

IN THE UNITED STATES DISTRICT COURT  
FOR THE DISTRICT OF COLUMBIA

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ELOUISE PEPION COBELL, et al.,	)	
	)	
Plaintiffs,	)	
	)	
v.	)	Case No. 1:96CV01285
	)	(Judge Robertson)
DIRK KEMPTHORNE, Secretary of the Interior, et al.,	)	
	)	
Defendants.	)	
_____	)	

**NOTICE OF FILING**

The Department of the Interior respectfully files its Historical Accounting Project Document, dated May 31, 2007, consisting of the following attachments:

- Overview of the Historical Accounting Project Document, attached as Exhibit I;
- Part 1: 2007 Plan for Completing the Historical Accounting of Individual Indian Money Accounts, attached as Exhibit II;
- Part 2: Discussion of the Basis and Rationale for Changes to the January 6, 2003 Historical Accounting Plan for Individual Indian Money Accounts, attached as Exhibit III;
- Part 3: Department of the Interior Report entitled “Historical Accounting for Individual Indian Monies, A Progress Report,” published in September 2005 and attached as Exhibit IV;
- Part 4: The Historical Accounting Plan for Individual Indian Money Accounts, filed with the Court on January 6, 2003 (Dkt. No. 1705), attached as Exhibit V.

Dated: May 31, 2007

Respectfully submitted,

PETER D. KEISLER  
Assistant Attorney General

MICHAEL F. HERTZ  
Deputy Assistant Attorney General

J. CHRISTOPHER KOHN  
Director

/s/ Robert E. Kirschman, Jr.  
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CERTIFICATE OF SERVICE

I hereby certify that, on May 31, 2007 the foregoing *Notice of Filing* was served by Electronic Case Filing, and on the following who is not registered for Electronic Case Filing, by facsimile:

Earl Old Person (*Pro se*)  
Blackfeet Tribe  
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/s/ Kevin P. Kingston  
Kevin P. Kingston

# Historical Accounting Project



**U.S. Department of the Interior**  
**May 31, 2007**

## **Historical Accounting Project Overview of the Document**

This document contains four parts. Part 1 is the *May 31, 2007, Plan for Completing the Historical Accounting of Individual Indian Money Accounts* (2007 Plan). Part 1 incorporates the modifications to the 2003 Plan discussed in Part 2 and presents a description of the remaining tasks and a schedule to complete those tasks. The text includes an overview of the 2007 Plan, a description of the accounting methods to be used, a discussion of the mailing, a discussion of the appeal process, a work plan, the proposed schedule, and estimate of costs, along with an appendix describing the quality control program, and an appendix defining terms.

Part 2 describes the progress and results of the historical accounting to date, and serves as the basis for changes to the 2003 Plan that will allow Interior to complete the historical accounting. It includes a discussion of historical accounting objectives, lessons learned, a description of historical accounting work completed to date, an identification of historical accounting tasks remaining, and a comparison of the 2003 and 2007 Plans.

Part 3 is a copy of the *Historical Accounting for Individual Indian Monies: A Progress Report*, published in September 2005 by the Department of the Interior.

Part 4 is a copy of *January 6, 2003 The Historical Accounting Plan for Individual Indian Money Accounts*, submitted to the U.S. District Court for the District of Columbia by the Department of the Interior on (2003 Plan).

May 31, 2007

# Historical Accounting Project

## Part 1

### Plan for Completing the Historical Accounting of Individual Indian Money Accounts



**U.S. Department of the Interior  
May 31, 2007**



## DECISION

I am the Associate Deputy Secretary of the U.S. Department of the Interior. In this capacity, I share authority and responsibility at the Secretarial level for the oversight and management of the Department's Indian trust and associated reform efforts. In this capacity, I rely upon information from Interior management and staff to make program management decisions, such as the decision to use the enclosed 2007 Historical Accounting Plan to perform the historical accounting required by the American Indian Trust Fund Management Reform Act of 1994 ("the 1994 Act").

On January 6, 2003, the Department of the Interior filed with the Court a plan that it prepared for the historical accounting of Individual Indian Money accounts. This 2003 Plan was based on information then available regarding the IIM accounts, the availability of relevant documents, and the management of the IIM trust fund. Since January 6, 2003, Interior has continued its historical accounting work, generally following the procedures outlined in the 2003 Plan. During this time, Interior has considered adaptations to the 2003 Plan, to incorporate lessons learned from the historical accounting work already completed, court decisions, statistical sampling parameters, accounting costs and congressional funding.

As a result of these factors, the Office of Historical Trust Accounting within the Department of the Interior has proposed adaptations to the 2003 Plan. As a representative tasked by the Secretary to make decisions regarding the implementation of the 1994 Act, I have reviewed those proposed adaptations and have determined that, in my best judgment, they constitute the most reasonable, cost-effective means to produce the most accurate Historical Statement of Accounts in a timely manner and consistent with the requirements of the 1994 Act and within the funding parameters established by Congress. I, therefore, approve the use of the *May 31, 2007 Plan for Completing the Historical Accounting of Individual Indian Money Accounts* to guide our ongoing efforts to complete the historical accounting which the courts have held is required by the 1994 Act.

/s/ James E. Cason  
JAMES E. CASON  
Associate Deputy Secretary

# Plan for Completing the Historical Accounting of Individual Indian Money Accounts

## Executive Summary

The U.S. Department of the Interior (Interior) prepared this May 31, 2007, *Plan for Completing the Historical Accounting of Individual Indian Money Accounts* (2007 Plan) to guide the historical accounting that is required to be performed by the American Indian Trust Fund Management Reform Act of 1994 (1994 Act).<sup>1</sup> This 2007 Plan builds upon and replaces the January 6, 2003 Plan<sup>2</sup> (2003 Plan) for the historical accounting that Interior prepared as directed by the United States District Court for the District of Columbia (Court).<sup>3</sup> This 2007 Plan describes how the historical accounting will be completed for about 365,000 Individual Indian Money (IIM) accounts.

At this stage of the historical accounting, the work necessary to complete the accounting is expected to take approximately four years, through 2011. Mailing Historical Statements of Account (HSAs) to IIM account holders has begun for Judgment and Per Capita Accounts, and is expected to begin by the end of 2007<sup>4</sup> for land-based IIM account holders.

Interior estimates that the cost for completing the historical accounting as presented in this 2007 Plan is approximately \$144 million. The cost of historical accounting from the implementation of the 2003 Plan is estimated to be \$271 million. The time and cost estimates for this 2007 Plan are dependent upon the funding provided by future Congressional appropriations.

An accounting is the statement provided to IIM account holders that shows the past transactions that have occurred in their account, accompanied by an assessment of the accuracy and completeness of the statement. Accountings are being done for individual Indians whose accounts are covered by the 1994 Act. 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 to “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.”<sup>5</sup> Further, 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. Accounting for this pre-October 25, 1994, “history” is what is meant by the term “historical accounting,” thus, the historical statement of account (HSA) Interior provides will include all account transactions extending back to the inception of the account or June 24, 1938, whichever is later.

The accounting produces a product—the HSA and accompanying materials—and is distinct from the various procedures, including reconciliation, that Interior is employing to test the

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<sup>1</sup> American Indian Trust Fund Management Reform Act of 1994, 25 USC § 4001 et seq. (1994 Act).

<sup>2</sup> *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, January 6, 2003.

<sup>3</sup> *Cobell v. Norton*, 226 F. Supp. 2d 1, 148 (D.D.C. 2002).

<sup>4</sup> Assuming the Court approves the mailing of HSAs.

<sup>5</sup> 25 U.S.C. § 4011(a).



accuracy and completeness of the HSA. Further, Interior is using statistical techniques as part of these test procedures, not in lieu of an accounting, but in support thereof.

Interior has conducted and will continue testing the accuracy of the HSAs by a combination of: (1) transaction-by-transaction reconciliation methods (all transactions in certain account types), (2) reconciling high dollar-value transactions, and (3) reconciling a statistical sample of lower dollar-value transactions. By using these different methods, Interior is confident that IIM account holders will receive their HSAs much sooner than if a transaction-by-transaction method for all IIM accounts had been attempted. Further, the IIM account holders will also be able to place a high degree of confidence in the accuracy of their statements.

This 2007 Plan is based on what has been learned during four years of historical accounting activities and Interior's best judgment as to how to use the scarce resources available to complete the historical accounting as timely as possible. The key elements learned from historical accounting work to date include:

- Interior can conduct and is conducting a historical accounting of the funds held in trust for individual Indians as required by the 1994 Act
- With few exceptions, the Indian trust records needed for the historical accounting exist, are being located with success, and are being used to reconcile IIM account transactions
- Since about 1985, IIM accounts were maintained in electronic ledger systems that show a high degree of integrity and transparency, and no evidence exists of hacking or malicious alteration of records
- The rate of errors in the ledgers revealed in the reconciliation work to date is small and the dollars in error are a small percentage of the dollars managed in the IIM Trust Fund
- The errors appear to be randomly distributed, are about equally to the benefit and detriment of account holders, and give no indication of fraud or systemic accounting errors
- The historical accounting is very costly and progress is absolutely dependent on the pace of Congressional appropriations

Interior has separated the historical accounting into two distinct types of IIM accounts. These types are Judgment and Per Capita IIM accounts, and land-based IIM accounts. The reconciliation processes used are different, and appropriate, for each type of account.

Interior is also conducting a number of tests of the data in historical IIM accounting and land records systems to determine whether there is data integrity and completeness in the various systems. Taken together with the Judgment and Per Capita and land-based reconciliations, the system data tests are intended to ascertain whether there was integrity in the overall processes and whether the systems used to administer the IIM Trust Fund may be relied upon for the historical accounting.

While the historical accounting described in this 2007 Plan covers all IIM accounts that were open on or after October 25, 1994,<sup>6</sup> the historical accounting will not include funds generated from trust lands that were paid directly to the Indian owner of the land without ever coming into Interior's possession. Such "direct pay" 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."<sup>7</sup>

At the end of the historical accounting process, Interior plans to provide an HSA to each IIM account holder containing information on how much money was credited to their account, the amount of interest credited to their account, the disbursements made from their account, and available references for each transaction. The HSA will also provide information on whether and how transactions in the account were tested or verified. In addition, Interior will separately provide its assessment of the accuracy of the account transaction history.

Overall, Interior's 2007 Plan is designed to allow account holders to draw conclusions regarding the accuracy and completeness of the account transaction histories, and the integrity of the trust data and overall processes used to administer the IIM Trust Fund for the duration of the IIM historical accounting period. Moreover, Interior believes the implementation of this 2007 Plan will provide an important part of the foundation upon which to perform its IIM Trust Fund accounting obligations in the future.

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<sup>6</sup> This is the date the 1994 Act became law.

<sup>7</sup> 25 U.S.C. § 4011(a).

# Plan for Completing the Historical Accounting of Individual Indian Money Accounts

## I. Introduction

The U.S. Department of the Interior (Interior) prepared this May 31, 2007 *Plan for Completing the Historical Accounting of Individual Indian Money Accounts* to guide the historical accounting for about 365,000 Individual Indian Money (IIM) accounts that is required to be performed by the American Indian Trust Fund Management Reform Act of 1994.

This 2007 Plan incorporates elements of the January 6, 2003, *Historical Accounting Plan for Individual Indian Money Accounts* (2003 Plan) filed with the United States District Court for the District of Columbia (Court),<sup>8</sup> and adopts new elements based on what has been learned from four years of historical accounting.

Upon completion of the historical accounting, Interior plans to provide each IIM account holder with an accurate and complete Historical Statement of Account (HSA) detailing the account transaction history. In addition, Interior plans to provide each IIM account holder with Interior's conclusions about the accuracy of the account transaction history and the account balance as of December 31, 2000. The historical accounting in this 2007 Plan:

- Takes advantage of statistical sampling to expedite the historical accounting
- Reflects what has been learned and accomplished to date
- Recognizes the availability of “scarce”<sup>9</sup> fiscal resources needed to fund the historical accounting

The historical accounting described in this 2007 Plan covers all IIM accounts that were open on or after October 25, 1994, through December 31, 2000<sup>10</sup>. The duty to account for funds in accounts 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.”<sup>11</sup> For IIM accounts open as of October 25, 1994, the historical accounting will go back to the inception of the account or June 24, 1938, whichever is later.

Not all revenues generated from Indian trust lands are received and managed by Interior. Some revenues are paid directly to the Indian owner of the land by a lessee or other debtor. This “direct pay” arrangement is an option that the individual Indian land owner may elect.<sup>12</sup> As part of its historical accounting, Interior is not accounting 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

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<sup>8</sup> *Cobell v. Norton*, 226 F. Supp. 2d 1, 162 (D.D.C. 2002).

<sup>9</sup> 428 F.3d 1070 (D.C.Cir. 2005).

<sup>10</sup> The end of the historical accounting period and the beginning of the current accounting period in which IIM account holders receive quarterly statements of account pursuant to the 1994 Act.

<sup>11</sup> 25 U.S.C. § 4011(a).

<sup>12</sup> 25 CFR § 162.226 (a) (b)

within the requirement in the 1994 Act that Interior account for “all funds held in trust by the United States.”<sup>13</sup>

At the end of the historical accounting process, Interior plans to provide an HSA to each IIM account holder containing information on how much money was credited to their account, the amount of interest credited to their account, the disbursements made from their account, and available references for each transaction. The HSA will provide information on whether and how transactions in the account were tested or verified. In an additional document accompanying the HSA, Interior will provide its assessment of the accuracy of the account transaction history.

Overall, Interior’s 2007 Plan is designed to provide account holders with information regarding the accuracy and completeness of the account transaction histories and the integrity of the trust data and overall processes used to administer the IIM Trust Fund for the period at issue. Moreover, Interior believes the implementation of this 2007 Plan will provide an important part of the foundation upon which to perform its IIM Trust Fund accounting obligations in the future.

Interior has engaged a number of consulting firms to assist it in the historical accounting effort, including five accounting firms, two historian firms which have specialized in Indian issues for many years, and firms to assist in statistical matters, and other areas pertaining to historical accounting.

- *Accounting Firms* — Five accounting firms are under contract to Interior and working on projects already underway. Three of these firms—Clifton Gunderson LLC (new firm through 2007 merger with Chavarria, Dunne & Lamey LLC), Deloitte & Touche LLP, and Reznick Group, P.C.—are performing reconciliations and account analyses; one—FTI Consulting, Inc.—is conducting forensic accounting; and one—Grant Thornton LLP—is performing quality control reviews of all aspects of the historical accounting.

- *Statistical Consultant* — The National Opinion Research Center (NORC), an affiliate of the University of Chicago, works on statistical matters in the historical accounting.

- *Historians* — Morgan, Angel & Associates, L.L.C., and Historical Research Associates Inc., which have specialized in Indian issues over the years, provide information on leasing, the allotment process, reservation histories, and other matters.

Appendix A describes the quality assurance process used in the Historical Accounting Project. Appendix B defines terms used in this 2007 Plan.

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<sup>13</sup> 25 U.S.C. § 401 1(a).

## II. Overview

This 2007 Plan is based on the historical accounting work completed to date, what has been learned during four years of historical accounting, and Interior's best judgment as to how to use the scarce resources available to complete the historical accounting in as timely a fashion as possible. The key elements learned from historical accounting work to date include:

- Interior can conduct and is conducting a historical accounting of the funds held in trust for individual Indians as required by the 1994 Act.
- With few exceptions, the Indian trust records needed for the historical accounting exist, are being located with success, and are being used to reconcile IIM account transactions
- Since about 1985, IIM accounts were maintained in electronic ledger systems that show a high degree of integrity and transparency, and no evidence exists of hacking or malicious alteration of records
- The rate of errors in the ledgers revealed in the reconciliation work to date is small and the dollars in error are a small percentage of the dollars managed in the IIM Trust Fund
- The errors appear to be randomly distributed, are about equally to the benefit and detriment of account holders, and give no indication of fraud or systemic accounting errors
- The historical accounting is very costly and progress is absolutely dependent on the pace of Congressional appropriations

For ease of understanding the work Interior is conducting under this 2007 Plan, the historical accounting can be summarized by its constituent steps in the work. There are six steps in the historical accounting which are described below. All steps of the historical accounting are addressed in this 2007 Plan, but to provide more detail on particular steps, the information is organized by specific accounting topics, not by steps.

Step 1 – The first step in the historical accounting is to gather the data posted in each account—credit transactions showing money coming into an account, debit transactions showing money disbursed from an account, and interest transactions showing money earned from investments. These data exist in electronic ledger accounting systems or in paper ledgers that were used to maintain the IIM accounts. These account transactions are examined for accuracy and constitute the HSA to be provided to account holders.

Step 2 – The second step is to conduct the reconciliation of transactions to determine their accuracy. This requires locating the records that were contemporaneously created and associated with a transaction at the time the transaction is posted to an IIM account. Interior verifies the accuracy of a transaction by reconciling or comparing the amount of the actual posted transaction with the amount expected to be posted, based on the contemporaneous records. This step includes examining the accounting system and land records systems for the completeness of the data the systems contain, accuracy of the data, and how well the systems functioned. Additional tests are performed to create a complete historical accounting. This step ensures that the HSA provided to account holders is complete and is

the basis for including with the HSA a separate statement on the accuracy of the transactions that appear on an HSA.

Step 3 – After the transaction data have been gathered, reconciled, and other tests are performed, Interior has the data from which it is in position to prepare the HSAs and accompanying materials—the HSA package. At this point Interior can petition the Court for approval to begin assembling and mailing the HSA package.

Step 4 – The information for the HSA package is developed in Steps 1 to 3. However, the actual printing of the hard copy of the HSA and accompanying materials for mailing must await permission to mail from the Court. The reason Interior will await permission to mail is to ensure that the mailing uses the most current address available when printing the HSA package. As a consequence of the Judgment and Per Capita HSA mailings, Interior has learned that even small delays between assembly and mailing of the HSA package can result in missed address changes that affect the success of the mailing.

Step 5 – This Step is mailing the HSA package and is important in several ways. Interior’s duty to account – the historical accounting – is met with mailing the HSA. When received, it moves forward the process of reaching agreement with account holders as to the correct balance in their account. The assembled HSA package will be mailed to the most current address available, but many of the HSA packages will be prepared and sent to former account holders for whom Interior does not have current address information. Many of these may be returned. Also, many of the current account holders are “whereabouts unknown” for whom Interior does not have a good address. Interior will pursue a number of due diligence steps to obtain an address for these whereabouts unknown.

Step 6 – An account holder receiving an HSA package may have questions or wish to challenge or lodge a concern regarding the accuracy or completeness of the HSA. Interior is establishing an administrative appeal process for account holders.

Interior is evaluating the accuracy of accounts by a combination of: (1) transaction-by-transaction reconciliation methods (all transactions in certain account types), (2) reconciling high dollar-value transactions, and (3) reconciling a statistical sample of lower dollar-value transactions. By using these different methods, Interior is confident that IIM account holders will receive their HSA much sooner than if a transaction-by-transaction method for all IIM accounts had solely been attempted. Further, the IIM account holders should also be able to place a high degree of confidence in the accuracy of their HSAs.

The historical accounting process underway divides the accounting work into phases based on how the IIM account records have been maintained. Prior to 1985, the transaction records for IIM accounts were maintained in paper records—computer printouts, ledger cards, and ledger books. Interior refers to this pre-1985 period as the “paper ledger era.” The transaction records for the period of 1985 to present are maintained in two successive electronic data systems to the present time—the Integrated Resources Management System (IRMS) and the current Trust Fund Accounting System (TFAS)—referred to as the “electronic ledger era.”

Further, the IIM Trust Fund contains two types of individual Indian accounts relevant to the historical accounting:

- Judgment and Per Capita Accounts — Accounts established for individual Indians to receive funds from tribal distributions of litigation settlements and tribal revenues, respectively. For the approximately 96,823 Judgment and Per Capita IIM accounts, Interior plans to reconcile 100 percent of the transactions in each account transaction history, using transaction-by-transaction methods.
- Land-based Accounts — Accounts for individual Indians to receive revenues derived from interests in allotted land. For approximately 268,000 land-based IIM accounts, Interior is evaluating the accuracy of transactions using both transaction-by-transaction and statistical methods.

Interior is also conducting a number of tests of the historical IIM accounting and land records systems to determine whether the various systems have been functioning properly. A component of the tests assesses the completeness of the transaction histories to be reported in the HSA. Taken together with the Judgment and Per Capita and land-based reconciliations, the system tests are intended to assess the integrity in the overall processes and whether the systems used to administer the IIM Trust Fund for the period at issue may be relied upon for the historical accounting.

In addition to providing account holders with their HSA, Interior is confident that the historical accounting described in this 2007 Plan will provide a reasonable basis for resolving questions that have been raised about IIM trust account management in the past. Interior also believes that the historical accounting will provide a useful foundation on which to perform its IIM Trust Fund accounting obligations in the future.

Interior plans to mail separately HSAs covering the post-1985 electronic ledger era to all 268,000 land-based account holders. Interior also plans to mail a second HSA covering the pre-1985 paper ledger era to those approximately 65,000 of the 268,000 account holders whose accounts began prior to 1985.

### III. Accounting Methods

Interior is conducting the historical accounting for IIM accounts that were open on or after October 25, 1994. For purposes of this 2007 Plan, the historical accounting is the provision to each IIM account holder of his/her account transaction history in an HSA—a listing of all transactions in an IIM account—and a separate statement regarding the accuracy and completeness of account transactions.

To verify the accuracy of account transaction histories for both account types, Interior is reconciling transactions by examining the original financial documents and related lease and land records to determine whether the transaction, as recorded, accurately reflects the expected revenue from the use of lands or resources, and the proper allocation of the receipts, interest, or disbursement of funds

Table 1 below shows the number of accounts associated with the Judgment and Per Capita accounts, and the number of land-based accounts.

**Table 1 — Accounts Open On or After October 25, 1994, through December 31, 2000**

<b>Account Type</b>	<b>Number of Accounts*</b>
Judgment and Per Capita	96,823
Land-Based	267,949
<b>Totals</b>	<b>364,772</b>

\*Values as of May 31, 2007. The number changes over time as Interior's research continues.

The scope of the historical accounting is different and appropriate for each of these account types.

#### **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 descendents. 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 2 below shows the number of accounts and progress reconciling Judgment and Per Capita IIM accounts.

**Table 2 — Status of Judgment and Per Capita IIM Accounts\***

<b>Account Type</b>	<b>Number Of Accounts</b>	<b>Accounts Reconciled to Date</b>	<b>Percent Completed</b>	<b>Remaining Accounts</b>
<b>Judgment Accounts</b>	77,818	66,179	85%	11,639
<b>Per Capita Accounts</b>	19,005	17,532	92%	1,473
<b>Totals</b>	96,823	83,711	86%	13,112

\*Values as of March 31, 2007.

### *Accounting Methodology*

Interior has determined that it is most suitable to use transaction-by-transaction reconciliation for Judgment and Per Capita accounts. This is because, for a specific judgment or per capita distribution, nearly all of the affected IIM accounts have identical opening balances, the same interest postings, and the same balances as of December 31, 2000. Also, because the group of supporting documents that established the judgment or per capita distribution are the same for all the respective Judgment or Per Capita accounts, an accountant can efficiently reconcile all or most of the accounts related to a particular judgment or per capita distribution. This type of account is not well suited for statistical sampling, because the transactions associated with each judgment and per capita distribution were often identical. Thus, by reconciling one transaction many, and sometimes hundreds of transactions, could be reconciled. It proved easier and more efficient to reconcile all the transactions rather than a statistical sample.

In reconciling the 83,711 Judgment and Per Capita IIM accounts, Interior employed the following process:

- Query relevant databases, e.g., Integrated Records Management System (IRMS) and Trust Fund Accounting System (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, tribal enrollment
- 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
- Produce and mail HSAs outlining transaction details for the period tested.

## ***Quality Assurance***

Interior's accounting quality assurance contractor, Grant Thornton LLP, provides quality control and assurance 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 A – *Quality Assurance /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 the time of the initial deposit 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 Interior's *Accounting Standards Manual* (ASM), as revised. (See Appendix A.)

## ***Work Plan Schedule***

A portion of the work required to reconcile the remaining 13,597 accounts has been completed. However, Interior is deferring work on the remaining Judgment and Per Capita accounts for the balance of 2007, and possibly beyond 2007. Deferring the Judgment and Per Capita account work allows Interior to focus resources on completing more of the land-based IIM account work. Interior ultimately plans to mail HSAs to all the Judgment and Per Capita account holders when permitted to do so by the Court. (See Table 3 in Section V.)

Interior received permission to mail over 17,000 HSAs which has been completed except for locating account holders whose whereabouts are unknown. Interior has asked the Court for permission to mail an additional 66,130 HSAs. Once permission is received, Interior can begin the process of obtaining the most current addresses, printing the HSAs, and mailing them.

## **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 more complex than for Judgment and Per Capita accounts.

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*

For accounts open 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. There were approximately 73,900 additional land-based IIM accounts open as of October 25, 1994, but closed before December 31, 2000, each of which had a zero dollar balance at closing.

### *Statistical Sampling*

Interior has concluded that sampling is an effective technique to verify the accuracy of the land-based IIM account transaction histories and that relying solely on the transaction-by-transaction accounting approach is not warranted.

The advantages of a statistical sampling approach are enhanced when combined with other techniques. For this reason, Interior is using both transaction-by-transaction reconciliation methods for large dollar-value transactions as a “certainty stratum” of account values, and statistical methods to address the huge number of smaller value transactions. This approach facilitates completing the historical accounting of land-based accounts much sooner than a transaction-by-transaction reconciliation would permit, while achieving a high degree of confidence in the accuracy of the results.

In the historical accounting, an assumption must be made about the underlying actual error rate, i.e., the number of times reconciliation would show a mistake was made if every transaction in the population was reconciled. Based on previous work, e.g., the tribal reconciliation project and the “Paragraph 19” project, Interior’s statistical consultant assumed an actual error rate of one percent or less for sample design and size purposes. If the sample results showed that the sample had an error rate greater than one percent, it would be concluded that the original assumption was incorrect, in which case new assumptions would be made based on the findings and the sample size would be expanded to estimate the error rate.

### *Litigation Support Accounting*<sup>14</sup>

The Litigation Support Accounting (LSA) project reconciled transactions in land-based IIM accounts for the electronic ledger era. All 2,099 transactions in a large value dollar certainty stratum of transactions equal to or greater than \$100,000 were reconciled, and a statistically valid sample of nearly 4,500 smaller value transactions was reconciled. The LSA testing was specifically designed to provide factual information for ongoing settlement discussions, and to do so in a timely manner. The LSA project continued into and was largely completed in FY 2005, with a small number of additional high dollar transactions completed in FY 2006.

For the electronic ledger period covered by the LSA project, Interior divided all credit and debit transactions by size. All transactions of \$100,000 or greater were fully reconciled because Interior wanted to know the exact error rate for these large dollar transactions. At the \$100,000

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<sup>14</sup> The FY 2004 appropriation language specifically allowed Interior to do “litigation support” accounting, which OHTA pursued starting in FY 2004, initially in support of Congressionally directed, mediated settlement talks.

dollar level, 2,099 transactions, representing about \$493 million, were reconciled at a cost of over \$5 million.

The LSA project reconciled more than 99 percent of the sampled land-based IIM account transactions. The LSA statistical sample produced robust, valid, statistical results with a high confidence level that when applied to the population of electronic ledger era transactions, created a small enough “exposure” based on sampled difference rates. The results of the LSA project will be part of the basis for reporting on the accuracy of transactions in the electronic ledger era.

On the strength of those results, Interior’s statistical consultant found that statistically valid conclusions can be drawn about all the land-based account transactions in the electronic ledger era. Furthermore, the statistical contractor recommended that no further reconciliation of transactions from the electronic ledger era be performed, and noted that additional work would neither produce a better result nor be cost effective.<sup>15</sup> Interior has adopted the recommendation of its statistical consultant, and has, therefore, completed the reconciliation work for the electronic ledger era.

### *Paper Era Transactions*

Approximately 65,000 of nearly 268,000 land-based IIM accounts in the historical accounting population were opened prior to the electronic ledger era; thus, a portion of their account history is in paper ledgers. For these accounts, Interior plans to provide the account holder with one HSA based on their account history during the electronic ledger era, and a second HSA based on their account history during the paper ledger era. Interior is beginning the paper ledger era historical accounting by locating and digitizing the paper ledgers to create a virtual electronic ledger.

Through the Data Completeness Validation project (described below), Interior is identifying all the land-based IIM accounts in the historical accounting population that were opened in the paper ledger era prior to 1985. A statistical sample of accounts will be drawn from this paper ledger era sub-population of land-based IIM accounts. The paper ledgers for this sample will be searched for, located, imaged, coded, and all the transactions digitized to create a virtual electronic ledger of the pre-1985 account transaction histories for the sampled accounts. A statistical sample of transactions will be drawn from each sampled account. The sample will be drawn to include representative transaction types and dollar values in the accounts.

Interior will test whether transactions in the paper ledger era are statistically different from those drawn from the electronic ledger era. If they are statistically the same, the findings of the electronic ledger era apply to the paper ledger era as well. If they are not statistically the same, additional samples will be drawn and reconciled to estimate an accuracy statistic for this time period.

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<sup>15</sup> National Opinion Research Center, Memorandum dated January 26, 2007.

### *Verifying the Accuracy of the Account Transactions*

The process for verifying the accuracy of each transaction examined involves reconciling the amount of the recorded transaction to the expected amount based on the contemporaneous supporting financial documents and ownership information (as needed<sup>16</sup>). Interior traces each receipt transaction back to the original source of the revenue, usually a lease or contract (see Figure 1). 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.<sup>17</sup>

Interior applies 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 consider the following:

- The related lease or grazing permit is reviewed 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 were allocated to the proper accounts in the correct amounts.

For disbursements, for example, Interior's accountants 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 (see Figure 2).

### *Filling in Missing Information*

Some gaps in the transaction history or in records and documentation have been 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, are being used to address gaps in documentation.

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<sup>16</sup> 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.

<sup>17</sup> Interior employs a *de minimis* rule for determining whether an error is "material." Generally, a mis-posting of a transaction by \$1.00 or more is considered a material error.

