T-95

TRIBAL AND INDIVIDUAL INDIAN MONIES TRUST FUNDS

Managed by the

U.S. DEPARTMENT OF THE INTERIOR

BUREAU OF INDIAN AFFAIRS

FINANCIAL STATEMENTS AS OF SEPTEMBER 30, 1989 and 1988

Together with Report of

INDEPENDENT PUBLIC ACCOUNTANTS

ARTHUR ANDERSEN & CO.

OST, ALBQ, OST 96-01841, "AUDIT-TRUST FUNDS (ARTHUR ANDERSEN)"

ARTHUR ANDERSEN & CO.

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

May 11, 1990

Report of Independent Public Accountants

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

We have audited the accompanying statements of assets and trust fund balances of the Tribal and Individual Indian Monies Trust Funds managed by the U.S. Department of the Interior Bureau of Indian Affairs (the "Bureau") as of September 30, 1989 and 1988 (as restated, see Note 4), and the related statements of changes in trust fund balances for the years then ended. These financial statements are the responsibility of management of the Bureau's Branch of Trust Fund Accounting. Our responsibility is to express an opinion on these financial statements based on our audits.

Except as discussed in the following two paragraphs, we conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

The 1988 audit was the first known financial statement audit by independent public accountants of the Tribal and Individual Indian Monies Trust Funds managed by the Bureau, and the scope of our engagement was not sufficient with respect to the financial statements for preceding periods (from inception through September 30, 1987) to enable us to determine the propriety of trust fund balances resulting from prior activity and what portions of adjustments identified in our 1988 audit related to prior periods. Accordingly, all adjustments to the accompanying 1988 financial statements were reflected as cumulative adjustments.

As discussed further in Notes 3, 5, 7, 8 and 11, (1) because cash and balances held in trust for Indian tribes, organizations and individuals cannot be readily confirmed, (2) because of major inadequacies in the accounting records

and related systems used to account for the Tribal and Individual Indian Monies Trust Funds managed by the Bureau, and (3) as a result of accounting errors, including overpayments, it was not practicable to extend our auditing procedures to enable us to express an opinion regarding the basis on which (1) cash, including balances invested overnight, (2) investments at failed financial institutions, (3) guaranteed loans, and (4) balances held in trust for Indian tribes, organizations and individuals, including unallocated balances, are stated. Investments (except for investments at failed financial institutions and guaranteed loans) and accrued interest receivable balances were stated at September 30, 1989 and 1988, based on the total amounts of verifiable investments.

In our opinion, except for the effect on the statement of changes in trust fund balances of the cumulative adjustment amounts of fiscal year 1988 adjustments that relate to prior periods and except for the effect of such adjustments as might have been disclosed had we been able to perform adequate audit procedures to verify the financial elements described in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the Tribal and Individual Indian Monies Trust Funds managed by the U.S. Department of the Interior Bureau of Indian Affairs as of September 30, 1989 and 1988, and the changes in trust fund balances for the years then ended in conformity with generally accepted accounting principles.

As discussed further in Note 11, various Indian tribes, organizations and individuals have filed various claims against the United States including claims alleging the Bureau's failure to fulfill its fiduciary responsibilities. The outcome of these actions and the total amounts of potential claims are presently not determinable by the Bureau or the U.S. Department of the Interior Office of the Solicitor. Accordingly, the Bureau has not accrued in the Indian Trust Funds for potential claims receivable from the U.S. Government from future funding.

As discussed further in Notes 3, 8 and 11, a significant number of Indian tribes, organizations and individual account holders, for whom the Bureau holds assets in trust, do not agree with the balances recorded in the Bureau's records. Accordingly, the balances held in trust for specific Indian tribes, organizations and individuals, and in total, may differ from the recorded balances. The ultimate resolution of these matters and resulting amounts due to or due from certain specific Indian tribes, organizations and individual account holders is presently not determinable.

Arthur Andersen & Co.

