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**U.S. DEPARTMENT OF THE INTERIOR**

**OFFICE OF INSPECTOR GENERAL**

**AUDIT REPORT**

ACCOUNTING CONTROLS UNIT

TRIBAL TRUST FUNDS

BUREAU OF INDIAN AFFAIRS



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 except by the Assistant Inspector General for Administration,  
 Office of Inspector General, U.S. Department of the Interior,  
 Washington, D.C. 20240.**

September 1983

**DATE**

DSF ALBQ OST 98-03112 "TRUST FUND A/C - N/A"

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# United States Department of the Interior

OFFICE OF INSPECTOR GENERAL  
WASHINGTON, D.C. 20240

September 29, 1983

## Memorandum

To: Assistant Secretary for Indian Affairs  
From: Inspector General  
Subject: Audit Report Entitled: "Accounting Controls Over Tribal Trust Funds, Bureau of Indian Affairs"

~~This report discusses the Bureau's poor controls over accounting for tribal trust funds. It points out that:~~

- ~~—the Bureau has five systems involved in trust fund accounting, which is four too many;~~
- ~~—these systems are not reconciled and are not in balance with each other. Two systems recording fiscal year 1981 and 1982 cash transactions were out of balance by \$71 million;~~
- ~~—the Bureau's balance of unexpended trust funds was \$75 million less than the Department of Treasury's balance at the end of fiscal year 1982;~~
- ~~—the Bureau invests more trust funds than it actually has available;~~
- ~~—the Bureau recently exposed several tribes' funds to an uninsured position because of bookkeeping errors and faces the possible loss of almost \$195,000 in principal and the certain loss of interest on these funds.~~

~~Our primary recommendation is that the Bureau establish an organization separate from its finance and accounting operations whose sole responsibility is handling tribal trust funds. Contracting out this operation is a possibility, and we understand the Bureau has begun a feasibility study covering this possibility along with other aspects of trust fund operations.~~

In its response to our draft report, the Bureau agreed in principle with our findings and recommendations. However, the response indicated future actions for implementation. The Bureau expects to complete its reconciliations of the various systems by February 1984 and to have the results of its contracted study of trust fund operations by March 1984. We therefore plan to review the Bureau efforts to resolve its trust fund problems after the completion of these actions and will leave the recommendations in the followup system until then.

The Bureau's comments are attached as an appendix.

The legislation creating the Office of Inspector General requires semiannual reporting to the Congress on all audit reports issued, actions taken to implement audit recommendations, and the identification of each significant recommendation on which corrective action has not been completed.

*for James M. Yoh*  
Richard Mulberry

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## INTRODUCTION

We have reviewed the Bureau of Indian Affairs' (BIA) accounting for tribal trust funds. The purpose of our review was to determine whether BIA had established effective accounting controls over trust funds and was accurately reporting trust fund status to tribes. Our review was performed at the Division of Accounting Management and Branch of Investments offices in Albuquerque, New Mexico, from October 1982 to March 1983.

It is important to understand the scope of this review which focused predominantly on evaluating the internal consistency of BIA's trust fund accounting systems and the agreement of these systems with Department of Treasury records. In other words, we wanted to find out if the systems were in balance (which they were not). With minor exception, we did not review the authority, propriety, accounting classification, or recording of individual transactions. We did not confirm reported investment balances, and we did not evaluate compliance or efficiency aspects of investment activity.

It is also important to understand that BIA operates another major trust fund system, Individual Indian Money Accounts. That system, as the title indicates, is operated predominantly for the benefit of individuals. It was not included in the scope of the review.

Our review was made, as applicable, in accordance with the "Standards for Audit of Governmental Organizations, Programs, Activities, and Functions," issued by the Comptroller General of the United States, and accordingly, included such tests and auditing procedures as were considered necessary under the circumstances.

## BACKGROUND

BIA is responsible for accounting for and investing tribal trust funds. There are three primary sources of these funds: awards made by the U.S. Court of Claims, income generated by the sale or lease of land and natural resources, and interest earned on invested trust funds. The funds may be collected and authorized for expenditure at the various BIA field offices, but the primary responsibility for their accounting is centralized in BIA's Division of Accounting Management in Albuquerque.

