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**DEPARTMENT OF THE INTERIOR AND RELATED  
AGENCIES APPROPRIATIONS FOR 1994**

**HEARINGS**

BEFORE A  
SUBCOMMITTEE OF THE  
COMMITTEE ON APPROPRIATIONS  
HOUSE OF REPRESENTATIVES  
ONE HUNDRED THIRD CONGRESS  
FIRST SESSION

SUBCOMMITTEE ON THE DEPARTMENT OF THE INTERIOR AND  
RELATED AGENCIES

SIDNEY R. YATES, Illinois, *Chairman*

JOHN P. MURTHA, Pennsylvania  
NORMAN D. DICKS, Washington  
TOM BEVILL, Alabama  
DAVID E. SKAGGS, Colorado  
RONALD D. COLEMAN, Texas

RALPH REGULA, Ohio  
JOSEPH M. McDADE, Pennsylvania  
JIM KOLBE, Arizona  
RON PACKARD, California

D. NEAL SIGMON, KATHLEEN R. JOHNSON, ROBERT S. KRIPOWICZ, and LORETTA BRAUMONT,  
*Staff Assistants*

**PART 8**

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**QUESTION 17:** What assurances can you provide the Committee that these subdivisions won't suffer from the same delays and uncertainties which plague the Tuba City subdivision?

**ANSWER:** The Office can provide no assurances that such subdivisions won't suffer from the same delays and uncertainties which we encountered with the Tuba City subdivision. The payment of some portion of matching funds to provide subdivision homesites for non-relocatees is the only inducement which the Office has to persuade chapters to accept relocatees into their communities. While we have been able to accomplish this process through this inducement, it is not without continuing opposition from certain members of chapters in which subdivisions are proposed. Added to this are the normal problems of accomplishing approval through the standard tribal process which involves first obtaining a majority of votes within the chapter on a resolution to establish a subdivision and then continuing this process up through the intricate and time-consuming tribal procedures for archaeological clearance, land withdrawal, endangered species, etc. This is cumbersome process which is compounded by the natural opposition which occurs within chapters to certain subdivision developments and unfortunately the Office has no power over many of the elements involved in accomplishing all of the necessary planning and clearance work for subdivisions. That having been said, the Office still feels it is extremely worthwhile to go through this process in order to provide opportunities for our relocatees to locate within various chapters and be provided the amenities which accompany subdivision development.

**QUESTION 18:** What locations are you considering for subdivisions?

**ANSWER:** In addition to the Tuba City subdivision, the Office has already accomplished a project in the LeChee Chapter and we are currently working on subdivisions in Tonalea Chapter, Kayenta, Pinon and Winslow.

**QUESTION 19:** What are the pros and cons of these locations?

**ANSWER:** Basically, all of these locations share the same pros and cons. The pros are that we have relocatees interested in moving to the areas and the subdivision approach provides a more ready acceptance among the existing residents and a more economical approach to the provision of infrastructure. The cons are those addressed in Number 17 above, in that while we will not approach the development of subdivision unless there is sufficient interest among our relocatees, there is nothing that we can do to prevent the difficulties involved with completing such a subdivision.

Q2/3

TUESDAY, APRIL 20, 1993.

**BUREAU OF INDIAN AFFAIRS**

**WITNESSES**

**DEPARTMENT OF THE INTERIOR**

**EDDIE F. BROWN, ASSISTANT SECRETARY—INDIAN AFFAIRS**  
**THOMAS THOMPSON, ACTING DEPUTY ASSISTANT SECRETARY—INDIAN AFFAIRS**  
**OSCAR MUELLER, ACTING DIRECTOR, OFFICE OF CONSTRUCTION MANAGEMENT**  
**WILLIAM LAVELLE, DIRECTOR, OFFICE OF SELF-GOVERNANCE**  
**ROBERT LAMB, DIRECTOR, OFFICE OF BUDGET**

**BUREAU OF INDIAN AFFAIRS**

**STANLEY SPEAKS, ACTING DEPUTY COMMISSIONER OF INDIAN AFFAIRS**  
**JOHN TIPPECONNIC, DIRECTOR, OFFICE OF INDIAN EDUCATION PROGRAMS**  
**CAROL BACON, DIRECTOR, OFFICE OF TRIBAL SERVICES**  
**JAMES CAIN, DIRECTOR, OFFICE OF MANAGEMENT AND ADMINISTRATION**  
**JERRY FOLSOM, ACTING DIRECTOR, OFFICE OF ECONOMIC DEVELOPMENT**  
**PATRICK HAYES, DIRECTOR, OFFICE OF TRUST RESPONSIBILITIES**  
**JAMES PARRIS, DIRECTOR, OFFICE OF TRUST FUNDS MANAGEMENT**  
**LINDA RICHARDSON, ASSISTANT DIRECTOR OF MANAGEMENT AND ADMINISTRATION**  
**GARY CECCUCCI, CHIEF, DIVISION OF PROGRAM DEVELOPMENT AND IMPLEMENTATION**  
**TED QUASULA, CHIEF, DIVISION OF LAW ENFORCEMENT**  
**JERRY JAEGER, AREA DIRECTOR, ABERDEEN**  
**SIDNEY MILLS, AREA DIRECTOR, ALBUQUERQUE**  
**RICHARD WHITESELL, AREA DIRECTOR, BILLINGS**  
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**WALTER MILLS, AREA DIRECTOR, PHOENIX**  
**GEORGE GOVER, ACTING AREA DIRECTOR, PORTLAND**  
**RONALD JAEGER, AREA DIRECTOR, SACRAMENTO**

Mr. DICKS. When can we expect that?

