

**U.S. DEPARTMENT OF THE INTERIOR
Bureau of Indian Affairs
Office of Trust Funds Management**

**QUARTERLY REPORT
TO CONGRESSIONAL SUBCOMMITTEES ON APPROPRIATIONS
ON THE MANAGEMENT OF INDIAN TRUST FUNDS
FOR THE PERIOD ENDING DECEMBER 31, 1994**

I. USE OF FUNDS TO DATE

The Office of Trust Funds Management (OTFM) program budget provides for the management and investment of approximately \$2 billion of funds held in trust for tribes and individual Indians. The fiscal year (FY) 1995 funds are to be used to provide accurate collection, investment, disbursement and timely financial information to Indian tribes and Individual Indian Monies (IIM) account holders. The funds will also be utilized to support a staff of 107, training, improve systems, improve internal controls, costs associated with managing a professional prudent Trust operation, and the reconciliation of Bureau of Indian Affairs' trust funds accounts.

P.L. 101-512, FY 1991 Interior Appropriations Act, dated November 5, 1990, states in part "...Provided further, That none of the funds in this Act shall be used by the Bureau of Indian Affairs to transfer Indian trust funds until the funds held in trust for all such tribes or individuals have been audited and reconciled to the earliest possible date, the results of such reconciliation have been certified by an independent party as the most complete reconciliation of such funds possible, and the affected tribe or individual has been provided with an accounting of such funds." This language has been continued in subsequent Appropriations Acts. In addition to the day to day operations, the FY 95 funds is supporting the following activities:

- conversion to a new state of the art trust accounting system will bring the OTFM into the twentieth century and in line with private sector trust operations, as well as facilitate and automate reconciliation of securities, daily pricing of securities to provide accurate account balances,
- procurement of a document imaging system to meet the ever changing requirements of OTFM and to automate the current labor intensive and inefficient hard copy process, and to address the identified backward reconciliation (FY 1973 to FY 1992) shortfall (lack of source documents for an audit trail),
- P.L. 103-412, "American Indian Trust Funds Management Reform Act" requirements are being addressed, implemented, and the establishment of a process and procedure at OTFM for the issuing of quarterly statements to all account holders as outlined in the Act,
- procurement of various equipment to accommodate the timely issuance

of quarterly statements, oil and gas payments, and oil and gas explanation of payments (EOPs),

- formation of a team, compiled of diverse members which will include tribal and allottee participation, to address the numerous issues facing IIM systems inadequacies,
- funding for the Intertribal Monitoring Association (ITMA) to monitor and be a liaison for all tribes input into the Bureau's project of reconciling Indian trust funds, and
- establishment of a contract to audit trust funds (FY 1991 through FY 1994 with option year for FY's 1995 and 1996); to certify the reconciliation work done by the OTFM (for FY 1992 through FY 1995). The audit work is required in order for the OTFM to be in adherence with the Chief Financial Officers (CFO) Act, and the certification work will help the OTFM meet requirements as outlined in the "American Indian Trust Funds Management Reform Act",

II. PROGRESS OF STAFFING

The realignment of the OTFM was approved in April 1994. The realignment will provide adequate staff and structure to properly implement major long-term improvements. The new OTFM structure has the following Divisions: Quality Assurance, Trust Funds Systems, Trust Funds Accounting, Trust Funds Services, and Reporting/Reconciliation .

The OTFM was authorized an additional 43 full time equivalents (FTEs), which increased staff from 64 to 107 FTEs. As of December 31, 1994 there are 27 vacant positions.

The OTFM continues to focus on recruiting and filling vacancies for the additional staff, as well as those positions vacated as a result of internal promotions, administrative reassignments, retirements, etc.

The OTFM continues to work closely with the General Services Administration (GSA) on acquiring additional office space for the additional staff. Due to administration guidelines and time frames that both OTFM and GSA must follow, the additional office space is not expected to be available until the second quarter of FY 1995.

Management continues to emphasize and encourage the staff to take this opportunity for change and make a difference, so that services to Indian country will improve and benefit Indian account holders.

III. STATUS OF TRIBAL TRUST FUND RECONCILIATION PROJECT AND RELATED COSTS

The Federal Government has a fiduciary and trustee responsibility to ensure the proper accounting of approximately 290,000 tribal and Individual Indian money (IIM) accounts. Congress has directed the Bureau to reconcile tribal and IIM accounts as accurately as possible back to the earliest practicable date. Congress also requires that the results of such reconciliation be certified by an independent third party.

In 1991, the Bureau of Indian Affairs initiated this mandated reconciliation by awarding a contract to Arthur Andersen & Co. which was designed to reconcile financial source document data with postings to tribal and IIM accounts and reconciliations of the multiple trust fund accounting systems. The contract scope was developed (June 1991 through January 1992) in coordination with Indian representatives, the General Accounting Office, the Office of Management and Budget and the Interior's Office of Inspector General. It was later determined that the tribal reconciliation approach would not be cost-effective for the IIM account reconciliation.