BIA's Branch of Investments, also located in Albuquerque, is responsible for investing tribal trust funds. Funds on deposit in the U.S. Treasury earn simple interest at four percent per year. Twenty-five U.S. Code 162A allows BIA to withdraw tribal trust funds from the Treasury and deposit the funds in financial institutions yielding higher rates of return. Such investments must be unconditionally secured either through Government insurance from such an agency as the Federal Deposit Insurance Corporation or through pledging collateral guaranteed by the United States. Tribal trust funds are invested on an individual trust fund basis; they are not pooled as other trust funds are, such as Individual Indian Money.

BIA handles over 1100 tribal trust fund appropriations for 269 tribes. As of September 30, 1982, BIA's Finance System reported a balance of \$1.06 billion in tribal trust funds. This total was comprised of \$33 million in allotted funds, a deficit of \$75 million in unallotted funds, and \$1.1 billion in investments. Allotted funds are funds on deposit in Treasury that are available for disbursement. Unallotted funds are also on deposit in Treasury and are available for allotment or investment. Time certificates of deposit represent about three-fourths of the total tribal trust fund investments with the remainder represented by U.S. Government securities and agency issues.

### HIGHLIGHTS

BIA's basic Finance System has been unable to provide adequate accounting service to tribal trust funds. The primary reason has been inadequate ADP support. To compensate, BIA set up four additional systems to provide more detailed and more timely information. While all five systems are compatible and should agree, they do not. We noted differences between systems: (1) of \$71 million in total cash transactions for fiscal years 1981 and 1982, (2) of \$29 million in unallotted trust fund balances as of September 30, 1982, (3) of \$1.6 million between investment detail and investment total, and (4) in the number of trust funds in existence.

In addition to the internal out-of-balance positions, BIA's balance of unexpended trust funds was \$75 million less than Treasury's at the end of fiscal year 1982. The Treasury balance exceeded BIA's, but since the Treasury bases its individual appropriation balance on what BIA reports, Treasury provides no independent check. We do not know which is correct.

The out-of-balance situations create a problem in determining how much cash is available for investment. At times BIA invests more funds than are available. According to BIA's Finance System at the end of fiscal year 1982, BIA may have been overinvested by \$24 million. From the tribal standpoint, overinvesting is good because BIA only pays Treasury four percent interest on the negative cash balance. However, Treasury is actually providing a subsidy because it pays much higher interest on money it borrows.

BIA recently exposed several tribes' funds to an uninsured position because of bookkeeping errors and faces the possible loss of almost \$195,000 in principal and the certain loss of the interest on these funds. This might not have occurred if BIA's internal systems had been in balance.

Isolating causes is difficult due to interrelated considerations and chain reactions. Inadequate ADP support created the need for multiple systems. Multiple systems created more workload and increased the possibility for error because the same data has to be entered more than once. More errors complicated the reconciliation and correction processes. We did not perform a great deal of transaction testing, but we did enough to determine that errors occur at every organizational level involved with tribal trust funds. The exhibit to this report shows the type of errors noted and where they occurred.

The absence of an effective reconciliation and corrective process is difficult to explain. As a rule, BIA does not reconcile its systems. But when it does and identifies mistakes, it has no sound procedures for making complete determinations and processing corrections. This was true in both internal reconciliations and reconciliations with Treasury.

We are recommending that BIA set up a separate organization whose sole responsibility is handling tribal trust funds. The basis for that recommendation is the overall lack of organizational competence within BIA to make accounting systems work. In other words, if the solution to BIA's tribal trust fund problems is tied to a solution to BIA's total accounting problems, we may never see a solution. Tribal trust funds involve BIA's trust responsibility for handling other peoples' money. While important and sensitive, tribal trust fund accounting is not complex and solutions to its problems are easier to reach than solutions to BIA's overall accounting problems. No interface between tribal trust funds and other aspects of BIA's accounting is needed.