Mr. SPEAKS. It's at the—it's within the Administration program now. I would think if everything goes well, we probably could have it within the next 30 to 60 days.

Mr. DICKS. And you agree it ought to be done, right?

Mr. SPEAKS. Yes.

Mr. DICKS. Were staff detailed from OTFM to staff the special projects team (SPT)?

Mr. SPEAKS. There were some staff that were detailed, yes, to provide assistance early on, to get the program underway.

#### VIEWES OF THE INTER-TRIBAL MONITORING ASSOCIATION

Mr. DICKS. Was the Inter-Tribal Monitoring Association consulted regarding establishing the SPT, and did they agree with this proposal?

Mr. SPEAKS. Yes, they were involved.

Mr. DICKS. Did they agree?

Mr. SPEAKS. My understanding is they did agree.

Mr. DICKS. Now, they testified, "The ITMA was not consulted when this office was created, and we are concerned since the staff lacks the technical capability to properly oversee Arthur Andersen's activities. Since Arthur Andersen's contract is a time and materials contract, a lack of qualified BIA oversight can cost the Government thousands of dollars. We request that the Committee ask the BIA for a legitimate staffing plan and for an explanation as to why these functions were taken out of OTFM and put into a separate office." And that was testimony presented by the Inter-Tribal Monitoring Association of Indian Trust Funds.

Mr. SPEAKS. The Inter-Tribal Monitoring Association, to my understanding, was involved with the initial planning for this particular office. Now whether they agreed with staff being detailed from the Office of Trust Funds Management, I'm not certain of that.

Mr. DICKS. So Arthur Andersen is the one that does the reconciliation on tribal accounts?

Mr. SPEAKS. Arthur Andersen is the one that we have a contract with, yes.

Mr. DICKS. Do they do the work?

Mr. SPEAKS. Yes, they do the work.

Mr. DICKS. And the responsibility for the Office of Special Projects and the OTFM is to oversee that?

Mr. SPEAKS. Oversee that, plus being able to pull together the records from the areas and the agencies, and make that available, the accounts to the—

Mr. DICKS. To Arthur Andersen?

Mr. SPEAKS [continuing]. Contractor, yes.

Mr. DICKS. Here's another letter from the Inter-Tribal Monitoring Association on Indian Trust Funds. It says that, it's talking about institutionalizing OTFM management outside OTFM. "The plan as written also institutionalizes an eleventh hour decision by the outgoing Administration to divest OTFM of much of the authority and responsibility for trust funds administration and management. The memorandum of agreement—" let's stop it there.

Is that true? Are we divesting OTFM of much of the authority and responsibility for trust fund administration and management?

Mr. SPEAKS. Let me refer that to the Deputy Assistant Secretary, since he was involved early on in that planning. It's Mr. Tom Thompson.

Mr. DICKS. Mr. Thompson.

Mr. THOMPSON. Let me see if I got the question correct here.

Mr. DICKS. It says here basically, the plan as written also institutionalized an eleventh hour decision by the outgoing Administration to divest OTFM of much of the authority and responsibility for trust fund administration and management. Now, is that true or not true?

Mr. THOMPSON. I don't agree with that statement.

Mr. DICKS. That's why we want you up here. Tell us what you think.

Mr. THOMPSON. The Office of Trust Funds Management is responsible for the daily accounting and investment of trust funds. The reconciliation project is a special project that had been placed within an office. They would have had trouble staffing up and the decision was made to put extra people in the Albuquerque—

Mr. DICKS. OTFM had had problems staffing up? So you wanted to bring in some special people to do what?

Mr. THOMPSON. To run the reconciliation project.

Mr. DICKS. Is that to decide how they would have spent trust funds, or how they have been utilized or how they have been invested?

Mr. THOMPSON. It's a backwards look at how the trust funds have been managed and accounted for by the Office of Trust Funds Management, conducted by Arthur Andersen.

Mr. DICKS. I guess the issue is, the people are questioning is, whether you should have beefed up OTFM or should you have created this new special organization? What's your answer to that?

Mr. THOMPSON. I think the right decision was made to bring outside people in that weren't accessible to the Office of Trust Funds Management to run the project, both temporary and special project people, to assign another senior manager to Albuquerque—

Mr. DICKS. Then why does it take people out of OTFM to staff it, then?