The Arthur Andersen & Co. contract was issued in May 1991. The primary objective of the reconciliation effort was to reconstruct historical transactions to the extent practicable for all tribal trust accounts managed by the Bureau of Indian Affairs for the time period Fiscal Years 1973-1992. This effort consists of four basic components: 1) reconciliation of non-investment cash transactions--Basic Reconciliation, 2) reconciliation of trust resource leases--"Fill The Gap", 3) investments analysis, and 4) BIA finance system reconciliation to Treasury, MoneyMax Investments, and the Individual Indian Money (IIM) accounts subsidiary accounting system. Attached is a report issued by Arthur Andersen & Co. for activities through December 13, 1994 (Attachment A).

A Congressional mandate required the reconciliation to be certified by an independent third party. The Coopers & Lybrand contract was awarded September 29, 1993 in the amount of \$1,171,643.50. The certification is to be performed in accordance with the American Institute of Certified Public Accounts Statements on Standards for Attestation Engagements.

The primary objective of the Coopers & Lybrand contract is to evaluate whether the work performed by Arthur Andersen & Co. is in conformance with the original contract dated May 24, 1991 and subsequent modifications thereby providing certification of the reconciliation efforts undertaken by Arthur Andersen & Co. The contractor continues with the certification of all tasks that have been completed and are being completed by the reconciliation contractor. Attached is a report issued by Coopers & LyBrand for activities through December 13, 1994 (Attachment B).

Attached is our last communique which outlines the rescoping efforts required to meet the Congressional mandate for completion of the tribal reconciliation under P.L. 103-412 to the Chairman, Subcommittee on Interior and Related Agencies, Committee on Appropriations, dated November 8, 1994, (Attachment C).

Related Costs:

<u>Task</u>	<u>FY 1991-1994</u>	<u>FY 1995 (projected)</u>
Basic		
Reconciliation	\$ 5,124,936	\$ 203,424
Fill the Gap	\$ 2,487,592	\$ 2,573,699
Investment Analysis	\$ 200,000	\$ 265,575
Systems		
Reconciliation	\$ 1,402,019	\$ 775,302
Certification	<u>\$ 1,200,000</u>	<u>\$ 1,182,000</u>
Total	\$10,414,547	\$ 5,000,000

Contracts/Modifications Information

Arthur Andersen & Company was contracted to perform the reconciliation of tribal trust funds for FY 1973 through FY 1992. The contractor continues to perform tasks as specified under Modification Number 9 which began in May 1993.

Modification Number 9 activities, after rescoping, as provided in the November 8, 1994 letter, are targeted toward completing the tribal reconciliation and certification work by September 30, 1995. Arthur Andersen & Company submitted a request dated September 9, 1994, suggesting that the present scope of work could take an additional \$5.3 million and up to 2 more years to complete the tribal reconciliation project. The P.L. 103-412, Section 304, requires "a report identifying for each tribal trust fund account for which the Secretary is responsible a balance reconciled as of September 30, 1995." The Report to Congress has to be submitted by May 31, 1996. This requires the BIA to do the following: (1) develop a plan to cover the three years that are not currently covered by the reconciliation, namely FY 93,94 and 95, (2) develop a new timeline for the Major Task of the reconciliation and certification, and (3) decide to either rescope the project to complete those Major Tasks that can be completed and certified by the September 30, 1995 Congressionally imposed deadline or seek an extension of the deadline set forth in the legislation.

The above actions are outlined in the November 8, 1994 letter to the Congressional Committees. We are awaiting the Committees' views on these matters.

IV. STATUS OF THE SYSTEMS DEVELOPMENT EFFORTS AND RELATED COSTS

The trust funds system contract for the administration of tribal and investment accounts was awarded to SunGard Asset Management Systems, Birmingham, Alabama, on September 30, 1994, in the amount of \$397,855 (approximately \$178,000 for first year costs and \$219,000 for conversion costs). Conversion over to the OMNITRUST system will be completed by March 31, 1995. During the first quarter of FY 1995, all information was keyed into the new system with "mock"

conversion runs commencing in December 1994.

As part of the focus on improving day-to-day operations and communications, the OTFM has scheduled monthly meetings with the BIA's Operations Support Center (OSC) to address various system issues which have proven to be very beneficial to both organizations.

V. PERTINENT MILESTONES ACCOMPLISHED

Policies and Procedures

25 CFR Part 113, Indian Monies, Proceeds of Labor (IMPL), Final Rule was published in the Federal Register October 31, 1994, page 54504.

25 CFR Part 141, Business Practices on the Navajo, Hoopa, and Zuni Reservations, Final Rule was published in the Federal Register on October 31, 1994, page 54502.