Tribal and Individual Indian Monies Trust Funds Managed by the U.S. Department of the Interior Bureau of Indian Affairs
Statements of Assets and Trust Fund Balances
September 30, 1989 and 1988

	1989			1988 (Restated, Note 4)		
	Tribal Trust	Individual Indian Monies	Total	Tribal Trust	Individual Indian Monies	Total
ASSETS:						
Cash, including balances invested overnight	$ 147,102,721	$ 13,839,199	$ 160,941,920	$ 47,825,471	$ 6,226,518	$ 54,051,989
Investments, at cost-						
Certificates of deposit	746,474,755	268,862,364	1,015,337,119	899,941,485	345,318,127	1,245,259,612
U.S. Treasury securities	40,284,344	39,726,564	80,010,908	112,242,323	40,031,635	152,273,958
U.S. Government Agency securities	402,417,818	122,815,676	525,233,494	121,243,243	53,470,094	174,713,337
Failed financial institutions	—	5,259,706	5,259,706	—	5,424,769	5,424,769
Guaranteed loans	—	1,304,167	1,304,167	—	1,304,167	1,304,167
	1,189,176,917	437,968,477	1,627,145,394	1,133,427,051	445,548,792	1,578,975,843
Accrued interest receivable	30,381,193	11,770,076	42,151,269	27,548,025	12,270,165	39,818,190
Total	$1,366,660,831	$463,577,752	$1,830,238,583	$1,208,800,547	$464,045,475	$1,672,846,022
TRUST FUND BALANCES, held for Indian tribes, organizations and individuals including unallocated balances	$1,366,660,831	$463,577,752	$1,830,238,583	$1,208,800,547	$464,045,475	$1,672,846,022

The accompanying notes to financial statements are an integral part of these statements.

Tribal and Individual Indian Monies Trust Funds Managed by the U.S. Department of the Interior Bureau of Indian Affairs
Statements of Changes in Trust Fund Balances
For the Years Ended September 30, 1989 and 1988

	1989			1988 (Restated, Note 4)		
	Tribal Trust	Individual Indian Monies	Total	Tribal Trust	Individual Indian Monies	Total
RECEIPTS:						
Interest on invested funds:						
Overnight investments	$ 1,064,719	$ 2,053,948	$ 3,118,667	$ 4,362,179	$ 862,626	$ 5,224,805
Certificates of deposit	77,749,607	27,515,187	105,264,794	78,019,865	24,256,567	102,276,432
U.S. Treasury and U.S. Government Agency securities	31,595,397	9,273,517	40,868,914	8,020,261	8,414,768	16,435,029
Other receipts	360,140,236	177,367,727	537,507,963	286,507,902	138,001,009	424,508,911
	470,549,959	216,210,379	686,760,338	376,910,207	171,534,970	548,445,177
DISBURSEMENTS-						
Payments to Indian tribes, organizations and individuals	(294,644,833)	(234,722,944)	(529,367,777)	(304,651,150)	(261,362,597)	(566,013,747)
TRANSFERS TO (FROM) TRUST FUNDS, principally tribal distributions to Indian tribal members	(18,044,842)	18,044,842	—	(70,027,287)	70,027,287	—
Receipts greater (less) than disbursements and transfers	157,860,284	(467,723)	157,392,561	2,231,770	(19,800,340)	(17,568,570)
TRUST FUND BALANCES, beginning of year	1,208,800,547	464,045,475	1,672,846,022	1,181,461,546	474,079,048	1,655,540,594
CUMULATIVE ADJUSTMENTS:						
Cash	—	—	—	(1,319,863)	13,461,187	12,141,324
Investments, other than guaranteed loans	—	—	—	(2,598,338)	(16,930,042)	(19,528,380)
Investment in guaranteed loans	—	—	—	—	1,304,167	1,304,167
Other assets	—	—	—	1,477,407	(338,710)	1,138,697
Accrued interest receivable	—	—	—	27,548,025	12,270,165	39,818,190
TRUST FUND BALANCES, end of year	$1,366,660,831	$ 463,577,752	$1,830,238,583	$1,208,800,547	$ 464,045,475	$1,672,846,022

The accompanying notes to financial statements are an integral part of these statements.