Mr. THOMPSON. Certain other people in OTFM were handling the records, preparing them for Arthur Andersen's work. Those are the people that moved across to assist the special projects team.

#### TRUST FUND INVESTMENTS: SUCCESS AND PROBLEMS

Mr. DICKS. What's been the record on investment made by the Office of Trust Fund Management? How would you characterize the success of the investments that were made?

Mr. THOMPSON. If you want to compare it against public institutions, they have done very well, investing in the limited areas that they can handle, which are Government-insured securities and certificates of deposit. There have been problems, but on the whole—

Mr. DICKS. Let's talk about the problems. Tell me about the problems.

Mr. THOMPSON. There have been losses that have been identified, there have been allegations of problems, the reconciliation project—

Mr. DICKS. What kinds of problems?

Mr. THOMPSON. That funds have been transferred to the wrong parties, to the wrong Indian tribes, that—

Mr. DICKS. How could that happen?

Mr. THOMPSON. How could that happen? They deal with 2,000 tribal accounts. There are something like 400,000 transactions a year. The accounting systems that they are working on are terribly antiquated, highly manual.

Mr. DICKS. Highly what?

Mr. THOMPSON. Highly manual. It takes a lot of manual intervention to make them work and to reconcile them.

The staff also three years ago was 21 people. Now, they just didn't have the resources, the systems or the procedures to do the job. The effort in the last two years has been to increase the staffing, to try and set procedures in place, and bring in outside help, such as Arthur Andersen, to get the system and the program back on track.

Mr. DICKS. How would you characterize where we are at this juncture?

Mr. THOMPSON. Good progress has been made in the last couple of years. The first year of the reconciliation went off as planned, that is, it was kind of a research and development, to figure out just how bad things were. Over the last year, there has been intensive consultation with the Indian tribes, with the Office of Management and Budget, with Congressional staff to seek a new approach for reconciliation. That's being put in place right now.

I think the major effort has been to work with the Indian community and bring them back into the process, like the Inter-Tribal Monitoring Association. As you can tell, it hasn't always been a smooth ride, but we still are working together.

#### REASONS FOR ITMA'S OPPOSITION

Mr. DICKS. Why would they be opposed? It seems to me that they would be in favor, Dr. Brown, of bringing in—if the system is as bad as it has been portrayed here, why would they be opposed to bringing in additional people? Or is it just the setting up of a separate operation that they are opposed to? Or can you help enlighten—

Mr. BROWN. I think it expands beyond that. And some of that has to do with our own spreading of rumors internally as well. And that is the whole fear that somehow the Bureau of Indian Affairs will be stripped of some of its responsibility and it will be turned over to a "non-Indian," or someone not related or understanding the trust of that, and that there is a real concern that somehow we would circumvent the Indian preference or that we would circumvent the strong Indian relationship that we currently have with tribes, and that tribes would eventually lose control of the situation.

So there has always been this inherent fear, as we've gone into not only the trust funds but our financial management system,

that concern has been there when we've called on people outside of the Bureau to come in to assist us. There has always been concern, "Well, what does this mean? Does that mean the Bureau is not going to be in charge of it anymore? What implications will that have?" And then rumors run rampant, both internally within the Bureau and also with the tribal government, so that we've always had to defend the position. I think the position is sound, and we need to continue to call upon additional resources, but also send a very clear message that it is understood what the trust responsibility is with Indian tribes and that we intend to carry that out.

Mr. DICKS. Now, again, from the Inter-Tribal Monitoring Association, in a letter to this Committee, it says "For more than two years, we have tried with every means at our disposal to cooperate with the previous Administration in improving the capabilities of OTFM. The Washington level has stymied every effort to enhance the capabilities of that office.

In the meantime, the Washington level has dispatched representatives of the Minerals Management Service, the BIA Finance Office, the American Management System, who was disbarred by EPA, USGS, and maybe others we are not aware of, to perform services for OTFM with absolutely no indication that these people understand either the functions or the duties, much less the future plans, of Indian trust fund administration."

What do you think of that?

Mr. BROWN. Let me respond to that generally. Because one of the things we've tried to do is to work with the Monitoring Association as directed by Congress. The Monitoring Association, I should point out, does not represent all of the tribes of the trust funds. They are staff employees, tribal staff, that have had the approval of their tribes to go and present their tribe's views. We have tried, on every occasion, to work hand in hand with the Monitoring Association.

Some of the accusations that are being made here, I will tell you that every time we have a Reorganization Task Force, we have a report from the Monitoring Association to us to ensure that we're trying to work together. I am not familiar with the reference that you are making here. But those accusations have not, to my knowledge, been brought up to the Reorganization Task Force so that we could address them openly and on the table. So some of the stuff that you are reading here I have not heard.