We are persuaded that BIA needs one system with fully integrated and compatible subsystems to serve tribal trust funds, and we favor a new organization to handle it. However, we are not recommending the exact means. Contracting out is an option but until its feasibility can be determined, a recommendation to that effect would not be appropriate. We are recommending a feasibility study for contracting out, and we understand that BIA has started on that project.

## FINDINGS AND RECOMMENDATIONS

BIA's trust fund accounting suffers from a proliferation of five different systems which do not agree with each other or with Treasury. The net result is that BIA is not adequately discharging its trust responsibility. The problems are serious and warrant immediate attention.

### TOO MANY SYSTEMS

Over the years BIA has established four systems involved in trust fund accounting and management in addition to its official Finance System. Both Division of Accounting Management and Branch of Investments personnel reported that inadequate ADP systems development support to the Finance System forced them to implement other systems to get their jobs done. Whatever the reason for their existence, the maintenance of five systems presents an unmanageable situation for proper accounting of tribal trust funds.

With minor exception, BIA's basic and official Finance System contains all the information necessary to account for and manage trust funds. It records all collections and disbursements. It keeps track of whether trust funds are in allotted, unallotted, or invested status. It records the purchasing and redeeming of investments and identifies the principal, interest, maturity value, and maturity dates for each investment owned. Plus, it has this information by financial institution and by tribe.

The most serious weakness in the Finance System is the inability to report the stored information. Much needed data cannot be retrieved either in the proper format or in a timely fashion. To get around the Finance System's deficiencies, BIA has implemented the four systems described below.

#### Easytrieve

Easytrieve is an automated system with two capabilities. It can access certain files within the Finance System, acting as a special retrieval system. It can also record and access data in its own files which are

separate from the Finance System, although both systems are maintained on the same computer. Easytrieve plays a larger role in BIA's finance operations than just handling trust funds, but it does play a key role in trust fund accounting, primarily using its own files and operating apart from the Finance System.

Easytrieve's primary functions in trust fund accounting are to compute interest on allotted and unallotted funds and to report monthly cash transactions to Treasury for one of BIA's two accounting stations in Albuquerque. The information Easytrieve uses to perform these functions is also contained in the Finance System.

#### Posting Machine

The sole function of the Posting Machine (which BIA refers to as its Central Office Control Accounts) is to keep track of unallotted funds. To maximize investment return, the Branch of Investments needs to know the amount of unallotted funds on a daily basis so that it can invest any available funds immediately. The Branch gets this information from the Posting Machine. The Finance System contains the same data--the documents input to the Posting Machine are also input to the Finance System--but only produces reports monthly. Thus, the maintenance of unallotted fund balances available daily on the Posting Machine gets around this Finance System deficiency. It also creates additional work.

#### INFO System

The Branch of Investments needs INFO to provide investment data on a more timely basis than the Finance System can. This automated system contains information on individual investments by tribe and by financial institution and lists maturity dates and related information. The data is taken from negotiation sheets prepared by the investment officers, which are also used as input to the Finance System. The Branch uses INFO data to keep track of maturing investments to know what will have to be reinvested when and to control investments in individual financial institutions so that any given tribe does not have more funds invested than are secured.

### Money Max

The automated Money Max system is a specialized investment system which the Branch of Investments leases from a private firm, and it contains data on eight funds with large balances (the trust funds for four tribes plus Individual Indian Monies, Indian Monies—Proceeds of Labor, Contributed Funds, and Alaska Native Escrow funds). The system provides more detailed information on each tribe's investment portfolio and activity than either INFO or the Finance System can provide. The sources of Money Max data are the same negotiation sheets used as input to INFO. Because of the large volume of investment activity for these tribes, BIA only enters summary data for these tribes' investments into the Finance System from Money Max as opposed to the details of each transaction. In fact, BIA obtained Money Max primarily to handle funds with large balances and large numbers of transactions.

This proliferation of systems has created two interwoven problems. First, it has increased BIA's trust fund accounting workload. The information in Easytrieve and the Posting Machine is also input to the Finance System, and INFO data is also input to either the Finance System or Money Max. This duplicate effort not only wastes resources but also doubles the risk of recording incorrect information, which brings up the second problem. Where the systems should agree, they do not. The internal inconsistencies are summarized below:

1. Trust fund cash transactions recorded in both the Finance System and Easytrieve for fiscal years 1981 and 1982 differed by a total of over \$71 million.

