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Report to Congressional Committees

June 1992

FINANCIAL MANAGEMENT

BIA Has Made Limited Progress in Reconciling Trust Accounts and Developing a Strategic Plan

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GAO

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Accounting and Financial
Management Division

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June 18, 1992

The Honorable Sidney Yates
Chairman
The Honorable Ralph Regula
Ranking Minority Member
Subcommittee on Interior and Related Agencies
Committee on Appropriations
House of Representatives

The Honorable Mike Synar
Chairman
The Honorable William F. Clinger
Ranking Minority Member
Subcommittee on Environment,
Energy and Natural Resources
Committee on Government Operations
House of Representatives

In response to your requests, this report updates the Bureau of Indian Affairs' (BIA) efforts to reconcile and audit the Indian trust fund accounts and develop a strategic financial management plan for correcting its long-standing trust fund financial management problems.

Results in Brief

In May 1991, BIA awarded a contract for reconciliation of the Indian trust fund accounts, which entails using source documents to reconstruct trust account transactions so that account holders are provided as accurate an accounting as possible. Since then, BIA and its contractor have gathered and organized thousands of boxes of accounting records, developed a methodology to reconstruct and reconcile the accounts, and estimated the level of effort and cost to complete various segments of the reconciliation work. The assessment results indicate that the reconciliation effort will be very difficult and that many accounts cannot be fully reconciled due to missing records, poorly documented accounting transactions, and the volume of data to be reviewed. Further, the contractor's cost estimates for completing the reconciliation work confirms our earlier assertion that reconstructing accounts would be costly, even after factoring in some cost-saving measures.

The projected cost to reconstruct accounting transactions for approximately 2,000 tribal accounts BIA maintained from 1983 through 1991 is over $3 million. This amount is in addition to the $1.7 million

expended through January 15, 1992, to collect and organize accounting documents; purchase equipment, computer hardware, and software; and develop procedures for the reconciliation project. The initial cost estimate for reconciling the 291,000 accounts maintained in the Individual Indian Money subsystem ranged from $211 million to nearly $400 million. Subsequently, a scope reduction decreased the estimate to between $180 million and $281 million. The reported balance of these accounts was $440 million as of September 30, 1991. Because many accounts are not reconcilable, alternative approaches to reach agreement on account balances will be necessary.

Even if BIA were able to reconcile all accounts and reach agreement with the account holders on their balances, new discrepancies could arise unless long-standing problems with BIA's trust fund accounting systems are corrected. The unreconciled accounts are only a symptom and not a cause of BIA's trust fund financial management problems. As we stated in our testimony last year, in the long term, BIA has to deal with the root cause of its problems or it will continue to revisit the issue of unreconciled accounts. In this regard, both the Chairman of the Subcommittee on Environment, Energy and Natural Resources, House Committee on Government Operations, in May 1991, and the Conference Report on the fiscal year 1992 appropriations directed BIA to develop a strategic plan for improving trust fund financial management, including an acceptable approach for keeping the accounts accurate in the future. Although BIA has developed a number of short-term plans, it has yet to develop a truly comprehensive strategic plan. The requirements of the Chief Financial Officers (CFO) Act of 1990, Public Law 101-576, provide a framework that BIA can use to help solve its long-standing financial management problems. However, as of March 1992, BIA had not determined how the act's implementation would affect trust fund operations.

Background

The Secretary of the Interior is directed by law to manage Tribal and Individual Indian Monies Trust Funds. BIA is responsible for ensuring that these funds, which belong to the tribes and individual Indians, are properly managed. Indian account balances have accumulated in the trust funds from (1) the payments of claims, (2) oil, gas, and minerals royalties, (3) income from land use agreements, (4) investment income, and (5) other sources.

At the end of fiscal year 1991, BIA reported that the Indian trust funds included about 2,000 tribal and over 291,000 Individual Indian Money accounts with reported balances of $1.5 billion and $440 million, respectively. Trust fund receipts for fiscal year 1991 totaled almost $400 million, and disbursements to account holders ran about $367 million. BIA's Office of Trust Funds Management, located in Albuquerque, New Mexico, is responsible for ensuring that trust fund management and accounting are carried out properly. It oversees trust fund operations at BIA's 12 area offices and 93 agency offices.

