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**FINANCIAL
MANAGEMENT**

**Problems Affecting BIA Trust
Fund Financial Management**

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Mr. Chairman and Members of the Committee:

We are pleased to be here today to discuss the Bureau of Indian Affairs' (BIA) management of the Indian Trust Funds. The subject of today's hearing--fractionated ownership of Indian lands--directly impacts BIA's maintenance of the Indian trust fund accounts. A related factor that also impacts trust fund accounting is the Minerals Management Service's (MMS) collection, payment, and reporting to BIA on Indian oil and gas royalties, which are distributed based on land ownership.

In summary, BIA has a fiduciary responsibility to ensure that proper control and accountability are maintained over each trust fund account, something BIA has not achieved. Over the years, countless audit reports and internal studies have detailed a litany of problems in BIA's control and oversight of these accounts. BIA's record has been so poor that OMB has placed trust fund accounting on its high risk list.

The bulk of the problems are internal to BIA--things such as poorly designed accounting systems, weak internal controls, and untrained staff. But, some issues are external and cannot be addressed by BIA alone.

First, BIA is dependent on accurate and complete land ownership records to properly distribute revenues. However, audits and studies have shown continuing problems with these records. To

the extent that the land records are wrong, the related trust fund account will likewise be incorrect. In addition, because land interests are so fractionated, a lot of small dollar amounts result. For instance, at three BIA offices, where BIA tried to reconcile the trust fund accounts, 30 percent of the transactions were for less than \$1--nickels, dimes, quarters, and even fractions of a penny; another 27 percent were for \$1 to \$9; and an additional 23 percent were for \$10 to \$49.

Second, BIA receives input from MMS on royalty income. Studies have also raised questions about the accuracy and completeness of this information. Therefore, even if BIA properly processes this data, which in itself has been problematic, if MMS's data is wrong, the trust fund accounts will likewise be incorrect.

BIA has recognized the seriousness of its problems. But, over many years there has been little progress in fixing what is wrong. We have told Interior and BIA that, to be successful, they need to develop a comprehensive strategic plan. This plan must address interfaces between other systems and operations impacting trust fund accounting, such as the land records and MMS's reporting.

BACKGROUND

The Secretary of the Interior is directed by law to manage Tribal and Individual Indian Monies Trust Funds. BIA, through its

Office of Trust Funds Management, is responsible for carrying out the government's fiduciary responsibility of ensuring that proper control and accountability are maintained over each trust account. BIA has been slow in developing a financial management system that will ensure proper control and accountability over these accounts. The Office of Trust Funds Management, located in Albuquerque, New Mexico, oversees trust fund operations at BIA's 12 area offices and 93 agency offices.

At the end of fiscal year 1991, the Office of Trust Funds Management was responsible for overseeing maintenance of about 2,000 tribal and 291,000 Individual Indian Money accounts with reported balances of \$1.5 billion and \$440 million, respectively. Trust fund balances have accumulated in part from payments of claims, oil and gas royalties, land use agreements, and investment income. In fiscal year 1991, reported receipts totaled almost \$400 million, and disbursements ran about \$367 million.

Before I discuss the other factors that impede BIA's effective management of trust fund accounts, I would first like to talk about BIA's long-standing financial management problems.

LONG-STANDING FINANCIAL MANAGEMENT PROBLEMS

For many years, BIA has experienced financial management problems. In 1982, we reported¹ that BIA's appropriation and trust accounting systems needed major improvements. Since then, the Interior Department's Inspector General (IG) and public accounting firms hired by BIA have also identified numerous accounting and internal control weaknesses. Beginning in 1983, the Secretary of the Interior cited trust fund accounting as a material weakness in the Department's annual report to the President and the Congress under the Federal Managers' Financial Integrity Act. In October 1989, the Office of Management and Budget (OMB) designated BIA in its entirety as a high-risk area and, in June 1991, OMB separately put BIA's trust fund operations on the high-risk list because of long-standing, uncorrected weaknesses.

In our June 1992 report,² we discussed BIA's progress in reconciling trust fund accounts and developing a strategic plan for trust fund management. We reported that BIA and its contractor had determined that a full reconciliation of all tribal and Individual Indian Money accounts was neither possible nor cost-effective due to missing records, poorly documented accounting transactions, and

¹Major Improvements Needed in the Bureau of Indian Affairs' Accounting System (GAO/AFMD-82-71, September 8, 1982).

²Financial Management: BIA Has Made Limited Progress in Reconciling Trust Accounts and Developing a Strategic Plan (GAO/AFMD-92-38, June 18, 1992).

the volume of data to be reviewed. BIA halted the reconciliation of Individual Indian Money accounts for these reasons. We also reported that, in developing a strategic plan for trust fund financial management improvement, BIA needed to address factors outside its Office of Trust Funds Management that impact its ability to accurately account for trust fund monies. Two of these factors were fractionated land ownership and MMS's practices for collection, payment, and reporting of Indian oil and gas revenues.

OWNERSHIP RECORDKEEPING AND

FRACTIONATED INTERESTS IMPACT

BIA TRUST FUND ACCOUNTING

Although BIA needs to have accurate and complete land ownership records to properly distribute revenues, audits and studies have shown continuing problems with such land records. In 1991, during the initial phase of the trust fund reconciliation project, BIA conducted an informal poll of its five Area Land Titles and Records Offices and found that backlogs in updating land records existed at 4 of the 5 locations. Reported backlogs ranged from a low of 100 documents at one area office to a high of 17,000 documents at another. The accuracy of BIA's land and mineral ownership records directly affects the accuracy of distributions to the Individual Indian Money accounts. If ownership records are not kept up to date, income may be distributed to the wrong accounts.

