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FINANCIAL MANAGEMENT

Indian Trust Fund Accounts Cannot Be Fully Reconciled

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Mr. Chairman and Members of the Subcommittee:

We appreciate the opportunity to be here today to discuss our work on the Bureau of Indian Affairs' (BIA) trust fund management. My statement summarizes our assessment of BIA's efforts to reconcile Indian trust fund accounts and make needed management improvements to ensure that those accounts will be accurate in the future.

In summary, BIA has spent about 4 years and has obligated $16 million to reconcile tribal trust fund accounts. This year, BIA reduced the scope of the reconciliation work in order to complete most reconciliation tasks by September 30, 1995, and prepare the reconciliation status report to the Congress required by the American Indian Trust Fund Management Reform Act of 1994. BIA is requesting $6.8 million for fiscal year 1996 to continue with the detailed reconciliation work.

Based on the results of reconciliation to date, it is clear that even if additional reconciliation work is performed, BIA will not achieve its objective of providing reasonable assurance that trust fund account balances are accurate. This is due to missing lease and accounting records; the inability to verify that all earned revenues were collected, posted to the correct account, and disbursed to the proper party; and the lack of accurate, up-to-date ownership information. Because the Indian trust fund accounts cannot be fully reconciled, we believe that it is appropriate for the Congress to consider legislating a settlement process in lieu of continuing to fund BIA's reconciliation effort.

In our prior testimonies and reports,[1] we discussed actions needed to improve trust fund financial management to ensure that trust fund accounts are accurately maintained in the future. We stated that the lack of reconciled accounts was a symptom and not the cause of BIA's trust fund accounting problems. BIA has made progress in some areas and has initiated action in others. However, until reliable trust accounting systems are fully implemented and ownership and lease records are up-to-date, the Congress and the account holders will have no assurance that trust fund balances are accurate.

BACKGROUND

The Secretary of the Interior, by law, is responsible for the discharge of the government's fiduciary obligations to Indians, including the management of Tribal and Individual Indian Moneys (IIM) Trust Funds. BIA's Office of Trust Funds Management (OTFM) is responsible for ensuring that proper control and accountability are maintained over each trust account. BIA's Office of Trust Responsibilities (OTR) is responsible for determining land and

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[1]GAO/T-AFMD-91-2, April 11, 1991; GAO/T-AFMD-92-6, April 2, 1992; GAO/T-AIMD-94-99, April 12, 1994; GAO/AFMD-92-38, June 18, 1992; and GAO/AIMD-94-185, September 22, 1994.

beneficial ownerships (such as lease ownerships), certifying ownerships, and maintaining official lease and ownership records.

In fiscal year 1994, OTFM managed and accounted for a reported $2.3 billion in Indian trust funds, including $1.9 billion for about 1,400 accounts for 314 tribes and $425 million for nearly 288,000 IIM accounts. Fiscal year 1994 reported receipts totaled over $979 million and disbursements totaled over $538 million. The balances in the trust fund accounts have accumulated primarily from payments of claims; oil, gas, and coal royalties; land use agreements; and investment income.

I will now highlight our assessment of BIA's actions to reconcile trust fund accounts and make needed improvements to ensure that trust fund accounts are accurately maintained in the future.

TRUST FUND RECONCILIATION RESULTS

In May 1991, BIA initiated a first-time effort to reconcile trust fund accounts. Due to the lack of records, BIA decided to reconcile tribal accounts from 1992 back to 1973 and to identify alternatives to reconciling IIM accounts. Our April 1994 testimony presented the status of eight major reconciliation tasks. Under BIA's current approach, reconciliation work for most of the eight tasks is to be completed by June 30 1995, and the certification of this work is to be completed between July 1 and September 30, 1995.

Completion of the reconciliation tasks is not the same as reconciling the accounts. For example, BIA reports that it has (1) reconciled 87 percent of the tribal judgment award and income account transactions from the point at which they were posted to the accounts, (2) performed certain agreed upon procedures on a pilot basis for five tribes, (3) tested resource-based revenue for selected leases and selected years, and (4) analyzed investments. However, due to missing records and the inability to verify that all earned revenues were collected, correctly posted, and properly disbursed, none of the tribes' trust fund accounts has been fully reconciled. Given the condition of the records, inadequate systems, and inadequate accounting procedures through 1992, it is clear that further reconciliation work will not provide reasonable assurance that the account balances are accurate. For this reason, we believe that it is appropriate for the Congress to consider legislating a settlement process.