Mr. DICKS. Well, I don't think there is any problem with sharing this, we've quoted extensively from this letter from David C. Harrison on behalf of the Inter-Tribal Monitoring Association.

Mr. BROWN. Let me say for the record, if those are the issues, I would be happy to ensure that we have those on the agenda, not only for the Bureau, but for the Reorganization Task Force to look at as well and address. Because I do think if those are legitimate concerns, they need to be put on the table so that everyone can address them.

Mr. DICKS. I understand the difficulty, but the bottom line is, I still support your efforts personally to try and bring whatever resources to bear on trust responsibility. It seems to me we've got to somehow make sure these monies are invested properly and that we have appropriate oversight and that we can reconcile the ac-

counts and know where we stand. To do anything other than that I think would be irresponsible. But I think you have a problem with the people you're working with, here. So I encourage you to do just what you have suggested, put that on the agenda and see if you can't alleviate some of the concerns:

Mr. BROWN. Let me say that, under the direction of Secretary Babbitt and the transition team that he's working with, they are looking at that very closely. He has made certain commitments to Congress in delivering certain plans. So they are under review right now by his staff, his central staff, and hopefully will be coming out with some direction and some more communication with Congress on this.

#### DOCUMENT IMAGING PROJECT

Mr. DICKS. Let me ask you, what is involved in the strategic projects for document imaging equipment?

Mr. THOMPSON. The state of records in the BIA is probably generally known to be something less than adequate.

Mr. DICKS. It's terrible, I'm sure.

Mr. THOMPSON. Yes. There is an effort underway in the trust area to capture the records as they are reviewed individually by the contractors and staff, and reduce them to electronic imagery. That takes hardware and software. We don't want to get into the situation again where we can't find records relating to the trust responsibility and the investment and accounting of Indian funds. We are reducing those to electronic media, laser disks and otherwise, so they can be saved and recovered quickly.

#### CANCELLATION OF TREASURY CHECKS

Mr. DICKS. Explain how the \$100,000 included for resolution of the mass cancellation of U.S. Treasury checks will be used, and how did this happen?

Mr. THOMPSON. In a bill passed several years ago, the Treasury Department took action to cancel outstanding checks issued for the BIA to individual Indians. These were checks that had been not cashed or redeemed for a period of over a year. In doing so, they actually took funds from the Office of Trust Funds Management that belonged to individual Indians, and put it into the Treasury, making it not available for the BIA and individual Indians.

There is an effort underway to determine what the extent of that is. The last accounting that I heard is they have discovered about \$2 million in funds cancelled by Treasury, money that is owed and due to individual Indians. And we are in the process of trying to locate those individual Indians. The money you are talking about there is money that a contractor will use to assist us in that effort.

Mr. DICKS. Why do we always have to use contractors? What are all these people we've got down at the BIA doing? Why can't they do some of this work? Why do we always have to hire somebody else to straighten out the messes inside the agency?

Mr. THOMPSON. The only response I can give you to that, sir, is day to day business is pretty consuming in the agency. When you get a special project of this magnitude, and this is major, it's not uncommon to go outside and ask for assistance, in the form of

either temporary employees or contractors. In this case, management's decision was to approach a contractor to get some assistance. And that is not the major part of the effort in this exercise. I believe there is quite a bit of effort on the part of the staff.

Mr. DICKS. Have you considered whether the effort to resolve each check individually should be continued, or whether some sort of settlement authorization might be more practical?

Mr. THOMPSON. That discussion is going on. We will know more as we get a little closer to finding how many of the individual Indians we can identify.

Mr. DICKS. How many have you identified so far?

Mr. THOMPSON. Jim, how many individual Indians have been identified in the mass cancellation exercise?

Mr. PARRIS. We've identified for individual Indians, roughly 10,000 checks, and for tribal, about 200.

Mr. DICKS. Have you done that, or is it the outside contractor that's done that?

Mr. PARRIS. We've worked together with them. We've had—

Mr. DICKS. Hold up a second. You have to stand up and identify yourself so we can get this.

Mr. PARRIS. My name's Jim Parris, I'm the Director of the Office of Trust Funds Management in Albuquerque, New Mexico.

We have two to three staff from our office in Albuquerque working together with the contractor to get this work done because of the volume. There are about 61,000 checks, with about \$1.9 million for the individual Indian monies, and close to 200 checks for tribal involvement, about \$67,000 that we're working on identifying right now.

Mr. DICKS. What's your name again?

Mr. PARRIS. I'm Jim Parris.

Mr. DICKS. How long have you been out there?

Mr. PARRIS. I've been in Albuquerque for eight years. I've been Director of the office for two years.

Mr. DICKS. Well, can you explain what happened?

Mr. PARRIS. The mass cancellation?

#### REASONS FOR OTFM'S INEFFECTIVENESS

Mr. DICKS. What happened to the ability of the Albuquerque office to handle this responsibility? Why was the job not done properly, in your judgment? Just incompetence?