Tribal and Individual Indian Monies Trust Funds Managed by the U.S. Department of the Interior Bureau of Indian Affairs
Notes to Financial Statements
September 30, 1989 and 1988

NOTE 1 BACKGROUND AND FINANCIAL STATEMENT PRESENTATIONS:

Overview of the Bureau of Indian Affairs ("Bureau")

Formation of the Indian Trust Funds

The legislation that authorizes the Secretary of the Interior to manage the Tribal and Individual Indian Monies Trust Funds *("Indian Trust Funds")* gives formal recognition to the relationship that continues to exist between the Indian tribes and the U.S. Government. At the time the U.S. Government was founded, Indian sovereignty was recognized. Agreements between the U.S. Government and the various Indian tribes therefore took the form of treaties. During the course of the nation's history and the U.S. Government's varying policy toward Indian tribes, this relationship has retained its original sovereign characteristics.

The balances that have accumulated in the Indian Trust Funds have resulted, in part, from payments of claims against the U.S. Government and, in part, from land use agreements, and oil, gas and mineral extraction from tribal and individual lands.

The Secretary of the Interior *("Secretary")* has been designated by Congress as the U.S. Government trustee on behalf of the account holders of the Indian Trust Funds. The Secretary has, in turn, delegated authority for management of the Indian Trust Funds, including accounting and financial reporting, to the Assistant Secretary-Indian Affairs, who carries out the management of the Indian Trust Funds through the Bureau.

Organization of the Bureau

The management of the Indian Trust Funds is accomplished through a network of offices within the Bureau.

- **Agency Offices**—The Bureau's 93 Agency Offices maintain direct contact with the tribes located throughout the United States. Generally, Agency Offices are physically located near the tribes served. The Agency Office may play a significant role in tribal affairs through assistance in financial planning, financial operations, and policy and program development.
- **Area Offices**—Each of the Agency Offices is organized under one of the 12 Area Offices. The Area Offices provide administrative and operational support for their respective Agency Offices. The Area Offices are also the key communication link between Bureau headquarters in Washington, D.C., the Central Office-West location in Albuquerque, New Mexico, and Agency Offices.
- **Central Office-West**—The Bureau's Division of Trust Funds Management manages the investment of the Indian Trust Fund assets. Responsibility for accounting and financial reporting for the Indian Trust Funds rests with the Bureau's Branch of Trust Fund Accounting. The Division of Trust Funds Management and the Branch of Trust Fund Accounting are both located at the Central Office-West location in Albuquerque, New Mexico.

Overview of the Indian Trust Funds

The Indian Trust Funds are managed on behalf of tribes and participants.

- **Tribes**—Individual tribes maintain accounts within the Indian Trust Funds. These accounts represent investments made by the Bureau's Division of Trust Funds Management. Tribes may realize receipts from a variety of sources including land use agreements, royalties on natural resource depletion, tribal enterprises related to trust resources, and awards of Indian claims.

- **Participants**—Participants are individuals, estates and organizations that have a fiduciary interest in the Trust Funds. Because of the nature of Indian Trust Fund assets, these interests may represent allocated or unallocated monies derived from a variety of sources. Participants may realize receipts from royalties on natural resource depletion, land use agreements, or from enterprises having a direct relationship to Indian Trust Fund resources.

The Indian Trust Funds managed by the Bureau and included in the accompanying financial statements are the Tribal Trust Fund and the Individual Indian Monies *("IIM")* Trust Fund. The accompanying financial statements do not include "public" funds managed by the Bureau. Public funds include the Cooperative Fund, Alaska Native Fund, Irrigation and Power Funds and the Contributed Fund. Aggregate monetary assets *(cash, investments and accrued interest receivable)* of these public funds approximated $88 million as of September 30, 1989, and $87 million as of September 30, 1988.

Resources in the Tribal Trust Fund are invested separately in the name of each tribe. Assets are separately identified by Tribal Trust Fund account, and interest is recorded based on actual income from each investment.

IIM account holders receive an allocated portion of interest earned on the total IIM investment pool based on an estimated average return applied to each individual deposit account. Actual interest earned by the pool is then used to fund distributions to account holders. See Note 6 regarding investment balances at September 30, 1989 and 1988.

A brief description of each Indian Trust Fund is provided below.

- **Tribal Trust Fund**—Approximately 330 tribes have an interest in the Tribal Trust Fund; however, some tribes have multiple accounts. As a result, approximately 2,000 separate accounts comprise the Tribal Trust Fund. The tribes do not participate equally in the Fund; approximately 77% of the Fund assets are held on behalf of 8% of the tribes.