In 1982, we reported[1] that BIA's appropriation and trust fund accounting systems needed major improvements. Since then, the Interior Department's Inspector General and public accounting firms hired by BIA have identified numerous accounting and internal control weaknesses. In October 1989, because BIA, as a whole, had not corrected its numerous, long-standing financial management problems, the Office of Management and Budget (OMB) designated the Bureau as a high-risk area. In June 1991, OMB designated BIA's trust funds operations as high risk, also because of long-standing, uncorrected weaknesses.

During 1991, we briefed your subcommittees' staffs several times on BIA's progress in reconciling and auditing the Indian trust fund accounts. On April 11, 1991, we testified before the House Committee on Appropriations, Subcommittee on Interior and Related Agencies, on BIA's efforts to reconcile, audit, and manage these accounts. We stated that if records needed to support account reconstruction were not readily available, it would be futile to attempt to fully reconcile the accounts because the cost of such an effort would be excessive and results would be limited due to missing records. We also discussed BIA's overall financial management problems and how implementation of the CFO Act could help correct them.

In May 1991, we raised many of the same issues in testimony before House Committee on Government Operations, Subcommittee on Environment, Energy and Natural Resources, and discussed the need for BIA to develop a strategic plan to correct its long-standing financial management problems. The Conference Report for fiscal year 1992 appropriations directed BIA to complete a strategic plan for future tribal trust and Individual Indian Money fund management. In addition, the House Committee on

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

Appropriations asked BIA, as part of this planning effort, to consider alternatives to the way the Bureau currently operates, including whether portions of trust funds management could be performed more efficiently under contract or by the tribes themselves rather than by BIA. On April 2, 1992, we testified before the House Subcommittee on Interior and Related Agencies on the matters discussed in this report.

On April 1, 1992, the House Committee on Government Operations issued a report, "Misplaced Trust: The Bureau of Indian Affairs' Mismanagement of the Indian Trust Fund," which describes decades of neglect in managing the Indian Trust Funds.

Objectives, Scope, and Methodology

The objectives of our review were to assess (1) BIA's progress in reconciling tribal and Individual Indian Money accounts and (2) BIA's efforts to develop a strategic plan for improving its trust fund operations.

To assess BIA's progress in reconciling tribal and Individual Indian Money accounts, we obtained and reviewed BIA's reconciliation project management plan. We also reviewed the contractor's plans for organizing, staffing, and implementing the reconciliation work, met with the contractor to discuss these plans, attended several meetings with BIA officials and the contractor to discuss work plan implementation, and monitored the contractor's progress in implementing the plan. In addition, we obtained the views of the Intertribal Monitoring Association, which represents a number of tribal account holders. To assess BIA's efforts to develop a strategic plan for improved financial management, we reviewed BIA's draft planning documents and discussed these plans with BIA officials.

Our work was conducted between July 1991 and March 1992 at BIA's headquarters in Washington, D.C.; BIA's Office of Trust Funds Management in Albuquerque, New Mexico; and at three agency offices—Uintah and Ouray in Utah, Fort Peck in Montana, and Olympic Peninsula in Washington. These locations were chosen because the contractor performed its initial assessment work at these three agency offices. Our review was performed in accordance with generally accepted government auditing standards. The Assistant Secretary for Indian Affairs provided written comments on a draft of this report. These comments and our evaluation of them is presented in appendix I.

BIA Is Unable To Reconcile All Accounts

Since the trust fund reconciliation contract was awarded in May 1991, BIA and its contractor have determined that a full reconciliation of all tribal and Individual Indian Money accounts is neither possible nor cost-effective due to missing records, commingled tribal and individual Indian accounting records, poorly documented accounting transactions, and the volume of data to be reviewed. As a result, BIA's contractor has proposed performing all possible reconciliations of tribal accounts in one rather than two phases, as previously planned, beginning with transactions for fiscal year 1990. Individual Indian Money accounts will not be reconciled at this time.

Originally, BIA's trust fund reconciliation project was divided into two phases, each of which included the same two processes: (1) reconciliation, which entails using source documents to reconstruct trust account transactions so that account holders are provided as accurate an accounting as possible and (2) independent audit and certification of the reconciled balances. Phase I was to cover over 500 tribal accounts belonging to 37 of the 254 tribes and 17,000 Individual Indian Money accounts maintained at three of its agency offices—Uintah and Ouray, Fort Peck, and Olympic Peninsula. After Phase I was completed, Phase II would cover the remaining 1,500 tribal and 274,000 Individual Indian Money accounts. This approach would not have allowed many tribal accounts to be fully reconciled until all Individual Indian Money subsystem accounts, which include some tribal accounts, were also reconciled.