Figure 1  
Verification of Receipts for IIM Accounts

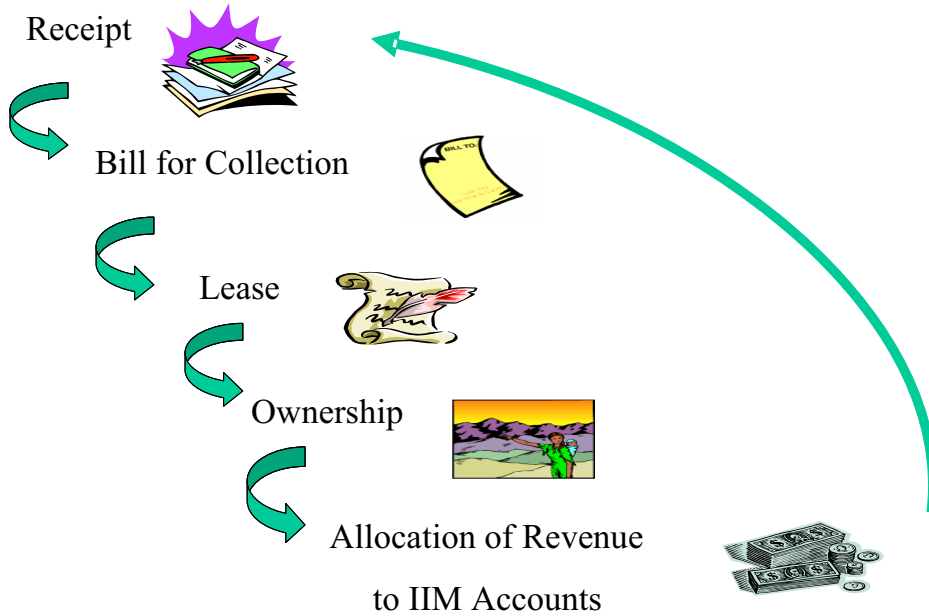
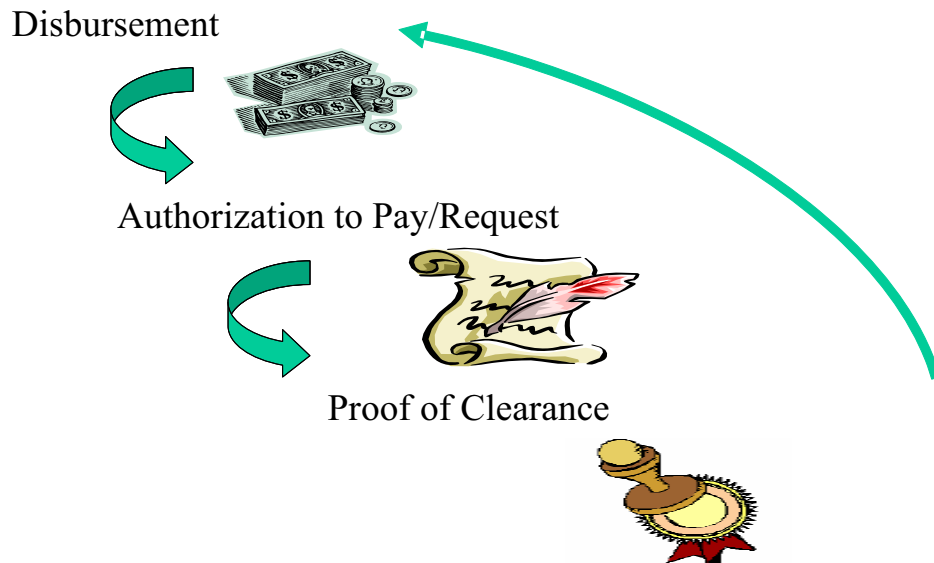


Figure 2  
Verification of Disbursements for IIM Accounts



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 receipts or deposit documents could be located to provide information regarding the original credit receipt. Similarly, a variety of source documents can be used to determine the proper allocation of payments. Interior's accountants reconstruct missing transaction information by working from the financial documents to fill the gap. 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 receipts as a second verification. This approach may be especially useful with regard to lease receipts on multiple-allotment leases.

If necessary, Interior may seek financial records from third parties, such as oil companies and timber companies regarding their transactions on allotted Indian lands. In the historical accounting work to date, Interior has not had to request documents from third parties. Interior has developed procedures for collecting missing information, if necessary.

The absence of supporting documentation does not imply an error. The transaction may still be correct, even if it cannot be verified with contemporaneous documents. Interior is including this information in the account transaction history, and in the calculated national error rates for the statistical samples.

### ***Quality Assurance/Quality Control Activities***

Quality assurance and quality control 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 A. 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 are reviewed. The work of the accounting firms in reconciling transactions is reviewed internally by the accounting firm performing the work, and then reviewed again by Interior's independent certified public accounting firm, Grant Thornton LLP.

### ***Work Plan Schedule***

Interior has completed the reconciliation to test the accuracy of land-based IIM account transactions in the electronic ledger era. Work is underway to complete additional system and completeness tests preparatory to being ready to mail 50,000 land-based IIM HSAs to account holders by December 31, 2007. Interior plans to be ready to mail 125,000 HSAs by the end of 2008, and more than 92,400 HSAs by the end of 2009. (See Table 3 in Section V.)

Simultaneously, Interior will be preparing the reconciliation to test the accuracy of pre-1985 account transactions for those land-based accounts that originate in the paper ledger era. That work and additional testing will continue until Interior begins mailing HSAs for the paper ledger era portion of account histories at the end of 2009. Interior intends to complete the mailings of HSAs by the end of 2011. (See Table 3 in Section V.)

## **IIM Trust Fund and Related System Data Tests**

Interior is performing 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 tests enable Interior to assess the underlying integrity and completeness of the data in the IIM Trust Fund system. These aggregate tests are intended to determine whether significant systemic flaws, which might have allowed for gross or repeated error, exist within the historical accounting system.

These tests are examining 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
- The land ownership records are fit for use in the historical accounting.

Taken together with the Judgment and Per Capita and land-based account accuracy tests described above, these additional tests are showing that there was integrity in the overall processes and systems used to administer the IIM Trust Fund during the post-1985 electronic ledger era. Additional tests will be conducted for the pre-1985 paper ledger era.

The tests described below address all the possible “points of vulnerability” identified above. These tests are intended to ensure that the data Interior will use to create the HSAs are complete and can be relied upon as accurate.

### ***Land Title Records Office (LTRO) Test***<sup>18</sup>

In 2002, as a precursor to beginning the historical accounting, Interior tested the land title records, as recorded on maps and contained in electronic and paper records, to verify the accuracy and suitability of these records for use in the historical accounting. Interior conducted tests at nine LTROs. Using statistical sampling, Interior examined randomly selected allotments and traced ownership histories, including probates, to verify the system records. The test found that the records at the LTROs—both paper records and electronic systems—were accurate and suitable to rely upon when examining ownership in reconciling account transactions.

### ***Data Completeness Validation (DCV)***

To ensure that HSAs are complete and contain all transactions recorded during the electronic ledger era, several tests are being performed on the electronic ledger accounting records. Interior

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<sup>18</sup> NORC Report, *Statistical Summary for Land Title Pilot Projects*, dated May 30, 2002.



has these electronic records dating back to February 1985, from two computer accounting systems, IRMS and TFAS.

The DCV project's goals are (1) identifying and resolving gaps in electronic data, (2) verifying the transfer of accounts and balances through system conversions (from paper ledgers to the IRMS and from IRMS to TFAS), and (3) assessing the integrity of the underlying electronic data. Additionally, in order to support the issuance of HSAs, the DCV project analyzes the use and reuse of account numbers and the association of account numbers to individuals.

The DCV project is mapping debit and credit transactions within and between the IRMS and TFAS systems. To date, more than 97% of all movements of money (approximately 51.4 million transactions) through IRMS and TFAS can be mapped and traced through the systems from receipts into Special Deposit Accounts (SDA), distribution to individual accounts, payment of interest, disbursements to account holders, and check clearance through the Treasury Department.

Additional data gaps are identified by:

- Analyzing accounts for which the system balance does not equal the transaction balance
- Identifying accounts for which interest cannot be appropriately recalculated (Interest Recalculation project)
- Identifying BIA agencies that do not have a complete set of transactions for a given day or month
- Analyzing irregularities or anomalies in the volume of transactions for an agency for each month of electronic data
- Comparing historical electronic account balance and transaction files

The DCV project, in part, implements the Electronic Data Gaps and System Conversion tests described in the 2003 Plan. This process includes restoring missing transaction data from historical paper transaction registers, which are contemporaneous printouts of account activity in the IRMS. Using these printouts, balance files and other hard copy evidence, the DCV project has restored missing transactions, accounts, and records that were no longer available in the electronically archived IRMS data.

The DCV project is also reviewing all changes to account numbers to ensure that all transactions for an individual's account are accurately reflected in the HSA. This analysis identifies all accounts that were combined during the conversion from IRMS to TFAS as well as those which were reused over time. After the accounts have been reviewed, all predecessor accounts, if any, that belong to an account holder in the historical accounting population are linked together.

The lessons from DCV are that, despite the common assumptions of how Indian trust accounts have been mismanaged and the vulnerability of the data, the accounting systems have proven to have a high degree of integrity, allowing Interior to prepare HSAs that meet the accuracy and completeness objectives of the historical accounting.

### ***Posting Test/Land-to-Dollars Test***

To verify that funds collected by BIA actually made it into IIM or tribal accounts, Interior is conducting tests that trace receipts to accounts. In this process, Interior is also examining income *expected to have been generated* from leased allotments (based on contemporaneous contract or production records) to verify that the money was in fact received and entered the IIM trust fund system. This testing began in 2006. This test addresses the accuracy and completeness objective for the historical accounting using cost effective test methods. To date, a pilot test indicates there is no evidence that money that should have been received was not. The test also showed that all the money received moved into IIM or Tribal Trust Fund Accounts.

### ***Interest Recalculation***

About one-third of all transactions in accounts during the electronic ledger period are postings of interest earned in the account. Using the recorded interest factors, all interest postings are being recalculated for every account. This work is ongoing, and findings to date show numerous, recalculation differences, most of which are less than one dollar, often the result of rounding or arithmetical error. Interest recalculation also addresses the accuracy objective of the historical accounting.

## **IV. Mailing and Appeals**

### **Whereabouts Unknown (WAU) Account Holders**

A major issue regarding mailing HSAs are the thousands of account holders whose whereabouts are unknown. This problem exists for current IIM account holders who do not provide notification of change of address to OST or BIA. The WAU issue is especially problematic for former account holders, who have no reason to notify Interior of a change of address. In mailing HSAs to Judgment and Per Capita IIM account holders, Interior has discovered many WAU account holders who had their accounts established when they were minors. Upon reaching the age of majority, the balances in these IIM accounts are typically paid out, in full, to the account holder, after which time there is no requirement for the account holder to maintain a current address with OST.

Interior's due diligence procedure for mailing HSAs is to obtain from OST the most current addresses and/or the last known addresses for the HSAs to be mailed. Interior utilizes the U.S. Postal Service (USPS) for "return service requested" to obtain an address change or to check an address against USPS databases. If the mailed HSA package is returned, Interior will attempt a second mailing if another address can be identified. HSA packages that are returned a second time are being addressed by providing the available information on the account holder to commercial firms engaged to search for current addresses for former account holders and other WAUs. Interior may also publish notices in tribal or local newspapers asking WAU account holders to provide Interior with a current address so they can receive their HSA.

### **Historical Statement of Account Appeal Process**

Interior is working on proposed regulations to establish an administrative appeals process through which IIM account holders may challenge the information in or lodge objections to their HSA. The regulations would require exhaustion of the administrative process before account holders may seek judicial review.

The regulations would require account holders to raise all objections they may have to the accuracy and completeness of their HSA within a specified period of time from the issuance date of the HSA. The objections would be filed initially with Interior's Office of Historical Trust Accounting (OHTA), the originating office charged with preparing and distributing the HSAs. Extensions of time to obtain supporting documentation in support of such objections would be readily granted by the initial decision maker in OHTA, to ensure that account holders are able fully to inform OHTA of all of the factual and other bases for their objections or concerns.

If, after reviewing the response to the objections raised to the initial OHTA decision maker, the account holder is dissatisfied with the decision made by OHTA, an appeal would then be taken to a review official at a higher level within OHTA. Interior intends by this two-step process to give OHTA the initial opportunity to correct any errors or omissions in the HSAs it has issued, and OHTA anticipates there may be instances in which the higher-level review official will decide to correct a statement on grounds that may not initially have been apparent to the initial decision maker.

If the account holder still remains dissatisfied after receiving a response from the OHTA review official, a final administrative appeal must be taken to the Interior Board of Indian Appeals (IBIA). IBIA has considerable experience in adjudicating appeals taken from decisions by BIA and other officials in analogous instances, and Interior expects that IBIA will be able to ensure that few, if any, meritorious account holder objections remain unresolved before Interior takes its “final agency action” for purposes of judicial review under the Administrative Procedure Act.

The proposed regulations will specify the timeframes at each point for account holders and for Interior to respond. Interior will receive public comments on the proposed regulations before final regulations are promulgated.

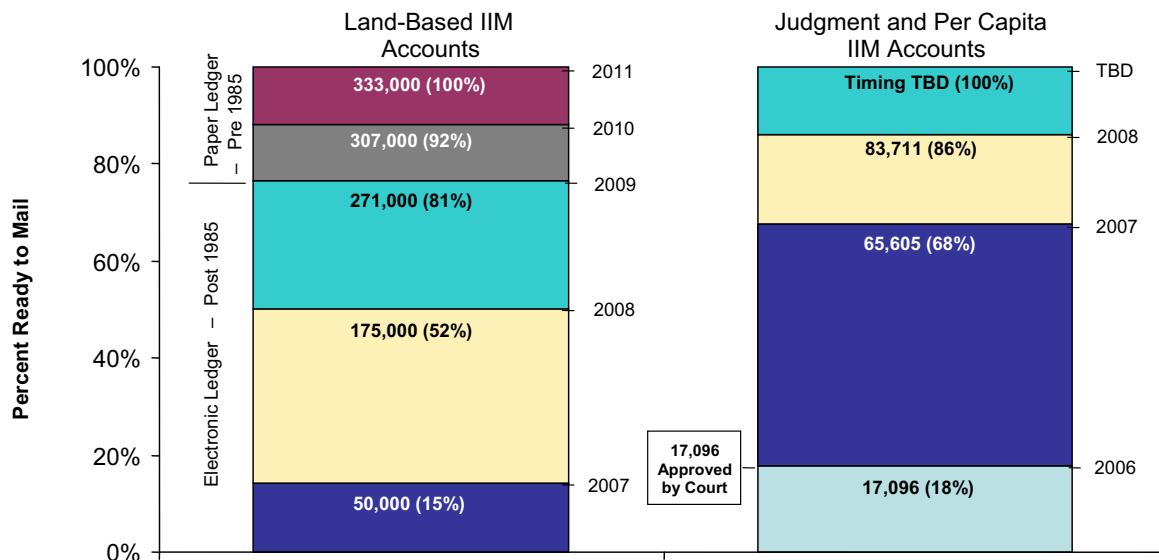
## V. Work Plan, Schedule and Estimated Cost

Section V provides Interior's schedule and work plan for completing the Historical Accounting Project. 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, in the historical accounting work completed to date, unanticipated factors, mostly related to the availability of records, affected how long it took and how much it cost. Similarly, unknown factors may affect the completion the historical accounting work described in this 2007 Plan. As the work proceeds, Interior will revise its estimates, as appropriate.

### Schedule

Figure 3 shows the proposed schedule for completing historical accounting work and being ready to mail HSAs. Note, for example, that Interior will be ready to start mailing 50,000 HSAs by the end of calendar year 2007, but may not have actually mailed that many HSAs by that date. Also, all mailing of HSAs to account holders is subject, at this time, to the permission of the Court. To the extent that Congressional funding does not allow Interior to devote approximately \$36 million per year to the IIM historical accounting, it will take longer to meet the historical accounting schedule shown in Figure 3.

**Figure 3**  
**Historical Statements of Account Completed for Mailing**



**Assumptions:**

- (1) Schedule based on Congressional Appropriations providing \$40M per year for IIM Historical Accounting.
- (2) No alternative Congressional and/or Judicial direction.
- (3) Actual mailings commence with Court approval.
- (4) 65,000 account holders receive two HSAs. A total of 333,000 HSAs (268,000 + 65,000) will be mailed.

## **Work Plan**

Interior plans to have historical accounting work underway in several segments concurrently. Table 3 includes the components of the historical accounting and the expected accomplishments by fiscal year unless otherwise noted. The work shows metrics such as number of HSAs to be mailed, percentage of the work completed, and in some cases, only the type of work ongoing. This schedule does not specifically identify a number of supporting activities, including preliminary work, statistical design and research into the accounts, searching for documents, imaging and coding of supporting documents, quality control, and addressing new information and appeals of mailed HSAs. The costs for these activities are subsumed within the overall cost estimates of the categories.

## **Estimated Cost**

The overall cost of the historical accounting is estimated to be \$271.1 million. From FY 2003 through FY 2007, Interior will have spent approximately \$127.1 million on the IIM historical accounting. The estimated cost to complete the historical accounting, through FY 2011 and as described in this 2007 Plan, is an additional \$144.0 million. This would require funding for the IIM historical accounting at \$36 million per year. It must be noted that the annual budget requests for the historical accounting are more than \$36 million because the request includes funding for Tribal historical accountings and Special Deposit Account work. The decisions on future President's budget requests and subsequent congressional appropriations will drive how much and how quickly work can be done. Despite four years of historical accounting experience, there is still uncertainty in these cost estimates, because, as the work shifts to the earlier paper ledger era, the cost factors developed during the work on the electronic ledger era could change.

**Table 3 - Revised Historical Accounting Schedule for Land-Based  
IIM Accounts**  
Targets Shown are Cumulative

<b>Activity</b>	<b>FY 2005</b>	<b>FY 2006</b>	<b>FY 2007</b>	<b>FY 2008</b>	<b>FY 2009</b>	<b>FY 2010</b>	<b>FY 2011</b>
<b>Judgment and Per Capita Accounts by accounts</b>	60% Complete	82% Complete	86% Complete	TBD	TBD	TBD	TBD
Ready to Mail J&P Historical Statements of Account*	17% Complete	50% Complete	80% Complete	TBD	Locating Whereabouts unknown	Locating Whereabouts unknown	100% Complete
<b>Eastern Region and Alaska Region</b>	Complete						
<i>About 203,000 +/- accounts are completely within the electronic period, post 1985</i>							
<b>Electronic ledger era</b>							
1. High Dollar Transactions	95% Complete	Complete					
2. National Sample	Complete						
3. Data Validation – 12 Regions	1 Regions	4 Regions	7 Regions	10 Regions	Complete		
4. Interest Recalculation – 12 Regions	1 Regions	4 Regions	7 Regions	10 Regions	Complete		
5. Completeness Testing		Testing	Testing	Testing	Testing Complete		
6. Ready to Mail Historical Statements of Account*			50,000 by the end of CY 2007	175,000 by the end of CY 2008	268,000 by the end of CY 2009		
<i>About 65,000 +/- accounts start in the paper period, pre-1985</i>							
<b>Paper ledger era</b>							
1. Image & Digitize Paper Ledgers		Begin Digitizing	Continue Digitizing	Continue Digitizing	Continue Digitizing	Complete Digitizing	
2. Data Validation 12 Regions				3 Regions	6 Regions	10 Regions	Complete
3. Strategy for Sampling and Reconciliation		Sample Design	Pilot Test Design	Account Analysis	Account Analysis	Statistical Results	
4. Reconciliation				Reconcile Sample	Reconcile Sample	Complete Reconciliation	
5. Interest Recalculation				Recalculate	Recalculate	Recalculate	Complete
6. Additional Tests				Testing	Testing	Testing Complete	Testing Complete
7. Ready to Mail Historical Statements of Account*					3,000 by the end of CY 2009	39,000 by the end of CY 2010	65,000 by the end of CY 2011
<b>Post-Accounting Response and Support</b>					Start	Continue Response	Continue Response

\* Numbers represent HSAs that can be printed and mailed to account holders. However, all mailings must be approved by the Court.

## Appendix A. Quality Assurance And Control

OHTA is the organization in the Department of the Interior charged with executing the IIM accounts historical accounting. OHTA has implemented a quality assurance/quality control (QC) program to achieve best practices at each phase of the historical accounting process. The QC program includes checks on data inputs, systems, infrastructures, processing, and outputs. This Appendix describes the six areas of OHTA's QC program.

- Basic approach to quality
- Overall process for quality check
- Record collection/record imaging quality check
- Accounting results quality check
- Information systems quality check
- Quality check of the mailing of historical statements of account to account holders

Quality performance has three basic premises – planning, supervision and sufficient relevant data in working papers. These premises are included in each of the foregoing areas.

### Basic Approach to Quality

High standards intended to result in accurate results are central to conducting an adequate historical accounting. Each team involved with producing inputs or outputs of the historical accounting bears primary responsibility for the quality of its products, such as maintaining internal quality processes, staffing the project with appropriately skilled personnel, conducting staff training, and performing supervisory review. Another key factor is appropriately focusing QC efforts. Accordingly, OHTA's overall QC program is focused on minimizing inconsistencies through standardized tools, trend analysis, and QC checks.

One risk is inconsistent results. OHTA's QC program minimizes the risk of inconsistency through the standardization of systems, procedures, and processes across all organizations involved in the historical accounting. An example of one standardization tool is OHTA's Account Reconciliation Tool (ART), a specialized data management system that standardizes, expedites, and records the historical accounting work performed by OHTA's accounting, historian and statistical contractor firms. Another example is OHTA's issuance of policies and procedures, such as OHTA's *Accounting Standards Manual* (ASM) and *Coding and Imaging Manual*.

Quality assurance objectives are being achieved through external quality checks. Subject-matter experts conduct independent quality checks on various aspects of OHTA's historical accounting. Details on the QC check process are described in the "Overall External Quality Check Process" section below.

Besides establishing a common infrastructure for the various contractors involved, OHTA is tracking the results of the quality checks. Trends in the results are analyzed and provided to



OHTA senior management along with statistical information, key performance data, such as transactions and accounts reconciled. OHTA senior management then assesses this information to determine whether additional guidance, training or other actions are necessary to achieve quality objectives. In addition, the quality check performance data are used to refocus QC testing strategies. For example, the data may indicate increased or decreased QC testing is desirable in selected activities.

### **Overall External Quality Check Process**

The OHTA external QC check involves five steps.

1. *Plan* – Begins with identifying the historical accounting area that will undergo a QC check and determining the objective, scope and timing of the QC check. The quality assurance/quality control firm develops a QC work program. The work program takes into account previous QC results to develop adaptive strategies, such as the need to further test additional activity in populations.
2. *Perform QC* – Consists mainly of activities related to conducting interviews with performing contractor staff or OHTA staff, and inspecting documentation. The analysis step also involves identification and discussion of preliminary observations with the team that performed the work undergoing a QC check.
3. *Draft Deliverable* – The quality assurance/quality control firm documents the results of QC in a draft deliverable. The draft document contains the QC results and suggestions for improvements. The document is provided for comment to OHTA senior management, OHTA’s contracting officer representatives, and to the contractor whose work underwent the QC check. If differences of opinion exist between the QC firm and the contractors as to the proper resolution of a comment, both parties present their rationale to OHTA senior management who makes the final determination of actions to be taken.
4. *Issue Final Deliverable* – After comments are resolved, the quality assurance/quality control firm issues a final deliverable and distributes the document to OHTA senior management, OHTA’s contracting officer representative, and to the contractor whose work underwent the QC process.
5. *Conduct Follow-Up* – In some cases, the contractor may have recommendations or “action items” that need to be implemented based on the QC process. The quality assurance/quality control firm tracks these ‘action items’ and conducts a follow up QC check to verify the recommendation is completed successfully.

### **Record Collection/Record Imaging**

QC checks are implemented at each phase of the records collection and imaging process. This includes checks on the design of processes, procedures, and systems to conduct the collection and imaging. For example, a QC check is performed on the document imaging and coding

structure. Periodic QC checks are conducted to verify the design is being implemented as per management's intent. QC checks cover the following areas:

- Imaging and coding structure
- Completeness of documents collected, imaged, and returned to storage
- Legibility of images
- Accuracy of coding
- Record/box inventory
- Security
- Document preparation and re-assembly (pre-and post imaging).

### **Accounting Results**

The accounting results produced by the accounting firms undergo QC checks by another firm. The quality assurance/quality control firm samples results provided by the accounting firms and test those results to ensure that the historical accounting was performed in accordance with the ASM. The quality assurance/quality control firm also tests for compliance with the American Institute of Certified Public Accountants (AICPA) standards. The ASM provides guidance, such as documentation standards. For transactions sampled, the quality assurance/quality control firm assesses the judgment made by the accounting firm as to the adequacy of supporting documentation, classification of the reconciliation results, and calculation of errors (if any). The quality assurance/quality control firm also assesses the historical accounting results based on professional standards established by the AICPA. These standards include professional competence, due professional care, planning and supervision, and sufficient relevant data.

### **Information Systems**

The information systems developed for the historical accounting are focused on meeting OHTA and its stakeholder requirements for account reconciliation. This is accomplished by following a structured development life cycle approach. This approach encompasses trust requirements that are clearly defined and traced throughout the life cycle of the historical accounting project. At each life cycle milestone, products are tested against requirements and communicated with the users for their information and feedback. To further assure that OHTA has an information system that answers its needs, a contractor has been engaged to provide independent verification and validation that deliverables meet the needs of the users.

### **Mailing of Historical Statements of Account to Account Holders**

Prior to mailing HSA packages to account holders, QC checks are conducted to verify packages consist of the appropriate letter, account statement and other mailing materials specific to the account holder.

## Appendix B. Definition Of Terms

The following terms as used in this document are defined as follows.

Accounting – Used as a noun (most common usage in this 2007 Plan), an *accounting* is the statement provided to IIM account holders that shows the past transactions that have occurred in their account, accompanied by an assessment of the accuracy and completeness of the statement. Used as a verb, *accounting* comprises the ongoing activities that are used to maintain an accurate record of the transactions in an IIM account in a paper or electronic ledger, including collecting, investing, and disbursing funds.

AICPA – American Institute of Certified Public Accountants

AIRR – American Indian Records Repository in Lenexa, KS. AIRR is physically connected to a state-of-the-art Federal Records Center operated by the National Archives and Records Administration (NARA). Interior's Indian Trust records are stored at this Records Center.

Accounting Standards Manual (ASM) – The compilation of standards used by OHTA and its contractors to provide uniform guidance on reconciliation of IIM accounts and transactions and examples of actual accounting and other documents in use in the Historical accounting period.

BIA – Bureau of Indian Affairs

Confidence Level – The assurance that statistical results in a randomly selected sample correspond to the population from which the sample was drawn. The confidence level is generally expressed as a percentage, e.g., 95%; in this case, there is only one chance in 20 that the sample results do not reflect the characteristics of the population.

Court – United States District Court for the District of Columbia

Data Completeness Validation (DCV) – Mathematical recomputation of posted transactions to determine the arithmetic total of transactions posted between time periods (e.g., month ends). If the transactions do not recompute, a transaction may have been omitted from the database. A search of records is commenced to locate the missing transaction.

Difference/Error – A *difference* or *error* would be noted when the actual transaction posting to an account is different from the amount expected to be posted based on the contemporaneous records.

Difference Rate/Error Rate – This is how often a *difference* or *error* is observed, such as one *difference/error* per 100 transactions, or expressed as a percentage, one percent.

Dollar Difference – The observed amount, in dollars, between the actual account transaction posted and the amount of the transaction supported by contemporaneously prepared documents. For receipt transactions, this could be a positive dollar difference for an overpayment to the account, or a negative dollar difference for an underpayment to the account. For disbursement

transactions, this could be a positive dollar difference for an under-recording to the account, or a negative dollar difference for an over-recording charged to the account.

Electronic Ledger Era – Beginning in February 1985, Interior retained an electronic back-up of IRMS transactions. Beginning in August 1998, and concluding in March 2000, the IRMS was converted to the TFAS, the current accounting system. The combined electronic IRMS and TFAS data comprise the electronic ledger era.

Expected Posting – The amount of money that should be posted to an IIM account as evidenced by contemporaneous records showing payment receipts based on contracts for fixed or production-based receipts, and the allocation of receipts to the individual IIM account. This term also applies to disbursements based on contemporaneous records supporting the disbursement amount.

Historical Accounting Period – For IIM accounts open as of October 25, 1994, or thereafter through December 31, 2000, the time from the later of the initial transaction in the IIM account or June 24, 1938 through December 31, 2000, or earlier closure of the account.

Historical Statement of Account (HSA) – The listing of transactions posted to an IIM account during the Historical Accounting Period. The listing, at minimum, will include the date the transaction was posted, the available reference, dollar amount, rolling-balance, and an indicator of what procedures, if any, were performed to evaluate each individual transaction.

HSA Package – The material that Interior will provide to each IIM account holder who had an account during the Historical Accounting Period. The HSA package consists of a transmittal letter, the HSA, a statement of assets, and other information as necessary.

IBIA – Interior Board of Indian Appeals

IIM – Individual Indian Money

IIM Account – An account in the IIM Trust Fund

IIM Trust Fund – The fund that holds the undistributed balances of the IIM accounts managed within the IIM Trust Fund.

Interior – The U.S. Department of the Interior

IRMS – Integrated Records Management System

LSA – Litigation Support Accounting

NORC – National Opinion Research Center at the University of Chicago

OHTA – Office of Historical Trust Accounting

OTFM – OST’s Office of Trust Funds Management

Paper Ledger Era – The period prior to February 1985. IIM accounts were maintained in a variety of methods ranging from manually posted cards to various bookkeeping machines.

Reconciliation – The process of testing whether a transaction posted in an account is accurate based on an examination of the contemporaneous documents that resulted in the posting. For IIM account transactions, reconciliation examines the actual account posting versus the expected account posting based on the revenue collected from a lease or contract and allocated to an account. The term *reconciliation* also applies to tests of allotted lands and a related lease or contract is examined to confirm that a collection was made and posted to an IIM account.

Special Deposit Account (SDA) – An account in the IIM Trust Fund in which receipts are held pending distribution to an IIM, tribal, or other account.

TFAS – Trust Funds Accounting System

USPS – United States Postal Service

Verification – The process of comparing the recorded amount for a transaction to the supporting documentation.

Whereabouts Unknown (WAU) – An IIM account holder for whom Interior has no current address.

