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TRUST FUNDS MANAGED BY THE
U.S. DEPARTMENT OF THE INTERIOR
BUREAU OF INDIAN AFFAIRS
REPORT ON COMPLIANCE AND REPORT ON INTERNAL CONTROLS
AS OF SEPTEMBER 30, 1988

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TRUST FUNDS MANAGED BY THE
U.S. DEPARTMENT OF THE INTERIOR BUREAU OF INDIAN AFFAIRS
REPORT ON COMPLIANCE AND REPORT ON INTERNAL CONTROLS
AS OF SEPTEMBER 30, 1988
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ARTHUR ANDERSEN & CO.

6501 AMERICAS PARKWAY, N.E.
SUITE 400
ALBUQUERQUE, NEW MEXICO 87110
(505) 889-4700

March 23, 1989

EXECUTIVE SUMMARY

To the U.S. Department of the Interior
Bureau of Indian Affairs:

We have completed our audits of the financial statements of the Tribal and Individual Indian Monies ("IIM") Trust Funds, and the financial statements of the Public Monies (Cooperative Fund, Alaska Native Fund, Irrigation and Power Fund, and the Contributed Fund) of the United States, managed by the U.S. Department of the Interior Bureau of Indian Affairs (the "Bureau"), for the year ended September 30, 1988, and have issued our reports thereon dated March 23, 1989 (herein all Funds audited are referred to as "Trust Funds"). ~~The audits were conducted with the knowledge (both of the Bureau and of Arthur Andersen & Co.) that material weaknesses in internal accounting controls existed and that it was likely that violations of certain regulations applicable to the management of the Trust Funds had occurred and were continuing to occur.~~ These conditions were disclosed by the Bureau in connection with its request for audit proposals and by referring prospective bidders to other information describing the operations of the Bureau.

HIGHLIGHTS OF AUDIT PROCESS AND FINDINGS

After Arthur Andersen & Co. was awarded the audit contract, we sought to ensure that our knowledge of problems faced by the Bureau was complete as practicable and that our audit testing was responsive to known problems. Accordingly, as part of our audit planning process we reviewed and considered the following.

- o Reports prepared by the Department of the Interior Office of the Inspector General
- o Reports prepared by the U.S. General Accounting Office ("GAO")
- o Other relevant information received during and after the proposal process

In addition, we met with and interviewed representatives of the following organizations.

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- o U.S. Department of the Interior Bureau of Indian Affairs (various Divisions and Branches)
- o U.S. Department of the Interior Office of the Inspector General
- o U.S. Department of the Interior Minerals Management Service
- o U.S. Senate Select Committee on Indian Affairs

As a result of information obtained during the proposal process and the planning of our audits, we developed our audit approach. We assumed the existence of material weaknesses in, and generally did not place reliance on, internal accounting controls.

We performed the following substantive audit procedures in connection with our audits, and developed findings which have been summarized in this Executive Summary.

- o Analyzed amounts recorded by the Bureau in the Trust Funds financial reporting systems
- o Confirmed and performed other verification procedures for all monetary assets (cash and investments) held for Trust Funds managed by the Bureau
- o Attempted confirmation of balances held in trust for Indian tribes, organizations and individuals with the appropriate account holders or their representatives
- o Tested and reviewed receipts and disbursements activity at the Bureau's Agency Offices, Area Offices and Central Office-West location in Albuquerque, New Mexico
- o Reviewed controls over automated data processing ("ADP") at National Technical Support Center ("NTSC") and Information Management Centers ("IMC"'s)

Analyzed Amounts Recorded by the Bureau in the Trust Funds Financial Reporting Systems

Numerous errors at September 30, 1988, existed in the Bureau's "Finance System" which is considered to be the Bureau's official record (general ledger) of the Trust Funds, as well as discrepancies between the Finance System and the various sub-systems or sub-ledgers utilized by the Bureau, and errors within the various sub-systems. These sub-systems include the "MoneyMax" and "INFO" systems utilized to monitor investments and the related collateral pledged by financial institutions to secure the investments, and the Integrated Resource Management System ("IRMS"), which is utilized for various functions related to serving individual Indians and tribes by the Area and Agency Offices, including accounting for IIM Trust Fund balances held for individual beneficiaries. During the audits, numerous adjustments were identified which were reflected in the September 30, 1988 financial statements as cumulative adjustments because it was not practicable to determine what portions of adjustments identified in our audits relate to prior periods.

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These errors and the related adjustments result from a wide variety of procedural weaknesses (some of which are material weaknesses) in accounting systems and internal control procedures utilized by the Bureau and other problems, such as inadequate training and supervision of personnel, and personnel shortages. Certain of these weaknesses are so pervasive and fundamental as to render the accounting systems unreliable. Some of the most significant problems related to the financial management function are summarized below.

1. The Bureau does not internally prepare interim or year-end financial statements because it does not have adequate personnel resources or the necessary accounting controls and procedures to prepare financial statements in compliance with guidelines established by the Bureau, the GAO or generally accepted accounting principles.
2. Multiple accounting systems are used to record the same activity; however, these systems are not reconciled or kept in balance with each other or with known amounts.
3. Certain accounting entries have been, and continue to be, prepared and posted on a decentralized basis without adequate review.
4. Certain transactions such as certificate of deposit maturities are recorded prior to their actual occurrence.
5. Many instances of inadequate segregation of duties exist. For example, in many locations, the same employees transfer assets among accounts and open new accounts resulting in the opportunity for intentional or unintentional misuse of resources.
6. Detailed records do not support certain net credit asset balances and balances representing equipment and receivables. These accounts had no activity in recent years, therefore their balances were removed from the financial statements through cumulative adjustments. Such balances were not included in balances held in trust for Indian tribes, organizations and individuals in the financial statements or in the Bureau's internal accounting records.
7. Data processing controls throughout the Bureau cannot be relied upon to ensure that data are being properly processed. Data processing is conducted at various locations throughout the Bureau, and at certain locations, there are inadequate controls over systems and data, inadequate segregation of duties, and deficiencies in controlling systems development.
8. Record retention and filing procedures at certain locations throughout the Bureau and for certain periods are not sufficient to document related activities and account balances.

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Confirmed and Performed Other Verification Procedures for all Monetary Assets (Cash and Investments) Held for Trust Funds Managed by the Bureau

Cash - The U.S. Department of Treasury (Treasury) functions as the "bank" and as a disbursing agent for the Bureau. However, unlike a bank or other independent financial institution, the Treasury cannot readily provide an independent verification of cumulative cash balances held. In addition to Treasury's inability to provide an independent verification of the cash balances held, there are known instances where (1) the Bureau has not provided proper notification to Treasury of amounts deposited and (2) amounts were not properly transferred from investments to reinvested cash at Treasury to cover disbursements. Because of Treasury's inability to independently confirm balances and the Bureau's history of known instances of accounting errors that resulted in overinvestment and underinvestment of available cash balances, it was not possible to verify cash balances.

Investments - Balances at September 30, 1988, were verified primarily by confirmation and physical observation. Investment securities were confirmed with financial institutions (banks, savings and loan institutions and credit unions), the U.S. Department of Treasury and the U.S. Federal Reserve Bank. As a result of our audit work, investments (except for investments at failed financial institutions) and accrued interest receivable balances were stated at September 30, 1988, based on the total amounts of verifiable investments.

Attempted Confirmation of Balances Held in Trust for Indian Tribes, Organizations and Individuals with the Appropriate Account Holders or their Representatives

We requested independent confirmations of all Tribal Trust account balances by the account holders. We also performed confirmation procedures on a significant portion of the IIM accounts. The purpose of the confirmation procedures was to determine whether the account holders or their representatives agreed with their balances as recorded in the Bureau's accounting records.

A significant portion of the confirmation requests were not returned to us and, in addition, the confirmation requests which were returned to us indicated both disagreements in certain instances and simply an inability to confirm cumulative balances and/or activity in many instances.

A portion of the Indian tribes, organizations and individuals for whom the Bureau holds assets in trust are unable to confirm their account balances because they do not receive adequate information to determine whether their account balances reflected in the Bureau's records are proper. In addition, certain account holders do not agree with the balances reflected in their accounts.

A significant number of IIM accounts, which represent a significant portion of the IIM balances, are held for the benefit of minors and other individuals who have been determined to be legally incompetent to manage their own affairs. The Bureau typically does not give minors and incompetent individuals complete access to their account balances or activity and, accordingly, such account holders would not be able to determine if their account balances are proper.

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The ultimate account holders of a portion of the monies held in trust (in special deposit accounts and amounts reflected as unallocated in Note 7 to the Tribal and IIM Trust Fund financial statements as of September 30, 1988) in the IIM Trust Fund by the Bureau have not been determined and, accordingly, such monies have not been distributed to specific individual beneficiaries. Also, included in the Tribal Trust Funds are certain balances not identified to specific tribes because certain judgement awards were granted to several Indian tribes in a particular geographic area for settlement of claims related to certain lands.

The Tribal and IIM Trust Fund financial statements also include certain unallocated balances which represent interest receipts not allocated to specific accounts. Investment interest on the Tribal Trust Funds cash balances invested overnight has not been distributed since June 1986. As of March 23, 1989, the Bureau was in the process of calculating a partial distribution of overnight interest receipts for the period from January 1, 1987, through February 28, 1989.

A portion of the unallocated balances may represent earnings from overinvestments, in which case, such amounts would be payable to the U.S. Department of Treasury. In addition, the total amount allocable to account holders may ultimately exceed the balances reflected in the financial statements due to misallocated interest and other receipts. Such difference could give rise to potential claims receivable from the U.S. Government from future funding.

Tested and Reviewed Receipts and Disbursements Activity at the
Bureau's Agency Offices, Area Offices and Central Office-West
Location in Albuquerque, New Mexico

We devised a substantive audit approach establishing scopes to obtain in-depth coverage. Our approach was planned not only to provide significant dollar coverage of account balances as of September 30, 1988, and activity for the year ending September 30, 1988, but was also planned to provide an assessment of accounting practices and an evaluation of internal controls relative to accounting for Trust Fund activities at Area and Agency Offices throughout the Bureau, and to test for compliance with applicable regulations which impact the Trust Funds.

The weaknesses in internal accounting controls noted during our audits and other comments and suggestions with respect to accounting procedures which came to our attention during the course of our audits are discussed in greater detail in the Report on Compliance and Report on Internal Controls. Some of the more significant weaknesses in internal accounting controls noted in approving, reporting and monitoring receipts and disbursements, which are described in Note 3 to financial statements referred to in the first paragraph of this Executive Summary follow.

1. Multiple accounting systems are used to record the same activity; however, these systems are not reconciled or kept in balance with each other or with known amounts.