Concerns over the accuracy of land ownership records have been raised for a number of years. For example, BIA's 1990 trust fund financial statement audit report disclosed a material internal control weakness in BIA's calculations of Individual Indian Money income distributions. The auditors found receipts that had not been identified to specific account holders and noted that ownership records were not always updated to allow for timely distribution to account holders. In January 1992, BIA's trust fund reconciliation contractor identified inconsistencies in the ownership information. Further, in a series of reports completed from 1984 to 1987, the Interior IG found that certain BIA agency offices failed to collect and properly distribute revenue to trust fund accounts. The IG attributed this problem to the failure to update land ownership information in a timely manner.

In both our April 1992 testimony³ before the House Committee on Appropriations, Subcommittee on Interior and Related Agencies, and our June 1992 report, we cited continuing problems with the accuracy of BIA's land ownership data, including concerns about BIA's automated Integrated Resources Management System, which maintains Individual Indian Money account information and Indian land ownership data for distributing revenue. This system operates at six locations and, over time, subtle changes to computer programs and coding schemes have made the information at these

³Financial Management: BIA Has Made Limited Progress in Reconciling Trust Accounts and Developing a Strategic Plan (GAO/T-AFMD-92-6, April 2, 1992).

locations inconsistent. Moreover, according to BIA officials, the land ownership data were never validated when they were transferred from an earlier manual card system.

Fractionated interests have impacted BIA's maintenance of land ownership records and trust fund accounting. As discussed in our February 1992 report,⁴ BIA's workload for ownership recordkeeping is substantial. For the 12 Indian reservations covered by our review, about 60 percent of the over 1 million land records BIA maintained represented individual Indian ownership interests of 2 percent or less; some as small as one four-hundred-thousandth of 1 percent. Because land interests are so fractionated, BIA must account for numerous small dollar transactions. For instance, at three BIA offices where BIA tried to reconcile the trust accounts, 30 percent of the total transactions were for less than \$1, another 27 percent were from \$1 to \$9, and an additional 23 percent ranged from \$10 to \$49.

⁴Indian Programs: Profile of Land Ownership at 12 Reservations
(GAO/RCED-92-96BR, February 10, 1992).

IMPACT OF MMS' OIL AND GAS REVENUE

PROCESSING ON INDIAN TRUST FUND ACCOUNTS

The processes and procedures used by MMS to collect, report on, and distribute Indian oil and gas royalties also impact on BIA's ability to properly account for trust fund monies. BLM, MMS, and BIA share responsibility for managing Indian leases and collecting and disbursing oil and gas royalties. BLM is responsible for managing leases on Indian land and verifying reported oil and gas production. MMS is responsible for collecting oil and gas royalties, accounting for them, and then transferring these moneys to BIA. BIA is responsible for distributing the revenue to the Indian and tribal account holders.

During our review of BIA's efforts to reconcile the trust fund accounts, the Intertribal Monitoring Association, which represents tribes and Indian account holders, raised concerns about the reliability and accuracy of MMS oil and gas payments. Audits by us and the IG and a February 1992 report by the staff of the House Committee on Interior and Insular Affairs also discussed royalty management problems. For instance, two reports¹ we issued in 1990 raised concerns about the accuracy of BLM's oil and gas production data and questioned MMS's ability to ensure that royalty

¹Minerals Management Service: Improvements Planned for Automated Royalty Management System (GAO/IMTEC-90-65, July 27, 1990) and Minerals Revenues: Shortcomings on Onshore Federal Oil and Gas Production Verification (GAO/RCED-90-99, June 26, 1990).

collections and disbursements for onshore minerals leases, managed by BLM, were accurate. Further, in June 1990, the Interior IG reported problems with a system developed by MMS to ensure consistency and accuracy among the automated databases used by MMS and BLM to support mineral leasing. Among the IG's findings was that the system generated a significant amount of inaccurate data.

Also, BIA has had difficulty using oil and gas revenue collection and distribution data it receives from MMS to ensure that revenue is credited to the proper accounts. As part of a project begun in 1989, BIA has developed a computer program to enable it to better analyze this information and expects to have the program fully operational by August 1992.

Finally, similar to the problems associated with fractionated land interests discussed previously, multiple owners of Indian oil and gas leases further complicate trust fund accounting. For instance, because of multiple ownership, BIA had to allocate one lease payment of \$400 into 87 individual ownership shares ranging from 5 cents to \$69.

STRATEGIC PLAN NEEDED TO GUIDE

FUTURE TRUST FUND MANAGEMENT

In our April 1992 testimony, we said that if BIA is to effectively manage the Indian trust funds, it would need to address

the problems that impede accurate accounting, including factors outside of BIA's control that affect account maintenance. However, as discussed in the preceding sections, BIA cannot resolve these problems by itself.

Our June 1992 report discussed the need for BIA to develop a strategic plan and to ensure that the Chief Financial Officers Act (CFO) of 1990, Public Law 101-576, is properly implemented in order to guide future trust fund management initiatives. These actions are vital to developing a cohesive strategy for the kind of comprehensive change needed to address the long-standing problems at BIA, including land ownership records and fractionated interests and the concerns about MMS data reliability which are outside of BIA's control. The lack of a clear long-range vision has impeded BIA's progress in the past. BIA has not completed a truly comprehensive plan for improving trust fund management nor given much attention to implementing the CFO Act. This act provides a framework that Interior's CFO can use to help address BIA's trust fund financial management problems and to help make major changes in financial management at BIA, as well as the Department of the Interior. We understand that at the urging of OMB, and with the assistance of the Interior Chief Financial Officer, such a plan is now being developed.

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Mr. Chairman, this concludes my remarks. I would be happy to answer any questions you or Members of the Committee may have at this time.