1994 Act – American Indian Trust Fund Reform Act of 1994, Pub. L. No. 103-412

2003 Plan – *Historical Accounting Plan for Individual Indian Money Accounts*, dated January 6, 2003, and prepared for the U.S. District Court for the District of Columbia

2007 Plan – *Plan for Completing the Historical Accounting of Individual Indian Money Accounts*, dated May 31, 2007

# **Historical Accounting Project**

## **Part 2**

### **The Basis and Rationale for Changes to the January 6, 2003 Historical Accounting Plan For Individual Indian Money Accounts**



**U.S. Department of the Interior  
May 31, 2007**

## **The Basis and Rationale for Changes to January 6, 2003 Historical Accounting Plan For Individual Indian Money Accounts**

Part 2 of this document presents the basis and rationale for the changes made to the *January 6, 2003 Historical Accounting Plan for Individual Indian Money Accounts* (2003 Plan). The changes are incorporated in Part 1, the *May 31, 2007 Plan for Completing the Historical Accounting of Individual Indian Money Accounts* (2007 Plan). Interior has considered the historical accounting work performed, the results to date, and the lessons learned in framing this 2007 Plan. The 2007 Plan represents Interior's proposed balance of the objectives of the historical accounting—Accuracy, Completeness, and Timing—with the fiscal resources made available to Interior through annual Congressional appropriations. This Part of the document also describes the modifications being made from the 2003 Plan (found in Part 4), including revisions to the schedule for completing the historical accounting in 2011.

## I. Introduction

The U.S. Department of the Interior (Interior) has prepared the *May 31, 2007 Plan for Completing the Historical Accounting of Individual Indian Money Accounts* (2007 Plan) to guide the historical accounting that is required to be performed by the American Indian Trust Fund Management Reform Act of 1994 (1994 Act).<sup>1</sup> This 2007 Plan will describe the historical accounting to date and how the historical accounting will be completed for about 365,000 Individual Indian Money (IIM) accounts.

The 2007 Plan builds upon and replaces the January 6, 2003 *Historical Accounting Plan for Individual Indian Money Accounts* (2003 Plan) found in Part 4. Part 2 describes modifications that are being made to the 2003 Plan.

It is important to note that the historical accounting being performed is *not* about “second guessing” what funds should have or could have been collected on behalf of account holders. It is *not* about what could have happened if other, contemporaneous decisions were made regarding how the IIM Trust Fund was managed. Rather, the historical accounting is about what happened in each account, and about providing information to each account holder in a historical statement of account (HSA) that reports what happened in their account, and provides additional information assessing the accuracy and completeness of that HSA. The HSA package will consist of a transmittal letter, the accounting, and other information, as necessary.

Changes documented in Part 2, and incorporated into the 2007 Plan, are based on new information and resulting perspectives of the historical accounting in terms of what records exist, what accounting is possible, and what findings can be made. Section II of this Part describes Interior’s objectives and its efforts to balance accuracy, completeness, timing, and cost to achieve these objectives. Section III presents a summary of the lessons learned based on the historical accounting work that has been performed to date. Section IV describes what historical accounting work has been completed, the results of that work, and the insight gained from the results. Section V summarizes the historical accounting work remaining to be performed as of this date, based upon what has been learned. Section VI describes the specific modifications to the 2003 Plan. Section VII presents conclusions. Appendix A is a Definition of Terms used in this Part. In the text in Part 2, all references to accounts, account holders, and transactions are “shorthand” for IIM accounts, IIM account holders, and IIM transactions.

A number of terms are used throughout this Part. The definition of these terms, as used in this Part, are identified below and arranged in alphabetical order. Appendix A contains a more comprehensive list of defined terms.

Accounting – Used as a noun (most common usage in this 2007 Plan), an *accounting* is the statement provided to IIM account holders that shows the past transactions that have occurred in their account, accompanied by an assessment of the accuracy and completeness of the statement. Used as a verb, *accounting* comprises the ongoing activities that are used to maintain an accurate record of the transactions in an IIM account in a paper or electronic ledger, including collecting, investing, and disbursing funds.

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<sup>1</sup> American Indian Trust Fund Management Reform Act of 1994, 25 USC § 4001 *et seq.*



Actual Posting – The amount of money received or distributed shown as a posted transaction in an IIM account.

Difference/Error – A *difference* or *error* would be noted when the actual transaction posting to an account is different from the amount expected to be posted based on the contemporaneous records.

Difference Rate/Error Rate – This is how often a *difference* or *error* is observed, such as one *difference/error* per 100 transactions, or expressed as a percentage, one percent.

Dollar Difference – The observed amount, in dollars, between the actual account transaction posted and the amount of the transaction supported by contemporaneously prepared documents. For receipt transactions, this could be a positive dollar difference for an overpayment to the account, or a negative dollar difference for an underpayment to the account. For disbursement transactions, this could be a positive dollar difference for an under-recording to the account, or a negative dollar difference for an over-recording charged to the account.

Expected Posting – The amount of money that should be posted to an IIM account as evidenced by contemporaneous records showing payment receipts based on contracts for fixed or production-based receipts, and the allocation of receipts to the individual IIM account. This term also applies to disbursements based on contemporaneous records supporting the disbursement amount.

Reconciliation – The process of testing whether a transaction posted in an account is accurate based on an examination of the contemporaneous documents that resulted in the posting. For IIM account transactions, reconciliation examines the actual account posting versus the expected account posting based on the revenue collected from a lease or contract and allocated to an account. The term *reconciliation* also applies to tests of allotted lands and a related lease or contract is examined to confirm that a collection was made and posted to an IIM account.

Verification – The process of comparing the recorded amount for a transaction to the supporting documentation.

## II. Balancing the Objectives

Interior's objectives for the historical accounting are to provide account holders with HSAs and report to them on the completeness and accuracy of the HSAs they receive. Interior is doing this to ensure that periodic statements, required by the 1994 Act, have an accurate opening balance. In working to achieve these objectives, Interior has to consider four trade-off components. Because each component has an impact on the other three, Interior must consider and balance all of the components when asking the following questions:

- Accuracy of the HSA – How accurate is accurate enough? What degree of reconciliation and testing is sufficient to identify potential discrepancies and to consider that the HSAs are reasonably accurate?
- Completeness of the HSA – What does “complete” mean? How much documentation and evaluation are needed to provide a reasonable amount of information to trust beneficiaries?
- Timing of the HSAs – How timely is soon enough? How long will the historical accounting take and how quickly can Interior get HSAs to account holders?
- Resources Available for the Historical Accounting – How should Interior best use the scarce resources made available by Congress for this task?

The challenge in meeting Interior's historical accounting obligation is to balance these trade-offs. For example, Interior rejected reconciling every IIM account transaction because early (and subsequently proven to be inaccurate) cost estimates of the historical accounting suggested it would have cost more than \$2.5 billion and taken decades to complete. It has since become clear that Congressional appropriations for such an “all transactions” historical accounting would not be forthcoming. For fiscal years 2004, 2005, and 2006, the President's budgets requested a total of nearly \$400 million for historical accounting, but Congress appropriated only about \$170 million. Even the 2003 Plan, which proposed to use statistical sampling, would have required Interior to reconcile nearly 500,000 transactions. The cost of the accounting work set forth in the 2003 Plan is now estimated to cost about five times the original cost estimate. At the current pace of appropriations, it would take decades to complete.

Overall, Interior seeks to adopt an approach to the historical accounting that uses accounting methods that can provide acceptable levels of accuracy and completeness, can be achieved in a reasonable amount of time, and can be achieved within the “scarce”<sup>2</sup> resource constraints of current appropriations. Fortunately, the historical accounting results to date demonstrate that needed records exist and can be located, and that discrepancies in accounts are few and small. Therefore, Interior has altered the specifications of the accounting effort significantly, to achieve very dependable levels of accuracy and completeness, and in so doing expects to complete the task faster and more cost effectively.

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<sup>2</sup> 428 F. 3d 1070 (D.C.Cir. 2005)

Interior believes the 2007 Plan achieves this balance and:

- Reflects what has been learned and accomplished to date
- Takes advantage of proven statistical sampling to expedite the historical accounting
- Recognizes the availability of limited fiscal resources needed to fund the historical accounting
- Provides complete HSAs to the account holders over the course of the next several years

Interior is modifying the 2003 Plan to achieve its accounting objectives and to achieve the balance described above. The prior four years of accounting work indicate that there are faster, equally accurate, more cost effective ways to complete and deliver the historical accounting to IIM account holders. The modifications bring more focus and priority to the tasks of gathering and organizing the needed IIM account documents, conducting quality assurance tests as to the accuracy and completeness of the account transactions, preparing HSAs, and distributing the HSAs to the account holders. Further, the 2007 Plan provides for a process that allows account holders to appeal the contents of their HSAs and for Interior to reach final decisions on the HSAs, if an appeal is lodged.

### **III. Lessons Learned to Date**

As Interior implemented the historical accounting, it has become clear that some of the commonly held assumptions about the IIM Trust Fund were inaccurate. What was commonly thought about missing records, account inaccuracies, and possible misfeasance and malfeasance in managing Indian trust monies played a significant role previously in designing how the accounting would be conducted. In fact, certain Interior officials had even questioned the possibility of performing a historical accounting. This section presents information on what has been learned that dispels these misconceptions. Evidence of these lessons is contained in the *Historical Accounting for Individual Indian Monies: A Progress Report* found in Part 3.

#### **Lesson 1 – Supporting Records Can Be Found**

Despite some assertions to the contrary, most lease documents and contracts, IIM financial records, and ownership records exist and can be located—albeit at considerable cost. Consolidation of Indian records boxes at the American Indian Records Repository (AIRR) in Lenexa, Kansas, and the Box Index Search System (BISS) indexing (described below) allow identification of the boxes that may contain needed documents. Diligent searching at the AIRR combined with field searches at Bureau of Indian Affairs (BIA) offices resulted in Interior locating the documents required to reconcile more than 99 percent of the transactions in the accounting work to date.

#### **Lesson 2 – Functionality of the IRMS/TFAS Electronic Ledger Systems**

The work to date demonstrates that the electronic ledger accounting systems in place since 1985—the Integrated Records Management System (IRMS) and the Trust Fund Accounting System (TFAS)—were very reliable. There were suitable controls in place in these systems to safeguard accounting operations. In conducting the Data Completeness Validation (DCV) project (described below) which analyzes the data in accounting systems and reconciles thousands of account transactions, none of the professional accounting firms engaged by Interior has encountered evidence of “hacking” the transactions in the electronic ledger systems to maliciously alter or delete account records.

#### **Lesson 3 – Reconciliation of Account Transactions Shows Little Error**

Interior tested the accuracy of the accounts by reconciling the post-1985 transactions in accounts. Differences have been noted in the historical accounting reconciliations; however, the difference rate is very small, as are the dollars in error. In the historical accounting work performed to date, Interior has observed that *less than one percent* of the reconciled transactions have differences. Further, *less than one-tenth of one percent* of the dollars reconciled is in error.<sup>3</sup> This finding is consistent with other, earlier reconciliations of transactions in the IIM and Tribal Trust Funds (see Lesson 7).

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<sup>3</sup> NORC Report, dated September 30, 2005.

#### **Lesson 4 – Historical Statements of Account Can Be Assembled**

The historical accounting completed to date demonstrates the ability of Interior to provide the account holders with a statement that shows the record of what has transpired in their account—the monies received, the interest earned, and the monies disbursed. HSAs have been mailed to over 13,000 Judgment and Per Capita account holders. From the existing electronic ledger records and the existing paper ledger records, Interior is examining and verifying the completeness of the account statements for each account. *No statistical methods* are used to create the HSAs, only the existing electronic and hard copy transaction records are used to create statements.

#### **Lesson 5 – No Evidence of Systemic Error**

In the historical accounting work to date, Interior has found that there is no bias in the observed differences. This means that underpayments and overpayments occur about equally and the dollar values are about equal. Where differences have been observed, the differences result from minor mathematical errors, allocation errors, or, in very few instances, mis-postings. The professional accountants performing the reconciliation and the statistical consultant analyzing the accounting results see no evidence of systemic accounting problems, and no evidence of fraud, such as funds improperly leaving accounts or the accounting systems.

#### **Lesson 6 – Statistical Sampling Can Yield Valid, Useful Results**

Statistical sampling has allowed Interior to reach valid conclusions on the accuracy of the land-based IIM accounts in the electronic ledger era at a fraction of the cost and in a fraction of the time it would have taken under the 2003 Plan. The accounting results have found that the observed difference rates are much smaller than what Interior had originally anticipated when the initial sampling plan was designed for the 2003 Plan. From this, Interior has learned that the historical accounting can be completed by reconciling thousands, versus hundreds of thousands, of transactions and still obtaining robust and valid statistical results. Interior's statistical consultants have concluded that the reconciliation project performed on accounts from the electronic ledger era was sufficient to draw statistical conclusions regarding the population of all land-based accounts for the post-1985 electronic ledger era. Interior's statistical consultants concluded that some more precision might be achieved by doing more transaction reconciliations, but that the cost of the additional work would likely outweigh the benefit, and therefore little useful purpose would be served.<sup>4</sup> This finding is key to balancing the accuracy of the historical accounting within reasonable time and available funds.

#### **Lesson 7 – Meta-Analysis**

Meta-Analysis is a statistical technique that allows conclusions to be drawn from a number of related but different studies done on the same topic. Interior's statistical consultants conducted a qualitative meta-analysis examining more than 900 historical audits and Indian trust account

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<sup>4</sup> NORC Report, *Reconciliation of the High Dollar and National Sample Transactions from Land-Based IIM Accounts (All Regions), Litigation Support Accounting Project for the Electronic Records Era (1985 – 2000)*, dated September 30, 2005.

reconciliations performed by government and non-governmental organizations, and including studies conducted as early as 1830. The meta-analysis concludes that, while audits have identified potential *risks* associated with management of the Indian trust funds, actual account reconciliations *do not show that the risks have been realized*. Further, the prior reconciliations indicate observed difference/error rates similar to what Interior has found to date in the historical accounting.<sup>5</sup> This work suggests that accounting efforts involving the paper ledger era will yield similar results as those found to date.

### **Lesson 8 – Historical Accounting Work Is Very Costly To Do**

The cost of reconciling account transactions is far higher than Interior had anticipated when the historical accounting was started. Early cost calculations estimated that the account transactions could be reconciled for approximately \$100 per transaction. However, four years of experience show that the current cost to reconcile a single transaction averages between \$3,000 and \$3,500, depending on how many documents must be located to support a transaction. The major cost factors are searching for records, imaging and coding documents located, computer support, accounting services time, quality assurance review, and statistical analysis. Thus, even with the use of smaller statistical samples, the historical accounting to date has cost approximately \$127 million. Combined with the other lessons learned, Interior believes that the historical accounting modifications allow a balance to be struck to achieve high accuracy at a cost more likely to be funded (\$144 million), and in a reasonable time (four more years).

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<sup>5</sup> NORC Report, *Qualitative Meta-Analysis of Audit and Reconciliation Studies on Indian Trust Accounts*, dated June 23, 2006.

## **IV. What Historical Accounting Work Has Been Done to Date**

### **A. Organized the Indian Trust Records**

#### 1. Consolidation of Records at the AIRR

In 2004, Indian records that had been stored in multiple warehouses in Albuquerque, New Mexico, and at Federal Records Centers around the United States began to be relocated to a new Federal records facility. Working with the National Archives and Records Administration (NARA), Interior established the AIRR at the NARA Federal Records Center in Lenexa, Kansas. The Federal Records Center, a state-of-the-art facility, is located underground and provides archival quality storage for the Indian records, including trust records, relocated there. Inactive records from the BIA and the Office of the Special Trustee for American Indians (OST) are now regularly transferred to AIRR. The Office of Trust Records (OTR) within OST manages the AIRR. Consolidating the records at the AIRR has minimized the number of places that must be searched to locate documents, saving time and cost for the historical accounting. Photos of the AIRR are contained in Part 3.

#### 2. Box Indexing and Records Search

As part of the process of relocating boxes of Indian records to the AIRR, Indian record boxes were indexed for searching using the BISS. Every document in every box is examined and described at the folder level—indexed—in a systematic way within an electronic data base to facilitate retrieval. Newly arriving boxes of records from field locations continue to be indexed by OTR and are then accessioned by NARA and stored at the Federal Records Center at Lenexa. More than 155,000 boxes of Indian records, comprising over 300 million pages, have been indexed. Interior's Office of Historical Trust Accounting (OHTA) has a team of records searchers at the AIRR and works with OTR and NARA to retrieve relevant boxes to search for documents needed for the historical accounting. Utilizing the BISS significantly narrows the number of boxes to be searched to locate records, saving both time and cost, and helps balance Interior's objectives.

### **B. Developed the Tools for the Historical Accounting**

#### 1. Historical Accounting Defined

Interior worked with professional accounting firms and other experts to define what constitutes the HSA and what analysis and testing would be performed to assess the accuracy of the transactions that will be shown in the HSA. In addition, a number of tests were designed to verify the completeness of the HSAs.

#### 2. Accounting Standards Manual

The *Accounting Standards Manual* (ASM) describes and provides examples of documents that are required to reconcile a transaction. The ASM supports the accuracy objective of the historical accounting by creating, in advance, definitive standards as a guide to performing and reviewing the reconciliations. The ASM was developed by Interior, working with the accounting firms engaged for the historical accounting, and continues to be updated as new documents and unique transaction types are encountered. The quality assurance review performed by Interior's quality control contractor determines whether the accounting practices used to reconcile

transactions comply with the standards in the ASM. An earlier version of the ASM was provided to the Court along with the 2003 Plan.

### 3. Accounting Reconciliation Tool (ART)

The ART was developed in 2002 as a closed network computer system for use by the different accounting firms performing the historical accounting reconciliations. ART serves several purposes: to ensure consistent accounting by the different firms; as a system to store, search for, retrieve, and link needed supporting document images to specific transactions, as indicated by the ASM; to provide a replicable accounting process; to facilitate quality control review by an independent certified public accounting firm; and to archive reconciliation results. ART is now operating over a virtual private network, designed to provide a high degree of IT security, connecting accounting firms in Los Angeles and Albuquerque with accounting firms working at OHTA offices in Washington, DC, and at the AIRR. ART facilitates several objectives, standardizing the accounting for accuracy and saving time and expense by allowing multiple accounting firms to operate securely from their respective office locations. ART has never been connected to the Internet.

### 4. Coding and Imaging Manual

Processes were developed by Interior to create scanned images of retrieved Indian trust records and to code each image so that it can be loaded into ART and searched for using the coded fields. A *Coding and Imaging Manual* was developed to ensure consistency in coding and as a training reference. To date, over 17 million images of Indian trust records have been imaged, coded, and loaded into ART. In addition, Interior is digitizing documents such as paper transaction registers and account ledgers to create an electronic version of the paper ledgers on which account transactions were posted.

### 5. Quality Assurance Process

One of the accounting contractors engaged by Interior has the sole function of performing quality assurance tests of every major process and historical accounting product produced. This work, which has been and is being performed at every phase of the accounting, includes assurance tests of all the accounting reconciliation results, examining the efficacy of the document search process, verifying the proper coding and digitizing of imaged documents, reviewing the results of systems tests such as DCV (described below), and testing the accuracy of the mailings of HSAs. Quality assurance facilitates Interior's objective for providing account holders with complete and accurate HSAs.

## **C. Historical Accounting Efforts**

The historical accounting is examining three types of accounts—Judgment accounts, Per Capita accounts, and land-based accounts. 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 individual 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 payment, the money is deposited on their behalf into a Judgment or Per Capita account.

Land-based accounts are accounts of individual Indians who have ownership interest(s) in allotted lands and who receive revenues through their accounts from activities associated with the lands. Sources of revenue include surface leases for 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 accounting work described below includes three pilot projects conducted prior to initiating the IIM historical accounting. The Five Named Plaintiffs project (Number 1 below) and the Alaska and Eastern Region pilots (Number 4 below) expanded Interior's understanding of the Indian trust records and IIM accounts, facilitating the development of appropriate records search methods, accounting techniques, and the systems needed to support the historical accounting.

### 1. Five Named Plaintiffs and Their Agreed Upon Predecessors in Interest Analysis

In 2001, Interior, after gathering more than 165,000 documents related to the named plaintiffs and their predecessors performed an analysis of 37 accounts. The documents went back to 1914, since seven of the 37 accounts opened prior to 1920. This analysis reconciled more than 12,500 account transactions totaling \$1.12 million at a cost of approximately \$20 million.

The analyses found the following differences greater than one dollar.

- 86 percent of the transactions and 93 percent of the dollars were reconciled
- There were total overpayments with a value of nearly \$3,500
- There were total underpayments with a value of nearly \$250
- Net overpayment value was nearly \$3,250
- The combined gross rate of the number of differences observed was 0.4 percent
- The overpayment difference rate was 0.3 percent of the dollars reconciled
- The underpayment difference rate was 0.02 percent of the dollars reconciled
- The net difference rate was 0.2 percent of the dollars reconciled
- A single posting error (funds deposited to the wrong account) of \$60.94 was noted

The detailed results of this analysis were filed under seal with the Court. The ability to locate a very high percentage of records back to 1914 supports Interior's contention that the records exist for the historical accounting. The results also support what Interior has learned about low difference rates in the accounts examined and the low value of the dollars in error. Also, the high cost of this analysis has been a consideration in balancing the historical accounting objectives in the 2007 Plan.

### 2. Reconciliation of Judgment and Per Capita Accounts (J&P)

Groups of J&P accounts are usually established from a common source and have an identical initial balance, making these accounts more readily reconcilable. Even before the 2003 Plan, Interior had started a project to reconcile J&P accounts that were created to receive individual Indian shares of judgment awards or per capita payments from tribes (these are described more fully in Section V). The J&P project is reconciling all transactions in each J&P account within

the historical accounting population, including a recalculation of interest postings to the accounts. Of the number reconciled, a small percentage had errors of one dollar or more. The results as of March 31, 2007, follow:

- 83,711 J&P accounts have been reconciled, which represents 86 percent of 96,823 accounts
- Per Capita accounts – Based on more than 17,500 accounts reconciled:
  - Nine postings exceptions were observed
  - Have a transaction difference rate of 0.05 percent
  - Have dollar differences of less than \$3,000
  - Have a total overpayment of \$140
  - Have a total underpayment of \$2,700
  - Recalculated interest showed an average underpayment of \$2 for each account
  - Total net of \$2,701 in error
  - Net error rate of 0.008 percent of the dollars reconciled
- Judgment Accounts – Based on nearly 66,000 accounts reconciled:
  - There were 822 posting exceptions greater than one dollar
  - Have a transaction error rate of 1.0 percent
  - Have total underpayments of less than \$27,400
  - Have total overpayments of less than \$8,300
  - Have a net underpayment of less than \$19,100
  - Recalculated interest showed overpayments of \$1 for each account
  - Total net of \$45,084 in error
  - Net error rate of 0.03 percent of the dollars reconciled

Interior has begun mailing HSAs for J&P accounts with the approval of the Court. To date, Interior has approval to mail 17,096 HSAs. Interior has successfully mailed 12,281 HSAs. An additional 822 HSAs have been mailed and returned because some current or former account holder's whereabouts are unknown. Table 1 in Section VI.B. shows the status of mailings and mailing requests submitted to the Court.

### 3. Litigation Support Accounting (LSA) for the Electronic Ledger Era 1985-2000<sup>6</sup>

The FY 2004 Interior appropriation barred Interior from carrying out the structural injunction accounting issued by the Court in September 2003.<sup>7</sup> However, appropriation language specifically allowed “litigation support” accounting, which Interior pursued starting in FY 2004, initially in support of *Cobell* settlement talks. The LSA project reconciled transactions in land-based accounts—accounts which derive their revenue from use of allotted lands and resources—for the post-1985 period of electronic ledgers. The LSA testing was specifically designed to provide factual information for ongoing settlement discussions, and do so in a timely manner.

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<sup>6</sup> NORC Report, *Reconciliation of the High Dollar and National Sample Transactions from Land-Based IIM Accounts (All Regions), Litigation Support Accounting Project for the Electronic Records Era (1985 – 2000)*, dated September 30, 2005.

<sup>7</sup> Department of the Interior and Related Agencies Appropriations Act, 2004; PL 108–108, pg. 23, November 10, 2003.

The LSA work continued into and was largely completed in FY 2005, with a small number of additional high dollar transactions completed in FY 2006. In conducting the LSA work, trust records were located to support the reconciliation of more than 99 percent of nearly 6,600 transactions.

The LSA project reconciled all 2,099 transactions in a large-dollar “certainty stratum” of transactions equal to or greater than \$100,000—\$483 million in total. (A certainty stratum consists of all credit or debit transactions, from land-based accounts in the electronic ledger era, that to be are fully reconciled. The purpose of the certainty stratum is described later.) The findings on the large dollar transactions follow:

- Large dollar *debit* (disbursement) transactions:
  - There were 13 observed differences—1.3 percent of transactions reconciled
  - There with eight overpayments totaling \$21,174 and five underpayments totaling \$9,298 for a net overpayment of \$11,876
  - The observed underpayment rate for transactions was 0.5 percent
  - The underpayment rate for the dollars reconciled was 0.004 percent
- Large dollar *credit* (receipt) transactions:
  - There were 122 observed differences—11.4 percent of the transactions reconciled
  - There were 58 overpayments totaling \$142,947 and 64 underpayments totaling \$154,155, for a net underpayment of \$11,208
  - The observed underpayment rate for transactions was 6 percent
  - The observed underpayment rate for the dollars reconciled was 0.062 percent

Also, a statistically valid sample of nearly 4,500 smaller value—each less than \$100,000—transactions, representative of all accounts and types of revenue, was reconciled. The findings for the sampled transactions follow.

- Sampled *debit* transactions:
  - There were no differences observed for debit transactions
  - Therefore, there were no underpayments or overpayments
- Sampled *credit* transactions:
  - There were 11 underpayment differences totaling \$341, and 25 overpayments totaling \$853. The net overpayment was \$512.
  - The estimated difference rate was 1.3 percent.

There were many lessons learned from the LSA work. The LSA work confirmed that the more difficult land-based accounts can be effectively reconciled using these accounting methods. Reconciling 99 percent of transactions demonstrated that the records needed for the historical accounting exist and can be located for the electronic ledger era. The LSA results support what has been learned about error rates and dollars in error. But of greatest import, the success of the LSA reconciliation showed that using smaller but statistically valid samples of transactions can achieve a high degree of confidence in the results, with no loss in accuracy compared with a transaction-by-transaction accounting. This is because the sheer volume of reconciling tens of millions transactions will introduce sufficient human error to affect the results. Thus, Interior has concluded that no further reconciliation is necessary for the electronic ledger era. This

lesson demonstrates that faster, less expensive methods can be used to obtain a high degree of accuracy, balancing most objectives.

#### 4. Pilot Tests in Alaska and Eastern Regions of BIA<sup>8</sup>

Most of Interior's work begins with pilot projects to test accounting methods, verify that the work can be performed, and develop cost estimates for the work. In 2002, Interior initiated a pilot project in the Alaska Region that tested Interior's ability to collect IIM records; image, code, and load the images into ART; and to have the accountants reconcile the transactions in ART. Alaska Region was selected because it has shorter account histories and well-organized IIM records. More than 98 percent of transactions sampled for the test could be reconciled with supporting documents. A similar test, not using ART, was performed for the Eastern Region. These pilot projects confirmed many of Interior's assumptions on how to perform the historical accounting and caused Interior to reevaluate some planned methods. This work helped achieve all objectives by improving accuracy using more cost and time effective methods.

### **D. Testing the Data in Historic Accounting and Related Systems**

#### 1. Land Title Records Office (LTRO) Test<sup>9</sup>

In 2002, as a precursor to beginning the historical accounting, Interior tested the land title records, as recorded on maps and contained in electronic and paper records, to verify the accuracy and suitability of these records for use in the historical accounting. Interior conducted tests at nine LTROs. Using statistical sampling, Interior examined randomly selected allotments and traced ownership histories, including probates, to verify the system records. The test found that the records at the LTROs—both paper records and electronic systems—were accurate and suitable to rely upon when examining ownership in reconciling account transactions.

#### 2. Data Completeness Validation (DCV)

To ensure that HSAs are complete and contain all transactions recorded during the electronic ledger era, several tests are being performed on the electronic ledger accounting records. Interior has these electronic records dating back to February 1985, from two computer accounting systems, IRMS and TFAS.

The DCV project's goals are (1) identifying and resolving gaps in electronic data, (2) verifying the transfer of accounts and balances through system conversions (from paper ledgers to the IRMS and from IRMS to TFAS), and (3) assessing the integrity of the underlying electronic data. Additionally, in order to support the issuance of HSAs, the DCV project analyzes the use and reuse of account numbers and the association of account numbers to individuals.

The DCV project is mapping debit and credit transactions within and between the IRMS and TFAS systems. To date, more than 97% of all movements of money (approximately 51.4 million transactions) through IRMS and TFAS can be mapped and traced through the systems from receipts into Special Deposit Accounts (SDAs), distribution to individual accounts, payment of

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<sup>8</sup> NORC Reports, *Analysis of the Alaska Sample*, dated June 25, 2004; *A Statistical Evaluation of Preliminary Eastern Region Sample Results*, dated March 29, 2002.

<sup>9</sup> NORC Report, *Statistical Summary for Land Title Pilot Projects*, dated May 30, 2002.

interest, disbursements to account holders, and check clearance through the Department of the Treasury.

Additional data gaps are identified by:

- Analyzing accounts for which the system balance does not equal the transaction balance
- Identifying accounts for which interest cannot be appropriately recalculated (Interest Recalculation project)
- Identifying BIA agencies that do not have a complete set of transactions for a given day or month
- Analyzing irregularities or anomalies in the volume of transactions for an agency for each month of electronic data
- Comparing historical electronic account balance and transaction files

The DCV project, in part, implements the Electronic Data Gap and System Conversion Tests described in the 2003 Plan. This process includes restoring missing transaction data from historical paper transaction registers, which are contemporaneous printouts of account activity in the IRMS. Using these printouts, balance files and other hard copy evidence, the DCV project has restored missing transactions, accounts, and records that were no longer available in the electronically archived IRMS data.

The DCV project is also reviewing all changes to account numbers to ensure that all transactions for an individual's account are accurately reflected in the HSA. This analysis identifies all accounts that were combined during the conversion from IRMS to TFAS as well as those which were reused over time. After the accounts have been reviewed, all predecessor accounts, if any, that belong to an account holder in the historical accounting population are linked together.

The lessons from DCV are that, despite the common assumptions of how Indian trust accounts have been mismanaged and the vulnerability of the data, the data in the accounting systems have proven to have a high degree of integrity, allowing Interior to prepare HSAs that meet the accuracy and completeness objectives of the historical accounting.