- **Individual Indian Monies**—The IIM Fund is a deposit fund, usually not voluntary, for participants and tribes. It was originally intended to provide banking services for legally incompetent Indian adults and Indian minors without legal guardians. In addition to these fiduciary accounts, the IIM Fund now contains disbursing accounts for certain tribal operations and for certain tribal enterprises. Approximately 300,000 accounts are held for participants and tribal enterprises in the IIM Fund.

Financial Statement Content

The accompanying financial statements include balances held by the Bureau in trust for Indian tribes, individuals and other organizations. The accompanying financial statements include only the balances held in trust by the Bureau for others and do not include (1) the account balances and activities of the Bureau for its own internal activities *(general appropriations, personnel and occupancy costs, etc.)*, or (2) grants and contracts that are awarded by the Bureau or others to Indian tribes, organizations and individuals.

The Bureau accounts for monies held in trust beginning upon their receipt. Accordingly, receivables other than accrued interest receivable are not reflected in the accompanying financial statements. The accompanying financial statements do not include the values of Indian lands or buildings regardless of the source of funding *(Tribal monies, Congressional appropriations, Indian Trust Fund resources, etc.)*. In addition, the Bureau does not have the accounting systems or personnel resources necessary to account for oil and gas and other mineral reserves held in trust on Indian lands. Such information is typically disclosed by commercial enterprises that engage in natural resource extraction activities.

Composition of Assets

Authorizing legislation and a substantial body of case law specify how the Indian Trust Fund assets should be managed and which financial instruments constitute appropriate investments for the Indian Trust Funds. Generally, Indian Trust Fund assets may be deposited in financial institutions at which such deposits are subject to Federal depository insurance, or may be invested in or collateralized by U.S. Government securities, including U.S. Treasury and certain U.S. Government Agency issues.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The Bureau is required by generally accepted accounting principles *("GAAP")* for the U.S. Government, as prescribed by the General Accounting Office *("GAO")*, to account for certain activities on an accrual basis. GAAP for the U.S. Government is defined by GAO's Title 2, which is generally similar to GAAP for commercial enterprises.

The Bureau uses the cash basis of accounting for the Indian Trust Funds; however, accrual adjustments were recorded in the accompanying financial statements as of September 30, 1989 and 1988, to reflect interest earned on an accrual basis, and to record the accretion of discount/amortization of premium over the terms of the investments as required by GAAP. Investments are stated at amortized historical cost and are not adjusted to reflect changes in market value *(see Note 6)*.

Trust funds are used to account for assets held for others in a trust capacity and do not involve measurement of operations. Receipts, other than interest on invested funds, are recorded upon their receipt because it is not practicable to measure the majority of such items prior to receipt. Indian Trust Fund activity is analyzed in the accompanying financial statements as changes in trust fund balances.

For the IIM accounts, interest is computed using the average daily balance method and is distributed on a monthly basis. This method was initiated in June 1989. Prior to that date, the interest was distributed using the month-end-balance method, which relied upon account balances at the end of each month as a basis for distributing the interest. This caused certain errors in the distributions which the average daily balance method treats more correctly.

The Tribal Trust Funds earn interest in two ways: (1) directly from investment securities in which the Tribal funds are placed, such as certificates of deposit at financial institutions or U.S. Government Agency securities, or (2) when the funds are not otherwise invested, the Bureau may place the funds in a Treasury overnight investment *("overnighter")*, which earns a rate comparable to Treasury bill rates. The interest on the Treasury overnighter investments are distributed using the average daily balance method.

NOTE 3 ACCOUNTING SYSTEMS AND MATERIAL INTERNAL CONTROL WEAKNESSES:

The accounting systems and internal control procedures used by the Bureau suffer from a wide variety of system and procedural internal control weaknesses, and other problems, such as out-of-date accounting policy and procedural manuals, inadequate training programs, a lack of minimum standards for key positions in the accounting process, a lack of experienced accounting supervisors across the Bureau, and understaffed accounting operations at all levels. Certain of these internal control weaknesses are so pervasive and fundamental as to render the accounting systems unreliable. Some of the most significant problems are summarized below.

