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~~BIA TRUST FUNDS AUDIT HISTORY~~

R. Weyner
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For the past ten years, GAO has identified significant accounting and systems problems at the Bureau of Indian Affairs (BIA). In 1982, we issued a report addressing numerous accounting and financial control problems at BIA. Since 1982, the Department's Inspector General (IG) has issued over 30 reports that address trust fund financial management problems. During this time, BIA has had three different independent public accounting firms conduct work dealing with various trust fund accounting and financial management issues. These firms produced five reports, each highlighting many of the same problems we identified in 1982. In 1989, the Office of Management and Budget (OMB) designated BIA as a high risk agency. As of the summer of 1990, BIA had 11 out of 25 of the Department's outstanding material weaknesses. At that time, OMB gave BIA a risk rating of 1.5 on a scale of 10, with one indicating the highest level of risk. In December 1989, the Washington Post reported a Fortune Magazine survey by the Council for Excellence in Government which rated BIA the worst federal agency. Rating criteria included: the quality of management, quality of the work force, quality of service, and return on the tax dollar.

Current internal audits, IG reviews, OMB investigations, and GAO work have identified numerous internal control and system weaknesses including:

- a lack of control over cash resulting in fraud in both appropriated and trust funds,
- an inability to account for 10 percent (\$95 million) of BIA's appropriated funds,
- an inability to reconcile trust fund accounts, including reconciliations between BIA's multiple accounting systems and between manual systems and source documents and automated systems,
- an undetermined obligation on the part of the government to pay unaccrued interest owed to tribes and individual Indians,
- an unidentified liability associated with government potential absorption of overpayments to tribes and Indians where repayments may have to be waived, and
- a growing number of law suits against the government by tribes and individuals who allege that BIA has mismanaged or lost their funds.

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STATUS OF GAO WORK

During the last two years, GAO has responded to numerous congressional inquiries about BIA's financial management practices. OGC is continuing to prepare legal decisions on issues raised over BIA's trust funds management. OGC has also testified on its opinions. Key events include:

- On June 19, 1989, Chairman Synar requested GAO to review and test trust fund account balances as well as review legal and procurement questions. AFMD argued that GAO should not do work to reconcile the Indian trust fund accounts in an August 22, 1989 response letter. AFMD suggested that BIA contract for the trust fund account reconciliations.
- September 1989, Interior's IG issued another report on the trust fund noting an out of balance condition as of 9/30/88 of \$17 million between BIA's investments system and its finance (accounting) system. The cause was cumulative errors over a period of years.
- September 29, 1989, OGC sent a letter to Chairman Synar responding to the legal and procurement issues raised in his June letter.
- On October 2, 1989, Arthur Anderson & Co. responded to Chairman Synar's September 11, 1989 letter on the scope of their trust fund financial statement audit and the extent to which they believed individual trust funds could be reconciled.
- On March 13, 1990, OGC issued a Decision on the legality of BIA's contract with Security Pacific Bank to handle accounting for trust fund investments. Because of inactivity on the part of the contractor, and dissatisfaction on the part of the Indians, Chairman Synar directed that the contract be terminated.
- Currently OGC is working on decisions regarding BIA's obligation to pay interest on Individual Indian Money accounts held in trust. OGC is also working on a decision regarding the conditions for reissuing checks to Indians which were not negotiated prior to the October 1, 1990 deadline.
- On October 26, 1989, OGC testified for Chairman Synar on the Security Pacific Bank contract and BIA's contract management.
- Arthur Anderson's 1989 trust fund financial audit disclosed continuing weaknesses in internal controls and financial management systems.

- March 2, 1989, Chairman Yates, House Subcommittee on Interior Appropriations wrote the Secretary of the Interior asking how BIA planned to reconcile its trust fund accounts. BIA responded that it planned to contract for reconciliation, audit and certification of the trust funds.
- On March 8, 1990 Chairman Synar wrote GAO and on March 20, 1990, OCG responded that certification of the audit and reconciliation of the trust fund accounts should be done by two independent contractors. AFMD concurred that certification should be independent of account reconciliation.
- On May 10, 1990, AFMD staff met with BIA officials on its plans to reconcile the trust fund accounts. On June 13, 1990, AFMD staff had a further meeting with BIA officials on its accounting systems.
- August 20, 1990 request from Chairman Yates for GAO/AFMD to monitor BIA's trust fund reconciliation project and advise the Subcommittee of the status. Chairman Synar joined the request.
- October 1990 through February 1991, GAO AFMD and OCG staff monitored and advised BIA, Indian representatives, and congressional staff on development and issuance of the RFP for the reconciliation, development of a BIA contract management plan, and identification of reporting requirements on project status.
- In January 1991, GAO/AFMD was asked to testify for Chairman Yates at appropriations hearings on 4/11/91 and for Chairman Synar at oversight hearings on 4/9/91, OGC was asked to accompany AFMD.

Attached
2/15/91 ocr
MEMO

POINTS TO BE COVERED
IN AFMD TESTIMONY

- AFMD will be asked to highlight what we are doing to address financial management improvements at BIA, given its extremely high risk status?
- Chairman Synar, particularly, wants AFMD to address how implementation of the CFO structure will help BIA address needed financial management improvements. His Committee-- House Government Operations--was instrumental in passing the legislation and Chairman Synar wants to see the act implemented effectively. He will no doubt ask us to monitor BIA's CFO implementation.
- Both Chairman Yates, who requires BIA to submit a quarterly report on the status of its financial management improvement initiatives, and Chairman Synar want AFMD to advise them on the status of a number of BIA's financial management improvement efforts, including the following:
 - status of the new appropriated funds accounting system implementation.
 - status of efforts of the team of 10 sent to Albuquerque in January 1991 to help BIA implement the new appropriations accounting system and correct a number of financial management problems.
 - appropriateness of a BIA contract with a local bank to handle trust fund disbursements, as an effort to prevent continued fraud resulting from a lack of internal controls in BIA's area offices.
 - BIA's efforts to contract for certification of Phase I of the trust fund reconciliations.
 - planning for effective trust fund management, once trust funds are reconciled, as well as options such as contracting for accounting and transferring funds and financial management responsibility to Indian tribes, where appropriate.
 - OGC will provide its opinion on legal issues, including 1) the requirement for BIA to invest and pay interest on Tribal and Individual Indian Money trust funds, and 2) reissuance of Treasury checks which expired after 10/1/91.