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**BUREAU OF INDIAN AFFAIRS
OFFICE OF TRUST FUNDS MANAGEMENT**

**OPTIONS PAPER
FOR
THE FUTURE ADMINISTRATION
OF INDIAN TRUST FUNDS**

FEBRUARY 28, 1994

EXECUTIVE SUMMARY

The Bureau of Indian Affairs has assembled the following options paper discussion for consideration by senior Department of the Interior officials in order to allow a decision to be made regarding the best course of action related to whether the Office of Trust Funds Management operations should be contracted out to the private sector. Basically, there are three options discussed: 1) to develop a comprehensive in-house capability for BIA, 2) to partially contract out the OTFM operations, and 3) to contract all the OTFM operations.

The first part of the report focusses on describing the Bureau's current operating environment, starting with the systems overview and a comprehensive discussion on the functions currently being performed by the Office of Trust Funds Management and their relationship with the field offices. The Bureau presently utilizes three major systems to conduct the business related to the trust funds management: 1) the Finance System (not related to the FFS system used for budgetary/appropriation accounting) used for the general ledger and cash reporting requirements of the trust funds; 2) the MONEYMAX System, used to provide investment portfolio accounting information; and 3) the Integrated Resources Management System (IRMS), which supplies the subsidiary accounting for individual Indian accounts. The functions being performed by the Office of Trust Funds Management are as follows: 1) all Tribal accounting transactions are being recorded by OTFM staff; 2) all investment activity for over \$2.3 billion in trust assets is being performed and recorded by OTFM; 3) all policies and procedures are being developed and coordinated with field offices by OTFM; 4) all reconciliation activity other than IIM to Finance system reconciliations are being performed by OTFM; 5) technical guidance on accounting matters is provided by OTFM in coordination with Area Trust accountants. Area Offices are responsible for working with their relevant Agency Offices to assure that all checks received are deposited timely in federal depositories, and that all disbursements of IIM and Tribal accounts are handled promptly and accurately; they also have investment coordinators at each Area Office that are responsible for communicating with Tribes concerning their investment goals and cash needs, which is the basis for OTFM investment activity. The Agency Offices are responsible for the approval and processing of IIM disbursements paid through the IRMS-IIM system using Treasury checks at the Bureau's IMC data processing centers (there are five: Phoenix, Portland, Billings, Aberdeen, and Anadarko).

Some of the material problems identified in several key reports issued by GAO, OIG and independent accounting firms such as Price Waterhouse & Company and Arthur Andersen & Company were compiled and presented. They include such items as the proliferation of systems changes in the trust funds program by several Areas; overinvestment of trust funds due to the lack of an adequate trust system; failure to reconcile in a timely manner the trust fund accounts; lack of adequate systems

accounting systems

R documentation of trust systems; and lack of integration of trust systems. These documented weaknesses underscore the need for a new trust funds management system and the need to enhance the Bureau's investment capability to deliver quality services to trust account owners.

There are three options discussed as mentioned above. Option #1 calls for a requirements analysis and conceptual design document to be produced before a decision can be made about what course should be taken by the BIA on the new trust system. This will take approximately 1 year before it can provide the data required to make a decision. It takes a comprehensive approach to the systems development process. It is estimated to take 3 years to implement a solution using this approach. Option #2 will be accomplished in three separate steps: 1) lease a "core" trust system; 2) contract for investment advisory services and custodian services; and 3) to design and obtain a new IIM trust system component to complement the "core" trust system obtained in step #1. This option would allow steps 1 and 2 to be in place within the next 12 months with step 3 possibly being accomplished in years 2 and 3 of the project, which depends heavily on significant program and policy decisions that would have to be made at the Departmental level, but which have not yet been fairly developed for policy deliberation. Option #3 calls for the entire OTFM operation to be contracted to one or more private sector organizations over a 2.5 year period. The OTFM would retain a residual staff consisting of approximately 31 FTE responsible for providing oversight, policy and contract performance measurement services.