### 3. Posting Test/Land-to-Dollars Test

To verify that funds collected by BIA actually made it into IIM or tribal accounts, Interior is conducting tests that trace receipts to accounts. In this process, Interior is also examining income *expected to have been generated* from leased allotments (based on contemporaneous records) to verify that the money was in fact received and entered the IIM Trust Fund system. This testing began in 2006. This test addresses the accuracy and completeness objective for the historical accounting using cost effective test methods. To date, a pilot test indicates there is no evidence that money that should have been received was not. The test also showed that all the money received moved into IIM or Tribal Trust Fund Accounts.

### 4. Interest Recalculation

About one-third of all transactions in accounts during the electronic ledger era are postings of interest earned in the account. Using the recorded interest factors, all interest postings are being recalculated for every account. This work is ongoing, and findings to date show numerous,

recalculation differences, most of which are less than one dollar and often the result of rounding and arithmetical errors. Interest recalculation also addresses the accuracy objective of the historical accounting.

## **V. What Work Remains**

### **A. Judgment and Per Capita Accounts**

#### 1. Account Reconciliation

Interior has nearly 13,600 J&P accounts that remain to be reconciled. A substantial body of work has already been completed with respect to reconciling these accounts, such as gathering most supporting documents and verifying transactions, and this effort has shown a very low error rate. At least for the balance of 2007, Interior has deferred further work on reconciling the remaining J&P accounts to shift scarce resources to efforts related to land-based account historical accounting.

#### 2. Mailing Judgment and Per Capita Account HSAs

As noted above, Interior has received approval to mail 17,096 and has successfully mailed nearly 13,600 HSAs. Three additional motions to mail an additional 66,130 J&P HSAs are pending before the Court. If the Court approves future mailings, Interior will obtain the most current addresses available and only then print out the HSAs. This will be done on a rolling basis.

### **B. Post-1985 Electronic Ledger Era Land-Based Accounts**

Approximately three-quarters of all the land-based accounts open on or after October 25, 1994, originated after 1985 and have all of their transactions recorded in electronic ledgers. The highest priority tasks are the first three below that complete all the steps necessary to mail land-based account HSAs:

#### 1. Data Completeness Validation

The DCV project has been completed for four BIA regions and for all accounts that opened in the TFAS time period (i.e., in 1998 and after). As the other regions are completed, Interior will propose additional HSA mailings.

#### 2. Interest Recalculation

As the accounts in each region are completed in DCV, Interior is recalculating the periodic interest that was earned on the account balances. The same interest factor that was declared for each interest period is being used to recalculate the actual interest postings. Interest transactions are nearly complete for two BIA regions, with 10 additional regions to complete.

#### 3. Land-to-Dollars Posting Test

This test assesses for each BIA region whether funds that should have been earned based on contract-specific or production-based receipts from the use of allotted lands were actually collected. By starting from the allotted land base and tracing whether contract-specified or production-based receipts were posted to the accounting ledger systems, the test complements the reconciliation of sampled transactions that start from the known population of transactions posted in the accounting ledgers. The test addresses funds that should have been collected. A pilot land-to-dollars posting test has been completed for one region. Additional tests will be completed for each BIA region as part of the historical accounting.

#### 4. Mailing Land-Based Account HSAs

Once the tests above have been completed and Interior is confident in the accuracy and completeness of the HSAs, Interior will request the permission of the Court to begin mailing HSAs for the land-based accounts.

#### 5. Test of Restored Transactions

The DCV and Interest Recalculation projects are designed, in part, to identify transactions and accounts that were missing from the electronic record. Once identified, these records are restored to the electronic record from historical system reports and financial documents. Because these transactions and accounts had not been identified in 2004, they could not have been selected in the sample drawn for the LSA reconciliation. Interior plans to reconcile a sample of these restored transactions to determine if they have an error rate significantly different from that found in the LSA sample. This work can only be performed as a follow-up test after all other work has been completed and the full population of additional transactions and accounts is known.

### **C. Pre-1985 Paper Ledger Era Land-Based Accounts**

Approximately one-quarter of the land-based account population originated and have account activity prior to 1985 that is recorded in paper ledgers. In order to produce HSAs for the paper ledger era, Interior must perform much of the work completed for LSA which examined the account transactions posted during the electronic ledger era. The paper ledger era work addresses those land-based accounts that were opened in the paper ledger era prior to 1985. Interior plans to reconcile a sample of the account transactions that are presently recorded only in paper documents. The statistical sample will test whether there is any significant difference in error rates between the electronic and paper ledger eras.

#### 1. Paper Ledger Era Sample and Digitizing

There is no electronic system that contains the account transactions from prior to 1985. For this reason, there are two components to the paper ledger era sample of transactions.

The first component is to identify which of the approximately 268,000 land-based accounts were opened prior to 1985, and remained open at least through October 25, 1994. Through DCV, Interior has identified approximately 65,000 accounts that originate in the paper ledger era. Interior's statistical consultant plans to draw a sample of accounts from those 65,000 accounts.

After the sample of accounts is identified, Interior will search for the paper ledgers—computer printouts, ledger cards, ledger books—that contain the transaction history for the sampled accounts. Paper ledgers will be imaged, coded for retrieval, and the transactions on the ledgers will be keyed and loaded into Interior's ART data base to create a digital ledger of the recorded paper transactions. Work has begun to digitize paper era ledgers. These transactions, when assembled, form the basis of the paper ledger era HSAs.

The second component will be to draw a sample of transactions from the digitized account transactions from each of the accounts in the sample identified in the first component. Transaction samples will be stratified to ensure geographical and temporal representation, and



coverage of revenue types and transaction values. It is this sample of transactions that Interior plans to reconcile to test whether the error rates for the paper ledger era are statistically significantly different from the electronic ledger era error rates.

## 2. Reconciling the Paper Era Transaction Sample

After the ledgers are digitized and the account transaction sample has been drawn, Interior will test the accuracy of the transactions by reconciling each sample transaction with documents that were used and created at the time of the transactions. As with LSA, this will require extensive searches for financial records, land records, and leases/contracts needed to verify that the actual account transaction posting matches the expected posting. The sample results of reconciled paper era transactions will be used to compare the error rate for the paper ledger era with the error rate observed for the electronic ledger era.

## 3. Paper-to-Electronic Conversion

Interior will compare the paper ledger era ending balances with the electronic ledger era starting balances for the accounts in both periods. These balances should match. Taken together, the paper ledger era HSAs and electronic ledger era HSAs will constitute the historical accounting for an individual Indian account holder whose account began before 1985.

## 4. Test of Accounts Not in the Sample Population

Interior is drawing the paper ledger era account sample based on what is known *at this time* about the population of accounts that had their first transactions starting in the paper ledger era. However, as a consequence of continuing DCV work and after the sample has been drawn, Interior expects to identify additional accounts that started in the paper ledger era. Because these additional accounts were not part of the sample population, they will not be selected for the sample. Once all the paper era accounts are identified, accounts not in the original sampled population will be tested to determine if they have error rates different from the error rate observed for the original paper ledger era sample. This work can only be completed once all the accounts that opened in the paper era have been identified.

## 5. Mailing Paper Ledger Era HSAs

All of the approximately 268,000 land-based accounts will receive an HSA covering the electronic ledger portion of their account. Interior plans to send a second mailing of approximately 65,000 HSAs to those land-based account holders whose account histories originate in the paper ledger era.

### **D. Rulemaking on Appeals Process**

Interior plans to publish proposed and, after public comment, final rules on an administrative process that will allow account holders to question or challenge their HSAs or their current quarterly account statements received from OST. The intent of the rulemaking is to create an administrative appeals process to address account holders' issues. An appeals process was not included in the 2003 Plan.

If an account holder requires additional information before they accept their HSA or quarterly statement, or wants to challenge what the HSA or quarterly statement is reporting, the rule would establish a defined process for account holders to follow. This process will include response times for actions by the account holder and by the administrative office at Interior. If the account holder is not satisfied by the appeal to the administrative office, the rule will provide for an appeal to the Interior Board of Indian Appeals (IBIA).

The goals of this appeals process are to ensure that the account holders receive accurate accountings of their trust funds managed by Interior, to provide an opportunity for account holders to share information with Interior, and to rectify administratively account holder issues whenever possible.

## VI. Modifications to the 2003 Plan

After a review by Interior of issues and options, the 2003 Plan is modified as follows.

### A. Statistical Sampling Design

Interior has decided to use statistical sampling to determine the accuracy of the large number of accounts and transactions associated with land-based accounts. 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.<sup>10</sup>

#### 2003 Plan

The sampling design in the 2003 Plan chose a sample size based upon reporting to account holders the estimated results at a 99 percent confidence level. For the era of electronic ledger records, 1985 to 2000, the 2003 Plan proposed to reconcile:

- A certainty stratum of all 73,000 transactions more than \$5,000
- A sample stratum of 80,000 transactions less than \$5,000 but more than \$500
- A sample stratum of 80,000 transactions less than \$500

The certainty stratum consists of all electronic ledger era transactions, in all land-based accounts, which are equal to or greater than a set threshold. Because Interior could not know what the historical accounting might reveal, Interior sought to clarify the dollar exposure that might otherwise result from a purely statistical sampling of transactions to be reconciled. Accordingly, Interior wanted to know the precise error rate for these large dollar transactions. Specifically, if the historical accounting sample revealed a very high error rate, applying that error rate to very large dollar transactions could significantly increase the exposure of the government, *even if there were no errors in the large dollar transactions*. The 2003 Plan, then, was designed to fully reconcile all transactions in the certainty stratum to determine actual errors observed. In this way, the error *rate* would only be applied to the transactions at values below the certainty stratum. For this same reason, the sample was divided into transactions between \$500 and \$5,000, and transactions less than \$500.

Before electronic accounting ledger systems were in use, IIM accounts were maintained on machine imprinted ledger cards, hand written ledger cards, or earlier, in hand written ledger books. Thousands of boxes of ledger cards and ledger books are stored at the AIRR. For the paper ledger era, there is no way to know how many transactions existed in accounts. This was not known in 2003 and will not be known until all the paper ledgers are examined.

The 2003 Plan proposed the identical mix of reconciling all large dollar transactions and sampling small dollar transactions for the paper ledger era. The 2003 Plan estimated the number of transactions that might be reconciled:

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<sup>10</sup> NORC Memorandum, *The Role of Statistics and Statistical Sampling in the Individual Indian Monies (IIM) Historical Accounting*, dated May 29, 2007; *Cobell v Norton* 428 F 3<sup>rd</sup> 1070 D.C.Cir. 2005)

- A certainty stratum of all 100,000 transactions more than \$5,000
- A sample stratum of 160,000 transactions less than \$5,000

The sampling design for the 2003 Plan was based on what was then believed about accounts and the expected accuracy rate for transactions. Thus, a very large number of large value transactions and very large sample size was proposed; however, the design specifically included using adaptive strategies to adjust the sample design as the historical accounting proceeded and more was learned.

At the time the 2003 Plan was written, Interior was gaining knowledge on the data in the IRMS and TFAS systems, and had only limited experience with reconciliation of transactions in accounts. The cost estimate for the work outlined in the 2003 Plan was \$335 million, and, based on annual appropriations of about \$100 million, could be completed in about five years. However, with more than four years of reconciliation experience, Interior has learned that the cost of fulfilling the 2003 Plan, as originally envisioned, was seriously underestimated. Reconciling nearly 500,000 transactions, as called for in the 2003 Plan, at current costs per transaction, would cost about five times more and, at the current rate of appropriations, would take decades.

Moreover, Interior has learned from the LSA project that the transaction error rates and dollars in error are far less than “common knowledge” then prevailing implied and Interior anticipated. The remaining parts of the historical accounting can be modified to reconcile fewer transactions while still providing high levels of assurance about the accuracy and completeness of the HSAs.

### 2007 Plan

For the post-1985 era of electronic accounting records, and consistent with the approach used in the LSA project and the recommendations of Interior’s statistical consultant, the National Opinion Research Center (NORC) at the University of Chicago, Interior’s sampling design is to reconcile:

- All 2,099 transactions more than \$100,000
- A sample of nearly 4,500 transactions less than \$100,000

For the paper ledger era, Interior will evaluate whether the statistical results for the paper ledger era are statistically consistent with LSA results for the electronic era. This will be done by drawing a statistical sample from the approximately 65,000 accounts for which the account history begins in the paper ledger era. The paper ledgers for the sampled accounts will be located, imaged, and digitized to create a virtual electronic ledger of account transactions. A statistical sample of transactions will be drawn from each sampled account, stratified to ensure that the transaction sample is representative of the transaction types and dollar values in the accounts. Using the same reconciliation methods as for the LSA project, Interior will reconcile an appropriately-sized sample to test the hypothesis that the difference rate for the paper ledger era transactions is the same as what was observed for the electronic ledger era. The difference in the type of test being used for the paper ledger era allows Interior to use the conventional 95 percent confidence level in designing the appropriate sample size. If, upon reconciling the

sampled transactions, Interior finds the difference rates and confidence rates for the paper ledger era are the same or smaller than what was found for the electronic ledger era, Interior can then apply the difference rates for the electronic ledger era to all the account transactions in both the electronic and paper ledger eras. However, if the difference rate for the paper ledger era is greater, additional sampling and reconciliation will be required to develop a separate difference rate for the paper ledger era transactions. As a result, Interior expects to obtain high quality paper ledger era reconciliation results more quickly and at less cost than what had been proposed in the 2003 Plan.

Because Interior is testing a different hypothesis for the paper ledger era, there will be no large-dollar certainty stratum reconciled to test the accuracy of land-based account transactions from the paper ledger era.

## **B. Judgment and Per Capita Accounts**

### 2003 Plan

The 2003 Plan proposed to fully reconcile all the transactions in all the Judgment and Per Capita accounts for the more than 96,800 accounts in the historical accounting population.

Approximately 86 percent of the Judgment and Per Capita accounts have been reconciled as proposed.

### 2007 Plan

Interior intends to provide all of the more than 96,800 account holders with an HSA for their Judgment and Per Capita account. However, Interior is deferring further reconciliation of the remaining Judgment and Per Capita accounts for the balance of 2007, and possibly beyond, to focus limited resources on completing more of the land-based account work.

A portion of the work required to reconcile the remaining nearly 13,600 has been completed. The findings to date of very few errors and small dollar implications in the more than 83,226 accounts reconciled support the need for no further reconciliation. Interior will revisit the decision regarding reconciliation and mailings at a future time.

Interior received permission to mail more than 17,000 HSAs which has been completed except for locating account holders whose whereabouts are unknown. Interior has asked the Court for permission to mail an additional 66,130 HSAs (see Table 1). Once permission is received, OHTA can begin the process of obtaining the most current address, printing the HSAs, and mailing them.

**Table 1 – Requests to the Court for Mailing Judgment and Per Capita HSAs**

	<b>Number of HSAs</b>	<b>Date of Request</b>	<b>Date Court Approved</b>	<b>Status</b>
First Mailing	1,208 <sup>11</sup>	NA	NA	Mailed All (returned = 24 )
Second Mailing	17,096	2/3/03	10/22/04	Mailed 13,103 <sup>12</sup> (returned = 822 )
Third Request	28,107	3/24/05	pending	
Fourth Request	20,402	3/9/06	pending	
Fifth Request	17,621	1/26/07	pending	

**C. Historical Accounting Schedule**

2003 Plan

The 2003 Plan called for the historical accounting being completed by fiscal year (FY) 2007. It was based on a number of assumptions related to how long it would take to locate needed records, how much accounting work could be accomplished over a given period of time, and the availability of sufficient funding from Congress. The FY 2007 completion date was based on receiving appropriated funding of about \$100 million each year for the historical accounting. The 2003 Plan schedule underestimated the time required for the historical accounting work, and actual appropriations have been about half of the amounts requested.

2007 Plan

The 2007 Plan shows the IIM historical accounting continuing through FY 2011. The duration of this schedule depends on continuation of current annual funding levels of approximately \$36 million for IIM historical accounting. (The balance of the Interior’s annual historical accounting appropriations also supports the historical accounting of Tribal trust accounts and SDAs). Within this schedule are significant milestones for Interior to reach so that it is ready to mail HSAs to land-based account holders. These milestones are shown in Table 2 below. Table 2 also shows HSAs ready to mail per year and the cumulative percentage.

**Table 2 - Mailing Schedule for Historical Statements of Account (HSAs)**

<b>Account Mailing Group</b>	<b>FY 2007</b>	<b>FY 2008</b>	<b>FY 2009</b>	<b>FY 2010</b>	<b>FY 2011</b>
Judgment and Per Capita	66,130 86%	The timing for the remaining 13,597 HSAs (100%) to be determined			
Electronic Ledger Era Land-Based IIM	50,000 19%	125,000 65%	92,000 100%	--	--
Paper Ledger Era Land- Based IIM	--	--	4,000 6%	40,000 68%	21,000 100%

Mailing historical statements of account currently requires permission of the Court, a step that may affect the schedule shown in Table 3.

<sup>11</sup> Interior made an initial mailing of 1,208 HSAs without obtaining the approval of the Court.

<sup>12</sup> Because accounts had closed, Interior only had addresses to mail 13,103 HSAs. Of these mailed, 822 were returned. Interior is seeking valid addresses for the former account holders whose whereabouts are now unknown.

**Table 3 - Revised Historical Accounting Schedule for Land-Based IIM Accounts**  
Targets Shown are Cumulative

<b>Activity</b>	<b>FY 2005</b>	<b>FY 2006</b>	<b>FY 2007</b>	<b>FY 2008</b>	<b>FY 2009</b>	<b>FY 2010</b>	<b>FY 2011</b>
<b>Judgment and Per Capita Accounts by accounts</b>	60% Complete	82% Complete	86% Complete	TBD	TBD	TBD	TBD
Ready to Mail J&P Historical Statements of Account*	17% Complete	50% Complete	80% Complete	TBD	Locating Whereabouts unknown	Locating Whereabouts unknown	100% Complete
<b>Eastern Region and Alaska Region</b>	Complete						
<i>About 203,000 +/- accounts are completely within the electronic period, post 1985</i>							
<b>Electronic ledger era</b>							
1. High Dollar Transactions	95% Complete	Complete					
2. National Sample	Complete						
3. Data Validation – 12 Regions	1 Regions	4 Regions	7 Regions	10 Regions	Complete		
4. Interest Recalculation – 12 Regions	1 Regions	4 Regions	7 Regions	10 Regions	Complete		
5. Completeness Testing		Testing	Testing	Testing	Testing Complete		
6. Ready to Mail Historical Statements of Account*			50,000 by the end of CY 2007	175,000 by the end of CY 2008	268,000 by the end of CY 2009		
<i>About 65,000 +/- accounts start in the paper period, pre-1985</i>							
<b>Paper ledger era</b>							
1. Image & Digitize Paper Ledgers		Begin Digitizing	Continue Digitizing	Continue Digitizing	Continue Digitizing	Complete Digitizing	
2. Data Validation 12 Regions				3 Regions	6 Regions	10 Regions	Complete
3. Strategy for Sampling and Reconciliation		Sample Design	Pilot Test Design	Account Analysis	Account Analysis	Statistical Results	
4. Reconciliation				Reconcile Sample	Reconcile Sample	Complete Reconciliation	
5. Interest Recalculation				Recalculate	Recalculate	Recalculate	Complete
6. Additional Tests				Testing	Testing	Testing Complete	Testing Complete
7. Ready to Mail Historical Statements of Account*					3,000 by the end of CY 2009	39,000 by the end of CY 2010	65,000 by the end of CY 2011
<b>Post-Accounting Response and Support</b>					Start	Continue Response	Continue Response

\* Numbers represent HSAs that can be printed and mailed to account holders. However, all mailings must be approved by the Court.

## D. Special Deposit Accounts

Special Deposit Accounts (SDAs) are used as temporary holding accounts for the receipt of trust funds that cannot be immediately or directly credited to the rightful account holders.

Historically, after calculating how the principal payment and any interest was to be divided, based on ownership of the allotted lands, money was moved from the SDA to individual and for tribal accounts. Another use of SDAs was to hold bid deposits or performance bonds from third party lessees that were intended to be returned to the third parties, such as return of losing bids when a lease was issued or return of a performance bond, as appropriate.

### 2003 Plan

At the time Interior prepared the 2003 Plan, more than \$67.9 million in residual balances were in SDAs awaiting distribution to the proper owner—individual Indians, tribes, or third parties. This money represented receipts and interest that had been deposited before December 31, 2002.

Interior has reclassified SDA accounts or resolved the proper ownership of and distributed more than \$51 million in residual SDA balances. Interior has spent approximately \$48 million distributing residual balances from SDAs

### 2007 Plan

The 2007 Plan removes all references to the resolution and distribution of residual balances from SDAs. None of the more than \$51 million distributed from residual balances in SDAs will appear on HSAs because the funds are part of current accounting distributions. Consequently, the SDA work, while related to trust reform, is not truly part of the historical accounting. OHTA will continue to report on SDA dollars distributed in the Quarterly Reports to the Court as part of the overall trust reform effort.

## E. Updating Numbers

While definition of the population of accounts in the historical accounting has not changed, better information is available on the number and type of accounts. Table 4 shows the current information on numbers of accounts.

**Table 4 - IIM Accounts in the Historical Accounting as of May 31, 2007**

IIM Account Type	Accounts Open on 12/31/00	Accounts Open on or After 10/25/94 But Closed Before 12/31/00	Totals
Judgment and Per Capita	42,218	54,605	96,823
Land-Based	193,766	74,183 <sup>13</sup>	267,949
Totals	235,984	128,788	364,772

<sup>13</sup> Account types are identified by a letter in the account number. Upon examination of the account transactions during the ongoing historical accounting, particularly the DCV project, Interior is finding accounts that were initially established with an incorrect letter code. While this has no bearing on the accuracy of the transactions, it affects how Interior classifies accounts for the historical accounting. For this reason, Interior continues to adjust the number of land-based accounts.



These numbers are subject to change slightly as Interior does its accounting research, which can lead to identifying new accounts, reclassifying account types, etc.

## **F. Asset Statements**

### 2003 Plan

At the time the 2003 Plan was prepared, land-based IIM account holders were receiving quarterly account statements, but were not receiving information regarding their ownership interests in allotted lands. The 2003 Plan stated that Interior intended to provide land-based account holders with a statement of the land assets they owned as of December 31, 2000. To assist account holders in evaluating their HSA, Interior proposed to include a land asset statement as part of the HSA package sent to each land-based account holder.

### 2007 Plan

In 2005, OST completed a conversion of the land ownership records in the Land Records Information System (LRIS) to the title module of the Trust Assets Accounting Management System (TAAMS Title). OST is also undertaking a data integrity review to verify or correct the LRIS land ownership information for use as part of TAAMS Title.

Currently, OST is in the process of converting the legacy leasing systems to the TAAMS lease management module. Once locations are converted to the TAAMS lease management module, ownership and encumbrance information will be reflected in TFAS. All regions and agencies are scheduled for conversion by September 30, 2007. The interface between TAAMS and TFAS will allow for quarterly account statements of performance, which include ownership and encumbrance information of trust assets managed at the converted agencies. When this is completed, starting in October 2007, Interior will have met its intended goal.

An additional consideration in the original plan was to prepare land asset statements as of the end date of the historical accounting, December 31, 2000. While it is possible to prepare a land asset statement showing interest ownership as of that date, such a statement would require new report writing capability, possible new computer code for TAAMS, and substantial quality assurance review of each statement generated for the December 31, 2000, date.

Because OST's more comprehensive land ownership, encumbrance, and financial statements are to be mailed to land-based IIM account holders in the last quarter of 2007, including a less comprehensive land asset statement in the HSA package will add little value and may, in fact, increase confusion on the part of recipients of the HSA package. Accordingly, Interior has eliminated providing land asset statements to account holders as part of the HSA.

## **VII. Conclusions**

Part 2 represents decisions made by Interior on how to complete the historical accounting given what has been learned from four years of accounting work; namely, that the Indian records exist and that the records can and are being used to perform the historical accounting. Part 2 frames the decisions in terms of achieving the objectives of getting accurate and complete HSAs into the hands of account holders, and brings into focus balancing the trade-offs of achieving a high degree of accuracy and completeness, within reasonable timeframes, and doing so within the constraints of scarce fiscal and human resources. Interior believes it can complete the historical accounting through the use of statistical methods to assure the accuracy of the accounts, completing the work within the next four years, at an additional cost of about \$144 million. This represents a careful and considered balancing of Interior's goals of achieving an acceptable, timely outcome, and at an achievable cost.

## APPENDIX A – DEFINITION OF TERMS

Accounting – Used as a noun (most common usage in this 2007 Plan), an *accounting* is the statement provided to IIM account holders that shows the past transactions that have occurred in their account, accompanied by an assessment of the accuracy and completeness of the statement. Used as a verb, *accounting* comprises the ongoing activities that are used to maintain an accurate record of the transactions in an IIM account in a paper or electronic ledger, including collecting, investing, and disbursing funds.

Actual Posting – The amount of money received or distributed shown as a posted transaction in an IIM account.

AIRR – American Indian Records Repository in Lenexa, KS. AIRR is physically connected to a state-of-the-art Federal Records Center operated by the National Archives and Records Administration (NARA). Interior's Indian Trust records are stored at this Records Center.

Accounting Standards Manual (ASM) – The compendium of standards used by OHTA and its contractors to provide uniform guidance on reconciliation of IIM accounts and transactions and examples of actual accounting and other documents is use in the historical accounting period.

BIA – Bureau of Indian Affairs

Box Indexing and Search System (BISS) – Software developed to allow the electronic search of Trust records (currently approximately 170,000 boxes) stored at the Federal Records Center in Lenexa, KS.

Completeness – Refers to inclusion in the accounting of all transactions that were posted during the historical accounting period.

Confidence Level – The assurance that statistical results in a randomly selected sample correspond to the population from which the sample was drawn. The confidence level is generally expressed as a percentage, e.g., 95%; in this case, there is only one chance in 20 that the sample results do not reflect the characteristics of the population.

Court – United States District Court for the District of Columbia

Data Completeness Validation (DCV) – Mathematical recomputation of posted transactions to determine the arithmetic total of transactions posted between time periods (e.g., month ends). If the transactions do not recomputed, a transaction may have been omitted from the database. A search of records is commenced to locate the missing transaction.

Difference/Error – A *difference* or *error* would be noted when the actual transaction posting to an account is different from the amount expected to be posted based on the contemporaneous records.

Difference Rate/Error Rate – This is how often a *difference* or *error* is observed, such as one *difference/error* per 100 transactions, or expressed as a percentage, one percent.

Dollar Difference – The observed amount, in dollars, between the actual account transaction posted and the amount of the transaction supported by contemporaneously prepared documents. For receipt transactions, this could be a positive dollar difference for an overpayment to the account, or a negative dollar difference for an underpayment to the account. For disbursement transactions, this could be a positive dollar difference for an under-recording to the account, or a negative dollar difference for an over-recording charged to the account.

Electronic Ledger Era – Beginning in February 1985, Interior retained an electronic back-up of IRMS transactions. Beginning in August 1998, and concluding in March 2000, the IRMS was converted to the TFAS, the current accounting system. The combined electronic IRMS and TFAS data comprise the electronic ledger era.

Expected Posting – The amount of money that should be posted to an IIM account as evidenced by contemporaneous records showing payment receipts based on contracts for fixed or production-based receipts, and the allocation of receipts to the individual IIM account. This term also applies to disbursements based on contemporaneous records supporting the disbursement amount.

Historic Accounting Period – For IIM accounts open as of October 25, 1994, or thereafter through December 31, 2000, the time from the later of the initial transaction in the IIM account or June 24, 1938 through December 31, 2000, or earlier closure of the account.

Historical Statement of Account (HSA) – The listing of transactions posted to an IIM account during the Historical Accounting Period. The listing, at minimum, will include the date the transaction was posted, the available reference, dollar amount, rolling-balance, and an indicator of what procedures, if any, were performed to evaluate each individual transaction.

HSA Package – The material that Interior will provide to each IIM account holder who had an account during the Historical Accounting Period. The HSA package consists of a transmittal letter, the HSA, a statement of assets, and other information as necessary.

IBIA – Interior Board of Indian Appeals

IIM – Individual Indian Money

IIM Account – An account in the IIM Trust Fund.

IIM Trust Fund – The fund that holds the undistributed balances of the IIM accounts managed within the IIM Trust Fund.

Interior – The U.S. Department of the Interior

IRMS – Integrated Records Management System

LRIS – Land Records Information System

LSA – Litigation Support Accounting

NORC – National Opinion Research Center at the University of Chicago

OHTA – Office of Historical Trust Accounting

OST – Office of the Special Trustee for American Indians

Paper Ledger Era – The period prior to February 1985. IIM accounts were maintained in a variety of methods ranging from manually posted cards to various bookkeeping machines.

Reconciliation – The process of testing whether a transaction posted in an account is accurate based on an examination of the contemporaneous documents that resulted in the posting. For IIM account transactions, reconciliation examines the actual account posting versus the expected account posting based on the revenue collected from a lease or contract and allocated to an account. The term *reconciliation* also applies to tests of allotted lands and a related lease or contract is examined to confirm that a collection was made and posted to an IIM account.

Special Deposit Account (SDA) – An account in the IIM Trust Fund in which receipts are held pending distribution to an IIM, tribal, or other account.

TFAS – Trust Fund Accounting System

Verification – The process of comparing the recorded amount for a transaction to the supporting documentation.

Whereabouts Unknown (WAU) – An IIM account holder for whom Interior has not current address.

1994 Act – American Indian Trust Fund Reform Act of 1994, Pub. L. No. 103-412

2003 Plan – *Historical Accounting Plan for Individual Indian Money Accounts*, dated January 6, 2003, and prepared for the U.S. District Court for the District of Columbia.