Mr. PARRIS. I believe that there were just too few people dedicated, that the Bureau was never staffed to do it right. When you have people that are not dedicated to records management or to enter a lot of time functions, auditing, reviewing the field operation, when you don't have properly trained people and systems, there is no way you're going to be able to keep up the volume that we have.

We have \$2.2 billion in investments that we roll over, about \$95 million worth of transaction activity in investments alone each year for tribal accounts alone. It's a tremendous responsibility, and then coordinating with each of the area offices and trying to oversee the volume of transaction activity that we have, which we have about 3 million transactions a year on individual Indian monies alone. And

it's just an overwhelming job. We have 8 people in accounting, roughly 10 people in investments, and now we've grown to where we have 46 people. And it is everything we can do to try to deal with all the issues.

Mr. DICKS. So you agree with the Inter-Tribal Monitoring Association, right, that there wasn't proper staffing, and the Albuquerque office has not been supporting, in order to do the job?

Mr. PARRIS. There has never been proper staffing, no.

Mr. DICKS. Why is that, Dr. Brown?

Mr. BROWN. One is that—

Mr. DICKS. When we're talking about money of this magnitude, it's hard to believe with the trust responsibility that we have, that we wouldn't have proper staffing.

Mr. BROWN. Well, one of the things, you look at the trust fund. This just didn't happen last year or two years ago. This has a long history of not being able to face up with internal management and the responsibilities of the Bureau to carry out its trust responsibility. So while everybody brought up the issue and brought up the issue and brought up the issue, there has never been an attempt to say "Okay, how are we going to staff up, what are we going to do realistically to get people trained—"

Mr. DICKS. Isn't that your responsibility?

Mr. BROWN. It certainly is, and that's why you'll see that we have over the course of the years begun to staff up the office. That's why you'll see additional dollars in the budget for stronger management capabilities of the Bureau. And I think that is one area that we are still going to have to push ahead.

Let me also say, that the question still has not been answered, should the Bureau of Indian Affairs be in this business of investment and trust funds? That is currently being looked at, there has been a debate. As you know, a number of years ago, it was decided to contract with a private contractor. We went through that process, got halfway there, when I was aboard, we turned it around, brought it back, took a look at the Bureau.

We're now looking at a strategic long-range plan of what's the best way to do that, and can we use other Federal agencies or outside contractors to assist in this massive situation, or is this something the Bureau can handle all by itself. And I think that's the debate and the discussion—

Mr. DICKS. What's your—based on your tenure, now, you've been there quite a while. What do you think?

Mr. BROWN. Well, I think one or two things. If we're going to say that the Bureau's going to run it, then we're going to have to draw a fine line and say okay, if the Bureau's going to run it, then let's continue to put in the kinds of dollars and training and staffing to actually run that. If in fact, however, some of the other tribes have brought out some very realistic thoughts, this is trust fund money, this is their money, this isn't money that the Government handed out to them, this is money they got in land settlements or land claims, etc., that they should have some more involvement into the investing and development of those trust funds.

So any type of long-range strategic plan I think we begin to develop has got to provide an option of how the Bureau's going to

work, how the tribes want to come in and work that. We've got to stay a little loose and a little flexible here, as we move ahead.

Mr. DICKS. So you think the other option would be to, in essence, contract it out again and hire somebody to manage these accounts?

Mr. BROWN. That's certainly—

Mr. DICKS. A professional? Someone who does that as their career?

Mr. BROWN. Yes.

Mr. DICKS. I would assume that people you hire out there are professionals in investment, is that not true?

Mr. BROWN. In the past, well, yes, that is true. However, the kinds of accountants and trained staff we had was not at the level, nor with the training, as Mr. Parris has indicated, that we should have had. I will say that there are probably a number of options. What has to take place, in my mind, in the short future, is some strong cooperation and work with tribal governments and with Congress and with OMB and the Bureau of Indian Affairs. And that's what I'm delighted to see for the first time—

#### OTFM'S REORGANIZATION PLAN

Mr. DICKS. How long is it going to take, though, before we have a plan and have this thing under control?

Mr. BROWN. We have a plan currently in draft that has been shared with members here at the Hill, and has been shared with the new Administration. The new Administration is currently reviewing that plan, and will be making some additions and putting their spin on it, which I think will be very important.

Mr. DICKS. Can you summarize it? Can you give us a brief description of what's in the plan? What's the strategy? Are we going to do it inside, or are we going to go outside?

Mr. BROWN. What the plan does, it leaves it open to begin to look at options.

Mr. DICKS. So we're going to have a study?

Mr. BROWN. Well, no. It could lead to some studies. See, that was the problem before. We immediately said, if we went out and contracted with some bank, they could solve all the problems. We started that without any kind of study or understanding of what the depth of this was, and when we got into that contract, which was before my time, we found that it just created problems and blew up in our face, and questions about the kind of money or whether or not that banking institution could actually carry out those kinds of responsibilities. So I think what we're trying to put out in the plan is that whatever has to be done is going to have to require some forethought and discussion and coordination if it's going to be successful.