As agreed, the contractor, with BIA assistance, has located and organized trust fund accounting records, developed a methodology to reconstruct the accounts, and provided an assessment of the level of effort and cost to complete the various segments of reconciliation work. The assessment results indicate that the reconciliation effort will be very difficult and perhaps impossible for many accounts because of the problems described above. As of January 15, 1992, BIA had spent about $1.7 million on the reconciliation project. As of March 9, 1992, BIA's contractor had reconstructed or reconciled fiscal year 1990 transactions for all but 276 of 2,010 tribal accounts. This work is not yet complete because some fiscal year 1990 records are missing.

Problems That Impede Successful Project Completion

Anticipating the previously reported records availability problems, BIA included a cost containment measure in the Phase I reconciliation contract. This measure required the contractor to provide an assessment of the level of effort and cost required to complete Phase I after 2 to 4 weeks' work. However, the assessment period lasted longer than originally

envisioned—from July 1991 through January 1992, or 7 months—due to (1) the massive volume of records that needed to be gathered, organized, and analyzed and (2) the addition of some work steps during the assessment period, such as tracking receipt and deposit of funds to determine if interest were lost and determining the accuracy of land and mineral ownership records. As of January 1992, BIA's contractor had identified approximately 69,000 boxes of BIA accounting records and determined that about 17,000 of these boxes contained at least some documents pertaining to trust fund accounting. Yet even after this massive effort, records gaps still exist. In addition, a number of other problems and concerns were identified by BIA, the contractor, the Intertribal Monitoring Association, and others during the assessment period. The following are some examples.

- Questions exist about the accuracy of land and mineral ownership records upon which income distributions are based.
- Fractionated interests due to heirships complicate accounting and reconciliation efforts and will continue to do so because of the increasing number of accounts BIA is required to maintain. As discussed in our February 1992 report,[2] maintaining these accounts, some with transactions involving only a fraction of a penny, is not cost-effective.
- Documentation for Special Deposit accounts[3] has been poorly maintained at the agency offices and records of some transactions are illegible or missing.
- Data on oil and gas royalty collections from Interior's Minerals Management Service (MMS) (which is responsible for collecting and distributing Indian oil and gas revenues to BIA and ensuring their accuracy) are not reliable because of accounting and reporting problems dating back to at least 1982. We have documented these problems in two recent reports[4] as well as in our current BIA work.
- Agency offices use inconsistent procedures, records, and methods to calculate and distribute revenue to account holders. As a result, each method must be separately verified.

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

[3]Special Deposit accounts are accounts established to temporarily hold (1) revenue receipts that involve multiple owners, such as oil and gas royalties, pending calculation and distribution processes or (2) specific receipts, such as advance deposits on timber sales.

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

BIA's Integrated Records Management System, the system used to maintain Indian land ownership and Individual Indian Money account information, operates at six locations. Over time, subtle changes to programs and coding schemes have made the information at these locations inconsistent. In addition, the land ownership data were never validated when they were transferred from a manual card system, according to BIA officials.

Estimates Indicate Efforts Will Be Costly

The contractor's cost estimates for completing the reconciliation work confirm our April 1991 assertion that reconstructing accounts would be costly, even after factoring in some cost-saving measures. For example, initial cost estimates to reconcile all 291,000 individual Indians' accounts ranged from $211 million to nearly $400 million, based on contractor cost estimates for completing work at the three agency offices. Subsequently, a scope reduction decreased the estimate to between $180 million and $281 million. The reported balance of these accounts was $440 million as of September 30, 1991. Since then, the contractor and BIA have proposed that these accounts not be reconciled under the current contract due to missing records, undocumented transactions, and high costs.

In addition, BIA's contractor recently presented cost estimates on various reconciliation scope options, one of which indicates a cost of more than $3 million to reconcile tribal trust accounts for fiscal years 1983 through 1991. However, this approach excludes tribal funds accounted for in BIA's Individual Indian Money subsystem. If tribal funds accounted for in the subsystem were included in this estimate, the cost would rise an additional $1.3 million.