2007 Plan – *Plan for Completing the Historical Accounting of Individual Indian Money Accounts*, dated May 31, 2007

# HISTORICAL ACCOUNTING FOR INDIVIDUAL INDIAN MONIES

## A Progress Report



DEPARTMENT OF THE INTERIOR  
INDIAN SERVICE

AMOUNT	PD NO	DATE	BALANCE	AMOUNT	DEPOSITS PARTICULARS
100 00	JUN 30 1924 28000				MAY 31 1924
25 00	JUN 30 1924 1				
44 31	JUN 30 1924 2				
160 00	JUL 31 1924 3				
100 00	MAY 31 1924 4	256800 71			BALANCE MAY 31 1924
50 00	JUN 30 1924 5	260083 21			JUNE 2 1924
79 50	JUL 31 1924 6				22832 50 DEPOSITED JUNE 6 2 24
200 00	JUN 30 1924 7				500 00 DRAFT 1ST NATL BK DUSTIN G 2-24
314 01	JUN 30 1924 8				BALANCE JUNE 2 1924
2 50	JUN 30 1924 9				1575 00 DEPOSITED JUNE 4 1924
					16892 48 DEPOSITED JUNE 4 1924
					6094 21 DEPOSITED JUNE 4 1924
					10657 31 DEPOSITED JUNE 6 1924
					JUN 6 1924

PURPOSE

NO 250 T

MAY 9 JUNE 21 PAY

MAY 21R 12 17 25

MAY 2 JUNE 1921 PA

MAY 250 T

MAY 250 T

MAY 308 T

MAY 624 T

MAY 624 T

MAY SPEARS GROCERY

MAY 624 T

MAY FUNDS HERBERT

MAY FUNDS FRED

MAY 255 T


MAY 1427 T



EXHIBIT IV

# Contents

- Message from the Secretary . . . . . 1
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United States Department of the Interior  
 OFFICE OF HEARINGS AND APPEALS  
 FEDERAL BUILDING, ROOM 3633-3427  
 230 NORTH FIRST AVENUE  
 PHOENIX, ARIZONA 85025

IN REPLY REFER TO:  
 INDIAN PROBATE NO.

Form NO. 4-4213  
 UNITED STATES DEPARTMENT OF THE INTERIOR  
 BUREAU OF INDIAN AFFAIRS  
 Form approved by Comptroller General, U.S.  
 May 14, 1941

## FIELD RECEIPT

Received of \_\_\_\_\_ Name \_\_\_\_\_  
 \_\_\_\_\_ Address \_\_\_\_\_  
 \_\_\_\_\_ P.O. Box 1815  
 Bethel, Alaska 99559

Dollars & <sup>54</sup>/<sub>100</sub> Dollars (\$ 283.62)

and other negotiable papers, give description, including date, numbers, etc.)

DATE	QUANTITY	UNIT PRICE	AMOUNT
			\$ 283.6
<b>TOTAL,</b>			<b>\$283.62</b>

February 17, 1984 (Date)  
 Bethel Agency (Unit)  
 Collection Agent (Position)  
 AGENCY COPY  
 COLLECTOR'S COPY  
 ORIGINAL

Form 4-1964 - July 1964  
 Form Approved by Comptroller General, U.S.  
 April 6, 1958

## INDIVIDUAL INDIAN ACCOUNT LEDGER

Priscilla ( )

PREVIOUS BALANCE	DATE	DOCUMENT NO.	DESCRIPTION	CHARGES (DEBITS ETC.)	CREDITS (CREDITS ETC.)	BALANCE
	7-1-69		Bal. Fwd.			6.314
6.31	7-1-69	JVM 35	IRVIN & SOUTH MTH LEASES			
230.91	7-1-69	JVM 135	SOUTH MTH SELF 1 4.3			
302.05	7-1-69	JVM 143	SALT RIVER PIMA- HSBING AUTH. SELF 1 4.3	2.00	222.60	-3.31*
				180.00	392.05	230.74*
				214.05		3 4.05*
						.00*

1. That Ch was born February  
 2. That at property, real a listed on the inv  
 3. That c inherited intere No. , meet t Act, as amende

Section 2  
 481 U.S. ,  
 the United Ste  
 to Section 207.

Examples of documents used in reconciling account transactions. Notice of Filing of the Department of the Interior's Historical Accounting Project Document Dated May 31, 2007  
 Page 2 of 28

## Message from the Secretary

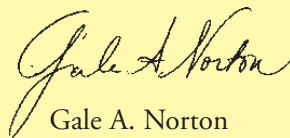
For several years, the Department of the Interior has been involved in an accounting project of unprecedented proportions. Among other things, Interior has been ordered by the district court in *Cobell v. Norton* to document every dollar it has received and disbursed on behalf of individual Indians since 1887—a task that encompasses billions of dollars, hundreds of thousands of accounts, and tens of millions of account transactions. Under the district court's order, Interior must verify the accuracy of every transaction in its individual Indian account ledgers by reference to the supporting documents. No other federal financial system—not the tax collection system, the Social Security system, or the Medicare system—has ever been tasked with an undertaking of this type and scope.

The resources necessary to accomplish this task are staggering—estimated at more than \$12 billion. Although the district court's order has been stayed pending appeal, Interior has nonetheless continued its accounting work, consistent with its own 2003 accounting plan and the funding provided by Congress, and has made substantial progress.

Interior's experience in conducting its accounting has revealed that a very high percentage of financial records are available—a quarter of a billion pages of Indian records have been collected and electronically indexed. Interior's accounting experts have uncovered no evidence of fraud or widespread systemic error in the U.S. government's handling of the individual Indian monies accounts, and the few errors that have been found are generally small in monetary value. This picture is significantly different from that offered by Interior's critics.

This brochure reports on the progress Interior has made in its historical accounting effort. I am very proud of the historical accounting work Interior has accomplished thus far, through its dedicated employees and an impressive group of outside contractors. The reported results provide some needed perspective on the allegations that have been made against the Department about its handling of individual Indian monies, and will, I hope, inform Congressional deliberations as well.

Sincerely,



Gale A. Norton



*Gale A. Norton*  
*Secretary of the Interior*





*Judgment accounts are often established for Indian minors.*

## Executive Summary

The historical accounting work on individual Indian monies (IIM) accounts completed to date by the Department of the Interior supports several significant conclusions:

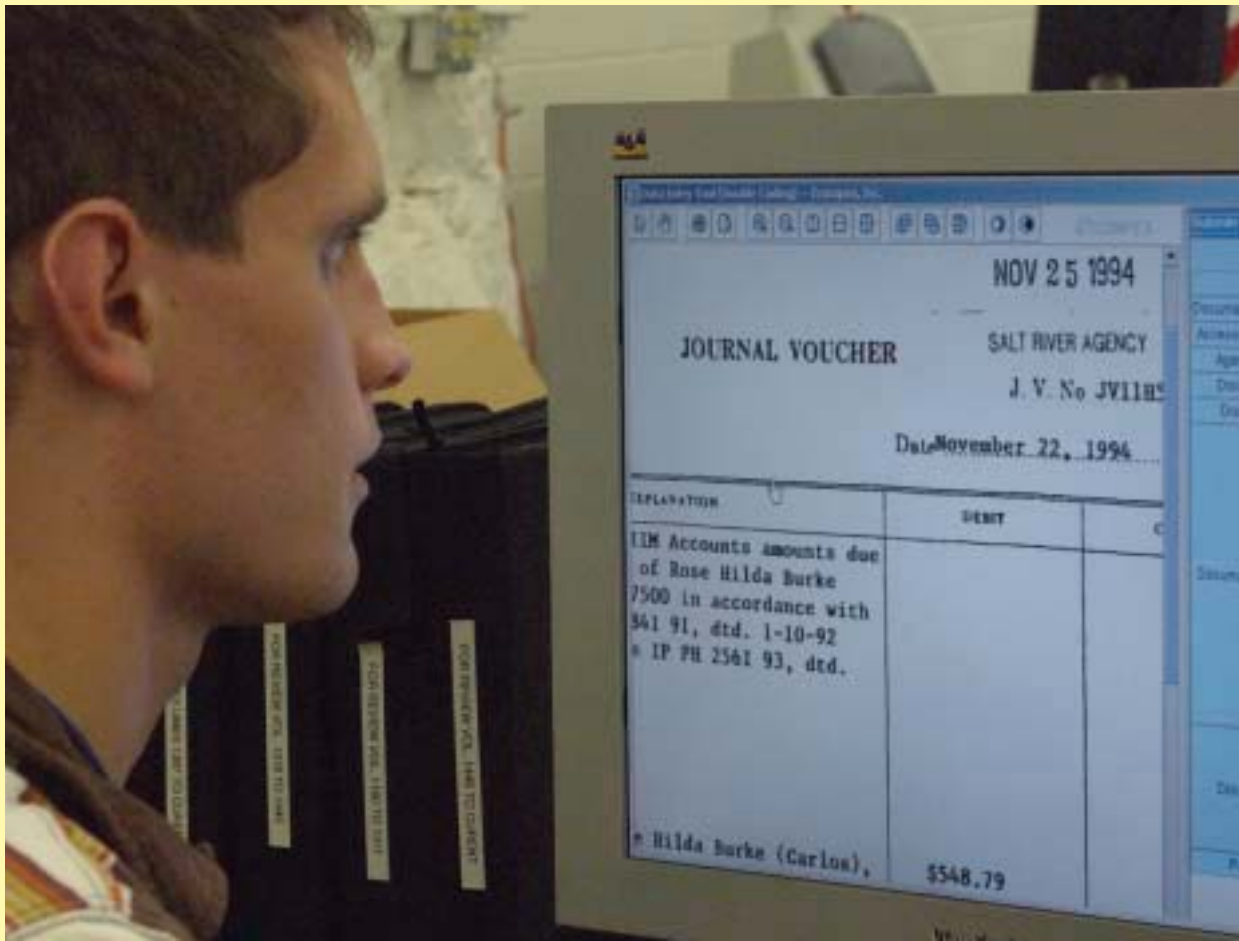
- Supporting contemporaneous records *do* exist and *can* be located for a very high percentage of accounts and transactions.
- Differences between supporting records and recorded transactions *are few in number, small in size, and not widespread or systemic.*
- There is *no evidence* that historical records have been altered or that hackers have tampered with electronic records.
- There is ample evidence that monies collected for individual Indians were distributed to the correct recipients—contrary to the claims of Interior’s critics.

Interior has completed a great deal of work to reach these conclusions:

- About a quarter of a billion pages of Indian records have been collected—with over 8 million relevant pages, some dating to the 1910s, digitally imaged and coded for search and retrieval.
- Interior’s accounting consultants, using these documents to reconcile (or compare) the *actual* IIM account transactions with the *expected* postings based on an examination of the original financial documents and ownership records:
  - have fully reconciled more than 25,800 out of a total of 42,218 Judgment and Per Capita IIM accounts (accounts based on payments to tribal members) with balances as of December 31, 2000, representing 56 percent of more than \$150 million in account balances; and
  - have reconciled nearly 17,000 transactions in Land-Based accounts (accounts that derive their income from the sale or use of land assets and resources), which in aggregate constitute 10 percent of all the dollars in such accounts.

- Some small differences have been uncovered that affect IIM accounts. While important to each affected account holder, in each portion of the accounting work to date, only about one percent of all the transactions reconciled has been found to be different from what was expected, some in favor of the account holder (overpayments), and some in favor of the U.S. government (underpayments).
- The aggregate value of the dollars posted that are different from the expected postings constitutes less than one percent of all the dollars reconciled.

Through the use of statistical samples, Interior is in a position to draw conclusions with a high degree of confidence about the overall accuracy of the transactions in the Land-Based IIM accounts covering the 1985–2000 period. Based on the sample findings, Interior’s experts are highly confident that the difference rates for all disbursement and deposit transactions are very small, and that the vast majority of these differences are less than \$10.



*About a quarter of a billion pages of Indian records have been collected—with over 8 million relevant pages, some dating to the 1910s, digitally imaged and coded for search and retrieval.*



# Historical Accounting: The Basics

of the Sisseton-Wahpeton Sioux Tribes Indians, parties of the first part of \$0

WITNESSETH, That said parties One Dollar, and other valuable in hand paid, the receipt of which is her unto said parties of the second part on the

Government Lot 1 of Section Principal Meridian, EXCEPTING 1.75 Acres, described as: Block Lot 1, which point is 1320 feet of Pickeral Lake, a distance of the shore of Pickeral Lake. Section ; thence North a distance of 585 feet, more or less, 32.85 acres, more or less. (88 Stat. §1468) amended by Subject to all valid existing

together with all the improvements part ies of the first part, for do hereby covenant their heirs and assigns, the claim of all persons, claiming To have and to hold said heirs, executors, administrators

IN WITNESS WHERE and seals the day and year

WITNESSES:



## Individual Indian Monies Trust Accounts

The General Allotment Act of 1887 directed that tribal lands be divided into parcels and given or allotted to individual members of Indian tribes. The initial individual Indian held the sole *ownership interest* in the allotment. As Indians died, often without wills, their heirs each received an *undivided interest* (or share) in the allotment.

Although much of the allotted lands has transferred from Indian ownership since 1887, individual Indians today own approximately 3.2 million undivided interests in approximately 10 million acres of trust lands. Because an individual Indian may inherit interests from several different ancestors, the total number of individuals who own interests is considerably smaller than the number of interests—only about 225,000. The U.S. government is the trustee for the lands and natural resources of individual Indians and for the monetary assets they generate. The Secretaries of the Interior and the Treasury manage those monetary assets through the individual Indian monies (IIM) accounts.

## Requirements for Accounting

In passing the American Indian Trust Fund Management Reform Act of 1994 (the 1994 Reform Act), Congress imposed the following duty on the Secretary of the Interior:

The Secretary shall 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 that are deposited or invested pursuant to the Act of June 24, 1938 (25 U.S.C. 162a).

In accordance with this duty, monies received today on behalf of individual Indians are reconciled on a daily basis, transactions are regularly reported to account holders (at least quarterly), and an annual audit of the IIM trust accounts is conducted by an independent auditing firm and reported to the account holders. Interior's current electronic accounting system (the Trust Fund Accounting System) is the same electronic system used by one-third of all U.S. banks.

## Purpose and Scope of the Historical Accounting


The purpose of the historical accounting for individual Indian monies is to determine and verify the correctness of the opening balance in today's accounts. Ever since Interior began collecting funds for and disbursing these funds to Indians, it has maintained systems—first manual and now electronic—to record those transactions.

## What Are Undivided Interests?

Undivided interests are expressed as a fraction of ownership of allotted lands—one-quarter, five-sixteenths, etc. Today approximately 225,000 owners have about 3.2 million interests in over 10 million acres of allotted lands.

  
Initial ownership of one Indian allotment =  
One *ownership interest*



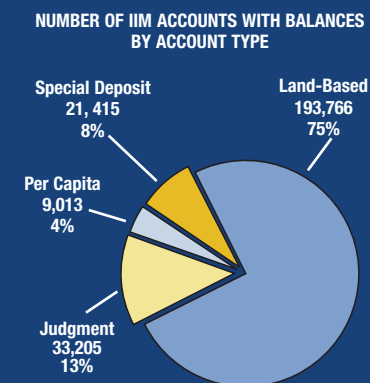
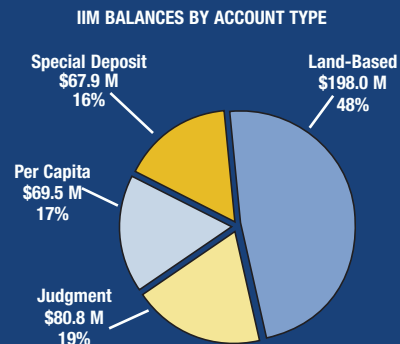
 = 1/4 Interests  
As ownership passes to heirs, *ownership interests*  
increase with each generation



 = 1/12 Interests  
Each heir has an *undivided interest*  
in the entire allotment

## IIM Accounts as of December 31, 2000

*Interior is examining four kinds of accounts that make up the trust funds held for individual Indians. Three-quarters of all IIM accounts are Land-Based accounts, and nearly one-half of the money in the IIM account balances are in Land-Based accounts.*



Consequently, Interior has divided the historical accounting into two time periods: the electronic accounting era of 1985–2000 and the prior paper accounting era. Interior’s Historical Accounting Plan, issued January 6, 2003, includes all IIM accounts open on or after October 25, 1994 (the date of the 1994 Reform Act’s passage), through December 31, 2000 (the date by which all IIM account holders were receiving regular quarterly account statements). The Plan calls for Interior to provide each individual Indian a Historical Statement of Account—a history that includes the opening balance, every transaction that ever occurred in that account, and the ending balance, as recorded manually or electronically. Interior also plans to provide each Indian a statement of assurance regarding the accuracy of the Historical Statement of Account.

### Types of Individual Indian Money Accounts

Interior has separated its historical accounting activities into four distinct types of IIM accounts: Judgment, Per Capita, Land-Based, and Special Deposit accounts. Each account type had dollar balances in them as of December 31, 2000.

#### JUDGMENT AND PER CAPITA ACCOUNTS

Individual tribal members received monetary distributions from their tribe from two general sources:

- funds paid to the tribe as a settlement or *judgment* award, and/or
- revenue the tribe earned on its activities (e.g., timber cutting, mineral extraction) and divided among tribal members as a *per capita* payment, similar to a dividend payment.

Most judgment and per capita payments were made directly to the tribal member, but minors and other individuals not eligible for direct payment were paid through IIM accounts. Interior has observed opening balance payments to individual accounts ranging from \$43 to \$15,370.

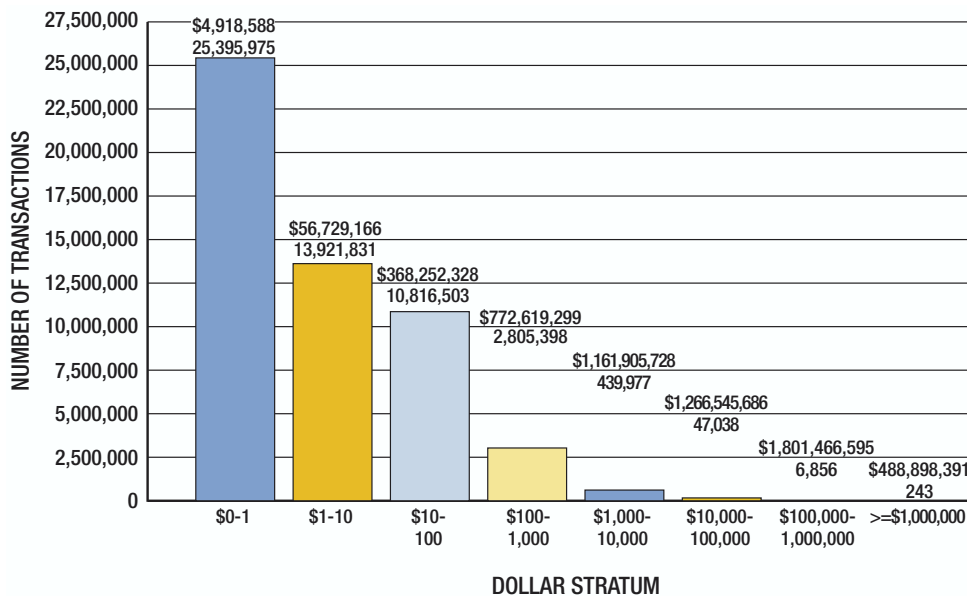
#### LAND-BASED ACCOUNTS

Some individual Indians received payments based on surface or subsurface leases or other permitted uses of their allotted land and resources. These uses include farming, grazing, rights-of-way, mining, timber, and oil and gas production.

Land-Based account balances and transactions ranged in value from less than \$1 to more than \$1 million. As land-based assets were inherited over time, the number of small payments continued to grow, along with the increasing number of undivided owner interests. This pattern continues today.

### DEPOSIT TRANSACTIONS FOR THE ELECTRONIC ERA: 1985–2000

The overwhelming majority of deposit transactions during the electronic records era are small in value and cumulatively represent a small percentage of total deposits. For example, during this period, 93.8 percent of the individual deposits were for less than \$100 and represented 7.3 percent of total dollars received, while 0.1 percent of the individual deposits were for more than \$10,000 and represented 60.1 percent of total dollars received.

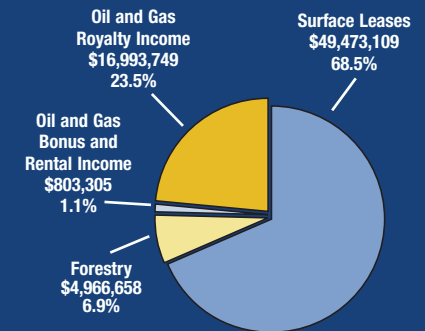


### SPECIAL DEPOSIT ACCOUNTS

Interior designed Special Deposit Accounts (SDAs) to be temporary holding accounts for the deposit of funds that could not immediately be credited to their rightful owners. SDAs have been used for a variety of reasons, including instances where ownership could not be readily determined, where time constraints prevented distribution, or where an unresolved issue affected the handling of the funds. Research and analysis of all SDAs must be completed to determine their original source of funds and to properly distribute the funds.

### LAND-BASED ACCOUNT RECEIPTS FOR CY 2000

Some individual Indians receive payments based on surface or subsurface leases or other permitted uses of their allotted land and resources. These uses include farming, grazing, rights-of-way, mining, timber, and oil and gas production.



*Note:*

*Surface leases*—Includes receipts from all types of real estate agreements, including farm and pasture leases, range leases, sand and gravel leases, land sales, rights of way, and business leases.

*Forestry*—Includes receipts resulting from timber contracts or related timber operations.

*Oil and gas bonus and rental income*—Includes receipts from lease agreements.

*Oil and gas royalty income*—Includes receipts from income generated from producing wells.

at 2 Members (Cash 4<sup>th</sup> gr 1879)

11 Paid J. Goldwater 2/13/80 for 12 1/2  
 fawns @ \$500 @ \$6.00, 5 gal. Oil land @  
 \$6.20/1 Buckskin @ \$1.50. (Cash 4<sup>th</sup> gr)

12 Paid J. Goldwater 7/13/80 for 40<sup>th</sup> dl  
 @ 16¢ @ \$7.20 (Cash 4<sup>th</sup> gr 1879)

15<sup>th</sup> Issued to 220 Heads of families 728  
 5076 rations (see Issue Book) (Prof. A)

22<sup>nd</sup> Issued to 205 Heads of families 799  
 5586 rations (see Issue Book) (Prof. A)

24<sup>th</sup> Issued to 166 Heads of families 627  
 4878 rations (see Issue Book) (Prof. A)

Deceased.

This is a proceeding  
 Indian Reservation.

Upon receipt of the  
 on April 22, 1988 and May 3, 1988

**FINDINGS AND CONCLUSIONS**

1. That CRAIG was born February 2, 1961 and died
  2. That at the time of death, property, real and personal, located listed on the inventories attached and
  3. That certain interests owned by inherited interests in Gila River Allotment No. meet the criteria for application Act, as amended October 30, 1984.
- Section 207, as originally promulgated, 481 U.S. , 95 L. Ed. 2d 668, 107 St. Ct. 20 the United States Federal District Court of New Mexico to Section 207. See Curley v. Hodel, CIV 88-0886



United States Department of the Interior  
 OFFICE OF HEARINGS AND APPEALS  
 FEDERAL BUILDING, ROOM 3823  
 230 NORTH FIRST AVENUE  
 PHOENIX, ARIZONA 85025

IN REPLY REFER TO:  
 INDIAN PROCEEDING NO. \_\_\_\_\_

# Historical Accounting: Protecting the Past



## Preserving and Consolidating Indian Records

Some have alleged that conducting a historical accounting is impossible because the needed records no longer exist. As a consequence of the work of the Indian Claims Commission of the 1950s, the National Archives and Records Administration (NARA) imposed a “do not destroy” order on all Indian records held at Federal Records Centers—an order that is still in effect today. As a result, the U.S. government has in its possession hundreds of millions of Indian-related documents.

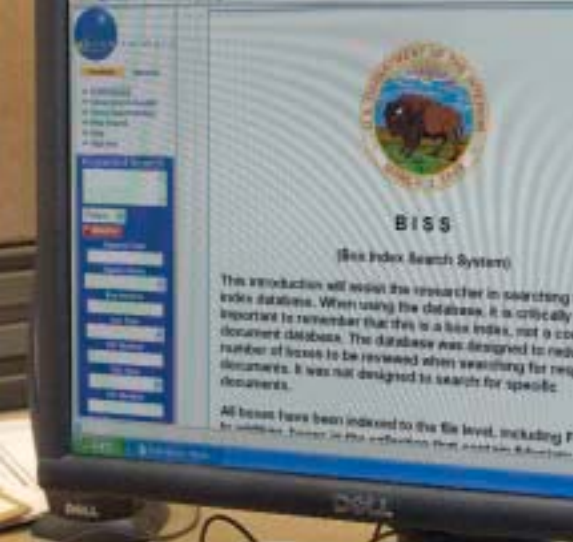
For years, inactive individual Indian and tribal trust records were stored under a variety of conditions at various Federal Records Centers and Bureau of Indian Affairs field offices throughout the country. Following passage of the 1994 Reform Act, the need to protect and have ready access to these records prompted an effort to collect and store them in several warehouses in Albuquerque, New Mexico.

After learning over time that many of these warehouses were not optimal storage spaces, Interior initiated discussions with NARA to build a state-of-the-art document storage facility to consolidate in one location all inactive federal Indian records. As a result, in 2003, Interior and NARA entered into an agreement to



*Original leather-bound accounting ledgers from the late 19th century are preserved in the American Indian Records Repository's underground storage center.*





*The boxes of records in AIRR are electronically indexed to the file level, with the resulting data entered into the Box Index Search System. This system facilitates the search for individual documents among more than 120,000 boxes that contain about 250 million pages of records currently stored in AIRR. Additional Bureau of Indian Affairs records are being collected from field offices, and are being indexed and stored in AIRR.*

establish the American Indian Records Repository (AIRR) in an underground storage center in NARA's Federal Records Center in Lenexa, Kansas. AIRR was completed in 2004, and all records were transferred from Albuquerque by June 2005.

AIRR has been constructed in accordance with higher standards for the preservation of archival records than any other U.S. records storage facility. In addition to lower temperature and humidity controls, AIRR has controls for particulate matter and ultraviolet light. These controls make AIRR the perfect location for the storage of historical records.

AIRR also has sufficient future capacity to hold all of Interior's American Indian records. Documents will continue to be shipped to AIRR as Bureau of Indian Affairs and Office of the Special Trustee for American Indians headquarters and regional field offices retire records.

### **Access to Indian Records**

AIRR provides secure access to records for research by individual Indians, tribes, and historians, with permission from Interior, and for Interior staff conducting the historical accounting. The boxes of records in AIRR are electronically indexed to the file level, with the resulting data entered into the Box Index Search System. This system facilitates the search for individual paper documents among more than 120,000 boxes that contain about 250 million pages of records currently stored in AIRR. Additional Bureau of Indian Affairs records are being collected from field offices, and are being indexed and stored in AIRR.

Further, Interior estimates that about 70 percent of the accounts that are within the scope of Interior's historical accounting were opened in or after 1985. This period also relates to the time when accounting transaction records were maintained in an electronic system. Interior's initial historical accounting work has primarily covered these accounts, and has demonstrated that supporting records can be (and are being) located. In addition, for some of the accounts that have transactions that pre-date 1985, older paper accounting ledgers and supporting paper records have been located. As part of their reconciliation work, Interior's accounting consultants have reported that they have not observed any evidence that paper records have been altered or that hackers have tampered with electronic records.



*AIRR provides secure access to records for research by individual Indians, tribes, and historians and for Interior staff conducting the historical accounting. The facility is ideal for the long-term storage of records.*



## Judgment and Per Capita IIM Accounts

To provide a statement of assurance to accompany Historical Statements of Account, Interior has decided to reconcile all transactions in each Judgment and Per Capita account. For the most part, these accounts consist of a single opening deposit posting and periodic interest postings. Because numerous accounts are usually associated with each Judgment or Per Capita distribution, by reconciling a payment in one account, Interior can also reconcile all the related accounts. Reconciliation of these types of accounts is straightforward:

- Judgment accounts are reconciled by comparing a posted deposit to (1) the judgment or Act of Congress award, (2) the Tribal Council resolution to distribute the funds in accordance with a use and distribution plan, and (3) the authorized tribal membership roll.
- Per Capita accounts are reconciled by comparing a posted deposit to (1) a Tribal Council resolution, and (2) the authorized tribal membership roll.
- For Judgment and Per Capita IIM accounts, disbursements are reconciled by comparing the posted disbursement to (1) the amount shown on a payment authorization or request for payment document, and (2) proof of clearance or receipt of the disbursement, such as a check register, negotiated check, or electronic fund transfer confirmation.

### PRINCIPAL POSTING

Differences identified during the reconciliation process sometimes favor the Indian beneficiary (overpayments) and sometimes favor the U.S. government (underpayments). The work to date reveals:

- More than 51,300 Judgment and Per Capita accounts were reconciled in which no differences were identified in their principal postings.
- Two Judgment accounts received overpayments totaling \$2,205.
- One individual identified on a tribal roll did not receive a Per Capita payment of \$100.
- Interior also found two instances where tribes did not distribute the correct amounts to their members:
  - Interest earned—\$52—on a refund of legal fees to a tribe was never distributed to 21 tribal members; only the refund itself was distributed.
  - Interest earned—approximately \$25,000—by a tribe on Judgment funds was never distributed to 786 accounts; only the principal amounts were distributed.

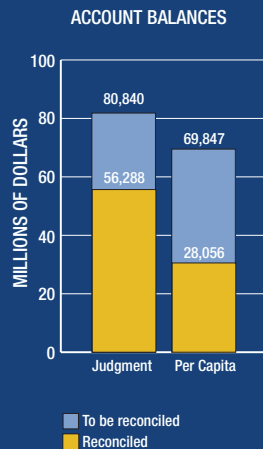
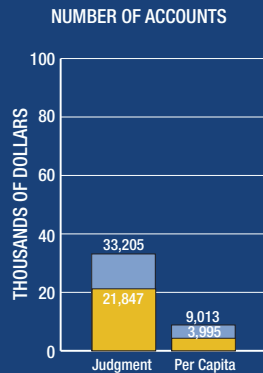
### WHAT ARE DOLLAR AND INTEREST DIFFERENCES?

The accounting reconciliation is a comparison of an *actual* deposit, disbursement, or interest posting to an account with the *expected* posting based on an examination of the contemporaneous documents that were the basis for the posting. A difference represents an instance where the actual posted transaction amount is not the same as the expected—or, in the case of interest, the recalculated—amount.

As part of Interior's historical accounting procedures, when a difference greater than \$1 is found, Interior reports the dollar difference between the actual posting in an account and what should have been posted. Dollar differences may be positive (the actual posting is greater than expected, to the benefit of the account holder) or negative (the actual posting is less than expected, to the detriment of the account holder).

## PROGRESS MADE IN RECONCILING JUDGMENT AND PER CAPITA ACCOUNTS

As of June 30, 2005, Interior has fully reconciled 25,842 (61 percent) of the 42,218 Judgment and Per Capita IIM accounts with balances on December 31, 2000.