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2. Record retention and filing procedures at certain locations throughout the Bureau and for certain periods are not sufficient to document certain activities and account balances.
3. Certain accounting entries have been, and continue to be, prepared and posted on a decentralized basis without adequate review.
4. Many instances of inadequate segregation of duties exist. For example, in many locations, the same employees transfer assets among accounts and open new accounts resulting in the opportunity for intentional or unintentional misuse of resources.
5. Payments to IIM account holders are based in many instances on extensive manual calculations that are not reviewed or test-checked because of inadequate staffing.
6. As a result of such extensive manual calculations and other deficiencies in internal accounting controls, overpayments to certain Indian tribes and individuals have occurred due to misposting of receipts or other accounting errors which resulted in the balances available for distribution not being properly recorded in the Bureau's accounting records.
7. IIM accounts are held for the benefit of minors and other individuals who have been determined by Bureau personnel to be legally incompetent to manage their own financial affairs. Disbursements from such IIM accounts are to be made in accordance with specific guidelines and are required by Federal regulations to be made for the health, education or welfare of the beneficiary. At many Bureau locations, procedures are inadequate to ensure that such expenditures are made in accordance with applicable regulations.

Reviewed Controls Over Automated Data Processing (ADP) at
National Technical Support Center (NTSC) and
Information Management Centers (IMC's)

Our work was limited in nature, more limited than would be necessary to express an opinion on the system of internal accounting control taken as a whole or specific controls related to automated data processing. A more operational and detailed review may have identified additional recommendations. The general controls problems noted in our ADP general controls review are similar to issues raised in the operational review which was performed on the ADP function by a working group assembled by the Interior Department Office of Information Resources Management.

The results of our work indicated that data processing controls throughout the Bureau cannot be relied upon to ensure that data are being properly processed. Data processing is conducted at various locations throughout the Bureau, and, at certain locations, there are inadequate controls over systems and data, inadequate segregation of duties, and deficiencies in controlling systems development.

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The operational review of the Bureau's ADP function performed by the Office of Information Resources Management (initiated on November 7, 1988) was aimed at providing Bureau management with an independent assessment and management advice centering on the ADP strategic plans and priorities of the Bureau, the current and near-term decisions and actions necessary to move the Bureau toward achievement of the strategic plans and priorities, and the adequacy of the Bureau's resource base in relation to ADP plans, priorities and schedules.

RECOMMENDATIONS

Our recommendations which are discussed in greater detail in the Report on Compliance and Report on Internal Controls are summarized below.

1. A disciplined controllership function is needed.
 - o Summary reports of activity and cumulative balances of the Trust Funds must be reviewed by management personnel who are familiar with financial reports and generally accepted accounting principles, as they apply to the Trust Funds.
 - o Procedures and controls must be developed and then followed to ensure that accounting entries which impact the Trust Funds are properly reviewed. These procedures and controls must be adequate to ensure that all activities at Area and Agency Offices are properly reviewed.
 - o The various accounting systems and subledgers used by the Bureau must be reconciled to each other and discrepancies must be resolved. In time, improvements in the Bureau's ADP systems, implementation of a contract with a financial institution to perform certain investment related duties and other changes may reduce the "overlap" and help to integrate the Bureau's accounting systems. However, the systems currently being used must be reconciled to ensure the integrity of information currently being processed by the Bureau.
2. The audit process is essential to verify that controls and procedures are functioning effectively and that recorded balances are accurate.
 - o An internal audit function should be established to provide an ongoing review of compliance with controls, procedures and regulations. The internal audit group should communicate with upper management or an oversight group to maintain independence from operations and accounting personnel.
 - o An annual audit by independent public accountants should continue to be performed. The independent annual audit provides an objective view of the organization, its controls and procedures and financial accounting policies.

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3. Account holders must be given timely and accurate information.
 - o The Bureau should ensure that statements of IIM account holders are received and reviewed by an independent party. In the case of minors accounts or accounts of supervised individuals a Court appointed/approved guardian should receive the statements and be responsible for their review.
 - o IIM account statements should be delivered more frequently than is now the practice (e.g., monthly statements vs. (current) six-month statements).
4. Greater personnel and systems resources must be devoted to allocating receipts to appropriate beneficiaries on a timely basis.
 - o The Bureau should work to complete implementation of the IRMS system so that numerous lengthy manual computations can be automated.
 - o A plan should be developed to identify appropriate beneficiaries and distribute the unallocated balances which currently exist.

The Bureau has begun to take significant steps to resolve some of the above matters. One of these steps was the contract for the audit of the Trust Funds managed by the Bureau as of September 30, 1988. Another significant step is the implementation of the investment services contract with an outside financial institution.

We appreciate this opportunity to be of service, and we encourage the actions being taken to improve accounting procedures and internal controls.

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United States Department of the Interior

BUREAU OF INDIAN AFFAIRS
BRANCH OF TRUST FUND ACCOUNTING
POST OFFICE BOX 1067
ALBUQUERQUE, NEW MEXICO 87103

IN REPLY REFER TO:

JUN 7 1989

Arthur Andersen & Co.
6501 Americas Parkway, N. E., Suite 400
Albuquerque, New Mexico 87110

Gentlemen:

After reviewing your "Report on Compliance and Report on Internal Controls" for Trust Funds managed by the Bureau of Indian Affairs that was dated March 1989, we accept your findings and recommendations from a trust accounting perspective, and we intend to initiate action immediately to accomplish as many of your recommendations as possible prior to the end of the current fiscal year. It must be pointed out that several of your recommendations affect the data processing, investment, realty and other aspects of the Bureau's field operations over which we do not have direct control.

We will forward copies of your report to the appropriate managers in the Bureau so they may have it as a tool for future action involving their operating procedures.

I appreciate the professionalism portrayed by your firm in conducting this difficult audit engagement, and look forward to working with you over the next two years.

Sincerely,

Jim R. Parris, Chief
Branch of Trust Fund Accounting

TRUST FUNDS MANAGED BY THE
U.S. DEPARTMENT OF THE INTERIOR BUREAU OF INDIAN AFFAIRS
REPORT ON COMPLIANCE AND REPORT ON INTERNAL CONTROLS
AS OF SEPTEMBER 30, 1988
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ARTHUR ANDERSEN & Co.

6501 AMERICAS PARKWAY, N.E.
SUITE 400
ALBUQUERQUE, NEW MEXICO 87110
(505) 889-4700

March 23, 1989

AUDITORS' REPORT ON COMPLIANCE

To the U.S. Department of the Interior
Bureau of Indian Affairs:

We have audited the financial statements of the Trust Funds managed by the U.S. Department of the Interior Bureau of Indian Affairs (the "Bureau") for the year ended September 30, 1988, and have issued our reports thereon dated March 23, 1989. Our audits were made in accordance with generally accepted auditing standards and the standards for financial and compliance audits contained in Government Auditing Standards - Standards for Audit of Governmental Organizations, Programs, Activities, and Functions (1988 Revision), issued by the U.S. General Accounting Office, and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances, including tests of compliance with:

- o 25 Code of Federal Regulations, Chapter 1, Subchapter G - Financial Activities
- o 42 Bureau of Indian Affairs Manual, Supplement No. 3, Financial Management, Accounting Procedures Handbook
- o Treasury Fiscal Requirement Manual
- o 66 Indian Affairs Manual, Part 6.0 Individual Indian Money Accounts (Welfare)
- o General Accounting Office (GAO) Policy and Procedures Manual for Guidance of Federal Agencies, Title 2 - Accounting and Title 7 - Fiscal Procedures

The management of the U.S. Department of the Interior Bureau of Indian Affairs, in its trustee capacity, is responsible for the Bureau's compliance with laws and regulations affecting the Trust Funds. In connection with the audits referred to above, we selected and tested transactions and records from the Trust Funds to determine the Bureau's compliance with laws and regulations noncompliance with which we believe could have a material effect on the propriety of disbursements of the Trust Funds.

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The results of our tests indicate that for the transactions and records tested the Bureau was not in compliance with the laws and regulations referred to above, as described on the following pages. Our testing was more limited than would be necessary to express an opinion on whether the Bureau administered the Trust Funds in compliance, in all material respects, with laws and regulations noncompliance with which we believe could have a material effect on the propriety of disbursements of the Trust Funds; however, with respect to the transactions that were not tested by us, based on the results of transactions and records tested and the extent of noncompliance with laws and regulations, it is probable that similar instances of noncompliance with laws and regulations exist for transactions not tested. It should be noted that the U.S. Department of the Interior Office of the Solicitor ("Solicitor") acts as legal counsel for the Bureau. The Solicitor has indicated that the sheer volume of Indian Trust Fund accounts precluded a complete detailing of all possible existing or potential claims which do or might relate to these trust accounts. The Solicitor did not detail any of such claims which would potentially involve other violations of laws and regulations than those described on the following pages.

Very truly yours,

Arthur Andersen & Co.

LEASES

Monitoring Collateral Held for Lease Performance

Section 162.5(c) of 25

CFR (Code of Federal

Regulations) requires that "unless otherwise provided by the Secretary of the Interior or his assigns, a satisfactory surety bond will be required in an amount that will reasonably assure performance of the contractual obligations under the lease". The bond is to guarantee not less than one year's rent unless the rent is paid in advance. The Bureau is in violation of the above referenced regulation in certain instances by not using or perfecting security interests in the collateral to guarantee payment to the land owners.

During our review of lease distribution and compliance, we noted many instances in which lease payments were not being received from lessees in a timely manner (in some instances, lease agreements were amended or restructured in attempts to recover delinquent payments). We also noted that no collateral was obtained for certain leases, additional collateral was not pledged for an increase in rental amount and replacement collateral was not obtained for a bond which was cancelled.

We also noted instances where certificates of deposit pledged as collateral were made payable to the lessee or the Agency Office rather than to the order of both the lessee and the Agency Office. This provides the opportunity for the lessee to redeem the security without the consent of appropriate Agency Office personnel. We recommend that securities pledged as collateral require signatures from both appropriate Agency Office personnel and the lessee to be redeemed.

Many leases use personal guarantees (personal sureties) as collateral. These guarantees normally list real estate as the backing. No State or County filing is made to encumber or show that the property is backing the lease. The risk is that pledged land could be sold and would no longer be available to secure lease payments.

We recommend that the Bureau consider issuing instructions to the Agency Offices to file liens at the appropriate County courthouses to perfect interests in real estate pledged as collateral. This filing should prevent the collateral from being sold which will strengthen the lease guarantee.

Determining and Obtaining
Fair Lease Rental Value

Section 162.5(b) of 25 CFR states that

leases should not be approved or granted at less than the fair rental value unless it is determined by the Secretary that approval would be in the best interest of the landowner. We found that, in some instances, rental land is not periodically appraised to determine fair market rental value. In other instances, leases were approved for less than appraisal value, including one instance noted in which a long-term lease was entered into for substantially less than appraisal value.

We noted that in certain instances, lease modifications were not being documented and placed in the lease files to reflect the current terms of the lease agreement. In such instances, we were not able to determine whether

lease rates were less than fair rental value or whether the release compliance provisions were being monitored by the applicable Area or Agency Office. Management at the Agency Office indicated that proper filing procedures are not always carried out due to a lack of adequate personnel resources.