The Bureau recommends Option #2 as the best approach, given the present NPR, CFO Act of 1990 and political climate at this time. It is necessary to consider the Congressional and Tribal support that has been obtained for this option, as well as the obvious benefits under NPR for integrating the best "mix" of private and public sector services for providing government services, and finally, under the present legal environmental restrictions, the BIA cannot use any Bank to collect/disburse trust funds until after the accounts have been reconciled and audited to the earliest date "practicable", and the investments decisions cannot be made at a contractor's discretion without specific BIA approval, which limits what can be done at this time without legislative authority. All the evidence supports Option #2 at this time, which still leaves the door open to further contracting if a decision is made at some later date to expand the private sector involvement in this program.

CURRENT OPERATING ENVIRONMENT

A. Systems Overview

P The Bureau of Indian Affairs currently utilizes three major systems to perform the day to day trust funds management operations. The three systems are: 1) the Finance System, 2) the MONEYMAX System, and 3) the Integrated Resources Management System (IRMS). Each of these systems is described below and graphically presented on pages 7-9.

1. Finance System

P This system is the Bureau's general ledger accounting system used for the trust funds only. The Bureau does not enter any trust accounting transactions into the Federal Financial System (FFS) used for the appropriation/budgetary account information. The Tribal Trust Accounts, the Alaska Native Escrow Funds, the Contributed Funds, Papago Cooperative Fund, Tribal Economic Recovery Fund, the Northern Cheyenne Water Fund, and the Individual Indian Monies (IIM) trust general ledger accounts, are all accounts requiring the Finance System to provide general ledger detail reports as well as monthly account statements per Tribal account (there are approximately 1800+ Tribal accounts for over 250 Tribes) and the data required for the periodic federal governmental reports due to Treasury, OMB and others each month. This system does not provide the Individual Indian Monies (IIM) account statements to the individual account owner.

The entire processing for the Finance System occurs in Albuquerque, New Mexico on an IBM-3090 mainframe computer operated by the Bureau's National Technical Service Center (NTSC), which is part of the Office of Data Systems.

As the official general ledger accounting system, the data affecting all accounts is entered into the system by the Office of Trust Funds Management including collection and investment activity, all wire transfers, all disbursements, transfers of trust funds from other government agencies, such as Minerals Management Service (MMS), transfers between BIA accounts and some Journal Voucher activity.

*Check -
MMS -
accs to NTSC.*

Perceived Disadvantages of Current Systems Environment

The system does not accommodate accrual accounting.

amortization of premiums and discounts, accounting for capital gains and losses, and does not allow proper accounting for CMO's, inverse floater and other more recent investment products that are constantly evolving in the financial marketplace. The system itself is incapable of providing daily balance information, which has led to the development of a separate reporting feature that was developed in 1989 called the Tribal Trust Inquiry System designed to allow BIA Area, Agency and Tribal offices to obtain, via modem connection, their current month account activity and daily balance information. The system is unreliable due to problems with the system programs, or the hardware itself, as well as unforeseen communications problems with field offices. The system is literally unavailable for periods ranging from several hours to several days at a time for data entry. For the periods that the system is "down", the Office of Trust Funds Management cannot obtain accurate accounting data for calculating the cash available for drawdowns by Tribes and for investments of over \$2.3 billion in trust funds, which could cause a loss of interest income generated.

2. MONEYMAX System

The BIA's Finance System does not support many trust fund investment accounting needs (i.e.- daily deployment of assets, accounting for securities purchased by financial institution or by security, identification of security by CUSIP number, custody arrangements and collateralization arrangements by institution, and the calculation of accrued interest, tracking of maturities, etc.). As a result, the BIA has obtained the services of a contract portfolio accounting system named MONEYMAX from Sunguard Asset Management Systems. The MONEYMAX system generates reports to OTFM and summaries of investment securities held on behalf of each Tribes that are forwarded to Tribes each month in addition to the monthly reports sent to Tribes from the Finance System.