2. The Posting Machine unallotted trust fund balance as of September 30, 1982, was \$4.9 million, and the Finance System balance was a deficit \$24.2 million, a difference of \$29.1 million.

3. The Posting Machine listed balances for 44 trust funds that did not exist in the Finance System, while the Finance System listed balances for 16 trust funds nonexistent in the Posting Machine.

4. For one trust fund we reviewed in detail, the Posting Machine listed an unallotted balance of \$3,200 and the Finance System listed it as a deficit \$80,500. However, both systems were wrong, and the correct balance should have been a deficit \$162,456.

5. The Finance System's detailed listing of investments differed from its investment total by over \$500,000.

6. Money Max's detailed listing of investments differed from the Finance System's investment total by \$1.1 million.

We found several indications of what creates these differences and why no one resolves them. The increase in number of systems and number of times similar data is recorded raises the chance of making simple encoding errors. This is precisely what happens. The largest cause of these differences are keypunching errors in encoding the data and errors in preparing document coding sheets. Also, transactions are sometimes being recorded twice and at other times, not at all. We found no indication that the systems themselves did not work right.

A certain number of errors is to be expected, but they should be caught through proper and timely reconciliations. However, BIA as a rule does not reconcile its systems, and even when it does identify differences between systems, it has no sound processes for resolving them. Sometimes differences are identified, but no followup action is taken. The Investments Branch has identified differences between Money Max and the Finance System but has not researched the errors creating them. In other instances, differences are identified but not isolated, and corrective action is not directly associated with resolving specific differences. Division of Accounting Management personnel reported that some of the 1982 differences between the Finance System and Easytrieve were caused by correcting errors made in 1981. But these corrections were not

specifically related to the 1981 differences, and there was no way of knowing whether the prior year differences were being resolved. Additionally, adjustments would be made without any explanations or support. This was particularly a problem with the Posting Machine's balances.

There are many BIA organizations which have a direct effect on trust fund accounting. The Central Office in Washington, D.C., is responsible for transferring award funds from Treasury to BIA. Area offices collect and disburse trust funds. The Division of Accounting Management maintains fund balances, computes interest, and deals with Treasury. The Branch of Investments withdraws funds from Treasury, invests them, and then redeposits the funds plus interest into Treasury. Any one of these organizations can and, as can be seen in the attached exhibit, do make errors which create the differences between systems.

The failure to resolve differences appears related to a lack of assigned responsibility or cooperation within BIA. Division of Accounting Management personnel reported that the area offices are responsible for correcting Finance System records when differences with Treasury records are noted. Division personnel identify the differences and the necessary corrections but do not actually make the corrections. If the area offices do not do this, it does not get done. A Branch of Investments' employee explained that researching one discrepancy or error could take hours, only to find that some other section made the error, thus wasting Branch of Investments' time. Regardless of who is responsible, the fact remains that the job is not getting done.

### AGREEMENT WITH TREASURY

Treasury provides BIA with the only external check on the accuracy of BIA's trust fund accounting. BIA should be able to reconcile both its monthly cash activity and yearend cash balances to Treasury's records. But BIA has neither kept up with its monthly Treasury reconciliations nor made the necessary adjustments to the Finance System when it did complete a monthly reconciliation and knew what adjustments should have been made. At the end of fiscal year 1982, Treasury's trust fund balance exceeded that recorded in the Finance System by nearly \$75 million. Part of this difference is probably due to BIA's failure to reconcile its various systems to the Finance System.

Treasury essentially serves as a bank for Government agencies, recording receipts, disbursements, and fund balances. It keeps track of each agency's financial activity by accounting station but leaves accounting by appropriation (trust fund) within each accounting station to the agencies. While Treasury records fund balances by appropriation, it relies totally on what an agency reports and does not provide any independent check on balances or activity by appropriation. Agencies report their version of cash transactions by accounting station to Treasury monthly on the SF-224 Statement of Transactions. If Treasury's records differ from what an agency reports, Treasury prepares a Statement of Differences, which the agency has 90 days to resolve. At the end of each year, Treasury also provides each agency with a TFS-2108 Year-end Closing Statement, which combines an agency's accounting stations and lists fund balances. The balances listed on the report are based on the previous year's ending balances and the current year's cash activity reported on the SF-224.