An additional 57,354 Judgment and Per Capita accounts were open on or after October 25, 1994, and were distributed prior to December 31, 2000. As of June 30, 2005, Interior has also reconciled 26,323 of these zero-balance accounts.

## INTEREST POSTING

Because most Judgment and Per Capita IIM accounts have one deposit posting and many interest postings, Interior recalculated the interest posted to each account as part of the reconciliation process. This recalculation has revealed interest differences (defined as greater than 0.5 percent of the posted interest values), due in large part to calculation errors, for:

- 12,533 Judgment IIM accounts—Potential underpayments of less than \$225,000 and more than \$600,000 in potential overpayments have been identified (out of more than \$78 million in posted interest) for a net overpayment to Indian beneficiaries of \$375,000. The underpayments represent 0.3 percent of the aggregate interest posted.
- 1,236 Per Capita IIM accounts—Potential underpayments of less than \$19,000 and potential overpayments of less than \$9,000 were made to IIM accounts (out of more than \$14 million in posted interest) for a net underpayment to Indian beneficiaries of \$10,000. The underpayments represent 0.14 percent of the aggregate interest posted.

## Land-Based IIM Accounts

To assess the accuracy of the Land-Based Historical Statements of Account, Interior has decided to reconcile (1) *all* transactions of \$100,000 or more and (2) a statistical sample of transactions less than \$100,000. *No statistical sampling is involved in compiling each individual Indian's Historical Statement of Account.* Sampling is only used to *test the accuracy* of the recorded transactions in the account to determine the confidence one should have in the account histories and to provide a statement of assurance. Although Interior considered conducting transaction-by-transaction reconciliation for all transactions in the Land-Based accounts, due to the very large number of transactions (over 23 million deposit and 5 million disbursement transactions), of which the substantial majority have a value of less than \$100, Interior determined this course was too time consuming and costly.

Reconciling Land-Based accounts is more complicated than reconciling Judgment or Per Capita accounts because many more supporting documents are required to support Land-Based transactions, and locating those documents involves searching through many boxes of trust records at AIRR and in the field. Also, the ownership interest in allotted lands at the time of the receipt of money must be determined to verify that a posted deposit is the correct amount paid to the right individual interest owner.

EXHIBIT IV

Notice of Filing of the Department of the Interior's Historical Accounting Project Document Dated May 31, 2007  
Page 16 of 28



*Land-Based accounts derive their income from the sale or use of land assets and resources, such as timber, farming, grazing, and oil and gas production.*

### WHAT ARE THE BENEFITS OF SAMPLING?

Sampling is a well-accepted means for making inferences about an entire population. Sampling employs a review of selected members of a population based upon the informed belief that the selected members are representative of the entire population. This “representativeness” allows sound statistical inferences or valid conclusions to be drawn from the sample and applied to the entire population. For example, when a diabetic tests for blood sugar, the result for the single blood drop—the sample—is assumed to represent the sugar level in all the blood—the population.

The proper design, use, and application of statistical sampling:

- *Saves time*—Voter polling keeps candidates quickly informed of changing views of the electorate by sampling public opinion. Asking every voter his or her opinion would take far too long.
- *Saves money*—The Nielsen Ratings of television programs are produced by sampling what viewers are watching. Producing the Ratings by examining what every viewer in America is watching would be far too costly.
- *Preserves accuracy*—Sampling can provide a high degree of precision and a high degree of confidence in the accuracy of the results. Examining even 100 percent of a population can produce results that have work errors, especially for larger populations. Auditors use sampling to give their assurances regarding the results of major financial reports or the regulation of institutions, such as banks.

**ILLUSTRATIVE SAMPLE  
OFFICE OF HISTORICAL TRUST ACCOUNTING  
INDIVIDUAL INDIAN MONIES TRUST FUNDS  
HISTORICAL STATEMENT OF ACCOUNT**

**TO THE PARENTS(S) OR GUARDIAN OF  
MINOR CHILD**

**ACCOUNT OF  
ACCOUNT NUMBER**

As explained in the attached Historical Statement of Account transmittal letter, the account balance at December 31, 2000 was \$1,990.82

This balance was composed of the following:

Judgment award from Dockets 189A and 189B	\$1,717.09
Cumulative interest	<u>273.73</u>
Ending balance as of December 31, 2000	\$1,990.82

This account activity is detailed below. Interest was calculated based on average daily balance using the interest factor determined for each period by Department of the Interior's Office of the Special Trustee for American Indians. This factor, which may vary by period, is based upon the IIM Trust Funds' investments. Please note, the account balance shown is for December 31, 2000 (the date through which the historical accounting was performed). For account activity and balances after December 31, 2000, please refer to the quarterly Statements of Account.

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**TRANSACTION ACTIVITY FOR ACCOUNTING PERIOD: 8/27/1998 THROUGH 12/31/2000**

---

<u>DATE</u>	<u>AMOUNT</u>	<u>TRANSACTION DESCRIPTION</u>	<u>DOCUMENT REFERENCE (If calling, this information may be needed.)</u>
	<b>\$0.00</b>	<b>BEGINNING BALANCE</b>	
8/27/1998	1,717.09	Receipt of judgment award – Dockets 189A and 189B	Collection JUDGMENT PER CAPITA BB08T0142FREDLAKEPER
9/30/1998	85.23	Monthly Interest	Journal Voucher MONTHLY - AUTO JV08F20623.INT/AUG00
10/29/1998	76.41	Monthly Interest	Journal Voucher MONTHLY - AUTO JV109F20623.INT/SEP00
11/19/1998	50.26	Monthly Interest	Journal Voucher MONTHLY - AUTO JV10F20623.INT/OCT00
-----			
12/05/2000	61.83	Monthly Interest	Cash Receipt INTEREST EARNINGS DOCUMENT # JV11F20623.INT/NOV00
<b>12/31/2000</b>	<b>\$1,990.82</b>	<b>BALANCE AT DECEMBER 31, 2000</b>	

Please note the ending balance is NOT THE CURRENT BALANCE of your IIM account. The account balance shown is for December 31, 2000 (the date through which the historical accounting was performed). If you have questions about this Historical Statement of Account, please call the Office of Historical Trust Accounting toll free (877) 722-8196. For account activity and balances after December 31, 2000, please refer to the quarterly Statements of Account or your current IIM account balance, please call the Office of the Special Trustee for American Indians toll free (888) 678-6836.

*The January 6, 2003, Accounting Plan calls for Interior to provide each individual Indian with a Historical Statement of Account that includes the opening balance, every transaction as recorded in manual and electronic systems, and a statement of the accuracy of the statement. To date, more than 12,000 Historical Statements of Account have been mailed to Judgment account holders.*

### ***Historical Analysis of the “Named Plaintiffs and Their Predecessors in Interest”***

In 1996, five plaintiffs filed a class action lawsuit (*Cobell v. Babbitt*, now *Cobell v. Norton*), demanding, among other forms of relief, an accounting of IIM funds. The U.S. District Court for the District of Columbia certified “present and former” IIM account holders as a class, and required the Secretary of the Interior to “provide plaintiffs an accurate accounting of all money in the IIM trust held in trust for the benefit of plaintiffs, without regard to when the funds were deposited.”

As part of the *Cobell* litigation, Interior collected more than 165,000 documents for the historical analysis of the IIM accounts for the “Named Plaintiffs and Their Predecessors in Interest.” These documents went back as far as 1914, with seven of the 37 IIM accounts examined opened prior to 1920. Even in instances where there were gaps in an account’s transaction records, it was possible to reconstruct the missing transactions from the original documents that created the transaction. This historical analysis tested the accuracy of the more than 12,500 recorded account transactions by reconciling the source documents to the transactions and the ownership through time. Upon completing this \$20 million effort, Interior (and a partner in Ernst & Young LLP) reached the following conclusions:

- The historical IIM ledgers were sufficient to allow Interior to analyze monies collected and disbursed for the 37 accounts, an amount totaling \$1.12 million.
- The documents gathered by Interior allowed 86 percent of the transactions to be reconciled and supported more than 93 percent of the dollar values of the transactions analyzed.
- The documents gathered did not reveal any collection transactions that were not included in the selected IIM accounts, with a single exception in the amount of \$60.94, which was paid to another account holder due to a transposed account number entered in the recording process.
- There was no indication that IIM accounts are not substantially accurate, that monies were not disbursed, or that the transactions are not substantially supported by contemporaneous documentation.



*As part of the Cobell litigation, Interior collected more than 165,000 documents for the historical analysis of the “Named Plaintiffs and Their Predecessors in Interest” IIM accounts.*



Differences greater than \$1 were noted in some of the amounts posted. These differences—totaling nearly \$3,500 in overpayments and nearly \$250 in underpayments—constitute a combined difference rate of 0.4 percent, and an underpayment dollar difference of less than 0.02 percent of the dollars reconciled.

### ***Interim Results of the Litigation Support Accounting Project***

Congress has authorized expenditures for accounting work in support of the ongoing litigation. The Litigation Support Accounting (LSA) project tests the accuracy of Land-Based IIM accounts, and reconciles all high-dollar (\$100,000 or greater) transactions, and a statistical sample of smaller-value (less than \$100,000) transactions drawn from Land-Based IIM accounts nationwide.

The LSA project is now sufficiently complete to report interim results. Interior has located documents to support over 99 percent of the transactions to be reconciled in this project, further refuting the notion that the records needed for the historical accounting do not exist, are misfiled, or cannot be located. As a consequence:

- Statistical conclusions can be made. These are based on a sample of more than 6,000 transactions out of the approximately 28 million transactions in the 1985–2000 period. It is estimated that more than 40 percent of the monies that have ever flowed through IIM accounts occurred during this time period.

*Interior has located documents to support over 99 percent of the transactions to be reconciled in the Litigation Support Accounting project.*



- Interior's reconciliation of 1,784 high-dollar transactions to supporting documentation represents more than 10 percent of the aggregate dollars in the 1985–2000 period.

**Disbursement Transactions.** A key finding of the LSA project is the accuracy of disbursement transactions—payments made to IIM account holders.

- There is no evidence that monies were not disbursed to account holders.
- Only ten differences were found among the 956 high-dollar disbursement transactions reconciled. Three were underpayments totaling more than \$1,800, and seven were overpayments totaling more than \$19,700 (out of more than \$224.8 million reconciled). These underpayment differences represent 0.0008 percent of all the dollars reconciled.
- No differences were found in the sampled disbursement transactions (those that were less than \$100,000). The statistical conclusion can be made that, with 95 percent confidence, the underpayment difference rate for disbursements in the entire population in the 1985-2000 period is no more than 0.6 percent.

**Deposit Transactions.** The 828 high-dollar deposit transactions reconciled resulted in 65 differences: 34 were underpayments totaling just over \$60,000, and 31 were overpayments totaling just over \$33,000. For the 2,117 smaller-value deposit transactions reconciled, 36 differences were identified: 11 were underpayments totaling \$341 and 25 were overpayments totaling \$853. For all deposit transactions reconciled, this is a difference rate of 3.4 percent. The statistical conclusion can be made that, at 95 percent confidence, the underpayment difference rate for deposit transactions for the full population in the 1985-2000 period is no more than 3.0 percent.

## SPECIAL DEPOSIT ACCOUNTS

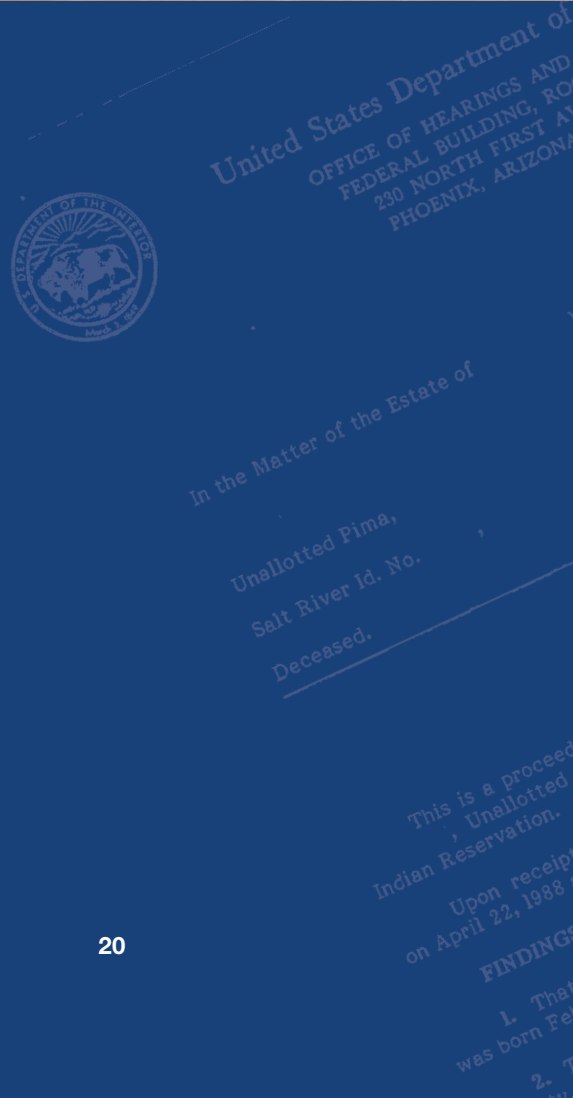
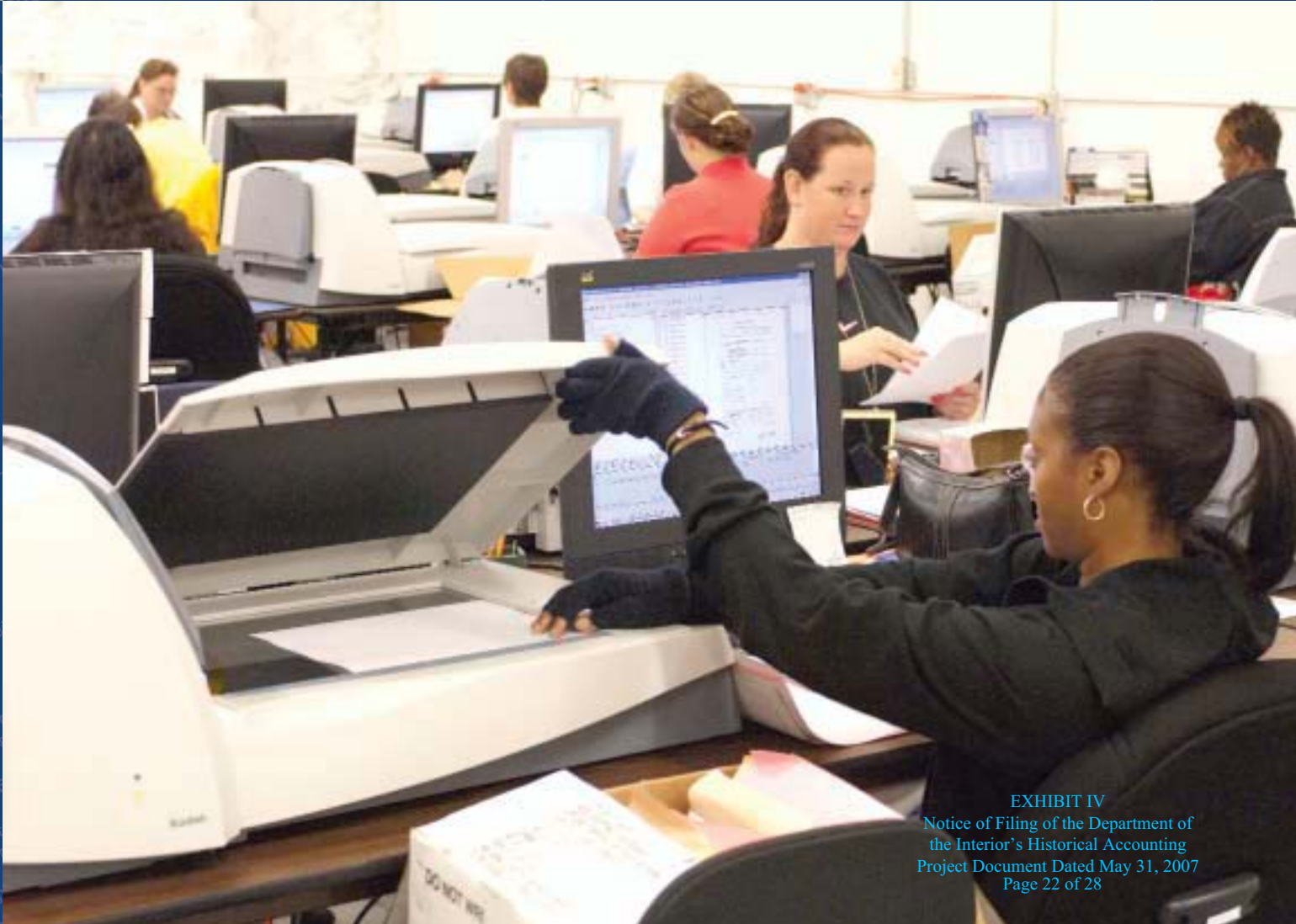
The SDA project is an investigation of balances in active and inactive SDAs to determine the nature of the balance and the proper ownership of the account balance. This project is not a reconciliation process in that its primary goal is to determine rightful owners—IIM account holders, tribes, and other parties, such as natural resource companies—of the funds and to distribute their funds to them. Thus far, \$36.1 million has been distributed.



Contemporaneous records are used to verify financial transactions.



# Historical Accounting: Comparative Analysis



## Comparison with Other Historical Accountings and Audits

Historical audit and reconciliation studies addressing the soundness of the Indian Trust systems have been conducted by the General Services Administration's Indian Trust Accounting Division, Arthur Andersen LLP (which conducted tribal trust fund reconciliations covering 1972-1992), the Government Accountability Office, and Interior's Office of the Inspector General, among others. The National Opinion Research Center (NORC) at the University of Chicago has reviewed more than 300 of these studies and is conducting a meta-analysis of the studies, reports, and reconciliations of the Trust systems. By integrating and synthesizing these various studies, NORC's meta-analysis will provide valuable evidence on the integrity of the IIM Trust Fund and the systems used in its administration over time.

Thus far, NORC has found no evidence of fraud or major systemic error in the U.S. government's handling of the IIM accounts. Although NORC's meta-analysis is ongoing, Interior's findings, in terms of the number and the size of dollar differences, are consistent with the findings of the previous studies NORC has examined to date. That is, while differences have been noted in transaction records:

- the difference rates are small;
- the dollar differences are a small percentage of the dollars managed in the Trust; and
- the differences appear to be randomly distributed, indicating no systemic issues.

### WHAT IS META-ANALYSIS?

Meta-analysis is a recognized statistical technique that allows conclusions to be drawn from a number of similar studies. The statistician combines findings of similar studies to gain precision and certainty, making it possible to assert a more generally applicable conclusion. Meta-analysis is frequently used to compare epidemiological studies and medical clinical trials to integrate the results of different studies in a particular area. For example, it allows conclusions to be drawn from the many different studies of smoking and cancer rates.



*The National Opinion Research Center (NORC) at the University of Chicago has reviewed more than 300 known historical audit and reconciliation studies addressing the soundness of the Indian Trust systems.*

NAME	AMOUNT	DATE
MRS FINE BOB		
WALTER CORNFIELD		
MRS FINE BOB		
WALTER CORNFIELD		
MRS TRUSTY FINE BOB		
WALTER CORNFIELD		
MRS TRUSTY FINE BOB		
WALTER CORNFIELD		
MRS ELEANOR BOB		
WALTER CORNFIELD		
MRS SEVENTY FINE BOB		
WALTER CORNFIELD		



United States Department of the Interior  
 OFFICE OF HEARINGS AND APPEALS  
 FEDERAL BUILDING, ROOM 3828-3427  
 230 NORTH FIRST AVENUE  
 PHOENIX, ARIZONA 85025

# Historical Accounting: Conclusions

FORM NO. 5-4213  
 UNITED STATES  
 DEPARTMENT OF THE INTERIOR  
 BUREAU OF INDIAN AFFAIRS  
 Form approved by Comptroller General, U.S.  
 May 14, 1941

## FIELD RECEIPT

Received of Name B.C. Bob  
 Address Bethel,  
Two Hundred  
Eighty-Three Dollars &

Description of payment received:  
 (For money orders, drafts, checks, and other negotiable instruments, state date, numbers, etc.)  
Money Order #70  
dt'd 12-16-84.  
CD 169850 2/84  
14X  
E00-01/X

FOR WHAT

BILL NO. 1.

DEPARTMENT OF THE INTERIOR  
 Bureau of Indian Affairs  
 Kansas City, Missouri

Indian Agency  
 Summary Statement of Account Current  
 with Field Office Fund Accounts

Month of October 1950  
 Location Kansas City, Missouri

Total Disbursements for Account Current	Collections		Disbursements	Analysis of In Transit Items	
	Available	Appropriations & Unavailable Receipts		Last Month Included in Amount In Col. 4	Last Month Included in Amount In Col. 5
2,942.00	4,230.00	333.76	1,307.50	- (6)	
			1,233.23	13,591.70	
			30,017.00	192.31	
			12.00	- (6)	
			10,232.50		
			.00		
			.00		

Signature William J. ...

## Lessons Learned

Including Fiscal Year 2005, Interior has spent more than \$100 million conducting historical accounting. From this effort, Interior has learned the following:

- To a very significant degree, the documents and financial records needed to conduct the historical accounting are available. Locating the necessary records is a lengthy and expensive process due to the sheer volume of records, but the documents are accessible and most can be found.
- Reconciliations completed for Named Plaintiffs, Judgment and Per Capita accounts, Land-Based transactions of \$100,000 or more, and a random, nationwide sample of Land-Based transactions less than \$100,000 show very low rates of differences. Further, most of the differences tend to be small in value.
- There does not appear to be any bias in the accounting results with respect to differences that favor or disfavor IIM account holders.
- There is no evidence of fraud or major systemic error in the U.S. government's handling of the IIM accounts. Differences found appear to be random computational, posting, or ownership errors.

To date, Interior's accounting work has principally covered the 70 percent of accounts opened in or after 1985 and existing through the 1985–2000 electronic accounting system era. Records prior to 1985 have been examined in the Judgment and Per Capita reconciliations and in the “Named Plaintiffs and Their Predecessors in Interest” reconciliations, which went back as far as 1914. Based on this pre-1985 work and NORC's meta-analysis, there is reason to believe the basic results achieved thus far will extend to the earlier paper accounting era.



*To a very significant degree, the documents and financial records needed to conduct a historical accounting are available.*



*Many firms are involved in conducting the historical accounting.*

## Major Members of the Historical Trust Accounting Consulting Team

*Professional Accounting Firms*—Five accounting firms are under contract to Interior's Office of Historical Trust Accounting (OHTA): Chavarria, Dunne & Lamey LLC; Deloitte & Touche LLP; Grant Thornton LLP; FTI Consulting, Inc.; and Reznick Group P.C. Formerly KPMG LLP, Arthur Andersen LLP, and Ernst & Young LLP participated in the effort.

*Commercial Trust Operations*—The Bank of America, which has the largest commercial trust operation in the United States, provides commercial trust expertise.

*Statistical Consultant*—NORC, the National Opinion Research Center at the University of Chicago, provides statistical analysis.

*Historians*—Morgan, Angel & Associates LLC, and Historical Research Associates, Inc., provide expertise on leasing, the allotment process, and reservation histories.

*Trust Legal Advisor*—The Washington-based trust specialist law firm, Hughes & Bentzen, PLLC, provides expert trust law advice.

*Accounting Reconciliation Tool*—Booz/Allen/Hamilton developed the system OHTA's accountants use to compare IIM transactions to trust records that support the transactions and record the findings.

*Information Technology Security Advisor*—Government & Business Solutions, Inc., provides consulting on the security of trust data and information technology.

*Document Imaging and Coding*—Ecompex, Inc., has imaged and coded over eight million pages of documents, which are stored in OHTA's Accounting Reconciliation Tool.

*Minerals Records Consultant*—Gustavson Associates assists in identifying records relating to oil and gas leases on lands allotted to individual members of Indian tribes.

*Records Storage and Indexing*—For the Office of Trust Records, Labat-Anderson, Inc., developed the Box Index Search System, and then implemented it, including indexing the boxes of records. Labat-Anderson advises OHTA on records storage and indexing.



United States Department of the Interior

OFFICE OF HEARINGS AND APPEALS  
FEDERAL BUILDING, ROOM 3823-3427  
230 NORTH FIRST AVENUE  
PHOENIX, ARIZONA 85025

IN REPLY REFER TO:  
INDIAN PROBATE NO.

In the Matter of the Estate of

Unallotted Pima,  
Salt River Id. No.  
Deceased.

This is a pro  
, Unallotted  
Indian Reservation

Upon receipt  
on April 22, 1988

FINDINGS

1. That CP was born February
  2. That at property, real a listed on the inv
  3. That c inherited interest No. , meet f Act, as amended
- Section 2  
481 U.S.  
the United States  
to Section 207.

Form No. 4-1213  
UNITED STATES  
DEPARTMENT OF THE INTERIOR  
BUREAU OF INDIAN AFFAIRS  
Form approved by Comptroller General, U.S.  
May 14, 1941

FIELD RECEIPT

ORDER

Received of

Name  
Address  
and

P.O. Box 1815  
Bethel, Alaska 99559

Dollars \$ 283.62

and other negotiable papers, give description, including date, numbers, etc.)

INDIVIDUAL INDIAN ACCOUNT LEDGER

PREVIOUS BALANCE	DATE	DOCUMENT NO.	DESCRIPTION	CHARGES (PAYMENTS, ETC.)	CREDITS (RECEIPTS, ETC.)	BALANCE
	7-1-69		Sal. Pwd.			6.31*
6.31	1-1-69	JVM 35	IRVIN & LEASES			230.91
230.91	1-1-69	JVM 155	SOUTH MTN SELF 1 4.3			302.05
302.05	1-1-69	JVM 161	SALT RIVER PIMA- HISING AUTH. SELF 1 4.3	230.01	2.00 222.00	3.04*
	1-1-69	JVM 166		180.00 212.05	392.05	3.00*
						.00*
<b>TOTAL</b>						

Payment on  
Phase 1 -  
Field  
sion.

Order #70866102  
2-16-84.

CD 169856 2/22/84  
LHX  
E00-01/X /00/

February 17, 1984  
(Date)

(Signature of collecting  
Collection  
(Position)

circumstances, if not in cash, are accepted subject to collection.

AGENCY COPY

COLLECTOR'S COPY

ORIGINAL

“A very high percentage of financial records are available. ... Interior’s experts have uncovered no evidence of fraud or widespread error in the government’s handling of individual Indian monies accounts.”

Gale A. Norton  
Secretary





[WWW.DOI.GOV](http://WWW.DOI.GOV)

# **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**

**January 6, 2003**

## 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).<sup>1</sup> The work described in this Plan is expected to take five years to complete<sup>and</sup> 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.

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<sup>1</sup> *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).<sup>1</sup>

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

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<sup>1</sup> *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.<sup>2</sup> 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.<sup>3</sup>

The Court of Appeals subsequently affirmed most aspects of the Court’s ruling.<sup>4</sup> 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).”<sup>5</sup> 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.”<sup>6</sup> 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.

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

<sup>3</sup> *Id.* at 40-41.

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

<sup>5</sup> *Id.* at 1086 (emphasis in original).

<sup>6</sup> *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.<sup>7</sup> Accounting for this pre-October 25, 1994 “history” is what is meant by the term “historical accounting.”<sup>8</sup> 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.”<sup>9</sup>

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.”<sup>10</sup> 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.<sup>11</sup>

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*

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

<sup>8</sup> The term “historical accounting” does not appear in the 1994 Act.

<sup>9</sup> 25 U.S.C. § 4011(a).

<sup>10</sup> *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.

<sup>11</sup> *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.”<sup>12</sup> 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.<sup>13</sup> 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;”<sup>14</sup> a trustee should not be obligated to prove the validity of each underlying transaction in the account for the previous beneficiary.

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<sup>12</sup> *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.

<sup>13</sup> 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.”).

<sup>14</sup> 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."<sup>15</sup>

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.

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<sup>15</sup> 25 U.S.C. § 4011(a).

# The Historical Accounting Plan for Individual Indian Money Accounts

## 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:<sup>16</sup>

- 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.

<sup>16</sup> 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 Plan for Individual Indian Money Accounts

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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.

## The Historical Accounting Plan for Individual Indian Money Accounts

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### 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**

<b>Account Type</b>	<b>Number of Accounts</b>	<b>Account Balances (in \$ millions)</b>	<b>Percent of IIM Trust Fund</b>
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;

## The Historical Accounting Plan for Individual Indian Money Accounts

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- 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

## The Historical Accounting Plan for Individual Indian Money Accounts

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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**

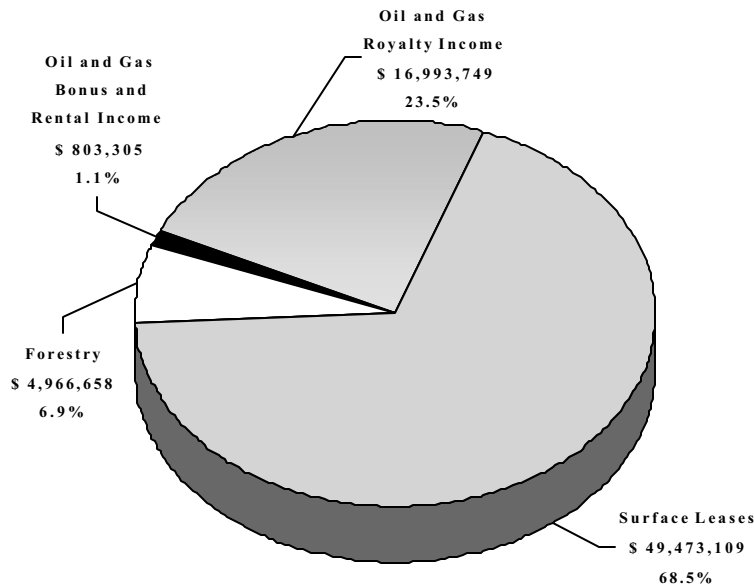
#### *Accounting Methods Considered*

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.

## The Historical Accounting Plan for Individual Indian Money Accounts

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*.



## The Historical Accounting Plan for Individual Indian Money Accounts

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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).<sup>17</sup>

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.<sup>18</sup>

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.<sup>19</sup>

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

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

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

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

## The Historical Accounting Plan for Individual Indian Money Accounts

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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 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:

## The Historical Accounting Plan for Individual Indian Money Accounts

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- 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.<sup>20</sup> 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.