We also noted that minimum acceptable lease bids are not always determined. Minimum acceptable lease bids should be established for each land unit in order to protect the landowners from unreasonable offers. The Bureau should establish criteria for minimum bids. Such criteria could be based on estimated fair market value or the relative allotment productivity.

Monitoring Lease Compliance

Section 162.11 of 25 CFR states that leases must be in accordance with recognized principles of good practice and prudent management in relation to land use and conservation. Section 166.3 of 25 CFR states that the objective of the regulation is to preserve, through proper grazing, the resources on the reservations. Lease compliance with respect to these regulations has not been consistently monitored by certain Agency Offices on a regular basis (or such review has not been documented) at the risk of noncompliance with the above stated regulations.

Due to personnel constraints at certain Agency Offices, we understand that reviews of lease compliance are limited to the year of lease expiration and upon request of the landowner. In addition, in certain instances for leases relating to tribal land, the Agency Offices only monitor tribal leases at the request of the tribe.

Bureau policy requires a cancellation letter be sent to any lessee who is over 45 days late in making his lease payment. The letter is to state that the lease will be cancelled in 10 days if payment is not received by that time. This policy is not uniformly followed. An improved system for monitoring due dates of lease payments should be established to ensure that payments are made on a timely basis.

INDIVIDUAL INDIAN MONIES (IIM) ACCOUNTS

Health, Education and Welfare Requirements
for Disbursements from Supervised Accounts

Section 115.4 of 25 CFR

requires that disbursements from the IIM accounts of minors be approved by the Indian Special Services Disbursing Agent (ISSDA) or his designees as being in the best interest of the health, education and welfare of the minor. During our review of disbursements, instances were noted in which the Agency Superintendent approved a disbursement application for which the disbursement amount had not been filled in on the application indicating pre-approval of disbursements before considering the appropriateness of the amount in relation to the health, education and welfare requirements. Other potential violations of the above-referenced regulation were found in which disbursements made were not specifically related to health, education and welfare, such as disbursements for automobiles (when the minor was not of driving age). Disbursements were also noted that had been made without the Agency Superintendent's approval or that did not contain supporting documentation providing adequate descriptions of the expenditure to determine whether the expenditure was for the health, education or welfare of the account holder. We understand that, in cases of financial hardship, disbursements for family support are considered to be in the best interest of the health, education and welfare of the child; however, there should always be adequate and appropriate documentation to support such disbursements.

Lack of Documentation for IIM Disbursements

Section 115.3 of 25 CFR

states that funds can be disbursed from IIM accounts upon application made by the individual account holder or made on his behalf by the ISSDA. The application form used is Form 139B. Several instances were noted in which no such application form was available to support the disbursement that had been made.

We suggest that no disbursement be made without properly approved written authorization. We further suggest that, periodically, perhaps monthly, an employee other than the employee preparing the forms review the supporting files to ensure that appropriate and adequate documentation is being prepared and maintained to support disbursements from supervised accounts.

IIM Disbursements From Minor's Accounts
Made to Unauthorized Persons

Section 115.4 of 25 CFR

allows disbursement of funds in a minor's account to the "parents, legal guardians, fiduciaries or to persons having the control and custody of the minor under plans approved by the Secretary". Instances were noted in which funds from a minor's account were disbursed to a person other than the person documented as the minor's legal guardian. If money is to be disbursed to a person other than the minor's legal guardian, documentation such as a custody order should be contained in the file. No documentation was available to indicate approval by the ISSDA of these parties as being authorized to receive funds for the minor.

Voluntary Deposit Accounts

Improperly Accepted or Maintained

Section 115.6 of 25 CFR states that

voluntary deposits into IIM accounts are not to be accepted. Exceptions can be allowed by the ISSDA if made in order to avoid substantial hardship. Instances were noted in which voluntary deposit accounts were being maintained that were not substantial hardship exceptions. These accounts include accounts held for competent adults and for Tribes.

We understand that management of the Branch of Trust Fund Accounting has requested Agency Offices to remove all voluntary deposits and return such deposits to the account holders, however, results have been slow for many of the Agency Offices, and such accounts still existed upon completion of our fieldwork.

We recommend that a target date be established for removing such deposits. This target date should be in advance of the target date for the potential use of an outside financial institution to perform certain investment, disbursement and recordkeeping duties.

Undistributed Balances and Failure to Properly

Distribute Earnings on Special Deposit Accounts

Section 114.2(i) of 25

CFR defines "Special

Deposit" as any suspense account used for the temporary deposit of funds until they can be distributed. Several Agency Offices are maintaining special deposit accounts with large balances that have existed for several years without being distributed to beneficiaries. Agency Office employees have no

knowledge of the source of many of these balances nor do they know to whom these deposits belong. A large portion of these balances appear to represent interest earned over a long period of time. Section 114.4(b) of 25 CFR requires that interest earned on special deposit accounts be distributed when the principal is distributed. During our review of lease distributions from IIM accounts, violations of this regulation were noted at several Agency Offices whereby interest earned on lease receipts in "Special Deposit" accounts was not distributed with the principal.

We have been advised that, to a large extent, this situation results from significant workloads and the lack of personnel and systems resources at the Agency Offices. However, the practice of allowing funds to accumulate in a Special Deposit account for an indefinite period of time is not in accordance with the intended use of the account as defined in the regulations.

Reporting of Taxable Income

The Bureau is responsible for reporting taxable income to IIM account holders and to the IRS. However, due to incomplete records, including not having Social Security numbers for all IIM account holders who receive distributions of taxable income, the Bureau is not able to fully comply with IRS reporting requirements.

CASH

Deposit of Cash Receipts not Timely

Treasury Fiscal Requirements

Manual Section 8030.30 requires

that cash receipts be deposited on the day received, if possible. If not possible, next day deposit is required. Receipts for amounts under \$1,000 may be accumulated until the total reaches \$1,000, but deposits must be made by Friday of each week, regardless of amount accumulated. During our review of cash receipts in Agency Offices, several violations of this regulation were noted. Extensive delays in making deposits increases the risk of misapplication of funds. We understand that the Bureau is studying approaches to resolve this matter, including implementing a "lock-box" operation on a test basis.

Acceptance of Currency

42 BIAM Supplement #3 Section B(6) provides

that currency may be accepted in payment for debts, however, this practice is discouraged except in unusual circumstances. This regulation also requires that any currency accepted must be exchanged for bank checks or money orders for transmittal through the mail. This regulation has been violated because currency received by an Agency Office, accepted under normal circumstances, was not exchanged for a bank check or money order.

Proper Recording and Safeguarding of Cash Receipts

42 BIAM Supplement

#3 Section C(1)(c)

states that "only those authorized employees designated in writing by proper authority will receive, handle or deposit monies." Section A(2) states that

"All collections shall be fully accounted for from time of receipt to deposit." Employees in the realty division who are not authorized to receive collections have been accepting cash receipts without recording or accounting for these receipts because lessees sometimes bring their payments to the realty division. As far as we know, these receipts are turned over to the appropriate authorized personnel, however, they are not accounted for during the time they are in the hands of the realty employees. In addition, it was noted that, in certain instances, cash receipts are kept in an open and unlocked safe. These practices are in violation of the regulations referenced above.

Inadequate Safeguarding of Treasury Checks

Treasury Fiscal Requirements

Manual (TFRM) Section 5040

outlines suggested measures for the safekeeping and control of blank Treasury check stock, including that access to safe or vault be restricted to authorized personnel only and that surprise counts be performed on the check stock. During our compliance review, it was noted that one Agency Office was keeping blank Treasury check stock in a safe to which all Agency Office IIM employees have the combination. The safe was opened at the beginning of the day and not locked until the close of business. It was also noted that surprise counts are not being conducted. These practices are in violation of TFRM 5040.

GENERAL

Non-Compliance with Tribal Plan

For each Tribal Trust Fund Judgement

Award there is a Congressionally

approved Tribal Plan that details any restrictions on the use of the appropriated funds. During our review of Tribal Trust Fund expenditures, it was noted that the principal account balances had been reduced for a particular judgement award account when doing so was in direct contradiction with the Tribal Plan, however, appropriations in total for the particular tribe had not been drawn down in excess of the approved Tribal Plan. We recommend that procedures be implemented to ensure compliance with Congressionally approved Tribal Plans. Such procedures should include reviews of proposed expenditures and monitoring of available monies by Area Office personnel.

Basic Payment (Disbursement) Records not Maintained

GAO Policy and

Procedures Manual Title

7 Section 20.4 requires that basic payment records be maintained in the files. Several violations of this Section were found as follows.

- o No proof of payment to landowners (allottees) in the lease files.
- o IIM accounts classified as supervised accounts had no file to support any fiscal 1988 transactions affecting the account.
- o Filing in the IIM departments at the Agency Offices was not timely with disbursement applications and other documents piled in boxes rather than being properly filed.
- o At certain Agency Offices, several reports (including check registers) were missing.

- o In some instances there were no documents at all to support certain Tribal Trust disbursements.
- o Sales receipts for disbursements from IIM accounts were not obtained and filed as Bureau and GAO policy requires.

We have been informed that, at many locations, due to understaffing and current workload taking priority over backlogged filing, filing was being done on a time available basis.

Monitoring of Insurance Coverage and
Collateral Pledged to Secure Investments

The Bureau is required by the
Act of June 24, 1938, 25 USC

(162A), to (only) invest funds within insurance limits or obtain proper collateral to secure invested funds. The Bureau's misinterpretation of Federal depository insurance coverage for certain of its investments has resulted in certain certificates of deposit held at failed financial institutions which resulted in unrecovered deposits from the applicable insurance fund, as follows.

- o The National Credit Union Administration ("NCUA") interpreted its insurance limits for investments made by the IIM Trust Fund (in total) to be \$100,000. The Bureau had interpreted (as have other Federal depository insurance funds) its insurance limits for the IIM Trust Fund to be \$100,000 per account holder, but has limited IIM Trust Fund investments at a particular financial institution, in most situations, to \$5,000,000. The NCUA's interpretation has resulted in the IIM Trust Fund having investments at failed credit unions (all of which failed in 1984 and have been liquidated) of \$5,424,769. It was discovered through correspondence with the National Credit Union Administration (NCUA) that prior to the 1988 financial statement audit, the Bureau had never inquired (or such inquiries were not documented) as to the status of liquidation procedures and the prospects of collecting additional funds.

- o The Federal Savings and Loan Insurance Corporation ("FSLIC") interpreted its insurance limits for investments made by the Irrigation and Power Fund to be \$100,000 (in total). The Bureau had interpreted (as have other Federal depository insurance funds) its insurance limits to be \$100,000 for irrigation projects and \$100,000 for power projects or \$200,000 per financial institution. FSLIC's interpretation has resulted in the Irrigation and Power Fund having investments at failed savings and loan institutions (both of which failed in 1986) of \$213,602.