a. A lack of consistency in the procedures being utilized Bureau-wide causes certain accounting errors in the Indian Trust Funds.

b. Multiple accounting systems are used to record the same activity *(for instance, investment transactions must be entered into four separate systems)*.

c. Standardized, documented policies and procedures have not been instituted for some significant Bureau-wide accounting procedures, while some others are seriously out-of-date. This results in the Bureau's inability to ensure that the transactions are conducted, recorded and reported in accordance with Bureau management's criteria.

d. Certain accounting entries are prepared and posted to the Bureau's accounting systems without adequate review.

e. Certain transactions, such as certificates of deposit maturities, are recorded prior to verification of their receipt.

f. Many instances of inadequate segregation of duties exist. For example, in many locations, the same employees accept deposits, record the deposits, and, in some instances, initiate disbursement transactions for the IIM accounts, as well as open new accounts and record transfers.

g. The Bureau's internal financial statements are not prepared in accordance with generally accepted accounting principles as defined by the General Accounting Office.

h. Detailed supporting documentation cannot be located for some accounts appearing in the Bureau's Finance System *(official internal accounting records)*. These balances have been removed for purposes of preparing the financial statements.

i. The ultimate account owners of certain balances held in trust *(primarily in the Special Deposit group of IIM accounts)* have not been identified.

j. The cash balances reflected on the Bureau's financial statements cannot be independently verified by the Department of the Treasury. In addition, the Bureau's procedures do not ensure that cash balances are properly invested *(see Note 5)*.

k. Data processing controls throughout the Bureau cannot be relied upon to ensure that data is properly processed.

l. Under and over-payments to certain IIM account owners and Tribes have occurred in some instances due to the misposting of receipts, disbursements or other transactions that created erroneous balances available for distribution.

m. Payments related to some IIM distributions are determined by extensive manual calculations that, in some instances, are not properly reviewed at the Agency or Area Office level.

n. IIM account owners who have been determined by the Bureau to require assistance in managing their financial affairs have had instances of payments made from their accounts that have not been adequately reviewed and approved in accordance with applicable regulations. At many Bureau locations procedures are inadequate to ensure that such expenditures are made in accordance with applicable regulations.

o. Many IIM account owners do not receive statements of their trust account activity and balances on a regular basis, and, in many instances, do not receive copies of the statements at all *(for instance, the parent or guardian of a minor will not be provided with a copy of the child's statement prior to the child reaching the age of majority)*.

p. Records management is inconsistent across the Bureau and is inadequate to ensure the proper collecting and storing of Indian Trust Fund records to support trust financial activity.

As a result of the material weaknesses in internal controls referred to above, it is not possible to determine whether certain financial elements reflected in the accompanying financial statements are fairly stated and presented.

In some instances, the Bureau has researched and corrected the balances held in trust for specific Indian Tribes and individuals. There are still many individual Tribal and IIM accounts that need to be reconciled and audited before reliance can be placed on the balances reflected in the Bureau accounts.

NOTE 6
INVESTMENTS:

Interest Earned

Following are weighted average interest rates obtained on Indian Trust Funds for the years ended September 30, 1989 and 1988, as reported by the Bureau's Division of Trust Funds Management.

	U.S. Treasury Securities, U.S. Government Agency Securities and Other Investments, Including Balances Invested Overnight	Certificates of Deposit	All Investments
1989			
Tribal Trust	8.95%	8.88%	8.90%
Individual Indian Monies	8.63%	8.49%	8.53%
1988			
Tribal Trust	7.95%	8.03%	8.01%
Individual Indian Monies	7.68%	8.35%	8.20%

Insurance Coverage and Pledged Securities

The following is an analysis of depository insurance and collateral on certificates of deposit at September 30, 1989.

Certificates of deposit	$1,015,337,119
Less-	
Deposits covered by depository insurance	918,631,226
Deposits covered by securities pledged as collateral	96,688,586
Uninsured, uncollateralized balance	$ 17,307

Included in the September 30, 1989 balances of deposits covered by securities pledged as collateral was $5,407,050 of deposit balances for which collateral was received on October 5, 1989.

Maturities

Investments at September 30, 1989, excluding those with failed financial institutions *(see Note 7)* and guaranteed loans, are scheduled to mature as follows.