BIA does not take full advantage of Treasury as a control over its accounting accuracy. Treasury's tribal trust fund balance at September 30, 1982, exceeded what the Finance System totaled by almost \$75 million, and no one in BIA could explain when the Finance System last was in balance with Treasury. Part of this discrepancy is probably due to BIA's having two accounting stations to deal with instead of one, thus creating additional work and the need for an additional system.

BIA has one accounting station (0650) that handles only trust fund investment and award activity and another (0699) that handles the rest of BIA's financial activity, including trust fund disbursements and receipts. BIA records transactions for both accounting stations in the Finance System, station 0699 data being input by the Division of Accounting Management and station 0650 data being input by the Branch of Investments. The Finance System generates the SF-224 report for accounting station 0699 but has not been programmed to do this for 0650. Therefore, the Division of Accounting Management also enters all accounting station 0650 transactions into Easytrieve, which then produces this station's SF-224.

There are three problems from the Finance System's perspective with these processes. First, BIA does not reconcile the SF-224 for accounting station 0699 in a timely manner. When we began our review in late October 1982, BIA had not resolved 11 of the 12 most recent Statements of Differences for this station. As of September 30, 1982, unreconciled balances more than 90 days old totaled over \$2.8 million.

The second problem is that eventually BIA may determine why it differs with and may report the necessary adjustments to Treasury for station 0699, but will not record proper adjustments in the Finance System. While this clears up the matter from Treasury's standpoint, it leaves the Finance System inaccurate. We noted over \$26 million of unprocessed adjustments falling into this category; that is, reported to Treasury but not recorded by BIA.

The third problem pertains to the SF-224 prepared for accounting station 0650. BIA is generally pretty good about reconciling this Easytrieve-produced report to Treasury and even making the necessary corrections to Easytrieve's records. But this reconciled--and probably accurate--data in Easytrieve bears little resemblance to the accounting station 0650 data in the Finance System. For fiscal years 1981 and 1982, the totals of 0650 transactions recorded in the two systems differed by over \$71 million. BIA personnel conscientiously note these differences on a monthly basis and even by individual trust fund, but make no concerted effort to resolve the differences. The Finance System therefore remains inaccurate.

By not reconciling its tribal trust fund transactions and balances with Treasury and not reconciling its internal systems, BIA provides little assurance to anyone, including the tribes whose funds BIA is managing, that it is reporting and investing trust funds properly. In fact, BIA is reporting inaccurate fund balances to tribes, overinvesting trust funds, and in a related matter, placing itself in a position to lose almost \$200,000 because of bookkeeping errors.

## OVERINVESTMENT OF TRUST FUNDS

The Branch of Investments is responsible for investing available trust funds, but the inaccuracies described in this report again raise the question, how much money does BIA really have to invest. We know that there is a certain amount of funds that are invested and that these investments are supported by pieces of paper representing time certificates of deposits, Treasury securities, and other Government issues. But we do not know whether adequate balances of trust funds existed in the first place to purchase these investments. ~~Treasury provides no real control against overinvesting or overexpending a trust fund. This control is left to BIA.~~

What particularly raises the question of overinvestment is the deficit balance in unallotted funds, which essentially represents a cash account in Treasury. As of September 30, 1982, the Finance System reported a deficit balance of \$75 million. Even taking into consideration \$51 million in longstanding errors, which BIA has corrected since our audit began, the balance in unallotted funds is still a negative \$24 million. The Finance System is the "least accurate" system according to BIA personnel and the Posting Machine is reportedly the most accurate. But for one trust fund we reviewed in detail, the Posting Machine's recorded balance of \$3,200 was wrong, and the "correct" balance of unallotted funds in this case should have been a deficit of \$162,000. We also found other errors in Posting Machine balances. By using the Posting Machine, the Branch of Investments is therefore making investment decisions on inaccurate information and investing funds that do not exist.