In addition, as of September 30, 1988, \$13,174,802 of certificates of deposit investments held by the Tribal and IIM Trust Funds and \$414,470 of certificates of deposit investments held by the Irrigation and Power Fund, were uninsured and uncollateralized because total certificates of deposit at the particular institution exceeded the depository insurance limit of \$100,000 and adequate collateral to secure deposits in excess of these limits had not been pledged or received. Currently, the Bureau uses the INFO system to monitor collateral for deposits at specific banks. During our audit, we found that the INFO system was not always updated with regard to the amount of collateral held by the Federal Reserve on behalf of a particular bank. In addition, the only records to support collateral held were notifications from the Federal Reserve when there was a change. Many of the notifications were outdated, and some prior notifications (regarding collateral at September 30, 1988) had been discarded when new ones were received. The records on hand provided little assurance with regard to collateral held at September 30, 1988.

The Bureau should obtain opinions from the U.S. Department of the Interior Office of the Solicitor when considering investing in institutions other than those insured by Federal deposit insurance funds that have provided documentation of their insurance policies with regard to the Trust Funds and only invest monies within insurance limits or obtain proper collateral as is

required by the above cited regulations. We also recommend the Bureau follow-up immediately with the applicable Federal depository insurance fund for the amounts currently "invested at failed financial institutions" to determine the amount of funds available to cover losses, and make arrangements for appropriated monies for the remainder to minimize the loss of interest. In addition, the Bureau should continually monitor the progress of liquidation to determine the possibility of recovering additional funds.

We further recommend that a better record be kept of all collateral on hand for a particular financial institution, including up-to-date and complete confirmations from the Federal Reserve. Records should be reviewed, and balances should be verified with the Federal Reserve on a periodic basis.

We understand that management is initiating a policy which includes discontinuing depositing funds with credit unions and changing the ownership of certificates of deposit at savings and loan associations to ensure Irrigation and Power Fund certificate of deposit investments are fully insured.

Outdated Regulations

Several regulations, specifically sections of 25 CFR, are outdated yet continue to be in effect.

Examples found include Section 117.8 which limits land purchases to \$10,000, Section 117.10 which limits motor vehicle purchases to \$2,000 and Section 117.14 which limits medical, dental and hospital expenses for incompetent members of the Osage tribe to \$1,000. We noted numerous violations of the above mentioned regulations; however, we suggest the intent of these regulations be evaluated, and they be updated to reflect reasonable limitations on disbursements.

REPORT ON INTERNAL CONTROLS

ARTHUR ANDERSEN & CO.

6501 AMERICAS PARKWAY, N.E.
SUITE 400
ALBUQUERQUE, NEW MEXICO 87110
(505) 889-4700

March 23, 1989

AUDITORS' REPORT ON INTERNAL CONTROLS

AND ACCOUNTING POLICIES AND PROCEDURES

To the U.S. Department of the Interior
Bureau of Indian Affairs:

We have audited the financial statements of the Trust Funds managed by the U.S. Department of the Interior Bureau of Indian Affairs (the "Bureau"), for the year ended September 30, 1988, and have issued our reports thereon dated March 23, 1989. As part of our audits, we made a study and evaluation of the system of internal accounting control, as it relates to trust funds managed by the U.S. Department of the Interior Bureau of Indian Affairs, to the extent we considered necessary to evaluate the system as required by generally accepted auditing standards and the standards for financial and compliance audits: contained in Government Auditing Standards - Standards for Audit of Governmental Organizations, Programs, Activities, and Functions (1988 Revision). For the purpose of this report, we have classified the significant internal accounting controls in the following categories: financial reporting, receipts, disbursements, and investments. The purpose of our study and evaluation was to determine the nature, timing and extent of the auditing procedures necessary for expressing an opinion on the Trust Funds' financial statements. Our study and evaluation was more limited than would be necessary to express an opinion on the system of internal accounting control taken as a whole or on any of the categories of controls identified above.

Management of the U.S. Department of the Interior Bureau of Indian Affairs is responsible for establishing and maintaining a system of internal accounting control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit

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the preparation of financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any system of internal accounting control, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the degree of compliance with the procedures may deteriorate.

A material weakness is a significant deficiency in which the design or operation of one or more internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Reportable conditions (under standards established by the American Institute of Certified Public Accountants) involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the organization's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

Our audit disclosed various material weaknesses (also considered to be reportable conditions), described in Note 3 to financial statements referred to in the first paragraph, and considered by us during our audits and referred to in our reports on the financial statements. Such matters were as follows:

- a. Multiple accounting systems are used to record the same activity; however, these systems are not reconciled or kept in balance with each other or with known amounts.
- b. Certain accounting entries have been, and continue to be, prepared and posted on a decentralized basis without adequate review.
- c. Certain transactions such as certificate of deposit maturities are recorded prior to their actual occurrence.
- d. Many instances of inadequate segregation of duties exist. For example, in many locations, the same employees transfer assets among accounts and open new accounts resulting in the opportunity for intentional or unintentional misuse of resources.
- e. The Bureau does not internally prepare interim or year-end financial statements because it does not have adequate personnel resources or the necessary accounting controls and procedures to prepare financial statements in compliance with guidelines established by the Bureau, the General Accounting Office ("GAO") or generally accepted accounting principles ("GAAP").

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- f. Detailed records do not support certain net credit asset balances and balances representing equipment and receivables. These accounts had no activity in recent years, therefore these accounts were removed from the financial statements through cumulative adjustments. Such balances were not included in balances held in trust for Indian tribes, organizations and individuals in the financial statements or in the Bureau's internal accounting records.
- g. The ultimate account holders of a portion of the resources held in trust by the Bureau have not been determined and, accordingly, such resources have not been distributed because the ownership of the land which gave rise to this income is fragmented, and the Bureau has inadequate personnel and systems to calculate the distributions.
- h. The cash account at the U.S. Department of Treasury is not verifiable due in part to inadequate Bureau procedures and also because the U.S. Department of Treasury is not able to provide the Bureau with accurate information regarding cumulative account balances.
- i. The Bureau's misinterpretation of Federal depository insurance coverage for certain of its investments has resulted in certain certificates of deposit held at failed financial institutions which resulted in unrecovered deposits from the applicable insurance fund. In addition, at September 30, 1988, there is a deficiency in collateral pledged at certain financial institutions which held deposits in excess of Federal depository insurance.
- j. Data processing controls throughout the Bureau cannot be relied upon to ensure that data are being properly processed. Data processing is conducted at various locations throughout the Bureau, and at certain locations, there are inadequate controls over systems and data, inadequate segregation of duties, and deficiencies in controlling systems development.
- k. Overpayments to certain Indian tribes and individuals have occurred due to misposting of receipts or other accounting errors which resulted in the balances available for distribution not being properly recorded in the Bureau's accounting records.
- l. Payments to IIM account holders are based in many instances on extensive manual calculations that are not reviewed or test-checked because of inadequate staffing.
- m. IIM accounts are held for the benefit of minors and other individuals who have been determined by Bureau personnel to be legally incompetent to manage their own financial affairs. Disbursements from such IIM accounts are to be made in accordance with specific guidelines and are required by Federal regulations to be made for the health, education or welfare of the beneficiary. At many Bureau locations, procedures are inadequate to ensure that such expenditures are made in accordance with applicable regulations.

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- n. Many IIM account holders do not routinely receive statements of trust account balances and, accordingly, they are unaware of the status of their accounts.
- o. Record retention and filing procedures at certain locations throughout the Bureau and for certain periods are not sufficient to document certain activities and account balances.

Additional Matters Relating to Irrigation and Power Fund Only

- p. Accounting records maintained by certain irrigation and power project site offices are not routinely reconciled to the corresponding amounts recorded in the general ledger system at the Central Office-West location in Albuquerque, New Mexico. As a result, the following problems with the accounting records existed at September 30, 1988.
 - Two power and irrigation projects are treated as independent accounting stations. The projects are not included by the Bureau in any of its internal reporting systems and, accordingly, no combined totals are prepared or reviewed by Bureau personnel on a regular periodic basis.
 - Cash balances reflected at project sites were out-of-balance with the control account balances at the Central Office-West location by over \$8 million. This difference resulted primarily from cumulative differences in the amounts of disbursements made by one of the independent accounting stations that were not recorded by Central Office-West. These cumulative unrecorded disbursements resulted in excess investments being made and the \$8,029,707 deficit cash balance due the U.S. Treasury.
 - Records which would support the cumulative balances for certain nonmonetary accounts for the irrigation and power projects, including property, plant and equipment and reimbursable charges due to U.S. government agencies, are unlocated.

The memorandum that follows expands on the above material weaknesses, and also discusses various other comments and suggestions with respect to accounting procedures that came to our attention during the course of our audits. Although some of these matters do not represent material weaknesses in internal controls, they are offered as constructive suggestions for the consideration of management as part of the ongoing process of modifying and improving accounting practices and procedures.

Our summary recommendations with respect to the material weaknesses and other comments and suggestions referred to above are as follows.

- a. Accounting systems should be further integrated and modified as appropriate to ensure information integrity within the accounting system.

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- b. The investment services contracts with an outside financial institution should be implemented as soon as practicable.
- c. Strong discipline needs to be established in the recording of financial transactions to ensure that transactions are properly recorded and accounts are properly maintained.
- d. The Bureau should establish the necessary organizational positions and responsibilities to properly train and supervise field and central office employees and to review their work on a timely and continued basis.
- e. Numerous manual calculations which are still being made in the field should be automated.
- f. A plan to resolve the backlog of deferred accounting system maintenance should be developed and implemented.
- g. IIM account statements should be regularly and timely received and reviewed by parties independent of the Bureau.
- h. A disciplined controllership function should be established and regular and timely management review of reports should be performed.
- i. An internal audit function with proper reporting channels should be established.
- j. The Bureau should continue to have regular annual independent audits performed.

We believe that over a period of time carrying out the above recommendations will enable the Bureau to overcome the majority of its existing accounting and many of its trust fund operating problems and establish credibility in the accounting system.

Following are comments and suggestions with respect to accounting procedures that came to our attention during the course of our audits.

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FINANCIAL REPORTING AND GENERAL

Inadequacy of Accounting Records

Throughout our audits, numerous problems were noted with regard to accounting records. Following is a brief listing of some of these problems that resulted in significant additional effort to compile financial statements.

1. Overall lack of understanding of the current general ledger system, and chart of accounts. Transactions are encoded without any knowledge of what accounts are affected.
2. Little communication between divisions, resulting in a lack of centralized management, and understanding of division of responsibilities.
3. No interim financial statement preparation and review to enable early isolation and resolution of accounting problems.
4. Lack of internal audit function to monitor and enforce standardized reporting and reconciliation procedures at the field office level.
5. Very little control exists over Irrigation and Power fund accounting records. Instances were noted in which there were no records to support accounts receivable, property, plant and equipment and reimbursable charges to the Federal government. In addition, the only connection between receipts at the project level, and management of funds received at the Central Office-West level, is a phone call. The results of these weak controls are unsupported balances in nonmonetary assets, and an unsupported cash overdraft of approximately \$11 million.