Fiscal Years Ended September 30	U.S. Treasury Securities, U.S. Government Agency Securities and Other	Certificates of Deposit	All Securities
1990	$243,963,191	$ 965,609,478	$1,209,572,669
1991	39,726,563	40,907,641	80,634,204
1992	690,000	8,820,000	9,510,000
1993	—	—	—
1994	—	—	—
1995 and thereafter	320,864,648	—	320,864,648
	$605,244,402	$1,015,337,119	$1,620,581,521

The cost, par value and market value of U.S. Treasury securities and U.S. Government Agency securities and other investments at September 30, 1989, are as follows.

	Tribal Trust		
	Amortized Cost	Par Value	Market Value
U.S. Treasury securities	$ 40,284,344	$ 40,700,000	$ 41,467,956
U.S. Government Agency securities and other	$402,417,818	$413,269,623	$417,589,599

	Individual Indian Monies		
	Amortized Cost	Par Value	Market Value
U.S. Treasury securities	$ 39,726,564	$ 40,000,000	$ 39,285,940
U.S. Government Agency securities and other	$122,815,676	$126,677,325	$121,048,421

The cost, par value and market value of U.S. Treasury securities and U.S. Government Agency securities and other investments at September 30, 1988, are as follows.

	Tribal Trust		
	Amortized Cost	Par Value	Market Value
U.S. Treasury securities	$112,242,323	$112,475,000	$111,111,740
U.S. Government Agency securities and other	$121,243,243	$121,439,987	$121,785,178

	Individual Indian Monies		
	Amortized Cost	Par Value	Market Value
U.S. Treasury securities	$ 40,031,635	$ 40,000,000	$ 38,832,873
U.S. Government Agency securities and other	$ 53,470,094	$ 53,234,946	$ 52,698,168

One Agency Office is permitted by law to invest IIM resources in other assets *(corporate stocks, annuities and similar items)* as directed by the individual account holders. As of both September 30, 1989 and 1988, $1,312,077 of various investments, at cost, were held by this Agency Office. These investments are included in U.S. Government Agency securities in the accompanying financial statements.

The Bureau also holds loans obtained through the financing of land sales at certain agencies that have not been quantified and are not reflected in the accompanying financial statements. Principal and interest receipts from these loans are recorded as receipts when received, rather than recording the loans at the time of the sale.

NOTE 7 INVESTMENTS - FAILED FINANCIAL INSTITUTIONS AND GUARANTEED LOANS:

The Bureau invested IIM resources in excess of the insured limits of the National Credit Union Administration at the following credit unions.

	Date Failed	September 30 1989	September 30 1988
Oak Park Community Credit Union	March 1984	$1,482,795	$1,497,752
Zionic Federal Credit Union	June 1984	3,127,273	3,228,059
Center Place Savings Credit Union	July 1985	627,906	677,226
Financial Services Credit Union	October 1984	21,732	21,732
		$5,259,706	$5,424,769

The Bureau's investment policies are designed to ensure the recovery of all amounts invested in financial institutions that fail, either from the applicable Federal deposit insurance fund or from liquidation of pledged collateral. Certain investments in certificates of deposit were not recovered due to a misinterpretation of insurance coverage provided by the National Credit Union Administration. Also, the IIM Trust Fund includes a $675,000 investment for advances to a failed broker for loans that did not materialize *(see Note 4)*.

The Bureau continues to reflect these amounts in investments because the obligation remains to the Indian tribes or individuals for which the investments were made and because funds have not been authorized and appropriated by the U.S. Congress to cover these losses *(see Note 11)*.

NOTE 8 TRUST FUND BALANCES:

Disputed Balances and Beneficiaries Unable to Confirm Balances and Similar Matters

A portion of the Indian tribes, organizations and individuals for whom the Bureau holds assets in trust do not receive adequate information to determine whether their account balances reflected in the Bureau's records are proper.

A significant number of IIM accounts, representing a significant portion of the IIM balances, are held for the benefit of minors and other individuals who have been determined by the Bureau to require assistance in managing their trust account activities and balances. It is the policy of the Bureau to not forward financial data to minors and other IIM account holders with supervised accounts. The Agency Superintendents typically act as custodians for these supervised accounts. In addition, some IIM account holders have not furnished the Bureau with addresses which would allow the Bureau to forward account statements to them. Accordingly, certain account holders do not, or are unable to, agree with the balances reflected in their accounts.

