowledged by BIA and the Interior Department. All parties agree that major change is needed, along with tangible results. However, while BIA has initiated various corrective actions from time-to-time, the same problems continue to arise.

In our May 1991 testimony⁴ before the House Committee on Government Operations, Subcommittee on Environment, Energy and Natural Resources, we discussed the need for BIA to develop an overall strategic plan for improving trust fund financial management. Our April 1992 testimony⁵ before the House Committee on Appropriations, Subcommittee on Interior and Related Agencies, our June 1992 report, and our July 1992 testimony⁶ before this Committee, reiterated the importance of a strategic plan. The lack of a clear long-range vision has impeded BIA's progress in the past.

Given the magnitude and pervasiveness of BIA's trust fund management problems, comprehensive planning will be critical to effective corrective action. Once a comprehensive approach for improving trust fund management is agreed upon, a strategic plan would serve to document the overall approach, as well as the specific actions to be taken. In addition, it is important that the plan document target dates and name the managers who will be held responsible for meeting them.

Over the past 15 months, we have made a number of suggestions and recommendations for improving trust fund management. For example, in our June 1992 report, we recommended that BIA take the following actions.

- Assess the mission of the Office of Trust Funds Management and conduct a comprehensive review of the entire trust fund operation, including those trust-related activities outside the control and responsibility of the Office of Trust Funds Management, in order to determine how and by whom Indian trust funds can best be managed.

⁴Bureau of Indian Affairs' Efforts to Reconcile, Audit, and Manage the Indian Trust Funds (GAO/T-AFMD-91-6, May 20, 1991).

⁵Financial Management: BIA Has Made Limited Progress in Reconciling Indian Trust Fund Accounts and Developing a Strategic Plan (GAO/T-AFMD-92-6, April 2, 1992).

⁶Financial Management: Problems Affecting BIA Trust Fund Financial Management (GAO/T-AFMD-92-12, July 2, 1992).

- Prepare an organization and staffing analysis to determine appropriate roles, responsibilities, authorities, and training and supervisory needs as a basis for sound trust fund management.
- Review current systems as a basis for determining whether systems modifications will most efficiently bring about needed improvements, or whether alternatives should be considered, including cross-servicing arrangements, contracting for ADP services, or new systems design and development.

IMPLEMENTING THE CHIEF FINANCIAL OFFICERS ACT

In our recent report and testimonies, we have pointed out that the CFO Act provides a useful framework for guiding future trust fund management initiatives and helping BIA address its long-standing trust fund management problems. The objectives of the act are to ensure that both Interior and BIA have (1) an adequate financial management organization structure, (2) a cadre of qualified and trained accounting professionals to carry out the broad authorities envisioned by the act, (3) modern, integrated accounting, budget, and financial systems, (4) strong internal controls, (5) audited financial statements that can pass the test of relevance and usefulness established in the act, (6) financial information on costs and performance measures which tie to financial reports, as well as program operations, and (7) annual reports prepared by the CFO that present the results of BIA's financial operations. To ensure that these objectives are accomplished, it is important that the Interior CFO work with BIA management to effectively implement the act.

In closing, while much remains to be done, we have seen some progress since the establishment of the Office of Trust Funds Management in 1989. One important development has been better relations and improved communication with the Intertribal Monitoring Association, tribes, and individual Indians. Today, there is also high-level attention directed at improving management of the Indian trust funds by senior leadership at OMB, the Interior CFO, and BIA top management. Sustained aggressive action from the administration and the continued support and oversight by the Congress are needed to solve these pervasive problems that have built up over decades.

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

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