Mr. DICKS. Mr. Parris, what are we doing now, today? What's happening in Albuquerque? You're here.

Mr. PARRIS. We have current operations handling all the business.

#### NUMBER OF TRUST FUND ACCOUNTS

Mr. DICKS. How many accounts, how many trust funds are there, separately?

Mr. PARRIS. There are five separate trust fund groups. There are the tribal trust funds, which have about 2,000 tribal accounts for 254 tribes, roughly. And we have about \$1.7 billion there. We have individual Indian monies that consist of 300,000 accounts roughly, totalling about \$450 million. And we have—

Mr. DICKS. From \$450 million—

Mr. PARRIS. About \$450 million invested for about 300,000 accounts nationwide.

Mr. DICKS. Those are individual accounts?

Mr. PARRIS. That's correct, individual Indians.

Mr. DICKS. Explain again why we have that responsibility? Is this under various settlements and agreements?

Mr. PARRIS. Individuals own certain trust income dollars. And we collect those monies from the trust funds and hold them in trust or distribute them to the individual Indians, depending on whether they require supervision or whether they are unrestricted.

Mr. DICKS. If the decision was yours, what would you do? How would you correct the problem? You're the guy that's been out there in the field.

Mr. PARRIS. We've got to take advantage of system technology that's available in the private sector today. The trust systems that are available on the market out there I believe are honestly able to the job for us. We have not had adequate systems, adequately trained staff, adequately staffed officers in the field. Any of these area directors can get up and tell you that. We have been understaffed, undertrained, and the systems technology that we're using is 20 years old. There isn't anybody on earth that could operate under those conditions and do a good job. There is no way that—

Mr. DICKS. You think it should be contracted out? Do you think it's just too big for the BIA, on the basis that probably, you're always going to have the political problems of not enough money, we've got a huge deficit. Should we contract this out to somebody else?

Mr. PARRIS. I believe that we should contract out a good portion of what we're doing involved with the investment management. With the local trust services involved with areas and agencies in the field, I think we ought to do whatever we can to establish a relationship with the trust professionals in the area, in local banks or trust departments that are available, that we can network in some way to provide the services to the Indian people. We cannot expect our people, coming from ground zero as we are, without systems, without training, without any availability of experience in the professional trust business, to be able to carry the ball and just start doing it the way it ought to be done.

We have a long way to go to convert our people over to take on that skill. We must, I believe, go outside and get the help that we need, and that the Government should provide the oversight and the policy guidance and it ought to be there and work in coordination with the areas and the local offices at the agency level to provide service to individuals and tribes. We've got to provide them access to investment professionals and to systems that are adequate to—

Mr. DICKS. You're really talking about kind of spinning off these accounts and giving the responsibility—I mean, can we do that under the trust responsibility? Can the Government—

Mr. PARRIS. Well, the attorneys seemed to think so, under the Security National Bank contract.

#### STATUS OF TRUST FUND PILOT PROJECT

Mr. DICKS. There was a letter sent out by David Matheson, former Deputy Commissioner of Indian Affairs, it says "I am happy to report to you," this was to tribal leaders, "that the Bureau of Indian Affairs has developed a set of draft policies and procedures that will accomplish the BIA trust responsibility requirements, tribally directed investments of trust funds, and local or regional banks.

These draft policies will set up a pilot project to run for three years to determine if the project is beneficial, and what the workload requirements would be on the Office of Trust Fund Management. The pilot project would be evaluated on a yearly basis, and a determination to expand would be made each year. At the end of the three-year period, if the pilot project is not beneficial, it would be terminated. These draft policies and procedures are enclosed with this letter."

What's the status of that? This was January 11, 1993.

Mr. THOMPSON. Mr. Chairman, some 30 or 40 tribes responded to that piece of correspondence. About 19 of them indicated interest in participating in the pilot. The pilot would allow them to take certain of their trust monies, bring it to the local area where they reside, close to the reservation, as a means to provide them leverage for economic development. This was an initiative we worked jointly with the Inter-Tribal Monitoring Association, and those draft policies and procedures are being finalized and reviewed. We expect to move forward with that pilot in the next few months.

#### RECONCILIATION OF TREASURY CHECKS

Mr. DICKS. Let me ask you, going back to the missing checks issue, the GAO says that the contractor is having problems identifying payees due to commingled appropriated funds and tribal trust fund records, inability to obtain all necessary records, and BIA and Treasury accounting records do not agree due to differences and procedures, missing data and errors.

To complete this work, the contractor estimates it would take four staff up to two years. After two years work, there is no guarantee that all payees will have been identified. The project director suggested establishing a fund for paying claims because he does not believe it would be cost-effective for them to complete this work.

What about that approach?