In some cases, the cost of reconstructing accounts exceeds their value. For example, at the three agency offices included in Phase I, about 80 percent of the Individual Indian Money account transactions are less than $50. The contractor's average hourly rate is $38.75, and it is reasonable to expect that much more than 1 hour would be required to reconstruct each account back 10 or more years. Through January 15, 1992, $1.7 million had been expended on the contract to collect and organize accounting documents; purchase equipment, computer hardware, and software; and develop procedures for the reconciliation project.

As stated in our April 2, 1992, testimony, given the assessment results, BIA and its reconciliation contractor have concluded that a full reconciliation, especially for Individual Indian Money accounts, is neither possible nor cost-effective. However, determining the feasibility of a full reconciliation

effort was an important first step in reaching agreement on account balances.

Alternatives to Trust Fund Account Reconciliation

Because many accounts are not reconcilable, alternative approaches to reach agreement on account balances will be necessary. BIA and the tribes acknowledge that alternatives may provide acceptable results. The following alternatives could be considered.

- BIA could reconcile those tribal trust fund accounts for time periods where adequate records are available.
- For tribes that have had reliable accounting systems and audited financial statements for several years, BIA could agree to use tribal account balances maintained by the tribes, or it could use balances maintained by the tribes as a basis for a negotiated settlement.
- For Individual Indian Money accounts, BIA could send account statements to account holders and ask them to confirm or dispute the balances. BIA could then attempt to reach agreement or a settlement with account holders who disagree with BIA's balance.
- Tribes have suggested making funds available to them to conduct reconciliations and audits of their funds maintained in BIA's accounts.
- Finally, BIA could ask the Congress for a legislated settlement for all, or selected accounts, depending on the success of the other approaches.

It is important that BIA promptly reach agreement on trust fund account balances so that it can devote full attention to broad financial management reforms that are critical to improving BIA's trust fund operations.

Strategic Plan Needed To Guide Future Trust Fund Management

After BIA reconciles the trust fund accounts, or reaches agreement on account balances using other alternatives, new discrepancies could arise if BIA does not improve the methods it uses to account for Indian trust funds. The unreconciled accounts are only a symptom, and not a cause of BIA's trust fund financial management problems. As we stated in our testimony last year, in the long term, BIA has to deal with the root cause of its problems or it will continue to revisit the issue of unreconciled accounts. BIA's trust fund financial statement audits for fiscal years 1988 through 1990, have continued to reveal serious financial management problems, such as (1) the inability to determine cash balances, (2) numerous internal control weaknesses, (3) accounting systems which have not maintained and reported accurate trust fund data, and (4) inadequate staffing, training, and supervision.

During BIA's May 20, 1991, testimony before the Subcommittee on Environment, Energy and Natural Resources, the Assistant Secretary for Indian Affairs agreed to prepare a plan, coordinate it with the tribes, and submit it to the Subcommittee. BIA has developed a framework document and has taken some actions to improve trust fund accounting. However, BIA has not yet developed a truly comprehensive plan for improving trust fund management. Such a plan is vital to developing a cohesive strategy for the kind of comprehensive change needed to address the long-standing problems at BIA.

We stated in our May 1991 testimony that BIA had developed piecemeal corrective action plans that were not tied into an overall plan for conducting trust fund business. Since our testimony, BIA has continued to develop short-term plans to correct individual aspects of its current operations. In July 1991, BIA's Washington, D.C., headquarters developed a draft interim financial improvement plan which cataloged a number of short-term actions to address known problems without first analyzing the Bureau's mission, goals, and objectives to determine the most appropriate way to organize, staff, and operate the trust funds. Although the interim plan recognized that long-term solutions were necessary, the Intertribal Monitoring Association did not endorse it because the plan only focused on short-term fixes and did not adequately address long-term solutions for improving trust fund management.

In November 1991, BIA's Albuquerque, New Mexico, Office of Trust Fund Management developed a short-term improvement plan to guide trust fund improvements to be undertaken during fiscal year 1992. Like the interim plan, the short-term plan has no priorities assigned to the various plan segments and does not tie into a comprehensive or strategic approach to solving trust fund financial management problems.

Both the headquarters and the Albuquerque plans do not adequately consider fundamental problems in BIA's current trust accounting operation. For example, the plans do not address the following.