Lack of Controllershship Function

The accounting personnel at the Bureau Central Office were not aware of a number of reporting problems within the finance system. The Bureau does not prepare interim or year-end financial statements which indicates inadequate top level periodic reporting and analysis. This is largely due to limited and undertrained accounting personnel and the current workload within trust fund accounting.

We recommend that accounting personnel be trained in the reporting capabilities of the Finance System so they can assist in the design of more useful reports and will be able to identify possible program errors in report preparation as they occur. This will also require a monthly analysis of such reports by accounting personnel within the Branch of Trust Fund Accounting. Such reports should also be reviewed by upper-level Bureau management.

Management Review of Accounting Entries is Needed

In connection with our review of internal controls and accounting procedures at Area and Agency Offices, it was determined that certain accounting entries have been and continue to be prepared and posted at numerous field locations without adequate review.

All entries posted at the Agency Office level should be reviewed, reconciled and approved on a regular basis by someone with a knowledge of accounting other than the person initiating the transactions. Reconciliations and adjustments should be well documented and reviewed by the Agency Office Superintendent or an appropriate official designated by the Superintendent on a regular basis.

Inability of Beneficiaries to Verify Account Balances

Many IIM account holders do not receive statements of their account balances and, accordingly, are unaware of the status of their accounts. In a significant portion of these cases, these individuals rely totally on the Bureau for monitoring of their accounts and are unable to provide third-party

verification of the balance at any point in time. Many of these individuals may not be capable of evaluating the activity or balances in their accounts, but many that could are not given the opportunity.

It is essential that IIM account statements be regularly received and reviewed by a party independent of the Bureau. Without such a process, the Bureau will be unable to establish accountability to holders of IIM accounts.

Inadequate Communication Between Bureau Divisions

There is inadequate communication between

the Division of Trust Funds Management, the Branch of Finance and Administrative Accounting, and the Branch of Trust Fund Accounting. Due to the structure of the Bureau, each Division and Branch operates as a separate unit with no centralized control with regard to financial reporting. This division of responsibilities has contributed to some of the inconsistencies and unexplained differences within the accounting system, as well as a lack of overall knowledge of the reporting systems.

We suggest the use of a "responsibility accounting" policy whereby each Division and Branch is responsible to submit monthly reports of operations and reconciliations of balances between subsidiary detail records and the general ledger to the Branch of Trust Fund Accounting. The Branch of Trust Fund Accounting should be responsible for reviewing the reconciliations and properly disposing of reconciling items. The Branch of Trust Fund Accounting

should also be responsible for reviewing and approving all journal entries which impact the Trust Funds proposed by the Division of Trust Funds Management and the Branch of Finance and Administrative Accounting prior to their being posted to the Finance System.

Segregation of Duties

Many instances of inadequate segregation of duties exist: In many situations, employees

transfer assets among accounts and open new accounts resulting in significant opportunities for intentional or unintentional misuse of monies. We found instances in which the person who receives cash also posts collections, and the person who posts disbursements also has access to and prepares checks.

We recommend that a conscious effort be made to segregate custody, approval, recording, and reconciliation functions at each Agency and Area Office. We have made specific recommendations to each Agency Office we visited in informal letters.

Inconsistencies Between General Ledger Reports

The Bureau utilizes a number of general ledger reports generated by the Finance System, purportedly using the same information. We noted a number of inconsistencies and differences in account balances between these reports. Those differences noted are summarized as follows.

1. The summary of trust fund report, which is a report summarizing all assets held by individual tribes, does not allocate discounts and premiums on treasury securities held. In fact, such premiums and discounts are excluded from this report. This report is sent to each individual tribe on a monthly basis.

2. A number of general ledger account balances are (properly) not reported on the summary of trust funds reports sent to tribes. In most cases it was discovered that the balances were recorded erroneously within the general ledger, and the balances were removed.
3. The summary general ledger report by Area does not agree to the compressed general ledger report (detail general ledger) by appropriation for all Areas and all tribes. The differences appear to be caused largely by the \$1 billion discrepancy discussed previously.

We recommend the reports currently generated by the Finance System be reviewed by management and accounting personnel to evaluate their accuracy and possibly to redesign the reports so they become more reflective of financial position and more useful for financial analysis.

Finance and Accounting (F&A) Account
Reconciliations and Inflated Balances

The Tribal and IIM Trust Funds

both contain a group of accounts entitled Finance and Accounting (F&A) which distort the combined balances within the general ledger. The current system is designed in such a way that transactions are reported by accounting "stations"; each accounting station representing an Area Office. The F&A accounting station, however, is used for recording all investment transactions generated by the Division of Trust Funds Management. As a result, the Finance System reports balances for the F&A accounting station and adds them to all other accounting stations when generating combined general ledger reports. Since such assets have already been reflected by each Area Office, combining these balances results in duplicated balances.

At any point in time, the balance of the F&A group of accounts should reconcile to the sum of the balances reported by each Area Office. Such a reconciliation process has not taken place for years. In addition, reconciliations between the Finance System and the Money Max system (investment detail) is based on the F&A group of accounts and not the combined balances reported by each Area Office. Without a reconciliation between the sum of all the Area Office balances and the Money Max reports, there is no way to determine whether and by what amount available monies are overinvested or underinvested at any point in time.

The Bureau should eliminate the use of the F&A group of accounts and record each investment transaction by Area. This should prevent reporting of duplicate balances and force all reconciliations to be between the sum of all Area Office investment balances reported and the investment detail. An appropriate transaction code would allow investment transactions to be identified by their source (e.g., the Division of Trust Funds Management); however, such transactions would not be reported as a separate fund or accounting station.

Inadequate Field Definitions
and Out-of-Balance Situations

The Finance (general ledger) System allows out-of-balance and other similar situations to occur. This increases the risk of unbalanced entries being recorded, causing misstatement of account balances. For example, the Contributed Fund was out-of-balance by approximately \$141,000 prior to the

recording of cumulative adjustments reflected in the September 30, 1988 financial statements. In addition, the Tribal Trust Fund appeared to be out of balance by approximately \$1 billion because the Finance System truncates (eliminates) the high ordered digits for numbers of \$1 billion or greater.

One potential contributing factor to the out-of-balance conditions are Mass Accounting Records Change ("MARC I") adjustments entered into the Finance System that leave no audit trail. Such entries are not required to balance when entered into the system.

In order to improve the integrity of the financial statements and reduce the potential for possible misappropriation of monies, we recommend systems controls be implemented to eliminate the possibility of recording one-sided entries or any entry that does not balance.

We also recommend that the Finance System be modified to accommodate the larger balances currently being accounted for within the Trust Funds. We further recommend that reports generated by the Finance System be compared for consistency and possible exclusion of information.

Transaction Codes not Designed
for Trust Fund Accounting

Current transaction codes used to record simple transactions cause the Finance System to post to a variety of budgetary and memo type accounts. These accounts add complexity to the general ledger but have no apparent information value since the Bureau employees we contacted could not tell us

what the accounts represented. In addition, certain net credit asset balances and balances representing equipment and receivables maintained in the general ledger are not supported by detail records. These accounts were removed from the general ledger for financial statement presentation.

The Bureau should eliminate the use of these memo and a variety of budget accounts in the systems used for the Trust Funds in order to simplify the general ledger and make it more meaningful for accounting purposes.

Financial Reports not Meaningful Management Tools

General ledger reports are designed to facilitate completing required forms submitted to the U.S. Treasury. The reports generated are not meaningful for financial analysis. As a result, nobody reviews combined financial statements periodically for the purpose of evaluation or to identify obvious processing errors (e.g. unusual fluctuations and trends).

We recommend that reports be designed in financial statement format and such reports be generated on a monthly basis for review by management. A formal controllership function should be established and management reports should be prepared to provide meaningful management information.

Responsibility Accounting by Agency Offices

The Aberdeen and Billings

Area Offices do not report IIM general ledger account balances separately by Agency Office within the Finance System. IIM account balances for each Agency Office are reflected in the IIM system, but receipts and disbursements are not.

In order to provide meaningful financial statement information and establish responsibility accounting, we recommend that the Area Offices reflect each Agency Office's results of operations and financial position separately. Such reports should be analyzed on a monthly basis for trends and unusual fluctuations and reconciled to other sources, as appropriate.

Systems Improvements Needed to Analyze
Components of Receipts and Disbursements

Accounts used to record Trust

Fund receipts and

expenditures are maintained as part of the detail of the cash balance in the general ledger. Changes in asset and liability balances that do not affect cash are not reflected as changes in fund balances. In addition, the IIM system does not provide a means of identifying receipts or disbursements by source of revenue and type of expense. One cash activity account reflects all receipts of the IIM Trust Fund and one account reflects all disbursements.

We recommend that accounts be established in the general ledger and IRMS systems to track receipts and disbursements activity, similar to the general ledger accounts established for the Tribal Trust Fund. More meaningful

internal financial reports could be prepared to assist in the analysis (by Central Office-West, Area Office and Agency Office personnel) of trends and fluctuations in activities, particularly with regard to sources of receipts.

Negative Account Balances In Tribal Trust

Because of the accumulation of errors and overdrafting of

accounts, some Tribal Trust Fund accounts carry negative balances. Overdrafts have been caused by approval of distributions based on anticipated receipts, and transfers not made properly between appropriations. The Bureau has utilized an outside contractor to reconcile certain of these negative balances and is in the process of posting correcting adjustments to certain such negative balance accounts.

We emphasize the need for the Bureau to complete the negative account balance reconciliation project and, in the future, withhold approval of distributions until monies are on hand to prevent new overdrafts.

Calculations and Distributions of Interest Suffer from Several Weaknesses

As noted earlier in the Report on Compliance included

in this document, interest earned on lease receipts held in "Special Deposit" accounts are not always distributed with the related principal when distributions are ultimately made to the appropriate beneficiaries. In addition, the following items were noted.

- o Undistributed Interest - The Bureau did not distribute interest earned on overnight deposits since June 1986. A partial distribution was made in April 1989. The interest received on overnight deposits was adequate to fund the distribution from January 1987 through February 1989, but was not adequate to cover the six-month period from June 1986 through December 1986. Management estimates the total shortage to be approximately \$2 million.

We recommend the Bureau distribute interest receipts regularly, perhaps monthly. Consistent, regular distribution of interest receipts will allow the Bureau to identify and correct problems in a timely fashion.

- o Double-Posting of Interest to Special Deposit Accounts - Interest is currently being double-posted to special deposit accounts at each Agency Office. Interest is posted manually for partial distributions of special deposit accounts only by the Agency Offices when balances are transferred from Special Deposit accounts (206.70 accounts) to individual accounts (206.11 accounts). Interest is credited to the Special Deposit account a second time by the IRMS system when the six-month distribution is calculated.

We recommend the IRMS system be modified or other procedures be implemented to identify manual postings of interest made throughout the period and offset those against automated calculations. This may involve considerable programming effort and time to implement. We understand that a project is currently in progress to modify the IRMS system to better serve the needs of the Bureau. The above suggestions should be considered in the modification process.