Perceived Disadvantages of Current System Environment

The two reports (i.e.- Finance System generated "Summary and Detail of Trust Funds Report" that details the transactions and the investments balance by Tribe, and the MONEYMAX Report detailing the investments securities held on behalf of each Tribe by account) do not always balance and this raises concern among the Tribes who want to know which balance is correct. The

reason for a difference is usually the result of month-end cutoff procedures in the entry of transaction data into one or both the MONEYMAX and Finance systems, causing a variance. This lack of integration of the two systems is a material weakness in the systems and cause for a great deal of concern by the BIA and confusion by the Tribes.

The MONEYMAX system was obtained under a contract issued in 1980 and must be replaced at the end of fiscal year 1994. It cannot be renewed, and this has brought a real sense of urgency to replacing this system. The BIA must move quickly in order to obtain a replacement by September 30, 1994 or shortly thereafter due to the inability to extend this contract any further.

because it was a non-computered contract for many years

3. Integrated Resources Management System (IRMS)

The IRMS system was developed in the late 1970's in Billings Area to allow the automation of several manual processes occurring in the BIA's field offices at the Area and Agency level and is the system utilized to provide the subsidiary accounting for individual Indian account owners (IIM). The IRMS related programs operate on three separate computer environments: 1) ten Area Offices and related Agency locations operate on a UNISYS A-10 mainframe computer located in Albuquerque, New Mexico; 2) Aberdeen Area operates on a Burroughs B-1900 minicomputer located in Aberdeen; and, 3) Anadarko Area operates on a Burroughs B-1900 minicomputer located in Anadarko, Oklahoma.

Note p. 3 1782
Area IIM 3090
Mainframe

The IRMS System has the following components: 1) Ownership (i.e.- a land ownership tracking system with abstract data included); 2) Lease (i.e.- a lease master file system); 3) People (i.e.- Tribal membership and related data, used to accomplish Per Capita and Judgment Award distribution payments); and, 4) IIM component. The IIM component is the largest of the group. The IIM component and several subsidiary programs within the IRMS system that are used to distribute oil and gas royalties, range payments, per capita distributions and distribute other types of lease income collected by the BIA are all related to the trust funds management program. This system was installed in 1987 at the BIA's twelve Areas and 83 Agencies to provide the monthly statements of account to the IIM account owners, which total in excess of 326,000 accounts with over \$480 million in assets.

check for 5 components per correct study

File
File
File

Note:
FY 93 - over 336,000
1,000,000
3,141,000

Per Capita Study for IIM (March 1992 report)

(p. 8) Study includes name, address, etc. of all IIM account owners

(p. 8) Individual Indian Money Accounts

(p. 4) Per Capita report lists Oil and Gas fees as a 5th component also referred to as Royalty Accounts in the IIM system (PDRS)

Please refer to pages 8-9 for graphic illustration of the IRMS system.

Perceived Disadvantages of Current Systems Environment

There are some Areas that enter all the IIM transaction activity in a centralized environment at the Area Office, while ^{Agency Office} about half of ^{the Areas} allow their Agencies to enter all of their IIM accounting transactions into the IRMS system. For instance, some lease income distributions are accounted for as transfers while some Areas post the distributions as collections. This obviously causes different accounting transaction codes to be used and distorts statistics in transaction activity. All IIM related deposits, disbursements, transfers and journal vouchers must be reentered into this system separately from the Finance System. This requires a great deal of effort to enter ^{and} to reconcile the two systems in a timely manner. For instance, all twelve Areas had variances totalling over \$84 million between the Finance System and the IRMS-IIM System as of the end of January 1994. This difference is currently being researched by the Area Office staff, but early indications are that the primary reason for the difference is the lack of recording entries related to the distribution of interest income from the Finance System to the IRMS-IIM System each month that has accumulated over several years. Each Area Office has adapted the IRMS programs to their own particular needs, causing inconsistencies in some of the reporting and processing handled by the IRMS system.