25 CFR 115 - Individual Indian Monies (IIM) Accounts, proposed rule published in the Federal Register on October 14, 1994.

Desk Operating Procedures

The Bureau has, through a contract, developed Individual Indian Monies Desk Operating Procedures (IIM-DOP's) covering all aspects of IIM accounts. The DOP will be used by the area and agency staffs throughout the Bureau where IIM accounts are maintained.

The contract was awarded to Soza & Company, Ltd., in FY 1993 to produce a complete operating manual for Individual Indian Monies critical to standardizing the procedures in the management of IIM accounting operations throughout the Bureau. Additional funding of \$95,327 was provided in FY 1994 to complete the contract. The Contractor delivered a complete manual of IIM Desk Operating Procedures to the BIA on September 30, 1994 and will be distributed to the field during the second quarter of FY 1995.

Loss Policy

Investment losses highlighted in the Office of the Inspector General audit report on Selected Aspects of Indian Trust Funds Activities - 1989 and other reports, Congressional reviews, Comptroller General Decisions and Solicitor's opinions have provided sufficient means to define losses. A more definitive means to detect losses, provide documentation and notice of losses and to reimburse account holders for legally determined losses in a timely manner was required. Written policies and procedures were drafted in 1993 in manual form and a loss policy has been developed and implemented. This policy requires account holders to be notified of errors, and provides for timely and efficient handling of adjustments. The policy incorporates the

changes suggested by the General Accounting Office through BIA Manual, "85 BIAM, Supplement 5, Indian Trust Fund Account Losses".

Since Fiscal Year 1993, a total of \$9 million has been appropriated to cover trust fund losses.

Attached is a report which details funds expended for Fiscal Years 1993, 1994, and first quarter of 1995 (Attachment D).

Mass Cancellation Project

The need to provide all available resources to the reconciliation project has put this project on hold. As noted previously, this project resulted in the re-issuance of approximately \$345,730 of the original amount of \$1,914,528 in Treasury-canceled checks, to some 6,539 active IIM accounts. A fund in the amount of \$500,000 for mass-canceled claims has been established within the Trust Fund Losses program in the Miscellaneous Payments appropriation. Until such time that additional resources, both manpower and financial, are provided to the areas and agencies to be able to conduct additional research on the mass cancellation project, emphasis is placed on the prior year reconciliation project.

Individual Indian Money (IIM) Account Reconciliation Plan

The Department has been mandated by the Congress to reconcile, audit and certify all Indian trust accounts. IIM accounts account for approximately 99.1% of the total number of trust fund accounts, but only 18% of the total assets. Given the sheer volume of the accounts and the high likelihood of incomplete or unavailable records (for periods beyond the last 3-6 years) it was estimated that the cost of a conventional reconciliation of IIM accounts would fall in the range of \$108 - \$280 million. In light of this projection a Departmental study group was charged with the responsibility of identifying and recommending credible alternatives to a full and complete reconciliation of IIM trust accounts.

As of this date, the IIM study group has met five times. The objective of the first three meetings was to gather data on IIM accounts and related records. As the group compiled information it discussed and sketched out various options which could serve as alternatives to a full reconciliation of IIM accounts, an endeavor that does not appear to be feasible, given the loss or destruction of certain documents and records of transactions. On the basis of information and knowledge obtained over this period of time, it appeared to the group that a statistical sampling approach might be the most viable option to full reconciliation. The utility of this approach, however, was questioned by account holder representatives of the study group at the last two meetings of the group (November and December 1994). The next meeting of the study group has been scheduled for early February to focus on options to a full reconciliation to be developed by the InterTribal Monitoring Association. Once this information has been presented and discussed it is anticipated that the group will draft a report which sets forth several alternatives to a full reconciliation. This report would then be circulated for comment and subsequently submitted to Congress, along with the Department's recommendations, for consideration.

Investment Advisory

The Bureau is continually looking toward achieving improved investment products for the clients. The acquisition of investment advisory services combined with efforts to provide a Treasury fund is a component of the Secretary's Six Point Plan. The Department and the Bureau of Indian Affairs are conducting meetings with the Treasury Department to enhance Treasury options. The Office of Trust Funds Management is revisiting this particular acquisition plan and developing an investment advisory strategy to meet current and future needs of tribal investment programs.

Custodian Services

The Office of Trust Funds Management utilizes numerous custodians for safekeeping of the securities. The current custodians consist of the Treasury, Federal Reserve, brokerage firms, and approximately one hundred banks. The OTFM expects to let a contract for centralized custodian services during the second quarter of FY 1995. Advantages of a centralized custodian are the timely settlement of trades, timely collection of funds to enable immediate investment, and automated reconciliation. The OTFM expects to meet its timeline of contract award by May 1995, move securities by August 1995, and be in a fully operational mode by end of this fiscal year.