Deficit balances in unallotted funds produce what is called negative interest. Allotted and unallotted funds earn simple interest from Treasury at four percent a year. BIA rather than Treasury is responsible for computing interest and uses data in Easytrieve--BIA's "second most accurate" system--to do this. Negative interest occurs when there are deficit balances in allotted or unallotted funds. ~~BIA pays Treasury interest on funds with deficit balances, but what this really means is that BIA borrows money from Treasury at only four percent interest and invests it at much higher rates of return. Thus, Treasury subsidizes BIA's investment program through low-cost loans at considerable expense to the Government.~~

### POTENTIAL LOSS OF INVESTED FUNDS

Because of a recent failure at a financial institution, BIA could lose \$195,000 of tribal trust funds. At a minimum, BIA will lose the interest that would have been earned on the funds in question for at least several months. We believe that this loss could have been prevented had BIA been reconciling its INFO and Finance Systems.

Trust fund investment restrictions require that any funds deposited in a financial institution be covered by Federal insurance or secured by Government issues as collateral. Federal insurance coverage is limited to \$100,000 per investor, and each tribe is considered an investor. The INFO system is programmed to accumulate investment data by financial institution and by tribe, and the Branch of Investments uses INFO reports to make sure that it does not invest any tribe's funds past the secured amount.

However, BIA did overinvest trust funds in a bank which eventually failed and could lose the amount overinvested. Here is how that happened.

In January 1982, BIA invested funds for the Hoopa Yurok, Colorado River, and Ute tribes in Valley First Federal Savings and Loan Association of El Centro, California. Through an encoding error, these investments were not recorded properly in INFO. The maturity date for the investments was recorded as January 18, 1982, instead of January 18, 1983, and the transactions were entered into the system's history file rather than its current investments file. In March 1982 the Branch of Investments invested additional funds in Valley First Federal for these same tribes, unaware that these tribes were already fully invested in this institution because the initial investments were not listed on the appropriate INFO report.

On January 6, 1983, Branch personnel realized that the three tribes were overinvested in Valley First Federal, but since the investments would mature on January 18, they decided not to correct the situation immediately. Valley First Federal failed on January 14. The Federal Savings and Loan Insurance Corporation covered the investments up to \$100,000 per tribe, but \$194,948 remained uninsured. BIA plans to submit a

first priority claim on Valley First Federal's assets to the Federal Home Loan Bank Board, which has jurisdiction in this matter, but as of the date our fieldwork was completed, the matter has not been resolved. Regardless of the decision on the principal invested, the tribes will lose the interest that would have been earned on these funds from the date the institution closed to at least the date the matter is settled.

BIA has encountered this situation before. In May 1981 Economy Savings and Loan of Chicago, Illinois, closed, and BIA had overinvested in this institution by \$188,000 of Arapahoe and Blackfeet funds. INFO was designed to prevent a similar situation from happening again, and had BIA been keeping up with its reconciliation processes, the Valley First Federal affair may not have happened. Detailed investment information is recorded in both the Finance System and INFO using the same negotiation sheets as sources. Since May 1982, a program called EZ Banks has been able to retrieve investment data by bank and by tribe from the Finance System for comparison with the INFO system. While this reconciliation process was available as a check on each system's accuracy, BIA failed to use it until March 1983--after the loss was incurred. Our review indicated that the data on the initial investments had been properly recorded in the Finance System. Thus, if the two systems had been reconciled, BIA would have detected the Valley First Federal overinvestment earlier and could have corrected it.