- o Calculation of Average Balances for Allocating Interest - The Integrated Resource Management System (IRMS) system calculates interest based on month-end balances. If any withdrawals are made within a month, those monies will only earn interest for the prior month assuming they were in the account at month-end. As a result, individual account holders earn interest based on their balance at month-end regardless of what the average balance of the account was throughout the month or how long deposits were in the account.

A more equitable method of calculating interest would be based on a monthly average using daily balances, similar to calculation methods used by most financial institutions. We understand that the Bureau is currently working on a project to modify the IRMS system to calculate interest based on average daily balances and we emphasize the need for its implementation.

- o Computation of Interest Factor for Allocating Interest to IIM Accounts - When the semi-annual interest factor for IIM is computed by the Branch of Trust Fund Accounting at the Central Office-West, interest receipts from investments for the six-month period plus an accrual for interest earned but not yet received is used as the amount of interest to be distributed. No adjustment is made for the prior period accrual. Under this method, interest accrued for is calculated in the distribution both in the period earned and in the period received.

Another problem in the calculation is that for the September 30, 1988, accrual the steps followed to compute the interest factor resulted in earnings on certain GNMA investment balances being included twice. This occurred because the "MoneyMax Earned Interest Detail" report was changed to include GNMA's but a separate calculation for the GNMA accrual was made and added to the calculation.

A third problem is that a \$200,000 arbitrary figure is added to earnings for accounts closed during the year. This amount is an estimate that is never adjusted to actual.

We recommend that the interest factor calculation be changed so that the prior period accrual is reversed out of the current accrual. We further recommend that calculations be reviewed to ensure that amounts included are not considered twice and any estimate used be reconciled to actual and adjusted for in a timely fashion.

Inability to Reconcile Cash, Including
Balances Invested Overnight, to U.S. Treasury

Cash reconciliation

procedures are designed

to meet fiscal requirements of the U.S. Treasury and are not designed to meet financial reporting needs (proper cut-off and internal control). Currently, the U.S. Treasury does not provide a statement indicating the Bureau's account balance, thus removing the third-party verification process that functions as a control for cash activity in most organizations.

Because of this, the Bureau has nothing to reconcile its cash balance to other than its own internal records. Monthly reconciliations are performed on transactions only, not on cumulative balances.

This condition represents a material weakness in internal control.

INVESTMENTS

MoneyMax Reconciliations

Currently, no formal procedures are in place for reconciling the MoneyMax investment detail reports to the Finance (general ledger) System reports, either in total or by (appropriation) account. Informal reconciliation procedures are being performed by an employee within the Bureau's Division of Trust Funds Management; however, the person performing the reconciliations does not share the results with the Branch of Trust Fund Accounting and nobody reviews the work for propriety or makes a determination regarding proper disposition of reconciling items.

Formal reconciliation procedures should be implemented. Such procedures should include a well documented monthly reconciliation in a standard format which will reflect necessary adjustments to MoneyMax and to the Finance System due to posting errors or timing differences. The reconciliation should be reviewed by the Branch of Trust Fund Accounting timely, on a monthly basis, and reconciling items should be promptly disposed of. The review should be documented.

Timing of Recording Investment Maturities

The Bureau presently records maturities of certificates of deposits (CDs) in the Finance System and in the MoneyMax System at the time a CD is due to mature, rather than when monies are actually received. This is done to ensure immediate reinvestment of those monies to eliminate loss of interest between the time a CD is due to mature and the time cash is actually

received. This practice is not a problem when the posting of the transaction occurs substantially simultaneously with the physical receipt of the cash. A problem arises when the cash remittance for a maturing CD is delayed by the issuing financial institution. This results in cash funds for the particular CD being reflected in the cash balance in the general ledger and reinvested in CDs with different financial institutions prior to the cash being available to reinvest. The U.S. Treasury has no control over the amount of withdrawals made by the Bureau, resulting in an overinvestment of monies and an overstatement of earnings.

Maturing CDs should not be posted until the cash is actually received. Our understanding of the procedures indicates that deposits are made by way of wire transfer and the Bureau has access to read U.S. Treasury system deposit reports through an on-line terminal. Thus, any delays in recording the transactions should be minimal. Financial institutions that do not pay on matured CDs on a timely basis should be charged service fees for lost interest due to their delays. This policy is documented in applicable regulations.

Overinvestment of Tribal Trust Funds

For some tribes, the Bureau has

invested amounts greater than the

total holdings of the tribe. This problem occurs in several situations. One problem is that, if a tribe is overdrawn in one appropriation, the total invested for all appropriations is not reduced by the overdraft. Another situation is where timing delays in recording disbursements allow monies already disbursed to remain invested or be reinvested because the Division of Trust Funds Management is unaware of the disbursement. Still another scenario

in which overinvestment occurs is when the Division of Trust Funds Management records investment maturities prior to receiving proceeds of the maturing investment and invests them (see previous condition - Timing of Recording Investment Maturities). If the monies do not become available they are invested in two places.

To avoid overinvestment, communication between the Branch of Trust Fund Accounting and Division of Trust Funds Management must be improved and overdrafting of accounts must be stopped. Furthermore, the Division of Trust Funds Management needs to use a method of anticipating investment maturities that keeps monies invested but does not double up the amounts. Monies should not be reinvested until they are received.

Investment Subsidiary Detail
and Duplication and Inconsistencies

Currently, the Division of Trust Funds Management maintains two separate systems for monitoring investments (the MoneyMax system and the Information-"INFO" system). The two systems contain the same information for investments held with the following variations.

1. The INFO system contains collateral information while the MoneyMax System does not.
2. The MoneyMax System accounts for all CDs and government securities and amortization of premiums and discounts, while the INFO system is strictly used for CDs. The result of maintaining the two unrelated systems is duplication of effort and lack of integrity between the systems. The same data are entered into the Finance System, the INFO system and the MoneyMax System. Thus, there are three separate points of input and all three systems have different investment balances recorded.

In addition to the differences between INFO and MoneyMax, the MoneyMax reports we received as of September 30, 1988, were processed on different run dates and had different totals. The difference was approximately \$20 million of investments purchased on September 29, 1988, that were not included in the original report. The original report was used to reconcile to the Finance System so the \$20 million purchase never appeared as a reconciling item as this purchase was also not recorded in the Finance System.

We recommend that one subsidiary detail system be designed that will meet all the needs of the Bureau, and that such system interact with and be properly reconciled to the Finance System (i.e., general ledger control accounts) to eliminate duplication of effort and the lack of integrity between the detail and control accounts.

Recording Premiums and Discounts

Premiums and discounts on U.S. Treasury securities and U.S. Government Agency

securities are recorded incorrectly in the Finance System when the securities are purchased. Present practice for recording securities purchased at a premium or discount is to debit the investment accounts for the purchase price. Premiums and discounts are recorded in separate accounts with debits (increases to total investment balances recorded) representing discounts and credits (decreases in total investment balances recorded) representing premiums. The effect of the Bureau's practice is to reflect total investment accounts that equal the par value of the underlying securities. The Bureau records an offsetting entry to a "contra" account which is netted and

reflected as a "liability" in the Bureau's internal accounting records. In normal accounting practice, discounts are recorded as credits and premiums as debits, and the security is recorded at par value so that the total of the account balances equal the purchase price at the date of acquisition.

In addition to improper recording of premiums and discounts when investment securities are purchased, the Bureau does not record amortization of premiums and accretion of discounts over the life of the investment securities purchased in accordance with generally accepted accounting principles. Discounts and premiums are not adjusted until the securities mature.

We recommend that the Bureau record investment securities at par value and establish a contra account for unamortized premiums and discounts. Debits to the contra account should represent premiums on investment securities and credits should represent discounts. The total of all investment accounts would be equal to cost plus unamortized premium or less unaccreted discount.

We also recommend that the Bureau use the capability of the MoneyMax System to generate the amounts of periodic amortization or accretion of premiums and discounts, and that these amounts be recorded in the Finance System, on a monthly basis. This treatment is in accordance with GAAP and will present a more steady flow of income recognition.

We understand that by following the present practice, the Bureau is able to reflect the purchase price on investment detail reports which are furnished to tribal account holders. In addition, earnings reflected on investment detail reports represent actual cash receipts available for distribution or reinvestment. However, we believe that the Finance System should be corrected to be in accordance with generally accepted accounting principles and the appropriate total yield information should be furnished to account holders.

Bank Identification Numbers

Currently, the investment subsidiary detail system assigns a bank number for identification purposes so that each financial institution at which the Bureau invests monies has a unique number assigned to it. When a financial institution is removed from the system and a different financial institution is added, the new financial institution added to this system is assigned the same number previously held by the deleted bank. Certain financial institutions that had their numbers reassigned later resumed business with the Bureau and were given new numbers. The problem that resulted from this is that certain CDs were included in the detail listings under a particular financial institution when, in fact, the CDs were held by a financial institution that had previously been deleted from the system. Thus, there were discrepancies between CDs confirmed by the financial institution and what was listed on the investment detail.

In order to ensure proper tracking of CDs by financial institution, bank numbers should not be reused for at least a year once a financial institution is deleted from the system.

Palm Springs Agency Office Investments

IIM funds at the Palm Springs

Agency Office have been used to purchase a variety of investment securities for the benefit of account holders. These investments are held at the Agency Office and are not monitored by the Division of Trust Funds Management. There are inadequate controls over these investments at the Agency Office and Agency Office personnel may not be knowledgeable enough to make sound investment decisions. Prior to the audit, there were no comprehensive listings of investments held at the Palm Springs Agency Office. In addition, in many cases, cost and market values of the securities were not known, and individuals holding an interest in those securities are not informed of their portfolio holdings.

To ensure proper monitoring and expertise in investment matters for these investments, the Bureau should make arrangements for a qualified custodian to take possession of and manage the securities. The Division of Trust Funds Management should monitor the status of these investments through review of monthly statements, and other procedures as considered appropriate by Bureau management, to ensure proper reporting and management.

Investments in Government Agency Securities

The Bureau has invested in certain notes

guaranteed as to principal and interest by the Small Business Administration (SBA) and other U.S. Government agencies for which the Bureau's monitoring and recordkeeping related to these investments has not been adequate to determine the amount of losses which may have been incurred. Adjustments were

identified in the September 30, 1988 financial statements to adjust investments to amounts verified. However, it was not practicable to determine whether all investments of the Trust Funds in SBA notes have been identified and, accordingly, it was not practicable to determine the amount of losses of principal and interest which may have been incurred.

We recommend that a detailed analysis of monies invested in SBA notes (and similar investment instruments) be performed to determine whether additional investments exist, what amounts of losses may have been incurred and what amounts of losses may be recoverable.