CONCLUSIONS AND RECOMMENDATIONS

The goal of "fixing" the trust funds management problem in the Bureau of Indian Affairs is one that has been evasive and a political minefield for all who have dared to attempt to address it. Time and again, the attempts have failed for a variety of reasons, some of which are: 1) lack of advance consultation with Tribes and with the appropriate Congressional Committees, 2) the failure to adequately brief the staff of the Bureau of Indian Affairs, which caused a great deal of discontent and concern within the ranks, and 3) lack of a strategic plan for the Department and the Bureau related to the trust funds management program other than to contract it out of the BIA. The BIA literally, in both the Mellon and SPNB contract attempts, presented some rather rudimentary information to the potential bidders and waited for the private sector institutions to derive the solution. This approach was grossly inadequate because it was proven in both attempts that insufficient data was presented to the contractors to allow a solid proposal based on fact rather than assumptions to be developed. As a result, both exercises became R&D type projects where most of the real solution had to be defined after the award of the contract, which made cost estimates and time frames impossible to predict.

The Bureau must take into account not only the strengths and weaknesses of the above options, but must put them in the context of the CFO Act of 1990, the NPR Program, and the political environment in Indian Country and the federal government as a whole.

The Chief Financial Officer's Act of 1990 (CFO Act) mandates improved financial management; assigns clearer responsibility for leadership to senior officials in the Bureau; and requires new financial organizational structures, enhanced financial systems and audited financial reporting for trust funds. The BIA has determined that a new trust funds management system is required to meet the requirements of the CFO Act of 1990 in order to perform the duties generally required of a fiduciary with respect to collections, investments and postings; to file proper tax reports; to make periodic reports to accountholders; to ensure that independent audits of operations are performed; and, to provide reliable, timely and accurate accounting and investment of trust funds. Option #2 allows the BIA to provide timely, accurate statements of account to the Tribes and individual Indian account holders. It will give the BIA the tools that it must have to properly fulfill its fiduciary responsibilities in tax reporting, timely collection and investment of trust funds, and in providing a system that allows portfolio modelling and mark-to-market reporting to account owners.

The NPR program calls for innovative approaches to delivering quality services in the federal government through the employment of the optimum mix of public and private sector resources. Option #2 appears to accomplish this goal by providing the leased trust system, the investment advisors and the custodial services from the private sector together with the BIA's Office of Trust Funds Management to provide the

customer service, policy and procedural responsibilities, the internal audit capabilities and the training and records management functions. This does not throw out the possibility of transferring more functions to the private sector or Tribes at some point in the future, but merely positions the BIA to deliver quality service now while the responsibility lies squarely with the Secretary of the Interior.

The political environment in the trust program has been a volatile one in recent years due to the increasingly competitive environment in the trust industry and the trend in Indian country toward Tribal self-governance. Given the need to explore new approaches for the trust funds management program, including looking at contracting for a greater portion of services from the private sector or with Tribes themselves, immediate implementation of Option #2 appears even more timely. It allows the Department the flexibility to transfer all or a portion of the trust funds management program to another entity at some point in the future with greater ease and less cost. The Tribes and Congress are expecting action to be taken sooner rather than later. Only Option #2 allows the BIA to move timely to make comprehensive changes in the system within the current fiscal year.

The legal environment involves such items as the Appropriations Bill language that has existed since 1987 that requires the BIA to not transfer any functions to a third party contractor prior to the completion of an audit, certification and reconciliation of all Tribal and IIM accounts and a statement of account furnished to each account owner. There is also a Solicitor's Opinion stating that no investment contractor can be given discretionary authority over the investment of trust funds. The BIA must approve the investment transactions before they are executed.

In summary, the Bureau of Indian Affairs recommends that Option #2 be implemented for the reasons stated above. With the ability to hire the staff outlined in the 130 DM reorganization request currently being reviewed by the Department, the BIA will, with the addition of the implementation of Option #2, be positioned to meet the mandate to deliver quality trust funds management services for Tribal accounts and all investment activities within the current calendar year.

Handwritten notes:
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