As discussed in Note 3, the ultimate account holders of a portion of the monies held in trust in the IIM Trust Fund by the Bureau have not been determined and, accordingly, such monies have not been distributed. 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.

Unallocated Balances, Net

Tribal and IIM Trust Fund balances include accrued interest and certain unallocated balances as of September 30, 1989 and 1988. The net unallocated balances for the Tribal Trust Fund were $3,124,365 and $11,104,875 as of September 30, 1989 and 1988, respectively. The net unallocated balances for the IIM Trust Fund balances *(net of a discrepancy between the subsidiary trust account records and the Bureau's official accounting records of $11,772,204 at September 30, 1989)* were $2,237,156 and $22,562,973 as of September 30, 1989 and 1988, respectively.

A portion of the unallocated balances represents interest receipts not yet distributed to accountholders *(see Note 11)*. During the year ended September 30, 1989, the Bureau began distributing interest to IIM account holders on a monthly basis, thus reducing the amount of undistributed interest receipts accumulated at year end from approximately $20,100,000 at September 30, 1988 to approximately $2,100,000 at September 30, 1989.

An unquantified portion of the unallocated balances represents earnings from overinvestments; such amounts may be payable to the U.S. Department of Treasury. However, the total amount allocable to account holders may ultimately exceed the balances reflected in the accompanying financial statements due to misallocated interest and other receipts *(see Note 11)*; such differences could give rise to potential claims receivable from the U.S. Government from future funding.

NOTE 9 OTHER RECEIPTS:

IIM Fund receipts are not segregated by source in the Bureau's accounting system. Following is a summary of receipts by source in the Tribal Trust Fund for the years ended September 30, 1989 and 1988.

	1989	1988
Oil and gas and other mineral royalties	$134,282,863	$168,883,892
Claims income	70,803,287	10,574,415
Sales - timber, livestock and other	56,149,593	52,728,838
Leases, permits, licenses	41,826,043	35,570,894
Other	57,078,450	18,749,863
	$360,140,236	$286,507,902

NOTE 10 SIGNIFICANT TRANSACTIONS WITH OTHER U.S. GOVERNMENT ORGANIZATIONS:

Debt Arrangements

The Bureau is a party to various note payable agreements. These agreements are primarily between the Indian tribes and the U.S. Department of Agriculture Farmers Home Administration *("FmHA")* or the U.S. Department of Commerce Economic Development Administration *("EDA")*. The proceeds of the FmHA loans are used by Indian tribes to repurchase fractional ownership interests in allotted lands from individual Indians.

The receipts from the acquired ownership interests are deposited into "Special Deposit" accounts in the IIM Trust Fund, and the principal and interest payments are made from these accounts. EDA loans are utilized for construction of tribal facilities *(governmental/administrative buildings, and facilities for enterprise activities such as manufacturing, hotel/motel facilities, etc.)*. The Bureau is not directly liable for the payments on these loans and, accordingly, such loans are not recorded in the accompanying financial statements.

Minerals Management Service

The Bureau receives cash from the U.S. Department of the Interior Minerals Management Service *("MMS")* for royalties collected on behalf of various Indian tribes and Indian individuals, except for the Osage Tribe which receives payments directly from private companies, into the Bureau's Indian Trust Funds. The Bureau then distributes the royalties to trust account holders. MMS and the U.S. Department of the Interior Bureau of Land Management both perform certain auditing and other monitoring procedures of oil and gas, and other mineral royalties collected.

In certain situations, overpayments are made by private companies to MMS that are first paid to the Bureau on behalf of Indian tribes and Indian individuals, and then disbursed by the Bureau to beneficiaries. These overpayments result from payments being made based on estimated mineral production. Such overpayments are recovered by the private companies by reducing future payments. The amount of such overpayments, if any, at September 30, 1989 and 1988, has not been quantified.

Other

As discussed in Note 5, the U.S. Department of Treasury functions as the "bank" and as a disbursing agent for the Bureau. As discussed in Note 11, the U.S. Department of the Interior Office of the Solicitor serves as legal counsel for the Bureau.