## CONCLUSIONS AND RECOMMENDATIONS

The most often-cited reason why there are so many systems involved in trust fund accounting is that BIA has not provided adequate ADP support to the Division of Accounting Management and Branch of Investments. Both Division and Branch personnel reported that they have submitted numerous requests for ADP assistance to BIA's Division of Systems Operations, but these requests generally have not been fulfilled. The chief of this Division related three reasons why he could not provide the requested services: he does not have an adequate number of personnel; what personnel he does have spend most of their time converting the Finance System from one piece of hardware to another (from BIA's Control Data equipment to Martin Marietta's IBM to BIA's Burroughs); and the requests for ADP assistance are frequently not specific enough. This lack of support to the Finance System has forced the two sections to seek ADP assistance elsewhere; that is, the Branch of Investments leases Money Max from an outside source and the Division of Accounting Management relies heavily on Easytrieve. Easytrieve is easy to program and does not require the services of systems development personnel, but it is also very expensive to operate compared to the Finance System.

Establishing additional systems to compensate for Finance System deficiencies may have been an acceptable short-term solution to problems in trust fund accounting. However, failing to reconcile the systems and maintain internal consistency has created large unexplainable discrepancies which ultimately has destroyed confidence in the validity of the information produced.

BIA has severe accounting problems almost everywhere. On September 8, 1982, the General Accounting Office issued a report entitled "Major Improvements Needed in the Bureau of Indian Affairs' Accounting System." GAO also withdrew its approval of BIA's accounting system. Within the last 12 months, we have issued critical reports dealing with cash handling, travel advances, and voucher processing. Trust fund accounting is merely another representation of the overall problem.

In the present environment, causes are difficult to isolate. Trying to run automated systems with inadequate ADP support is, as BIA staff points out, a big factor. There are other factors--confusing organization responsibilities, shifting priorities, and the absence of a sense of individual accountability. Perhaps the best way of expressing it is that, for a lot of different reasons, BIA lacks the organizational capacity to make some things work.

BIA's accounting problems, or more accurately put, the solution to these problems, must be viewed in terms of what BIA can reasonably be expected to accomplish. One option is a complete system redesign embracing all aspects of BIA's accounting system. That would require a massive effort, and its success would depend on adequate ADP support as well as some significant improvement in organizational competence.

~~We favor a separate organization to handle all aspects of tribal trust funds (accounting and investments) because we believe that approach has the best chance of producing an acceptable system.~~ While we are reluctant to attach a higher priority to trust funds than to the rest of BIA's accounting, the fact remains that trust funds involve handling other people's money. In addition, improving tribal trust fund accounting should be a far simpler task than improving the remainder of BIA's accounting. Spinning off tribal trust fund accounting would not have a substantive impact on the other aspects of BIA's accounting because the two do not have to interface.

We recommend the separate organizational approach for tribal trust fund accounting and investment operations. Several options exist, including contracting out, and an in-depth feasibility analysis is needed before the best one can be selected.

We are not recommending contracting out at this time, but we are recommending that its feasibility be determined. There are hundreds of financial institutions which might be interested, but there are a lot of questions that have to be answered.

1. Would a financial institution be willing to make separate investments for each tribe, as BIA is now doing?
2. Can BIA change to investment pooling?
3. Are there legal obstacles?
4. Who would be responsible in the event of a loss?
5. How would Treasury and OMB fit into the picture?
6. How much would contracting out cost, and who would pay?
7. What would the tribes think about it?

As we understand it, BIA has awarded a contract for the study of its trust fund operations, which should answer most of these questions. However, questions four and five were not addressed in the contract's scope of work and would need additional study.

Recommendations for the Assistant Secretary for Indian Affairs:

We recommend that BIA:

1. Reconcile the various systems involved in tribal trust fund accounting and make the necessary adjustments to its records, thus providing a fresh starting point for improving its overall management of trust funds.
2. Revise its accounting systems and procedures for tribal trust funds as follows:
  - a. Establish one system with fully integrated and compatible subsystems to keep track by each trust fund of cash collections, cash disbursements, investments, and interest earned. This endeavor would require assurance from BIA management that adequate ADP support would be made available.

b. Perform monthly reconciliations to assure that the system is kept in balance and that errors and omissions are promptly identified and corrected.

c. Establish one Treasury accounting station exclusively for all trust fund activity.

3. Create a new organizational entity whose sole responsibility is the handling of tribal trust funds (a possible exception is the inclusion of Individual Indian Money Accounts).

4. Determine the feasibility of contracting out all or a portion of BIA's tribal trust fund activity.