LEASES, AND COLLECTION AND DISTRIBUTION OF RECEIPTS
ON BEHALF OF BENEFICIARIES

Incorrect Ownership Percentages

The Bureau maintains official ownership records at regional "title plants". In addition, ownership percentages are maintained using the Integrated Resource Management System (IRMS) to facilitate automated computations of amounts to be distributed. Title Status Reports (TSR's) are land ownership percentage reports compiled by the regional title plants (Bureau operated title plants which use official probate records). During our review of lease ownership and related cash distributions, instances were noted in which the TSR's were not correct or up-to-date, and in addition, instances were noted in which the IRMS system was not correct or up-to-date. These situations have resulted in incorrect distribution to owners.

In certain instances, Bureau personnel indicated their belief that the TSR's were unreliable since errors had been found in the TSR's, and the TSR's did not include life estate interests. Therefore, the TSR's were not used to verify ownership in certain instances. Another problem noted was that probate documentation was not up-to-date in certain instances, causing the TSR's to contain outdated information.

We also discovered that ownership percentages within the Integrated Resource Management System (IRMS), which is used for distribution of rental income for leases, did not total 100%, in certain instances, causing individual and tribal account holders to receive incorrect distributions. This resulted in amounts distributed in excess of amounts collected. Errors were also found in manual ownership records used at Agency Offices not on the IRMS system. Other implications of these errors include overdrafted accounts within the Individual Indian Monies (IIM) system as a result of overpayments which, in

certain instances, cannot be recovered if the monies have been distributed and are no longer held in trust (according to the decision of the Comptroller General of the United States issued on April 29, 1986 (file B219235)). We understand that in certain instances, Agency Office personnel are aware of over/under payments and are trying to collect the money from the individuals who were overpaid.

Timely Distribution of Lease Payments

In certain instances, receipts from lease payments are being held at the Agency Offices in "Special Deposit" accounts for an unreasonable length of time without being distributed to the rightful owners. Instances were noted in which lease distributions have been delayed as long as five years. In addition, there were certain delays in distributing receipts collected by one Agency Office to individuals being serviced by another Agency Office.

We understand that such delays are due largely to inadequate personnel and systems resources for the volume of research and manual calculations involved in distribution of receipts. Implementing the IRMS system fully, as discussed earlier, and devotion of adequate time of properly trained personnel is necessary to keep such amounts from increasing and to resolve the existing special deposit account problems.

Verification of Ownership Records and
Incorrect Distribution of Lease Receipts

Lease receipts should be
distributed based on proper

ownership percentages in the IRMS system or as reflected in appropriate manual records (if IRMS is not used), such as the title status reports (TSR's).

During our review of lease distribution procedures, a number of instances were found involving distributions of lease receipts not in accordance with ownership percentages. We noted that, in many instances, no comparison of title status reports (TSR's) is made to Agency Office ownership records (primarily the IRMS system) before distribution of lease payments is made. This comparison would highlight any differences between the two in order to resolve questions about ownership and prevent incorrect distributions. We recommend that the TSR's be reconciled to the Agency Office ownership records before distributions of lease payments are made.

This problem also is compounded by several factors, including methods used for distribution at many Agency Offices which allow errors to go undetected due to the lack of review and authorization. In certain situations, one or more allottees (individuals or tribes) receive direct payment from the lessee, and the other allottees receive their pro rata share from the Bureau, after the Bureau receives the net amount from the lessee. In some situations, Bureau personnel who calculated the distributions were unaware of the direct payments made to certain allottees; therefore, additional payments were made to those who received direct payments and the other allottees received less than their pro rata share.

Many leases reviewed had several allotments (original parcel of land awarded) of land per lease. First, the lease payment is allocated among the allotments, then each allocation is distributed to the individual owners of that allotment. The number of individual "allottees" per allotment is growing significantly, almost "exponentially" in certain instances as a person's ownership rights are divided among their dependents upon death (unless directed otherwise by a will). The division of ownership into minute fractions is a significant problem with the result that the Bureau spends significant personnel resources, system time and postage expense computing and distributing very small payment amounts (many less than \$1).

Absence of Monthly Royalty Statements

During our review of oil and gas leases, it was noted that monthly royalty statements were not always available. These monthly royalty statements should be used for reconciliation of the amount received to the amount actually owed based on production reported by the lease operator. By not performing these reconciliation steps, the Bureau is at risk of not properly distributing lease revenues based on actual receipts and errors could go undetected. We understand that the Bureau is working together with the U.S. Department of the Interior Minerals Management Service to resolve this matter (the "1081 reconciliation project").

Over or Under Billing of Lessees

Instances were found in which lessees were over or under billed for their lease payment. This resulted in landowners (allottees) receiving a different amount than was actually due them.

This was only noted in a limited number of instances, however it is evidence of inadequate cross-checking of such items.

Absence of Proof of Lease Payment

When a lease payment is distributed to the landowners a payment schedule or proof of payment listing should be placed in the lease file. This provides a summary of the amounts distributed to each allottee and shows that the distribution has been made. During our review of lease distributions, we found that such payment schedules are not always filed in the lease files. We recommend that the Agency Offices place a copy of the payment schedule in the lease file at the time receipts are credited to the applicable allottees' IIM accounts.

IIM ACCOUNTS

IIM Reconciliations

The Integrated Resource Management System (IRMS), representing subsidiary detail for all IIM accounts, has not been reconciled to Finance System general ledger control accounts for years. As a result, the balances held in trust reflected within the Finance System were not in agreement with the total of the IRMS detail. The two systems run independently of each other and receive data from two separate points of input.

We recommend that IRMS be reconciled to the Finance System with emphasis placed on Area and Agency Offices with large discrepancies between the two systems.

We understand that management of the Branch of Trust Fund Accounting is in the process of posting a "one-time" adjustment to agree the Finance System to IRMS with the differences to be reflected in separate variance accounts. We also understand that management does not believe it will be possible to reconcile all the differences, which have accumulated over a period of several years.

IIM Withdrawals

A number of instances were noted in which applications for withdrawal from IIM accounts were not signed by either the account holder or guardian.

Management at one Agency Office indicated that a signature is not required by current regulations, and in many cases money will be released based on a telephone call with formal documentation to follow.

We recommend the establishment and dissemination of uniform instructions documenting required procedures.

Debit (Negative) Account Balances

As discussed previously, IIM interest is distributed on a semiannual basis based on an interest factor calculated at the Central Office-West which is communicated to the Area and Agency Offices. When interest is distributed, debit balances in liability accounts are created within IRMS to offset the postings of interest to individual accounts. When interest is funded based on actual earnings, these debit balances are credited and the debit is made to cash. At many of the Agency Offices, the debit balances had not been removed for a long period of time, so there was no monitoring as to whether the entire balance of interest distributed was funded at the Central Office level. In addition, the funding for the September 30, 1988, interest distribution, which was posted by the Bureau in October 1988, was inadequate (by approximately \$600,000) to eliminate the debit balances from the Finance System.

We recommend that these debit balances in undistributed interest accounts be analyzed and eliminated as part of the reconciliation between IRMS and the Finance System. In addition, we recommend that, in the future, these accounts be reconciled to the amount of interest (to be distributed) recorded by the Central Office-West.

Returned Checks

One instance was discovered in which an Agency Office had not credited an individual account for a check that had been returned to the Agency Office. This resulted in an understatement of the individual's balance, and lost interest.

We recommend prompt posting of returned checks and other receipts to ensure account balances are properly stated, and to minimize lost interest. In addition, returned checks should be investigated immediately so corrective action, such as name or address changes, can be taken.

AREA AND AGENCY OFFICES

System Errors

System errors were found for which no corrective action had been taken. An instance was noted in which a reconciling item of \$12 million was identified as a system error. The systems (IRMS and Finance) have yet to be fixed so these types of errors will not reoccur. The Department of Interior OIG has addressed this matter previously in a report (Review of Individual Indian Money Accounts) dated March 1986.

In order to ensure a more accurate balance in both IRMS and the Finance System, system errors should be promptly corrected when these errors are discovered.

Erroneous Balances In IIM System

During our review of IIM accounts, we noted that erroneous balances were transferred from the manual ledger cards when the IIM accounts were transferred to the computer system.

To ensure that the balances in IIM accounts are proper, accounts with little activity that have been in existence for many years should be reviewed to determine when the balance originated and whether the balance is proper.

Transaction Overlap On IIM Statements

The six-month IIM statements that are sent to account holders show an overlap of some transactions. The result of the overlap is that the IIM statements give two different ending balances, and account holders cannot be

certain of their true balances. This also presents a risk that interest which is calculated based on month-end balances could be incorrectly paid to account holders.

To reduce the risk of errors occurring in interest calculations and reduce confusion among account holders, we recommend that a computer programming change be made to reflect proper cut-off on the account statements.

Duplicated Document Numbers

Collection vouchers, or bills for collection, are used to record

collections such as lease payments. During our review of collections, we noted that a series of bills for collection was numbered twice, resulting in two bills for collection having the same collection voucher (CV) number. This increases the likelihood that collections may go unrecorded, since a duplicate CV number will not be missed if the sequence of numbers is not monitored, and also makes reconciliation difficult.

We recommend the CV number log and official report file be reviewed weekly so that such errors can be caught and corrected. On a Bureau-wide level, CV's should be prenumbered and issued by the Central Office-West, and control should be maintained at the Area Office level. This would provide uniformity throughout the Bureau, and more centralized control.

IRMS Not Being Used

During our review of distribution of lease payments at the Agency Office level, we discovered that the Integrated Resource Management System (IRMS) is not being utilized at all Agency Offices. Certain programs included in IRMS were designed for the specific purpose of calculating lease distributions and should be much more efficient and less time consuming than extensive manual calculations for both lease distribution and interest calculations which continue to be performed at certain Agency Offices. We recommend that all Agency Offices implement the IRMS system and train employees on the use of the system.

Management at one Agency Office has indicated that attempts have been made to implement IRMS but that difficulties were encountered which rendered IRMS unreliable for accurate calculation for distribution of lease income. Certain Agency Offices have implemented IRMS and other Agency Offices indicated that they were in the process of implementing IRMS. The Bureau should consider providing teams that assist with the implementation and training of IRMS capabilities.

Close Estate and Inactive Accounts

When an IIM account holder dies, his estate is probated and his account balance is then distributed to the heirs, based on the probate. IIM accounts were noted in which probated estates had not yet been distributed when the probate was finalized in 1979. Other instances were found in which accounts with zero balances and no activity for more than two years have not been closed. We recommend that the Agency Offices research the ownership of old or inactive accounts so that the balances can be distributed and the accounts closed.

Use of Inappropriate Management Codes

Management codes reflecting the type or status of each account are assigned to all IIM accounts, including accounts to be probated and accounts for closed estates. We noted instances in which the management code for the account of a deceased individual was not changed to the appropriate management code. We recommend that upon notification of death, the management code be appropriately changed.

We also noted one instance where the "N82" code was used for all individual members of one particular Indian tribe. This code represents accounts for which the whereabouts of the account holders is unknown. Management at the particular Agency Office indicated that its IIM clerk was not properly trained in the various account codes and their meaning. Such training should be provided to remedy this condition.