- The continued fractionated ownership interests, which result in the need to maintain an increasing number of small accounts.
- Staffing and training deficiencies reported by BIA's auditors. Despite efforts underway to reorganize the Office of Trust Funds Management, the plan is not supported by a staffing and organization study.

- Lack of coordination among various BIA offices which has led to unanticipated interruptions in operations and a failure of area offices to fully support needed reconciliations.
- Improvements needed to correct BIA's long-standing accounting system design and internal control weaknesses to ensure trust fund account balances will be accurately maintained in the future.
- Improvements needed in Minerals Management Service Indian oil and gas royalty payments to BIA.

Implementing the Chief Financial Officers Act

As discussed in our May 20, 1991, testimony, the CFO Act provides a framework that BIA can use to help address its financial management problems. The act's objectives are to ensure that both Interior and BIA have (1) an adequate financial management organization structure, (2) a cadre of qualified and trained accounting professionals to carry out the broad authorities envisioned by the act, (3) modern, integrated accounting, budget, and financial systems, (4) strong internal controls, (5) audited financial statements that can pass the test of relevance and usefulness established in the act, (6) financial information on costs and performance measures which tie to financial reports, as well as program operations, and (7) annual reports prepared by the CFO that present the results of BIA's financial operations.

We have encouraged BIA management to address the CFO Act requirements for its financial management structure and staffing qualifications at the area and agency offices, as well as at the headquarters level. We have also suggested that BIA discuss the need for a trust fund CFO organization with its reorganization task force. BIA officials told us that they are taking steps to begin implementation of these requirements in BIA's administrative operations, but as of March 1992 they had not yet considered how they will apply them to trust fund management.

Alternatives for Long-Term Trust Fund Management

An important part of strategic planning is considering alternatives to current management and operations. In our May 20, 1991, testimony, we discussed a number of options that BIA could consider for handling trust fund financial management, including contracting with a third party for certain account maintenance services, leasing an accounting system that BIA would operate itself, entering into a cross-servicing arrangement for accounting services with another federal agency, or transferring trust fund accounting and investment activities to another federal agency.

We also testified that as BIA begins to think about key program objectives and how to achieve them, it needs to consider various options for managing and overseeing the trust fund program. Indian representatives have also suggested various options that would allow tribes greater participation in how their funds are managed and invested.

Conclusions

BIA's more recent efforts have demonstrated that a complete reconciliation of the Indian Trust Fund accounts would be unreasonably expensive and, for many accounts, impossible. After spending 7 months and over $1.7 million to gather and organize account information and revise the reconciliation methodology, BIA's contractor is still working to reconcile the fiscal year 1990 tribal account transactions. Missing records continue to be a problem.

BIA has not developed a strategic plan for improving its trust fund management. Such a plan is an important first step in improving BIA's financial management operations.

Recommendations

We recommend that the Secretary of the Interior direct the Assistant Secretary for Indian Affairs to seek alternatives to the current reconciliation project and develop a proposal for reaching a satisfactory resolution of the trust fund account balances with account holders. In developing this proposal, the Assistant Secretary for Indian Affairs should consider the following alternatives:

- limiting contractor reconstruction efforts for tribal trust fund accounts to periods for which adequate records are available;
- accepting audited balances from tribes;
- negotiating agreements with individual Indians on balances reported on their account statements; and/or
- requesting legislated settlements on all, or selected accounts, based on the results of the other alternatives.

In our May 1991 and April 1992 testimonies, we recommended that BIA develop a strategic financial management plan for improving Indian trust fund operations. In this regard, we further recommend that the Secretary of the Interior direct the Assistant Secretary for Indian Affairs to take the following actions.

- Assess the mission of the Office of Trust Funds Management and conduct a comprehensive review of the entire trust fund operation, including those trust-related activities outside the control and responsibility of the Office of Trust Funds Management, in order to determine how and by whom Indian trust funds can best be managed.
- Prepare an organization and staffing analysis to determine appropriate roles, responsibilities, authorities, and training and supervisory needs as a basis for sound trust fund management.
- Review current systems as a basis for determining whether systems modifications will most efficiently bring about needed improvements or whether alternatives should be considered, including cross-servicing arrangements, contracting for ADP services, or new systems design and development.