Mr. PARRIS. Mr. Chairman, the project is dealing, as I said, with about 61,000 checks that we have identified for individual Indians. And we have identified roughly 10,000 of those to date. And the balances are mainly small dollar, there are a few large dollar amounts that we're tracking to the original source. The documents are going to take a few weeks to identify, but we don't think it's going to take a great deal of time. But the big bulk of the checks

that are remaining to be identified are less than \$10, definitely, I think roughly 80 percent of the money is tied up in checks that are less than \$100.

I do think that at some point it becomes reasonable to consider setting up this escrow account to be able to be drawn upon as checks can be identified, as staffing and funding permit to be dedicated to this kind of work. Because it is a very expensive process, trying to go back and trace through all the original source documents for these checks.

#### STATUS OF TRUST ACCOUNT RECONCILIATION

Mr. DICKS. Okay.

In your budget request, you've requested \$3.1 million to support reconciliation and certification of tribal trust accounts. What is the current status of the tribal account reconciliation process?

Mr. THOMPSON. I can address a portion of that question. The contractor, Arthur Andersen, is in the process of doing the reconciliation of the automated accounts that BIA has available to it. That's the period for trust funds from 1983 to 1991. They report they were about 50 percent complete with that reconciliation. They are in document search and research to find the rest of those documents.

The balance of the reconciliation project deals with the period 1972 to 1982 and those are manual records, which we plan to automate, data entry, and then we will process them through a similar process to analyze those for discrepancies and problems and what not.

Mr. DICKS. What if there are discrepancies? What happens?

Mr. THOMPSON. Those have to be analyzed by the contractor and by Mr. Parris' staff to reconcile those. In the first two years, they have had some pretty good success in resolving those discrepancies. They find double entries, missing entries, things like this. We're not quite sure what we're going to find as we go back farther and farther in the records. It's problematic.

Mr. DICKS. What if there were shortfalls? Would Congress then have to appropriate the money?

Mr. THOMPSON. We have before you a proposal to establish a fund to provide for reimbursing Indian account owners for losses. We are requesting \$3 million in fiscal year 1994 to establish that fund.

Mr. DICKS. Do you have any idea what the total magnitude of this might be?

Mr. THOMPSON. No, we do not, sir.

Mr. DICKS. Any good guesses?

Mr. THOMPSON. No good guesses.

Mr. DICKS. Any bad guesses?

Mr. THOMPSON. I'm going to let Jim take the first whack at it. [Laughter.]

Mr. PARRIS. No, Tom, you're doing fine.

There's no one that can estimate what we're going to find. It's really hard enough to try to imagine how they're going to be able to gather all the documentation necessary to go back in time immemorial to try to reconstruct what really ought to be there.

#### RATE OF RETURN ON TRUST INVESTMENTS

Mr. DICKS. Well, I mean, you are under legislative restrictions about how this money is invested. But overall you think that the tribes have received a fairly decent return on the investment in the trust account?

Mr. PARRIS. I think there have been failures in the past. I won't say that we haven't made mistakes in our operation in investing these monies. We have had monies that have lain idle in overnight investment securities when they could have been placed in active Government securities and earning a better rate of return.

Mr. DICKS. Are you going into that in this review, too? Are you getting into those kinds of issues?

Mr. PARRIS. They are analyzing the interest rates and earnings, the yields.

Mr. DICKS. What's been your average, say, over the last five years?

Mr. PARRIS. Well, it's come down considerably, obviously. We've probably fallen from somewhere around 10 percent five years ago steadily down to where last year we were between 8 and 9 percent, and now we're averaging between 3 and 7 percent.

Mr. DICKS. That reflects the marketplace?

Mr. PARRIS. You bet. We're literally tied to the interest rates on Government securities and Treasury securities.

Mr. DICKS. That's a very secure investment.

Mr. PARRIS. Very secure.

#### TRIBES ROLE IN INVESTMENT PLANNING

Mr. DICKS. Any problems in that part of the operation? I understand maybe you have trouble with records and accounting and transactions and keeping it all straight. But the investment side of it?

Mr. PARRIS. We get the money invested. The problem is communication with tribes. We want more aggressive communication with tribes and are working with them to get a better relationship with more tribes. There are only about 60 tribes that are actively involved with their investment activity. The rest don't have anybody that understands enough about the investment market to give us any instructions, or they leave it up to us.

Mr. DICKS. Is it up to them, or are you given the responsibility to manage it for them?

Mr. PARRIS. We do communicate with them in trying to meet their investment goals and their long-term cash flow needs. In other words, we have to rely on them to work with us in developing a financial plan that will meet and make sure the securities come due when they need the money and so on.

Mr. DICKS. What happens if they don't have a dialogue with you? Do you just send them a check at the end of the year and hope for the best?

Mr. PARRIS. Well, the interest that is earned will just be put into their account. We will just do the best we can to invest it.

Mr. DICKS. But they get some payment out of these accounts, don't they?

Mr. PARRIS. Oh, yes.

Mr. DICKS. Under the terms of the trust.