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<sup>20</sup> 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

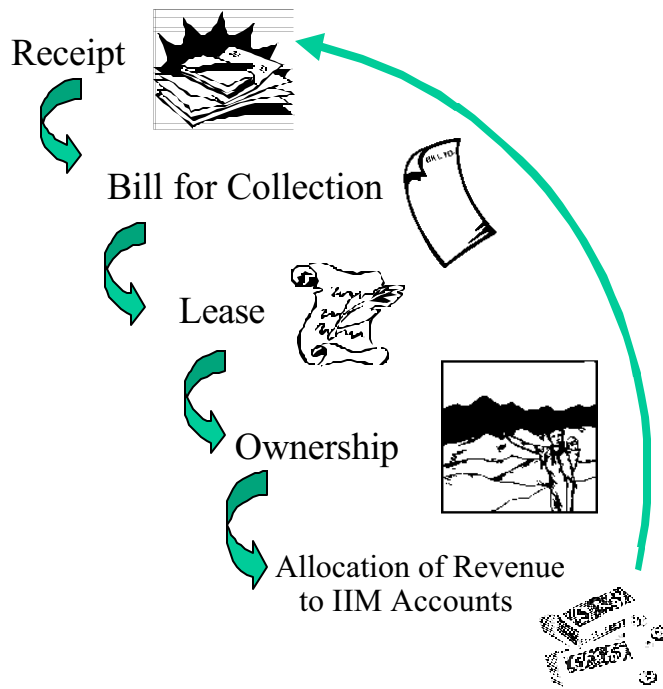
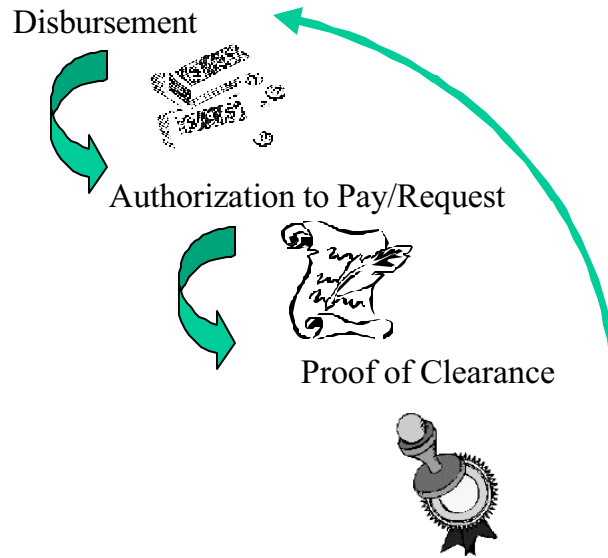


Figure III-3  
Verification of Disbursements for IIM Accounts



*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*).

**The Historical Accounting Plan for Individual Indian Money Accounts**

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

<b>Number of Transactions by Value Groups</b>				
	<b>&gt;\$ 0 to &lt;\$500</b>	<b>\$500 to &lt;\$5,000</b>	<b>\$5,000</b>	<b>Totals</b>
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.<sup>21</sup>

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.<sup>22</sup> 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.

<sup>21</sup> 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).

<sup>22</sup> 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.

## The Historical Accounting Plan for Individual Indian Money Accounts

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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 Historical Accounting Plan for Individual Indian Money Accounts

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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



## The Historical Accounting Plan for Individual Indian Money Accounts

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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.

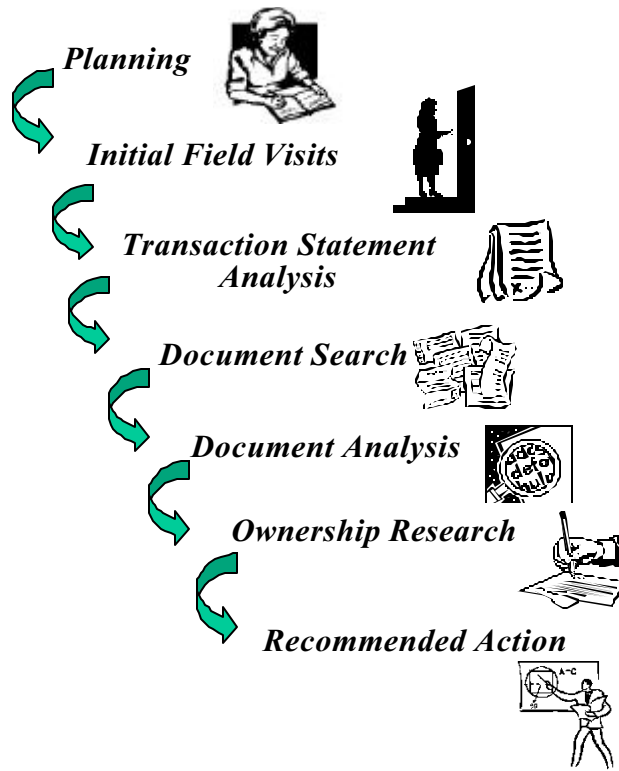
**Descriptive Data**

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*



## **The Historical Accounting Plan for Individual Indian Money Accounts**

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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;

## **The Historical Accounting Plan for Individual Indian Money Accounts**

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- 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.

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### *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.

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### *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				
	FY' 03	FY' 04	FY' 05	FY' 06	FY' 07
<b>1. Ongoing Accounting Projects</b> - Judgment and Per Capita Accounts - Special Deposit Accounts - <i>Cobell</i> Named Plaintiffs' Accounts - Eastern Region Accounts - New TFAS Accounts					
<b>2. Land-Based Accounts in the Electronic Era</b> - Index Records - Transactions US\$5,000 - Sample Transactions ≥ \$500- < \$5,000 - Sample Transactions \$ 0 - < \$500					
<b>3. Land-Based Accounts Paper Records Era</b> - Index Records - Ledger Creation - Transactions US\$5,000 - Sample Transactions ≥ \$500- < \$5,000 - Sample Transactions \$0 - < \$500					
<b>4. IIM System Tests</b> - 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.	No. of Accounts	No. of Trans.	No. of Accounts	No. of Trans.	No. of Accounts	No. of Trans.	No. of Accounts	No. of Trans.	
<b>1. Ongoing Projects</b>											
Eastern Region	100	1,650									\$ 150
New TFAS Accounts											150
Cobell Plaintiffs											260
Judgment and Per Capita Accounts	12,665	1,140									2,469
Special Deposit Accounts	1,500	2,000	5,000	7,000	5,000	7,000	5,000	7,000	5,000	7,000	27,000
<b>2. Electronic Records Era</b>											
All Transactions \$5,000		10,000		63,511		14,608					18,158
Sample of Transactions >\$500 - <=\$5,000		10,000		60,000		13,800		10,000		2,300	19,650
Sample of Transactions \$0 - <=\$500				60,000		13,800		20,000		4,600	18,400
<b>3. Paper Records Era</b>											
Reconstruct Ledgers			17,788		23,275	17,788			18,937		60,000
All Transactions \$5,000			20,000		30,000	8,700		50,000		14,500	29,000
Sample of Transactions >\$500 - <=\$5,000					35,000	10,150		45,000		13,050	23,200
Sample of Transactions \$0 - <=\$500					35,000	10,150		45,000		13,050	23,200
<b>4. IIM System Tests</b>											
						5,000				10,000	25,000
<b>5. Modeling and IT</b>											
Accounting Model		400				250				250	1,400
Data IT Needs		2,000				15,000				13,988	50,988
<b>6. Outreach*</b>											
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				300				300	1,500
<b>7. Administrative</b>											
						4,350				7,950	29,825
<b>Total</b>		<b>\$ 15,350</b>				<b>\$100,000</b>				<b>\$100,000</b>	<b>\$335,075</b>

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.

## The Historical Accounting Plan for Individual Indian Money Accounts

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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 TFAS<sup>23</sup> 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

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<sup>23</sup> 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.

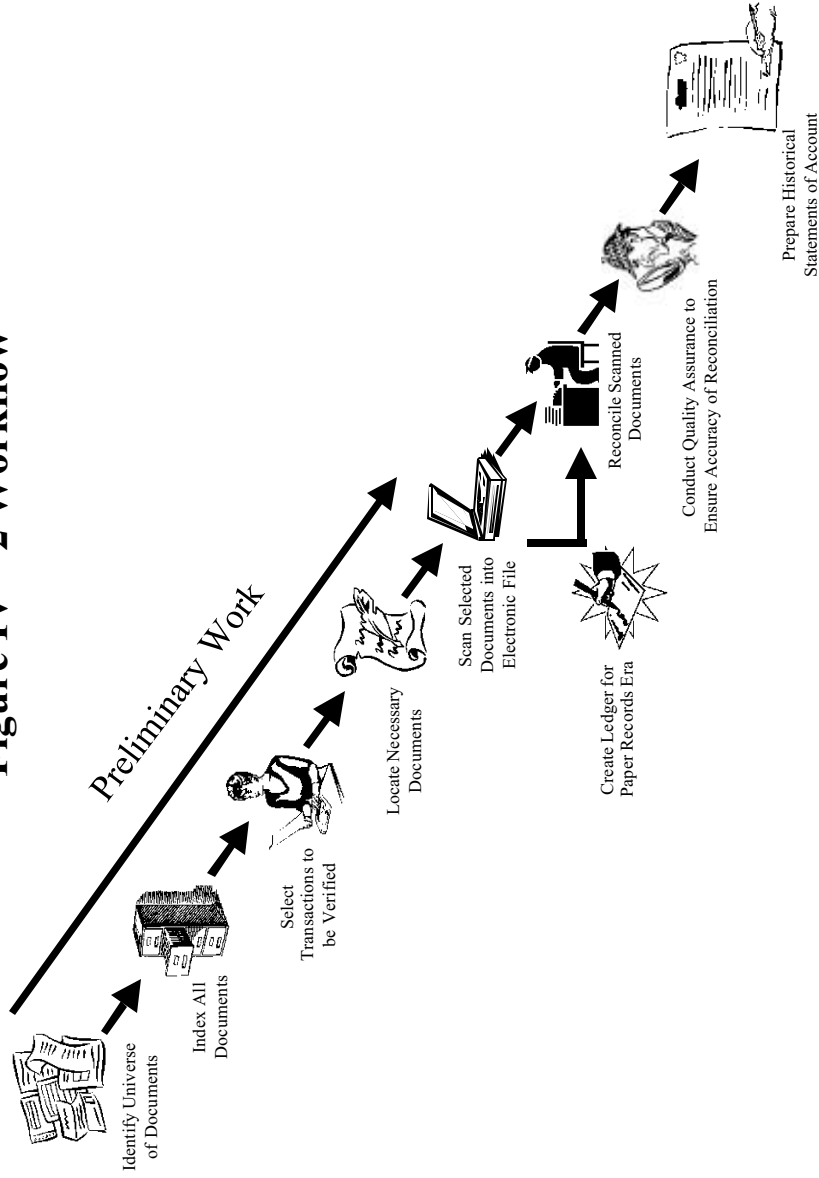
The initial verification of land-based account transactions will start in the Alaska Region. Interior plans to have the accounting firms presently under contract participate in the Alaska accounting to ensure that all firms are using consistent, appropriate methods, and to develop a cadre of experienced 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

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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.

**APPENDIX A**

**EXAMPLES OF QUARTERLY STATEMENTS  
OF ACCOUNT TO ACCOUNT HOLDERS**

**APPENDIX A. EXAMPLES OF QUARTERLY STATEMENTS OF ACCOUNT  
TO ACCOUNT HOLDERS**

As the TFAS system replaced the IRMS system, Interior commenced sending Quarterly Statements of Accounts to IIM account holders. The final TFAS conversions, which were principally done on a BIA agency by agency basis, were completed in early calendar 2000. Thus, IIM account holders have been receiving Quarterly Statements for a number of quarters since the respective TFAS conversions were completed.

The Quarterly Statements reflect an opening balance (the closing balance of the prior Quarterly Statement – for the first such Quarterly Statement, the opening balance was the closing balance in the former IRMS system), receipts, disbursements, other changes, and an ending balance. Each Quarterly Statement has a telephone number shown which IIM account holders can call if they have questions on their Quarterly Statement.

Following are sample redacted quarterly statements.



**APPENDIX B**  
**IIM ACCOUNT DATA**

The Historical Accounting Plan for Individual Indian Money Accounts

**Table B-1 – Balances as of December 31, 2000, and Dollar Throughput of Land-Based IIM Accounts for 1985 Through 2000**

<del>Throughput →</del> Balance ↓	Less Than \$100	\$100 to \$999	\$1,000 to \$9,999	\$10,000 to \$99,999	\$100,000 or More	Total
<b>Less Than \$100</b>						
\$ Balance	878,018	306,977	(71,788)	(20,404)	623	1,093,426
# of Accounts	70,057	52,000	28,683	3,889	219	154,848
# of Transactions	2,474,934	7,276,837	8,909,869	1,919,173	231,018	20,811,831
\$ Throughput	14,056,318	192,077,324	831,149,758	805,415,006	322,418,395	2,165,116,801
<b>\$100 to \$999</b>						
\$ Balance	2,326,571	4,741,907	1,534,775	177,770	6,368	8,787,391
# of Accounts	8,137	12,230	3,540	422	16	24,345
# of Transactions	407,718	1,387,110	1,095,856	155,401	2,306	3,048,391
\$ Throughput	2,583,963	36,355,784	111,510,574	86,857,665	22,777,091	260,085,077
<b>\$1,000 to \$9,999</b>						
\$ Balance	3,505,981	14,805,931	15,484,495	2,059,153	87,449	35,943,009
# of Accounts	1,472	5,886	4,280	511	27	12,176
# of Transactions	54,413	500,137	1,053,130	241,411	15,664	1,864,755
\$ Throughput	410,875	20,021,408	118,527,900	133,366,427	79,484,091	351,810,701
<b>\$10,000 to \$99,999</b>						
\$ Balance	3,533,206	5,178,956	27,486,793	19,458,476	2,048,607	57,706,038
# of Accounts	153	267	1,119	545	46	2,130
# of Transactions	832	34,403	286,108	229,231	37,666	588,240
\$ Throughput	17,794	1,694,884	42,373,700	126,471,119	156,252,991	326,810,488
<b>\$100,000 or More</b>						
\$ Balance	1,340,990	1,024,084	10,083,398	37,395,176	44,601,914	94,445,562
# of Accounts	7	6	57	136	61	267
# of Transactions	34	105	11,249	94,502	45,406	151,296
\$ Throughput	111	16,427	3,670,970	61,341,603	165,743,160	230,772,271
<b>Total \$ Balance</b>	11,584,766	26,057,855	54,517,673	59,070,171	46,744,961	197,975,424
<b>Total # of Accounts</b>	79,826	70,389	37,679	5,503	369	193,766
<b>Total # of Transactions</b>	2,937,931	9,198,592	11,356,212	2,639,718	332,060	26,464,513
<b>Total \$ Throughput</b>	17,069,061	250,165,827	1,107,232,902	1,213,451,820	746,675,728	3,334,595,339

Source: CD&L based on data from OST/OTFM.

**Table B-2 –Summary of IIM Accounts at December 31, 2000<sup>a</sup>**

	<u>Number of Accounts</u>	<u>\$ Balance (in millions)</u>
Land-based Accounts	193,766	\$ 198.0
Judgment Accounts	33,205	80.8
Per Capita Accounts	<u>9,013</u>	<u>69.5</u>
<b>Total IIM Accounts</b>	<b>235,984</b>	<b>\$ 348.3</b>
Special Deposit Accounts	<u>21,415</u>	<u>67.9</u>
<b>Total Current Accounts</b>	<b>257,399</b>	<b>\$ <u>416.2</u></b>
House, Foreign, to be investigated and other accounts	<u>4,071</u>	
<b>Total Open Accounts</b>	<b>261,470</b>	
Inactive Accounts <sup>b</sup>	<u>17,840</u>	
<b>Total IIM Accounts<sup>c</sup></b>	<b><u>279,310</u></b>	

<sup>a</sup> Source: Office of Trust Funds Management December 31, 2000, IIM Statistics Report.

<sup>b</sup> These accounts have no recent activity, but are expected to have future activity.

<sup>c</sup> Whereabouts unknown accounts number 61,673 and represent \$65.4 million. These accounts are included in the total 279,310 accounts. They represent account holders whose addresses are unknown. These account holders do not presently receive Quarterly Statements of Account or periodic disbursements.

**APPENDIX C**

**QUALITY CONTROL**

## APPENDIX C. QUALITY CONTROL

As noted in its July 2, 2002, *Report to Congress*, OHTA is implementing quality control (QC) checks to achieve best practices at each phase of the historical accounting process, including data inputs, systems and infrastructures, processing, and outputs. This Appendix describes details in five areas of OHTA's quality control plan.

- Basic approach to quality
- Overall quality check process
- Record collection/record imaging
- Accounting results
- Information systems

Quality performance has two basic premises—planning and supervision, and sufficient relevant data in working papers. These premises are included in each of the foregoing areas.

### BASIC APPROACH TO QUALITY

High standards intended to result in high quality results are central to conducting an adequate historical accounting. Another key factor is appropriately focusing quality efforts. The overall quality focus is risk-based, i.e., determining what major risks significantly impact the quality of results and what strategies can minimize these risks.

One risk is inconsistent results. OHTA is striving for consistency through standardization on common systems, procedures, and processes across the various organizations involved. For example, OHTA is centrally developing a historical accounting support system, which will be used by the accounting firms to produce accounting results. Another example is OHTA's issuance of guidance, such as demonstrated by OHTA's *Accounting Standards Manual (Manual)*. OHTA conducts training programs to obtain common understandings and has implemented centralized issue tracking to resolve issues timely and appropriately.

Besides establishing a common infrastructure for the various firms involved, OHTA is conducting QC checks and tracking results. Trends will be analyzed to determine whether additional guidance, training or other action is necessary to achieve quality objectives. OHTA senior management receives statistical information regarding the quality of work packages along with other key performance data, such as transactions and accounts reconciled. Performance data gathered will be used to refocus QC testing strategies. For example, the data may indicate increased or decreased QC testing is desirable in selected activities.

Quality objectives are being achieved through both internal and external quality checks. Each team involved with producing inputs or outputs of the historical accounting bears primary responsibility for the quality plan for its products, such as responsibility to maintain internal quality processes, staff the project with appropriately skilled personnel, conduct staff training, and perform supervisory review. Additionally, certain subject-matter expert consultants are conducting independent quality checks on their performance.

## OVERALL QUALITY CHECK PROCESS

An OHTA external QC check typically involves six steps.

1. *Plan* – Begins with identifying the area that will undergo a QC check and determining the objective, scope and timing of the QC check. A QC program is developed and documented in a QC checklist to maintain a consistent process. The plan takes into account previous QC results to develop adaptive strategies, such as the need to further test additional activity in populations.
2. *Conduct Analysis* – Consists mainly of activities related to conducting interviews with performing consultants or OHTA staff, and inspecting documentation. The analysis step also involves identification and discussion of preliminary observations with the team that performed the work undergoing a QC check.
3. *Draft Report* – The QC firm documents the results of analysis in a draft report. The report is then provided to OHTA senior management, OHTA’s contracting officer representatives, and to the contractor whose work underwent the QC check. The draft report contains a description of QC results, key observations and suggestions for improvement.
4. *Resolve Findings* – The contractor whose work underwent the QC check has an opportunity to respond formally to the QC draft report. Should differences of opinion exist between the QC firm and the contractors as to the proper resolution of a comment, both parties present their rationale to OHTA senior management for its input.
5. *Issue Final Report* – After comments are discussed, the QC firm will revise its report as necessary and distribute the report.
6. *Conduct Follow-up, as Necessary* – In some cases, the contractor may have ‘action items’ needed to complete the work product that underwent the QC check. The QC firm tracks these ‘action items’ and conducts a follow up QC check to verify the action item is completed successfully. Additionally, as a result of the QC check, issues may arise that are communicated to the parties involved in performing the historical accounting, such as sharing of ‘best practices’, or updating of the *Manual* or other guidance used to conduct the historical accounting.

## Record Collection/Record Imaging

Interior plans to implement QC checks at each phase of the records collection and imaging process. This includes checks on the design of processes, procedures, and systems to conduct the collection and imaging. For example, a QC check will be performed on the document imaging and coding structure. Once implemented, periodic QC checks will be conducted to verify the design is being implemented as per management's intent. QC checks are anticipated to cover the following areas:

- Imaging and coding structure;
- Completeness of documents collected, imaged, and returned to storage;
- Legibility of images;
- Accuracy of coding;
- Record/box inventory;
- Security; and
- Document preparation and re-assembly (pre-and post imaging).

## Accounting Results

The accounting results produced by the accounting firms undergo QC checks by another accounting firm. The QC firm samples results for consistency with the *Manual*. The *Manual* provides guidance, such as documentation standards. For transactions sampled, the QC firm assesses the judgment made by the accounting firm as to adequacy of supporting documentation, classification of the reconciliation results, and calculation of errors (if any). Additionally, the QC firm assesses historical accounting results in light of professional standards established by the American Institute of Certified Public Accountants. These standards include professional competence, due professional care, planning and supervision, and sufficient relevant data.

## Information Systems

The support system under development for the historical accounting is focused on meeting OHTA and its stakeholder requirements for account reconciliation. This will be accomplished by following a structured development life cycle approach. This approach encompasses trust requirements that are clearly defined and traced throughout the life cycle of the historical accounting project. At each life cycle milestone, products are tested against requirements and communicated with the users for their information and feedback. To further assure that OHTA has an information system that answers its needs, a contractor has been engaged to provide independent verification and validation that deliverables meet the needs of the users.

Key system life cycle deliverables include:

- Requirements documentation – What the system is to provide;
- Design documentation – How the system works;
- Implementation – Installation of the system;
- Test plans/results – Periodic verification of system reliability;
- Data conversion – Processes used for conversion of data from other information systems;  
and
- Training – Ensure that system users understand this tool.

Additionally, once systems are in operation, periodic post-implementation reviews will be conducted to verify they are meeting management objectives, such as data security.



**APPENDIX D**

**SAMPLE DESIGN PLANNING REPORT**

## APPENDIX D. SAMPLE DESIGN PLANNING REPORT PREPARED BY NORC<sup>1</sup>

### 1. Main Goal

In the historical accounting of the Individual Indian Money (IIM) Accounts, various problems arise which are to be addressed by statistical sampling methods.<sup>2</sup> This Appendix discusses one particular application of sampling, that of audit sampling,<sup>3</sup> in the historical accounting: The use of sampling to test the accuracy and completeness of the land-based IIM account statements. An important goal of the historical accounting effort is to provide each IIM account holder with a Statement of all transactions in the account. Accompanying this Statement is a description of its completeness and accuracy, and an estimate of the needed adjustment (if any) for each account. For large transactions something like the following may be said.

*“Enclosed is a copy of your Historical Statement of Account. All transactions with a value of \$5,000 or more have been checked against the supporting documents; any discrepancies that were found are shown.”*

For smaller transactions, where sampling occurs, the resulting statement and conclusions depend on what is learned. However, if the results are good, then something like the following might be said.

*“For transactions under \$5,000, statistical sampling procedures were used to verify the accuracy of the process. With 99 percent confidence, we can say that more than 99 percent of the transactions are accurate.”*

Many errors may be clerical in nature, for example data entry errors or errors caused by two pages in a document sticking together. After a modest amount of checking, such errors may be treated as random and not systematic. This error rate should be small, but it may vary by BIA agency or location, type of transaction, and time period. The sample is designed to capture these errors when they exist and to quantify their importance with high accuracy.

The sample must also be designed to do more. Not all errors are random and independent. There could be “pockets” of errors that are systematic, that are due to a procedure that was not well explained, or an algorithm that was incorrectly programmed, or an ownership interest that was misapplied. These errors can cluster together within an IIM account, among owners of the same tract of land, in the same BIA agency or during a particular time period.

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<sup>1</sup> This Sample Design Planning Report represents NORC’s recommendations. Therefore, in places, for example, there may be minor timing differences between this Report and the Plan.

<sup>2</sup> Sampling is to be used in assessing and controlling the quality of the searching for records and even, as Appendix C states, in the accountings themselves (For a general view, see Deming, W.E. 1986).

<sup>3</sup> Statistical sampling is routinely used in audit practice, as described in texts such as Guy (1994) and Wilburn (1984). See also AICPA (2001).

By using an *adaptive* approach (Thompson 1996), the sample procedures are designed to deal with unexpected or systematic patterns or “pockets,” if these are detected. When an error is found on a randomly selected transaction, and it is *not* just clerical (e.g., a transposition of digits), then additional work is performed “around” this error. These additional sample tests are chosen with the specific purpose of pursuing and correcting systematic mistakes.

The adaptive aspect of the sample design is quite challenging technically because it combines forensic accounting ideas with rigorous probability sampling (e.g., Thompson, 1996). Section 7 below sketches the issues briefly. It may be enough to say here that we expect this two-step sampling process to be frugal in its use of resources, while still providing great benefit to account holders.

## **2. Specific Scope**

The transaction population of IIM land-based accounts has a natural division in terms of the information that is currently available. For the recent transactions, from the mid-1980’s forward, information on the transactions is available electronically - via a database with transaction information.<sup>4</sup> These transactions are referred to as being in the “Electronic Records Era.” Transactions prior to the mid-1980’s are referred to as being in the “Paper Records Era,” because paper ledgers need to be found and an electronic ledger created.

The sampling of Electronic Records Era transactions occurs first, and the design of that process is described in this Appendix. The design process for the Paper Records Era is also discussed, but only briefly (see Section 8 below). Details on sampling in the Paper Records Era are to be covered in a subsequent design report, when the data are available.

Land-based IIM accounts are those that derive income from allotted tracts of land. The transactions for IIM land-based accounts can be classified into three general types: collections, disbursements, and interest accruals.<sup>5</sup>

It is our understanding that interest accruals are being recalculated and compared with the actual interest amounts that are posted; hence, interest verification is not in scope for sampling. Judgment and Per Capita IIM accounts are also out of scope here, because sampling is not required. Typically the same amount is provided to each authorized individual in setting up a Judgment or Per Capita account. Because the record searching and verification efforts are

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<sup>4</sup> The conversion of the IIM to the Electronic Record Era was done over several years, at different points in time in different places. Gaps exist too. For these, electronic records must be recreated by retrieving original paper records or still available computer printouts from files that are no longer electronic. See Zhang and Scheuren (2002) for dates and locations when the Electronic Record Era started. Also found there is a summary of the gaps.

<sup>5</sup> Transfers from one account to another within the IIM are a fourth transaction type that needs to be verified by sampling. Transfers can be either a disbursement or a collection. It is hard to make any generalizations about them for this reason and because their treatment varied over time in different locations, including during the software changeover from IRMS to TFAS. The best way to treat them remains to be determined. Almost certainly they will be put into separate strata.

minimal in these cases, they are being reconciled on a 100-percent basis, without utilizing sampling. Special Deposit Accounts are also out of scope for sampling, as described in the Plan. While the final sample design cannot be determined until further data analysis has been performed, this Appendix describes the process in broad outline. In order to make the process concrete, a specific example is provided of a sample design for the Anadarko Agency, given hypothetical numbers.

### 3. Major Types of Samples

Four main approaches to drawing samples from the IIM Trust Fund activities involving IIM land-based accounts<sup>6</sup> are considered in detail in this Appendix. These are –

- Selecting Individual Transactions
- Selecting Unique Receipts
- Drawing Supporting Documents
- Taking Entire Accounts.

The different sampling options grow out of the complexity of the transaction population and the different ways that one can approach verification. Each has advantages and disadvantages – all of which are taken into consideration in the design of the final samples.

#### A. Statistical Sampling of IIM Transactions

**Description:** Statistical sampling of transactions begins by randomly selecting transactions posted on an electronic IIM database (for gaps in the Electronic Records Era after 1985 and for periods prior to the Electronic Records Era but after June 24, 1938, such a database would be created from paper ledgers prior to sampling).

**Goal:** To determine, with an acceptable level of confidence, that the error rate among the transactions posted to an IIM account is below an acceptable maximum. Several ways are under consideration that would lead to an *estimated maximum dollar error* for each land-based IIM account. Several techniques in the statistical literature are to be examined. What we will recommend, however, depends on what is learned from the data. Some of the statistical references being studied are cited in Section 9.

**Process:** The sampling process involves first stratifying the transactions by dollar size, location, and era. For each randomly selected transaction within the established stratum, an attempt is made to obtain supporting document(s). The document(s) found are then checked by accountants to determine whether the posted amount is accurate as to dollar amount, IIM account number, and in accord with the supporting documentation (e.g., leases, journal vouchers).

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<sup>6</sup> The accounts being considered for sampling in this Appendix are the accounts in 11 regions (the Eastern Region is excluded) that derive income from allotted land. Eastern Region accounts are being fully reconciled on a transaction-by-transaction basis, because they are so few in number.

**Strength:** The method is conceptually simple and easy to communicate. It allows a scientifically defensible statement about the transaction error rate, including the dollar error rate. If there are known sources of accounting errors (e.g., in certain types of transactions or transactions at a specific location) the approach can be adapted accordingly (e.g., by selecting 100 % of these transactions, i.e., taking them all with certainty).

**Weakness:** The approach is unable to detect erroneous omissions on the IIM account (receipts that have never been posted to the proper IIM account). It can also be difficult to find all supporting documentation (leases, vouchers) or “supports” for a given selected transaction. Methods are available to address this concern. The approach to finding supporting documentation is similar to that used earlier in the “Paragraph 19” document search in *Cobell*. It is anticipated from this earlier work, therefore, that it may be quite expensive to locate all the supports.

**Recommendation:** We recommend that this approach be used for statistically sampling disbursements. It can also be used, as adapted elsewhere, for other types of transactions, except receipts testing, which is described next.

## B. Statistical Sampling of Unique IIM Receipts

**Description:** Transactions for land-based revenue can be grouped by the type of transaction (e.g., collection) and the type of revenue (e.g., timber sale) using the reference code of the transaction. In this way, income from one source (e.g., a bill for collection) that is distributed to several IIM accounts can be related back together as a unit, based on the IIM transaction coding information. Such a grouping of individual revenue transactions is called a unique receipt.<sup>7</sup> The statistical sampling under this test begins by randomly selecting unique receipts and then verifies one or more individual IIM transactions.

**Goal:** As stated above, to determine, with an acceptable level of confidence, that the error rate among the transactions posted to an IIM account is below an acceptable maximum. Such a result, when used in combination with other statistical testing described herein, might permit the computation of an *estimated maximum dollar error* for each land-based IIM account (see Section 9 below).