Agency Comments and Our Evaluation

In commenting on a draft of this report, the Assistant Secretary for Indian Affairs concurred with the thrust of our findings, conclusions, and recommendations regarding BIA's efforts to reconcile the Indian trust fund accounts. However, the Assistant Secretary took exception to certain points discussed in the report.

Specifically, the Assistant Secretary stated that (1) the enormity of the reconciliation project's estimated costs is the paramount factor in deciding how to proceed with the trust fund account reconciliations and that costs are driven largely by the number of Indian allotment interests and (2) GAO inappropriately discounted the consultative process between BIA and the Intertribal Monitoring Association. We disagree with BIA on both of these issues. Regarding the first issue, while the quantity and availability of records is a major factor affecting cost, it is not the only major factor. Other factors such as commingled accounting records, inconsistent accounting processes and procedures, and questionable land ownership data also increase the cost. With respect to the second issue, our description of what occurred is accurate. These and other points as well as our evaluation of them are discussed more fully in appendix I.

As agreed with your offices, unless you publicly announce the contents of this report earlier, we will not distribute it until 30 days from its date. At that time, we will send copies of the report to the Secretary of the Interior, the Department's Assistant Secretary for Indian Affairs, the Director of the Office of Management and Budget, and other interested parties.

Please contact me at (202) 275-9454 if you or your staffs have any questions concerning this report. Major contributors to this report are listed in appendix II.

Jeffrey C. Steinhoff
Director, Civil Audits

Comments From the Assistant Secretary for Indian Affairs

Note: GAO comments supplementing those in the report text appear at the end of this appendix.

United States Department of the Interior

OFFICE OF THE SECRETARY
WASHINGTON, D.C. 20240

MAR 30 1992

U.S. General Accounting Office
Jeffrey C. Steinhoff
Director, Civil Audits
Accounting & Financial Management Division
444 G. St., NW Room 6009
Washington, D.C. 20548

Dear Mr. Steinhoff:

We thank you for the opportunity to comment in writing on the U.S. General Accounting Office (GAO) draft report, "BIA Has Made Little Progress in Reconciling Trust Accounts and Developing a Strategic Plan" (GAO/AFMD-92-38, Draft, March 1992).

See comment 1.

We concur with the general thrust of your findings, conclusions, and recommendations regarding the account reconciliation effort, but as explained orally to your staff, do not necessarily agree with the specific assertions made as to why a full reconciliation is not practicable. Quite simply, the enormity of the estimated costs to accomplish the task has become the paramount factor in any decision about where to go with reconciliation of trust fund accounts held for Tribal and individual Indian monies (IIM). These costs are driven not so much by the quality and availability of records, but rather by the sheer volume of them. This is especially a problem for the IIM accounts. Current estimates are that the reconciliation effort would involve scrutiny of possibly 17,000 boxes of documents. This volume is driven in large measure by the very large number of allotment interests as described in GAO's recent report, "Profile of Land Ownership at 12 Reservations" (GAO/RCED-92-96BR).

Now on page 2.

See comment 2.

We take issue with the statement on pages 2 - 3 that "new discrepancies are likely to arise because BIA has done little to improve the methods it uses to account for Indian trust funds." As detailed in our oral comments, in the last two years reorganization, additional staffing, training, integration of investment systems, and strengthened internal accounting procedures have led to improved accounting practices. This is evidenced clearly by the few problems surfaced by the reconciliation contractor in reviewing fical year 1990 accounting transactions. We do agree that substantial additional improvements in the accounting area are warranted and indeed necessary. These will include better internal control processes and improved accounting and records systems.

Celebrating the United States Constitution

See comment 3.

We cannot comment on your assertions about the data reliability from the Minerals Management Service's (MMS) oil and gas royalty accounting and reporting, but expect MMS, if given the opportunity, will wish to respond fully.

In regard to reconciliations of past accounting, we should also point out that cost effectiveness will be a basic consideration for any decisions on how to pursue individual Tribal reconciliation and audits. The Department will be sensitive to the costs involved where individual Tribal efforts may cumulatively cost significantly more than the present contractual or an inhouse approach. Specific information will need to be developed about the relative costs of any alternative approaches to reconciliation and audits of Tribal accounts. Your recommendations on approaches to the IIM reconciliation are generally in line with our thoughts.

See comment 4.