Mr. PARRIS. Whatever interest is earned, we will actively invest their money. It's just that we would rather work more actively and closer with them.

#### MANAGEMENT OF IIM ACCOUNTS

Mr. DICKS. What about the 300,000 individuals? This seems to me to be an impossible—

Mr. PARRIS. Well, it's a pooled account.

Mr. DICKS. Oh, it is a pooled account?

Mr. PARRIS. Yes, it is a pooled account. It's one investment fund to us that consists of monies for 300,000 individuals, like a mutual fund.

Mr. DICKS. How is that done?

Mr. PARRIS. We have the investments diversified, in Government securities and treasuries and CDs. In recent years, we have flipped from where the market was 5 or 10 years ago, when we had 75 percent of our investments tied up in certificates of deposit. Today we have roughly 30 percent tied up in certificates of deposit, and the rest in Government securities. It's a better return than we were able to get on it, just because of the sheer volume, and we can invest that one pool. We can handle it much more, with bigger blocks of money.

Mr. DICKS. Can the Government—do we take all the administrative costs or are they, in a regular mutual fund, you just pay a fee of some sort. Is there a fee paid to the Government?

Mr. PARRIS. No, there isn't.

Mr. DICKS. Should there be, in order to staff this thing properly, should there be?

Mr. PARRIS. I don't think there should be until we are able to give them the quality of service that deserves payment. In other words, we're trying our best to keep up with the volume and mandates that we have with the inadequate systems that we have. We can't properly account for the money. It doesn't properly amortize. Premiums and discounts can't keep up with the collateralized mortgage obligation (CMO) activity, properly accounting for that and so on. And we have weaknesses in the current systems that must be addressed before we can honestly say that we've got a product that we can charge for, I think.

Mr. DICKS. But what our argument would be, that if you have some small percentage fee, would you then have the money to hire appropriate administrative staff? If I were a tribe, I might agree eagerly to some administrative fee. They get indirect costs, the Government, in this case, to do a quality job. With these current budget problems we've got, maybe that's one way to do it. Has that ever been considered, or has that just never been thought about?

Mr. BROWN. No, that has been looked at, and been discussed. I think one of the things that Jim raised, it's good if you're going to charge for a service. But that service had better be worth it.

Mr. DICKS. Well, that's what I'm saying. If you have the money, then I assume, if you have the resources you can solve the problem. I think it's just a lack of resources and the lack of attention, possibly, that sounds to me are the root causes of this problem.

Mr. BROWN. I clearly think, if we agree on this comprehensive strategic plan and get some things specifically laid out, I think that administrative fees would be perhaps among the next steps. But I think that we're still a little premature on charging fees. But that's definitely the direction that we would be headed in.

#### RECONCILIATION OF TRUST FUND ACCOUNTS

Mr. DICKS. Okay. Let's go back to reconciliation. What's been spent in 1993, and how much do you plan to spend in 1994? Anybody know?

Mr. THOMPSON. If you'll let me round to the hundred thousands, I think I can handle that, sir.

Mr. DICKS. Yes.

Mr. THOMPSON. In 1993, we will spend I believe \$3.3 million on the reconciliation project. In 1994, the request will move to about \$4.7 million for reconciliation.

Mr. DICKS. What are the current total estimated costs to complete the reconciliation?

Mr. THOMPSON. We estimate it will cost about \$15 million to complete the systems and the tribal portion. We don't have an approach in hand for the IIM reconciliation. I can't help you there.

Mr. DICKS. Will the final product be a true reconciliation, and will an audit be possible? And how do you maintain it, once you've done it once? Isn't that always the problem when you do these things? You get it all fixed, then you've got to maintain the system, you've got to make it work.

Mr. THOMPSON. We're well aware of that, and that's part of the concerns about—

Mr. DICKS. Sustainability.

Mr. THOMPSON [continuing]. The systems inadequacies. Mr. Parris is dealing with that continually, reconciliation on a daily basis.

Mr. DICKS. Well, do you have a plan to sustain this, and to be able to keep it current once you've got it done, Mr. Parris?

Mr. PARRIS. Obviously, we've got to get in a system that can do the job.

Mr. DICKS. You do not have that yet?

Mr. PARRIS. We do not have that yet.

Mr. DICKS. What are you trying to do to get it?

Mr. PARRIS. We have been waiting—

Mr. DICKS. Reconciliation, in other words, is not going to give you that system?

Mr. PARRIS. Oh, the reconciliation is only going to try and—

Mr. DICKS. Straighten out the mess.

Mr. PARRIS. It's going to make a serious attempt to try and reconstruct the accounting activities.

Mr. DICKS. So you're going to spend \$15 million to do that, and what's your estimate of what it would cost to have a system in place that you could operate within in the future?

Mr. PARRIS. I'd really believe that for the money we're spending on systems today that we could get a real Cadillac of a system in the private sector. I believe that we are looking at some serious ef-