**Process:** Unique receipts can be stratified by the total dollar value and by the number of individual account distributions within each transaction. For a randomly selected unique receipt, the accountants verify that the amount of the receipt was credited appropriately to the proper IIM accounts. Another option, when there are multiple contracts or leases involved with the same

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<sup>7</sup> Not all “unique receipts” pertain to a single contract or lease. This is especially true in TFAS where what appear to be unique receipts may actually involve many different contracts on different properties. For cases when only a single contract exists, only one IIM transaction needs to be tested, when testing one is testing all. When there are multiple leases more than one transaction has to be given a chance for testing. This subsampling is done once the documents have been located and separate contracts identified.

unique receipt, is to verify a random subsample of the IIM transactions on the selected unique receipt.

**Strength:** For land-based receipts, this approach can be cost-effective because a single unique receipt affects a number of land-based IIM accounts. This method can more efficiently test large-dollar amounts coming into the IIM Trust Fund that are subdivided into many accounts so that, at the IIM transaction level, the amounts are small. Strata based on dollar amounts of the unique receipts can be separately tested.

**Weakness:** This approach applies only to certain types of receipts, and does not include any disbursements. In addition, it does not target the largest individual transaction amount. Furthermore, as with the direct sampling of individual IIM transactions, this approach is unable to detect erroneous omissions.

**Recommendation:** We recommend that unique receipts be the sampling unit for land-based IIM receipts. The stratification of unique receipts is, however, to be by the size of the largest individual transaction they contain (see Section 7 below for an example).

### C. Statistical Sampling Of Supporting Interior Documents

**Description:** In all the samples being drawn, accountants use supporting documentation to verify the accuracy of a transaction.<sup>8</sup> Documents may be in active use in file drawers at an agency office. Documents, not in active use, are in boxes stored at various locations around the country. As part of this third approach, these paper files are going to be directly subjected to sampling. The statistical sampling begins by selecting a random sample of storage units (file drawers, boxes) containing supporting transaction documents. The contents found in each storage unit are then subsampled. In this case, randomly selected subsamples of support documents are matched to appropriate postings on related IIM account(s); that is, the matching goes in the opposite direction, from supporting documents to IIM electronic records, rather than the reverse.

**Goal:** As with the direct sampling of transactions, sampling support documents determines, with an acceptable level of confidence that the error rate among the transactions posted to an IIM account is below an acceptable maximum. Such a result, when used in combination with other statistical testing described herein, might permit the computation of an *estimated maximum dollar error* for each account.

**Process:** The sampling process involves first stratifying the storage units by agency/area location and time period. Every selected storage unit or box of records is triaged and all required land-based supporting records found are imaged and coded so they can be selected for matching to a transaction posted in the related IIM account. An attempt is then made to verify that activities documented in the land based supporting documents are consistent with and support related IIM transactions.

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<sup>8</sup> Some examples of supporting documents include negotiated checks, leases, rights-of-way, journal vouchers and so forth.

**Strength:** This is the only approach that is able to detect omitted transactions on IIM ledgers (i.e., receipts or disbursements that have never been posted). A sampling approach that incorporates some document sampling is, therefore, much more robust and easier to defend than a pure account/transaction-based method which is incapable of detecting a missing posting (a major concern expressed by IIM account holders). Directly sampling documents is expected to be cost-efficient because it is much easier to match a document to its related IIM account posting than it is to take an IIM transaction and find the pertinent supporting documentation.

**Weakness:** If there are agencies/time periods/income types for which supporting documentation is particularly incomplete or poorly maintained, the corresponding transactions are less likely to be included in the sample. Also, if used alone, accounts with few transactions are less likely to be included within the sampling process. Finally, while it is straightforward to determine the probability of selecting a particular document, determining the selection probability of a transaction is challenging since an unknown number of copies of the same document may exist in the files. The *Cobell* record collection is to be examined to assess how to handle this.

**Recommendation:** We recommend that this approach be relied on heavily for sampling small transactions. It should be supplemented by methods that permit stratification by transaction size and, hence, is combined with the first two methods explained above. The search costs should be less for this approach because the search starts with one of the supporting documents already on hand, making the overall “find” rate for documents higher.

#### D. Statistical Sampling Of IIM Accounts

**Description:** The sampled population consists of the land-based IIM accounts (using the population definition of accounts open on or after October 24, 1994). The sampling begins by randomly selecting IIM accounts.

**Goal:** To estimate, with a certain level of confidence, that the *account error rate*, in terms of *dollars or percentage of dollars*, is below an acceptable maximum.

**Process:** A stratified sample of accounts is selected (stratified possibly by location, throughput, number of transactions, ending balance, etc.). For the selected IIM accounts, supporting documents are found for all transactions and the accuracy of the Historical Statement of Account is verified. The dollars in error are then measured directly.

**Strength:** Account sampling provides complete accounting for the selected IIM accounts and the sample verifications for these accounts can be used directly. It is also easy to explain.

**Weakness:** Account sampling is the most expensive sampling method in terms of time, cost, and required work force. Furthermore, the total cost cannot be readily determined with precision. The variability in cost is high, depending on the number and complexity of transactions in the selected land-based IIM accounts. Costs depend not only on the number and type of transactions in the sampled IIM account, but also on how diverse the account is (some accounts cover many allotments, over several agencies, even agencies in different regions). Finally, it is difficult to

predict the sample size necessary for estimating the dollars in error with specified precision. At this point, there is minimal information available to allow reasonable predictions.

**Recommendation:** We recommend that this approach be used sparingly because it is not cost effective. As already noted, it is very difficult to estimate the (transaction) sample sizes necessary for specified (account-based) confidence levels without prior information regarding the properties of the errors – information that only becomes available after the project is completed.

#### **4. Supplementary Checking**

A large number of transactions are fully reconciled directly through sampling. Ideally, all sampled cases are completely resolved, with no room for controversy or disagreement. However, this rarely happens in practical situations; hence we are developing plans for handling those cases for which incomplete or contradictory supporting evidence may be all that can be found in Interior files.

In particular, we concur with the policy that asks third parties to notify the Department of the Interior before destroying potentially relevant records - notably, small local banks in Indian Country that may have kept canceled checks for longer than the now standard seven years. There are other tests, too, that must be made of certain processes or databases. For example, in order to check that the income from land is correctly allocated, the distribution of receipts by degree of allotment ownership must be verified. This step is part of the sample verification process within IRMS but the IRMS recorded ownership is carried back to still other sources, such as the Land Record Information System (LRIS).

#### **5. Basic Activities**

The samples of transactions, unique receipts, and supporting documents that were described earlier in Section 3 are integrated in stages to determine the overall sample design. In this section we describe the process for determining the final sample design.

The more information that is available about the population, obviously the better one is able to design an effective and efficient sample. The first step, therefore, is the analysis of the electronically available data (e.g., as in Zhang and Scheuren 2002). Analysis is important for determining that the proper population definitions and data are being used, and for learning as much as possible about the population, so that the sample can be stratified and balanced effectively.

The following provides an outline of the procedure for developing the specific sample design and the considerations that need to be analyzed or researched. Transactions are treated differently, depending on their type: disbursements versus receipts, the different income sources for receipts, the year of the transaction, whether the individual transaction was part of a unique receipt, where



the income was earned, the type of account (e.g., administrative versus individual), and any other information that might reveal special problems or characteristics.

Because individuals often own interests in more than one allotment, the income to an account may be generated from many different agencies and even from different regions. Therefore, the geography of the accounts and the geography of the transactions need to be considered. For each agency, we expect to use the following definition of the population of transactions:

- All disbursement transactions for accounts in the agency
- All TFAS collection transactions for accounts in the agency
- All IRMS collection transactions that originated in the agency (i.e., transactions where the source of the income was in the agency of interest).

Once the population is defined by agency, the distribution of the transactions by value can be examined.

For a receipt or disbursement, more than one supporting document is usually needed. For income based on the land, the source for at least one of the supporting documents is the agency/area where the land is located.

Every individual transaction valued at \$5,000 or more is to be reconciled to its related supporting documentation. This means that, based on accounts open through December 31, 2000, about 73,500 large IIM transactions are to be reconciled in that one stratum alone. For transactions of less than \$5,000, two additional strata based on the transaction value are used – transactions under \$500 and transactions \$500 to \$5,000. Each of these has a sample size provisionally set at 80,000 (see table 1). These transaction sample sizes are chosen to provide agency-by-agency information such that for each stratum, statements about transaction error rates can be made with high confidence (if the error rates are as low as the 1 percent designed for).

**TABLE 1. STRATIFICATION BY SIZE, BASED ON ACCOUNTS OPEN ON  
DECEMBER 31, 2000**

Size of Transactions	Percentage of Total Dollars	Approximate Number of Transactions in the Population	Number of Transactions to be Sampled
Under \$500	25	25,592,000	80,000
\$500 to \$5,000	30	800,000	80,000
\$5,000 or more	45	73,500	73,500
Total	100	26,465,500	233,500

Note: The final population subject to sampling should be similar in terms of the distribution by size to the population shown above, which is based on accounts that were open on December 31, 2000.

Sample sizes of about 400 per agency, per stratum, would suffice for this purpose if no errors are found. These sample sizes are then doubled to afford protection against the possibility that, in some agencies and strata, the observed error rates might be somewhat higher. At a sample size of

about 800 per stratum out of a total population of, say, 25,000, it is possible to make a 99 percent assurance statement that the error rate is less than about 1 percent if up to 2 errors are found. The estimated total sample size per stratum is calculated by allowing for the fact that there are about 100 agencies or agency-like organizational units that are to be sampled separately. Other sample sizes were examined, both smaller and larger, ranging from 10,000 to 320,000 nationally (or from 100 to 3,200 by agency). These are shown in Table 2. Gains in higher levels of assurance from samples above 160,000 are very modest under the assumptions being made here. For samples below 160,000, on the other hand, assurance levels drop to what we consider unacceptable levels, particularly so with samples under 80,000. One final comment, the design being recommended here has the advantage of balancing assurance levels and accuracy levels at the same high level of 99%.

**TABLE 2. ASSURANCE LEVEL THAT THE ERROR RATE IS LESS THAN 1%,  
IF NO ERRORS ARE FOUND**

Total Sample Size	Agency/Area Sample Size	Stratum Sample Size	Assurance Level* (Percent)
10,000	100	50	40
20,000	200	100	64
40,000	400	200	87
80,000	800	400	98
160,000	1,600	800	99+
320,000	3,200	1,600	99+

\*Source: Table 3.8, *Audit Sampling* by D. Guy et al, 1994.

For disbursement transactions of less than \$5,000, after further analysis (to explore other possibly important strata characteristics), strata sample sizes are determined and the sample balanced at least across time and so that transactions are drawn from as many different accounts as possible.

For receipts of less than \$5,000, a more complex structure is needed. Rather than using the transaction as the sampling unit, unique receipts are used, as described in Section 3. First, unique receipts are stratified by the largest individual receipt they contain. Then, unique receipts are subsequently stratified or balanced, as much as possible, based on the type of income (oil and gas, surface lease, etc.) and time, within each agency. An additional complexity arises, as already mentioned, when, a bill of collection or unique receipt includes, for example, multiple grazing permits or farming leases. For cases when only a single contract exists, only one IIM transaction may need to be tested, when testing one is testing all. When there are multiple leases more than one IIM transaction has to be given a chance for testing. This subsampling is done once the documents have been located and the existence of multiple contracts identified. Finally a separate sample is to be selected using the supporting documents as the sampling unit. In Section 7 below we provide a complete illustration for Anadarko.

**6. Implementation Structure**

For every BIA agency/area, all large transactions (with a value of \$5,000 or more) are tested. By agency separately stratified random samples are selected from all transactions with values less than \$5,000. All the cases for each BIA agency are then randomly divided into batches that are balanced across the three strata. Once the supporting documents are found for the selected transactions, accountants determine the accuracy of the respective land-based IIM account postings, beginning by looking at the first random batch.

If the transactions are reviewed in *random* batches in this way, then after each batch of transactions is completed in an agency, an estimated error rate and confidence interval can be calculated. This approach can provide progressively better estimates of accounting costs and error yields, as the work proceeds. Moreover, if the errors are few, it might make sense to stop the sample verifications before the entire sample is completed, in order to provide the account holders with information more quickly. All of the transactions with an absolute value of \$5,000 or more are still completed, in any case, because these are not being sampled but are to be reconciled on a 100 percent basis.

Perhaps the most important feature of the design is that the results from batches completed early can be used to change the stratification for later batches. This adaptive approach can make it possible to increase the efficiency of the design as time goes on.

The sample sizes described earlier in Section 5 allow for the pursuit of systematic errors and adaptive approaches, and are therefore upper limits, developed to make it possible to budget for the effort. It is expected that a frugal use of these resources can make the undertaking less expensive than the upper limit, unless the error rate in the underlying data is very high, or there are other unexpected results.

## **7. Approach to Anadarko Pilot Sampling**

This Section describes how the sampling plan described in the preceding sections is performed. The Anadarko Agency is selected to use as an example because it contains a variety of income sources, covering most types except income from forestry. In what follows concerning Anadarko, we rely heavily on an analysis of Anadarko Agency files using transactions on the 7,206 accounts open as of December 31, 2000 (even though the final accounts to be sampled in the Electronic Records Era are those open on or after October 25, 1994).<sup>9</sup>

Before the final sample can be selected, the electronic data will be reanalyzed so that the “geography” of the IRMS collections is defined by the source of the income, rather than the location of the land-based IIM account.<sup>10</sup> The process defined here will remain about the same, but the population numbers will change.

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<sup>9</sup> The detailed analysis conducted of the Anadarko transaction file is found in the report entitled, *NORC Sample Design Planning Report Part II -- Anadarko Agency IIM Transactions Described* (available separately).

<sup>10</sup> As noted earlier, for disbursements the account and transaction geography should be identical but not for receipts, where income may come from widely separated locations, far from the home agency of the account holder. For example, by marriage or migration, an individual undivided interest in a tract may be held by someone who no longer lives near the land she or he partly owns. In IRMS, which covers most of the Electronic Era (until mid-1998 or even as late as early 2000), the paper documents supporting a transaction are filed based on the agency or area

For the Anadarko Agency, Electronic Records Era data generated from IRMS and TFAS show there are 457,195 recorded disbursement transactions and 684,992 recorded receipt transactions. The data used here are for illustrative purposes only; certain complexities in the database are not addressed at this time.

Most disbursements (417,023) are under \$500 (91%). Of the remainder (40,172), most are between \$500 and \$5,000, but there were 2,495 in amounts of \$5,000 or more. The distribution of IIM receipts is similarly skewed with many small transactions and few very large ones. Most receipts (668,566) are under \$500 (98%). Of the remainder (16,426), most are between \$500 and \$5,000. Again, as with disbursements, a much smaller number (728) had dollar amounts of \$5,000 or more.

For sampling purposes, the disbursements can be selected directly, within the three strata, balancing, as already noted, on type of account and transaction date, including a separate treatment of disbursements before and after the date Treasury records<sup>11</sup> are likely to be complete and before and after the start of TFAS (in April 2000 for Anardako).

Before sampling the 684,992 individual receipt transactions, we group them by type, code, reference, and date into 81,646 unique or combined receipts, as discussed earlier.

#### **A. IIM Disbursement Certainty Stratum**

In the sample described here, all individual disbursements of \$5,000 or more are included with certainty and the rest are sampled. This means that within the certainty stratum under this design there is a complete accounting for 2,495 transactions involving \$32.4 million in recorded disbursements. Thus, about 25.8 percent of the \$125.6 million disbursed in the Electronic Records Era by the Anadarko Agency are tested directly by this means.

#### **B. IIM Disbursement Noncertainty Strata**

An initial sample of 200 is taken of the remaining IIM disbursements, stratified by size of disbursement (under \$500 versus \$500 to \$5,000). The selections are balanced by the year of the transaction (for each year 1985 to 2000) and spread as widely as possible across IIM account

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where the income was earned, so the work must be organized on that basis. In particular, the IRMS portion of the electronic record transaction database is first sorted by transaction geography to facilitate the accounting work. For TFAS, which begins in 1998 or later, transactions are filed in Albuquerque no matter where the income was generated. To find the supporting documentation for a transaction in, say, late 2000, the paper files in Albuquerque have to be searched by date and, then, once located the source of the income can be obtained. Some of the supports are present with the back-up materials in Albuquerque but the leases and contracts are going to have to be obtained from the agency where the income is located.

<sup>11</sup> The Department of the Treasury now retains records of all Treasury checks cashed. This source is believed to be complete over at least the last seven years but is still expected to be useful in earlier years.

holders. The remaining 200 initial disbursement sample cases are drawn from the sample of supporting documents described below.<sup>12</sup>

### **C. IIM Individual Receipt Certainty Stratum**

For Anadarko IIM receipts we also propose to include all unique receipt transactions that have one or more individual transactions of \$5,000 or more for the Electronic Records Era. In Anadarko there are 728 such individual transactions of \$5,000 or more, as indicated earlier. Since some of these occurred as part of the same unique receipt, there are fewer unique receipts (only 487) involved. It is our understanding that, because of the nature of the testing being done, in the process of confirming one of the individual receipts in a unique transaction, other of the individual receipts may be considered tested. In that case, it turns out that even though receipts for individual transactions of \$5,000 or more amounted to \$7.6 million, we may be able to test with certainty up to \$8.8 million in unique receipts (on 2,496 individual transactions) or 18.1 percent of all Anadarko receipts available electronically (see figure 1 on the following page).

### **D. IIM Individual Receipt Noncertainty Strata**

A sample of 200 unique receipts is taken of the remaining IIM unique receipts, stratified by size of the largest individual receipt (under \$500 versus \$500 to \$5,000). The selections are then balanced by year of the transaction (for each year 1985 to 2000), unique receipt class, and type of income. Again, as with the disbursement selections, the sample is again balanced to be sure that the receipt transactions examined are spread as widely across IIM account holders as possible. The remaining 200 initial receipt sample cases are drawn from the sample of supporting documents described next.

### **E. Direct Support Sampling**

A second sample is drawn directly from the supporting documentation underlying the Anadarko transactions that are supposed to be recorded on the account ledger. This sample begins by selecting a stratified sample of 150 storage units from the Southern Plains Region. The selections are made at the Anadarko Agency, the FRC at Lee's Summit, Missouri, and various Interior record storage locations in Albuquerque, New Mexico. Because of concerns about records being misfiled, the sample is drawn regionally in Albuquerque and at Lee's Summit. (This same sample can later be used in part for other Southern Plains Agencies, of course. That is why it is so large.)

Using the inventory of the storage units or the related BIA paperwork for information on the contents, the boxes or storage units are stratified to oversample those with a high likelihood of

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<sup>12</sup> The ability to stratify the support sample before use is almost certainly going to be imperfect, hence the fraction of the total sample drawn from the two sources may be uneven. The goal of achieving combined initial samples of 400 transactions from each stratum can still be met, of course, but more of the cases in the \$500 under \$5,000 class may be coming from the IIM frame and less from the support sample.

containing land-based collection documents or disbursement documents (e.g., negotiated checks). Each selected box or storage unit is then triaged to prepare the contents for imaging, if appropriate. After scanning (onsite) the images are coded for matching to any applicable IIM transactions. The intent, at this point, is only to match the main collection and disbursement supports, although this could change as we learn more.

A collection document is matched to an IIM transaction to ensure that all money entering the Trust actually ended up as an IIM receipt transaction or that there was a good reason why not. Disbursement supporting documents are obtained directly, so as to supplement the IIM disbursement samples. There is some considerable concern that not all the supports needed for the IIM disbursement transaction sample are found and this second sample provides a chance to examine whether failing to find all supports might make a difference in the accountants' overall assessment of the soundness of the Anadarko books and records.

Priority for leases and collection documents is given to agency files as far back as these extend, then to documents at Lee's Summit and Albuquerque. We expect to have to image and code a fairly large sample of these records before selecting the cases to be matched. For disbursements the support sampling concentrates primarily on the period before the Treasury retained all copies of canceled checks. The samples for receipt and disbursement documents are both planned initially to be approximately 200 per agency or 400 in total. Again, as with the sampling from the IIM, additional cases may be included using rigorous probability selection methods, if a systematic error pattern is detected.

## **8. Paper Records Era Sampling**

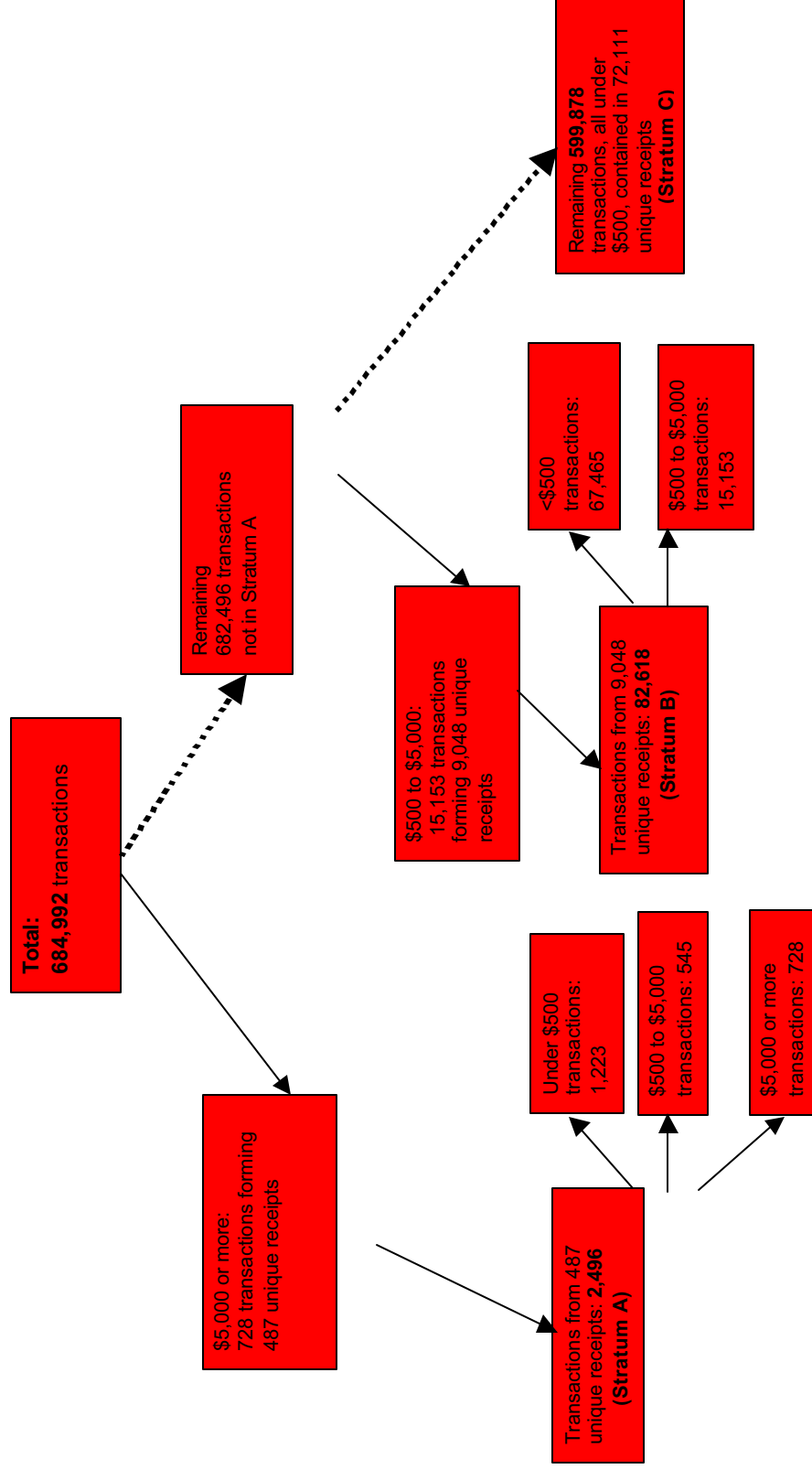
In this brief sample design Appendix, we have yet to specifically consider how the transactions not currently available electronically are to be selected for sampling. Analysis efforts have not progressed very far yet on these samples. Broadly, though, we expect the approach to be similar to what has just been described. Anticipating that a full discussion will be needed, a separate sample design report is planned, when we know more.

Obviously, before a transaction sample can be selected, and before a sample of supporting documents can be matched to an IIM transaction, the IIM transactions must be located from the paper ledgers and entered into an analyzable electronic database. It is anticipated that this process will begin early in 2003 and will be ongoing as the work on the Electronic Records Era transactions is proceeding.

## **9. Error Adjustment Approaches**

There are many possible ways of calculating an *estimated maximum dollar error* for an account (e.g., Guy 1994; Wilburn 1984). The maximum dollar error can be expressed as a percent of the transactions or in dollar terms. Obviously, in the present application, accounts with more transactions have more exposure, *ceteris paribus*, to the chance for error and this must be taken into consideration. It is premature to make specific error adjustment recommendations at this time. The comparison and evaluation of appropriate estimation procedures will be included in the final analysis.

Figure 1: Distribution of Individual Transactions and Unique Receipt Groupings in Anadarko Agency



Notes:

1. The initial design for Anadarko would call for the selection to be divided into six batches of approximately 215 unique receipts. Approximately 80 from Stratum A, 67 from Stratum B, and 68 from Stratum C will be balanced by individual receipt mix, transaction date, and type of income.
2. As displayed above, the population of individual receipt transactions is first divided into those of \$5,000 or more (of which there are 728) and the remainder under \$5,000. The 728 individual receipts are included in 487 unique receipt groups with 2,496 individual transactions. All other transactions except for 2,496 are divided into those between \$500 and \$5,000 (15,153) and under \$500 (667,343). The 15,153 individual receipts are included in 9,048 unique receipts, with 82,618 individual transactions. The remaining individual receipts (all under \$500) are included in 72,111 unique receipts and total 599,878.

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**APPENDIX E**  
**INDEXING**

## APPENDIX E. INDEXING

OTR in Albuquerque, New Mexico, estimates that there are approximately 195,000 boxes or containers of Indian trust records, an estimated 300-500 million pages, held by the United States Government. These records are part of the history of American Indians, and, in part, contain the records of the management of the IIM Trust Fund. These records vital to conducting a historical accounting directed by the Court in the *Cobell v. Norton* litigation.

Indian trust records are stored in a number of different locations. Working and active records are stored at BIA regional and agency offices around the United States. OTR has several local facilities in Albuquerque that store approximately 51,000 boxes of records. The National Archives and Records Administration operates the Federal Records Center at Lee's Summit, Missouri, which stores approximately 42,000 boxes of Indian trust records, and also has 64,000 containers of records stored at National Archives. The Trust Accounting Division of the General Services Administration has approximately 20,000 boxes of records at its facility in Lanham, Maryland. In addition, the Department of the Treasury and the General Accounting Office have approximately 18,000 boxes of records at storage facilities.

Interior must rely on these records to perform the historical accounting. However, the inventories and indexes of these records, essential to locating needed records effectively and efficiently, are not consistently detailed and accurate for this purpose.

OTR's approach is to create an electronic database for the records, much like transforming a traditional library catalog card index for books into an electronic reference database. This database will be created by entering data on the contents of each box in the collection onto a data-entry screen that will be integrated into a database for access by the users. Information in the database can then be sorted and indexed for easy access by document types, dates, collections, agency, etc.

OTR has engaged the firm Labat-Anderson, Incorporated to index all of the trust-related records that are currently stored in its facilities in Albuquerque and at Lee's Summit. This endeavor will require the contractor to examine every file contained within a box or container of records, and accurately enter key information about the records into a database.

The indexing is working at a "file level," meaning that every file title will be entered, verbatim, into the database. Where there are no file folders for the contents in a box, the entire box will be considered the folder and the contractor will indicate such as an "implied folder" in the database.

In addition, the contractor will include the following information in the index:

- *Data Appearing on the Exterior of a Box* — This will allow searchers to identify the physical location of the boxes based on earlier inventory records. Also, where tribal names are identified on the exterior of boxes, that information will be captured in the database

- *Source Agency* — This will denote the agency or regional office to which the records belong and the originators of the records.
- *Document Type and Date Range* — This information will enable users who are searching for a specific document with a known or approximate date to identify the appropriate box containing the document without having to request an unnecessarily large number of boxes.

OTR's contractor, Labat-Anderson, has started the indexing project and is training two teams to work on the records simultaneously in Albuquerque and at Lee's Summit. OTR and OHTA are coordinating on document needs for the historical accounting, and OTR is prioritizing which groups of records to index first by BIA agency and by tribe. This will ensure that the database index will be populated and available to search for the first records needed for the historical accounting.

The indexing project is expected to be completed in FY 2004.

**APPENDIX F**

**COST ASSUMPTIONS**

## APPENDIX F. COST ASSUMPTIONS

The scope and complexity of the historical accounting require 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.

### Preliminary Estimate of Accounting Costs

The total preliminary estimated cost for conducting the historical accounting is \$335 million, of which 89 percent of the estimated cost is the accounting work. The following cost estimating assumptions were made to construct the cost for the historical accounting project.

#### *Cost Per Transaction*

<u>Electronic</u> <u>Records</u> <u>Era</u>	<u>Paper</u> <u>Records</u> <u>Era</u>	
\$ 80	\$ 80	– to locate 4 documents (on average) to support the transaction
25	25	– to prepare, image and digitize (scan) the documents (6 pages per document, on average)
<u>125</u>	<u>185</u>	– for accounting about 1 hour per transaction on average
<u>\$ 230</u>	<u>\$290</u>	– total estimated cost per transaction

#### *Digitized Ledger*

\$1,000 – to create a digitized ledger from paper ledgers cost including locating documents to support transactions, preparing, imaging, and digitizing the documents (Note: approximately 30 percent of the land-based IIM account holders have Paper Records Era portions of their accounts or approximately 60,000 ledgers)

## **APPENDIX G**

## **ACRONYMS**

## APPENDIX G. ACRONYMS

### ACRONYMS

BIA	Interior's Bureau of Indian Affairs
BLM	Interior's Bureau of Land Management
CD&L	Chavarria, Dunne & Lamey LLC
IIM	Individual Indian Money
IRMS	Integrated Records Management System
LRIS	Land Records Information System
LTRO	BIA Land Title and Records Office
MMS	Interior's Minerals Management Service
NORC	National Opinion Research Center of the University of Chicago
OHTA	Interior's Office of Historical Trust Accounting
OST	Interior's Office of the Special Trustee for American Indians
OTFM	Office of the Special Trustee Office of Trust Funds Management
OTR	Interior's Office of Trust Records
QC	Quality Control
SDA	Special Deposit Account
TFAS	Trust Funds Accounting System