NOTE 11 COMMITMENTS AND CONTINGENCIES:

Fiduciary Responsibilities

The Secretary is responsible for investing resources held in trust to maximize the earnings while minimizing risk. The Secretary is also responsible for collecting all monies due from outside individuals/organizations for the use of Indian lands and the extraction of natural resources from Indian lands, and disbursing such monies collected to the appropriate beneficiaries.

Tribal organizations and classes of Indian individuals have filed various claims against the United States for the Bureau's failure to fulfill its fiduciary responsibilities and for related charges. 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 Funds preclude a complete detailing of all possible existing or potential claims which do or might relate to these trust accounts. The outcome of these actions and the total amount of potential liability is presently not determinable.

Liabilities resulting from any errors in posting financial transactions to the Indian Trust Funds must be satisfied with U.S. Government funds. No amounts have been accrued in the Indian Trust Funds for potential claims receivable from the U.S. Government from future funding.

IMPL Funds

Through the late 1970's, and later in certain instances, monies were deposited into the "Indian Monies, Proceeds of Labor" *("IMPL")* Trust Funds to finance schools and other services for Indians. The sources of these monies were primarily charges for Bureau services provided to Federal and non-Federal recipients, and interest from invested balances. By 1980, and prior in certain instances, these activities were funded by direct Congressional appropriations.

On March 1, 1988, the United States Claims Court authorized discovery regarding certain issues related to the IMPL funds at an Agency Office, for class action purposes. The Court is still in the process of analyzing the basis for the determination and has not yet ruled on the issue. No accrual related to this matter has been recorded in either the fiscal year 1989 or 1988 financial statements.

Timely Investment of Funds and Distribution of Earnings

Balances invested overnight in the Treasury "overnighter" are intended to consist of all known monies held by the Bureau not otherwise invested in specific investment securities *(i.e. Certificates of Deposit, U.S. Treasury securities, etc.)*. During the period from July 1, through December 31, 1986, the "overnighter" should have generated $2,268,524 of interest income for the Tribal Trust Funds. The primary reason that the Tribal Trust Funds were underinvested for the period mentioned above was that the Bureau's financial transactions were not recorded timely by various Bureau locations, resulting in certain funds on deposit with the Treasury not being placed in the Treasury "overnighter". The Treasury does not recognize any liabilities for interest on funds it has in its possession, if the Bureau does not actually instruct it to invest those funds. The Bureau received permission from Congress to utilize certain over-earned funds from a subsequent period to fund the interest that was due to the Tribal Trust Fund accounts for the six months ending December 31, 1986. That permission was included in the fiscal year 1990 Appropriations Bill, and the interest was distributed in February 1990.

The Bureau estimates that unallocated interest earned by the Bureau related to the investment of royalties, which the Bureau receives from the U.S. Department of the Interior Minerals Management Service *(MMS)* on behalf of accountholders, was approximately $624,000 and $500,000 as of September 30, 1989 and 1988, respectively. This interest has been held and invested by the Bureau pending the development and implementation of a system to accurately calculate and distribute the interest related to the royalty income. It is anticipated by Bureau management that this new system will be implemented by no later than September 30, 1990.

The unallocated interest earned, but not yet distributed by the Bureau, will be addressed in a later phase of the "interest distribution" process, which will be initiated later in 1990.

Potentially Misallocated Interest Earnings

The Bureau's interest distributions made to individual accounts in the IIM Trust Fund are based upon procedures that have resulted in certain untimely income and related interest distributions to the individual IIM accounts. Also, as discussed in Note 3, under and over-payments to certain IIM account owners and Tribes have occurred in some instances due to the misposting of receipts, disbursements or other transactions that created erroneous balances available for distribution. These discrepancies result in potential errors in the interest distributions made by the Bureau. There are no estimates of total interest misallocated and overpaid or underpaid interest caused by the Bureau's current procedures. Consequently, the Bureau has not accrued any amount for potential claims resulting from any misallocated interest. Bureau management anticipates that a significant portion of the misallocated interest amounts will be disclosed by the Bureau-wide reconciliation and audit of the individual Tribal and IIM Trust Fund accounts to be initiated in late 1990 and continued over the next several years.