With regard to the strategic plan, let me simply say that in our view GAO's presentation does a disservice to the intensive work of the Inter-Tribal Monitoring Association on Indian Trust Funds (the Association) and us, discounting the consultative process we have developed over the past ten months. As you know, the trust fund improvement effort commenced under a heavy cloud of suspicion on the part of Tribal representatives. To ameliorate that distrust we initiated, and the Congress and the GAO encouraged--in fact insisted--that BIA consult closely with the Association in setting the foundation for trust fund improvement efforts. This effort began in June 1991, intensifying through January 1992 to the present. GAO representatives are well aware of the pace of events in establishing an environment of mutual trust among Departmental and Association representatives--a process that continues today. In fact, GAO representatives participated in and contributed to that process. While time-consuming and resulting in "limited progress" to date, this was necessary to lay the foundation for future improvement efforts. In fact, we believe such consultation is the "first step" necessary to improve BIA's trust fund operations. Tribal representatives have insisted that they be included in the strategic plan development process and are preparing a concept paper for consideration in that process. We actively have sought their involvement and agreed in a Memorandum of Understanding with the Association to take their concept paper into consideration in preparing the strategic plan. Copies of that agreement have been furnished to all interested parties. GAO representatives know that the Association's concept paper on the future of trust funds, a key to the strategic planning effort, has not yet been completed. We also would remind you that BIA produced an initial draft of a plan which dealt with both long and short term strategies in July 1991, and GAO representatives argued that BIA should take additional time to assure Tribal input and a comprehensive strategic approach. The consultative process has been valuable to date because this effort led BIA and the Association to conclude that improvements extending beyond trust funds accounting and investment issues were necessary to a comprehensive fix.

The Association is nearing completion of its concept paper and we have made progress in identifying resources to assist in preparation of the strategic plan. Based on these factors, we anticipate that the strategic plan can be prepared in appropriate consultation with the Association and completed by early summer. We certainly agree that the strategic plan is needed.

Finally, we agree that Trust Funds Management is inadequately addressed in BIA's plan for implementation of the Chief Financial Officers Act of 1990. We will remedy that problem and resubmit the plan for Departmental approval.

Sincerely,

Eddie L. Brown
Assistant Secretary - Indian Affairs

The following are GAO's comments on the Assistant Secretary for Indian Affairs' letter dated March 30, 1992.

GAO Comments

1. As our report points out, we identified various factors that would hinder a full reconciliation of trust fund accounts in addition to the volume of data that must be reviewed. These include missing records, commingled tribal and individual Indian accounting records, poorly documented accounting transactions, and unreliable revenue distributions of oil and gas royalties. All of these factors increase both the complexity and, ultimately, the cost of this project.

2. While BIA has taken some actions to improve trust fund operations, it has yet to address fundamental systems and control weaknesses that will ensure accurate trust fund accounting. We have modified our report language to indicate that new discrepancies could arise unless long-standing problems with BIA's trust fund accounting systems are corrected. With regard to staffing, as of March 19, 1992, BIA had yet to fill 14 of 51 additional trust fund management positions approved by the Congress 2 years ago. Also, although BIA has provided reconciliation training during the past year, BIA staff are not yet performing account reconciliations on a regular basis. While it is true that BIA's contractor identified few problems involving fiscal year 1990 transactions, the contractor's reconciliations were limited to tribal accounts and did not include Individual Indian Money accounts because of numerous problems which prevented their reconciliation. These problems are discussed in our report.

3. Various audit reports and studies have identified problems with the reliability of Minerals Management Service data. As stated in our recommendation, BIA should consider trust fund related activities outside its control in developing its strategic plan. The MMS oil and gas royalty payments to the trust funds is one of these activities.

4. We disagree. Our report accurately describes BIA's planning efforts through the close of our review in March 1992. BIA did not begin working with the Association on the strategic plan until requested to do so by Chairman Synar during the May 20, 1991, hearing. Subsequently, the House Committee on Appropriations June 19, 1991, report on the Department of the Interior and Related Agencies 1992 Appropriations Bill stipulated that BIA work with the Association in completing a strategic plan. In addition, the Appropriations Committees in their Conference Report on

the Department of the Interior and Related Agencies fiscal year 1992 appropriations also required BIA to work with the Intertribal Monitoring Association in completing a strategic plan. Finally, BIA's July 1991 draft plan did not address long-term solutions but rather stated that long-term strategies would be provided in the future.

Major Contributors to This Report

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