Account Status Changes

No procedures exist at the Agency Offices to ensure that account status changes are made correctly. Changes in account holders name, address or management codes are sometimes approved by the Agency Superintendent, however, a was/is report (summary of changes) is not examined to assure that the changes are made properly. We recommend that the Agency Superintendent assure that all name, address and management code changes were input properly by reviewing a summary of changes report.

Incorrect Addresses For IIM Accounts

Many of the IIM accounts (those with management codes N82 or N83) contain monies that cannot be disbursed because the whereabouts of the account holders are unknown.

To reduce the risk of wrongfully withholding monies, we recommend that the enrollment and IIM systems be interfaced so that the enrollment system is the basis for addresses of IIM account holders, thus IIM records for a greater number of account holders will remain up to date. If this is not feasible, appropriate resources should be devoted to update IIM addresses from information available in enrollment so these held monies can be properly distributed.

Agency Office Collections of Utility Bills

We noted, for an Agency Office receiving utility payments from former tenants for utility charges currently incurred, the Agency Office is paying the utility company on behalf of the individuals, similar to a service offered by a bank.

Management at the particular Agency Office explained that when the Bureau owned government housing, the Bureau paid bills for utilities and subsequently charged the tenants. The Bureau no longer owns the housing in this instance and Agency Office management indicated that efforts were being made to end the Bureau's collection of the bills.

In situations where housing is no longer owned by the government, we recommend that the Agency Office refuse to take payments from tenants, but rather have the tenants make utility payments directly.

AUTOMATED DATA PROCESSING

Utilize Production and Test
Programming Libraries at the
National Technical Support Center (NTSC)

Discussions with project
leaders and programmers

indicated that there is logical separation of projects (e.g. programmers from one project can not access or alter programs from another project). However, within the project, members of the project team (e.g. programmers) can transfer programs from the production environment to the test environment and back.

Certain risks are associated with the ability of programmers to transfer test programs into production. A new or modified computer program, unauthorized by management, may be put into production and may process data improperly, resulting in erroneous reports and corruption of data bases.

We recommend that program library software (PLS) be utilized to the fullest extent possible. PLS provides the ability to create separate libraries for test and production programs. Within the production library, separate libraries exist for source and object code. Within the testing library each project and project team member can be setup with a separate sublibrary. Access to the libraries is controlled by passwords. Passwords are important in minimizing the risk of unauthorized substitution of one program for another.

We understand PANVALET, a PLS program, is used on the Amdahl computer. We recommend additional libraries be set up and password controlled that will provide management with the ability to help ensure that only authorized

programs are placed into production. For the Unisys computers, we recommend the NTSC evaluate the possibility of acquiring a PLS program or develop other means that will allow libraries to be set up. Once the libraries are set up, we recommend they be password protected.

We understand that NTSC is in the process of developing a quality assurance group that will be responsible for moving programs from the test environment to the production environment. We recommend that NTSC promptly follow through with this project.

Develop Formal Documentation
Requirements for Program Maintenance

Discussion with NTSC personnel
indicated that no formal policy

exists for documentation requirements relating to the maintenance of application system programs.

The lack of a formal documentation policy allows programmers to document the program modifications in an inconsistent manner. Documentation may be less than adequate or more excessive than necessary.

We recommend formal documentation requirements be developed which prescribe standard documentation levels for all program development and maintenance. We further recommend that the quality assurance function mentioned above be given the responsibility of ensuring that the documentation standards are followed.

Update NTSC Disaster Recovery Plan

The NTSC does not have a current disaster recovery plan.

Disaster recovery planning is the process of defining, developing, documenting, and maintaining emergency plans to deal with disasters which would seriously affect the performance of data processing functions.

We understand that NTSC is in the state of change at this time. However, because of the amount of dependence placed on the processing capabilities of the NTSC, we recommend that NTSC develop and test a workable disaster recovery plan. The disaster recovery plan developed should, at a minimum, address the following issues.

- o Levels of response to several possible disasters
- o Hardware requirements
- o Remote processing requirements
- o Telecommunications requirements
- o Data-entry support
- o Operating system support
- o Other systems software
- o Application systems software
- o Data file storage and retention
- o Forms
- o System operation procedures
- o User procedures
- o Staff responsibilities
- o Plan maintenance

The following questions should be asked when evaluating a disaster recovery plan.

- o Have the critical business functions been identified?
- o Have all requirements for supporting those functions been identified?

- o Is the plan well documented, and does it define specific recovery responsibilities?
- o Is the plan up to date?
- o Has the plan been tested recently?

If these questions cannot be answered "yes," the disaster recovery plan may not fulfill its role when it is needed most.

Consider Establishing NTSC
ADP Internal Audit Function

There is currently no ADP internal
audit function specifically for

the NTSC.

An ADP internal audit function at the NTSC level would provide several valuable services for both the NTSC and the IMC's that are not currently provided.

- o Development and compliance testing of general ADP controls
- o Periodic review of application systems and controls
- o Independent verification of transaction processing and program accuracy
- o Review of system development activities and planned controls
- o Review of program test results to help ensure programs are properly tested
- o Assistance in testing disaster recovery plan

We recommend that NTSC consider establishing a full-time ADP internal audit function to help ensure that ADP internal controls are in place and operating effectively. The internal auditor should report to a high level of management that has no routine ADP responsibilities but has authority over NTSC and has a good understanding of ADP operations.

Verify NTSC Management and
Programming Access Door Alarm Control

On Saturday morning February 11,
1989, an outside auditor was able

to achieve unauthorized access to the NTSC programming and management areas. The design of the door to the NTSC allowed unauthorized access outside the normal work hours to the programming and management areas. There is an alarm on the door that goes off when the door is opened by unauthorized personnel during the normal workday. However, on the above mentioned date, the alarm did not go off.

We recommend that NTSC management implement a procedure to verify that the above mentioned door alarm is operating effectively outside of the normal work hours or provide another means of security to prevent access.

Improve Access Controls Over
Master Data Files, Production
Application Program Files and System Files

Each IMC is limited as
to the number of people

that can be employed. As a result, it is difficult to segregate duties between computer specialists (programmers), computer assistants and operators. During our review of the IMC's, we noted that computer specialists have the ability to access and alter master data files, application systems programs and certain operating system programs.

We recommend that in conjunction with our recommendation on the segregation of duties, the IMC manager review and approve all modifications prior to transferring the modified programs back to production.

Perform IMC Manager Approval of
Minor Changes Requested by Users

Discussions with computer
specialists indicated that minor

changes requested by users do not require IMC manager approval to be made.

Unauthorized changes to the IRMS programs could be made that may reduce the integrity of the data and the processing.

All modifications made to programs or data files should be approved by the IMC manager prior to being made and then reviewed by the manager after being made and prior to placing them into production.

Implement Formal Testing Procedures

Discussions with computer
specialists indicated that

there are no formal testing procedures. In addition, we were made aware that certain testing is performed using actual "live" data in the production mode.

Inadequate testing procedures allow the IMC's to be exposed to the following risks.

- o Automated data processing (ADP) personnel may make system changes that do not conform with the user's needs, causing processing errors such as improper calculations, erroneous reports, or other errors in logical functions performed by application programs.

- o Inadequate performance, review and approval of testing procedures may cause incorrect program changes to be made. As a result, processing may be performed incorrectly or control techniques performed by the computer programs may be altered, deleted, or otherwise rendered inoperable.

We recommend that a test environment be defined for each system, and that formal testing procedures be put in place. The procedures should be tailored to include small as well as large modifications. At a minimum, testing should be performed in a section of the computer not related to the production section. Formal testing procedures allow a structure for adequate and consistent testing. Testing procedures should include the following.

- o Test all known combinations of conditions including realistic volume estimates.
- o Test using user prepared test data.
- o Perform complete and comprehensive testing prior to moving the application into production.
- o Test all interfacing systems to evaluate the integrity of the interface.
- o Develop conversion procedures to assure proper cutoffs and conversion of data files.
- o Test user procedures and other manual procedures.
- o Perform tests only on test files.
- o Establish a standard naming convention for all test programs.
- o Have user and ADP management approve the test results prior to conversion to a new application system.

Increase User Involvement
With Application Modifications

We noted that the IMC's have a process whereby the users are able to request systems modifications using the Request for Data Services (RDS) form.

However, we also noted that, after the request has been made by the user, there is limited formal follow-up with the user.

Several programs are in place throughout the various IMC's which place high priority on user involvement (i.e., RDS and developed user groups). We recommend even more emphasis be placed on ensuring the users are involved in all phases of application modifications, i.e., planning, implementation and testing.

Implement Procedures for
Periodic Change of IMC Passwords

We are aware with the conversion by the NTSC to the Amdahl system that passwords are required to be changed every 30 days. However, we noted there is no policy for the periodic change of passwords at the IMCs.

In order to enhance their effectiveness, passwords should be changed on a periodic basis. There are two important reasons for this: one, a periodic change of passwords will remind the users that security is an important requirement of management; and two, a periodic change of passwords will make it more difficult for an unauthorized compromise of the user's password.

We recommend a policy be developed which requires a periodic change of the user passwords. We further recommend the users be instructed to request a password change whenever they believe their password has been compromised.

Limit Computer Operators', Assistants',
and Computer Specialists' Access to Password Files

Through discussions with various personnel, we noted the operators, computer assistants and computer specialists all had access to various password files.

As indicated previously, passwords are the key to the security of the data being processed. Personnel at the IMC have limited need to know these passwords.

We recommend the password files be protected to allow only designated personnel to access and modify these passwords. We further recommend the application passwords be controlled by the user departments.

Perform Practice Walkthrough of IMC Disaster Plans

In all cases, we noted the IMC had a disaster recovery plan on site. The COOP plan, as it is referred to, was developed by the NTSC. However, we noted that no testing of the plan had taken place. We also noted that most personnel we talked to were unaware that the plan existed.

Disaster recovery is an important part of the ADP function. For a disaster recovery to be effective, the plan must be tested by the personnel who would, in the event of a disaster, be required to carry it out.

The disaster recovery plan should be tested. All phases of the plan, including offsite processing, should be made part of the test. The test should be rehearsed and controlled to maximize the learning value of the employees.

Periodic Maintenance and Inspection
Contract for the Halon Fire Control System

A periodic maintenance
and inspection contract

for the Halon fire control system is not in place.

The Halon fire control system is an appropriate fire control method. However, we were informed that at one IMC the Halon system had gone off unintentionally.

We recommend that each IMC obtain a contract that would require a periodic maintenance and evaluation of the Halon system by a qualified contractor.

Consider Adding Fire Protection
to the Daily Tape Backup Library

The daily tape backup library is
not adequately fire protected.

While most tape libraries are located adjacent to the computer operations room, we noted that, in some instances, there was no fire protection in the tape room itself.

Tapes are highly flammable. If a fire were to begin in the tape room, the tapes could be destroyed prior to the activation of the Halon system in the operations room.

We recommend that fire protection be added to the tape libraries for both on- and off-site storage areas. This protection should include a separate Halon nozzle and fire rated walls, floors and ceilings.