A legislated settlement process should require the Secretary to provide (1) account balance confirmation letters to account holders, (2) an opportunity for account holders to agree or disagree with the balances, and (3) an opportunity for tribes and allotees to audit selected leases and contracts, with a cost-benefit incentive, for the purpose of testing resource-based revenue collection for high-volume periods. Under the settlement legislation, the Secretary would negotiate a disputed balance with

the account holder. One option might be for the legislation to establish a binding arbitration procedure available to the account holders when negotiations fail to reach agreement on account balances.

ACTIONS TO ENSURE FUTURE ACCURACY OF TRUST FUND ACCOUNTS

Our June 1992 report identified a number of fundamental problems in BIA's trust fund accounting operation that need to be addressed for trust fund accounts to be accurately maintained in the future. These problems include the lack of adequate systems; the lack of adequate, trained financial management staff; the lack of consistent, written policies and procedures; and continued fractionated ownership interests. Our April 1994 testimony identified the lack of both lease information and an accounts receivable system, and our September 1994 report identified the lack of accurate, up-to-date ownership records. Until BIA addresses these problems, it will not be able to ensure that trust fund accounts are accurate.

OTFM has made progress toward achieving needed management improvements. For example, OTFM has awarded a contract for a core trust fund general ledger and investment system. Implementation of the new system is to be completed by June 30, 1995. In addition, BIA formed a study team in January 1995 to plan for a subsidiary and IIM system. BIA plans to obtain a decision on a proposed system approach by July 15, 1995. Reliable subsidiary and general ledger accounting systems are an important step toward maintaining accurate account balances.

BIA has also made progress in developing written policies and procedures. In November 1994, BIA approved its trust fund loss policy, which contains procedures to identify and resolve losses promptly. As of February 1, 1995, BIA had received $9 million in appropriations of which $7.8 million was used to reimburse account holders for losses. Another $2.4 million, including interest, remains to be reimbursed, and BIA has requested $1 million in fiscal year 1996 appropriations to restore part of those losses. Further, last month, OTFM began issuing trust fund accounting policies and procedures to BIA's field offices, whose staff perform detailed trust fund billing and accounting functions.

In addition, OTFM has made progress in hiring qualified financial management staff and filling key management positions. As of March 3, 1995, 82 of the 107 positions approved by the Subcommittee had been filled.

Further, OTFM is preparing a request for proposals to contract for custodian services to safeguard securities, settle trades, and track trust fund investments between financial institutions. In fiscal year 1996, in response to the American Indian Trust Fund

Management Reform Act of 1994, BIA expects to begin reviewing tribes' plans to withdraw their trust funds and to provide them technical assistance in implementing their own investment plans.

AREAS THAT NEED FURTHER ATTENTION

While BIA has made progress in improving trust fund accounting systems, staffing, and policies and procedures, further actions are needed to ensure accurate, up-to-date lease and ownership information, which is the basis for posting most trust fund receipts and disbursements.

BIA's OTR has actions under way to improve land records and ownership information systems, including the automation of time-consuming manual calculations of chain-of-title. Our September 1994 report recommended that until the new system, targeted for 2000, is fully implemented, BIA use temporary employees or contractors to reduce ownership determination and recordkeeping backlogs. BIA's fiscal year 1996 budget request includes $600,000 and 33 permanent positions to reduce these backlogs.

Our June 1992 report stated that fractionated interests due to heirships complicate accounting and reconciliation efforts and will continue to do so because of the increasing number of accounts that BIA is required to maintain--some with transactions involving only a fraction of a penny. BIA's fiscal year 1996 budget request includes $12.5 million and 14 positions to support tribal acquisition of allottee land interests of 2 percent or less. We have not assessed the proposal's costs and benefits.

Another area to be addressed is the Chief Financial Officers Act requirement for annual audits of federal agency trust funds. The Office of Management and Budget waived the requirement for BIA's trust funds financial audit for fiscal year 1992, and BIA has not had an audit of the Indian trust funds financial statements since fiscal year 1990. However, BIA is considering contracting for compliance and financial audits of the trust funds for fiscal years 1991 through 1996, with stand-alone reports for each year. In our view, it is not cost-effective for BIA to perform audits for years covered by the reconciliation. Further, we believe that limited scope audits focusing on transactions and controls for the years preceding a settlement would be more cost-effective. Following settlement, it is critical that annual, stand-alone, full scope trust fund audits be performed. Without these audits, the Congress and the account holders cannot be assured that adequate systems, procedures, and controls are in place to ensure account balances.

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Mr. Chairman, this concludes my statement. I would be glad to answer any questions from you or the Subcommittee Members.

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