



**U.S. Department of the Interior
Office of Inspector General**

AUDIT REPORT

**INDEPENDENT AUDITORS REPORT ON
THE FINANCIAL STATEMENTS FOR
FISCAL YEARS 2000 AND 1999
FOR THE OFFICE OF THE SPECIAL TRUSTEE
FOR AMERICAN INDIANS
TRIBAL AND OTHER SPECIAL TRUST FUNDS
AND INDIVIDUAL INDIAN MONIES
TRUST FUNDS MANAGED BY THE
OFFICE OF TRUST FUNDS MANAGEMENT**

**REPORT NO. 01-I-411
JUNE 2001**

EXECUTIVE SUMMARY

**Independent Auditors Report on the
Financial Statements for Fiscal Years 2000 and 1999 for
the Office of the Special Trustee for American Indians Tribal
and Other Special Trust Funds and Individual Indian Monies Trust Funds
Managed by the Office of Trust Funds Management
Report No. 01-I-411
June 2001**

The Office of Trust Funds Management contracted with the independent public accounting firm of Griffin and Associates, P.C., to audit the financial statements of the Office of the Special Trustee for American Indians. For the fiscal year 2000 annual financial report, two sets of financial statements with accompanying notes were issued: one set for the Tribal and Other Special Trust Funds and one set for the Individual Indian Monies Trust Funds.

Griffin and Associates issued qualified opinions because cash balances were materially greater than those reported by the U.S. Treasury, major deficiencies in the accounting systems' controls and records caused the systems to be unreliable, and certain Trust Funds beneficiaries disagreed with balances recorded by the Office of Trust Funds Management and had filed or were expected to file claims against the Office of Trust Funds Management. These conditions prevented the cash and Trust Funds balances and the receipts and disbursements from being audited. In addition, a potential liability to the Federal Government existed because of the lawsuits filed over the Government's fiduciary responsibilities.

Griffin and Associates report on the internal control structure contained a new material internal control weakness concerning the Office of Trust Fund Management's reliance on the Bureau of Indian Affairs land ownership files. The report also identified three new nonmaterial internal control weaknesses: one on the implementation of management controls over data input for receipts and disbursements, one on the process to change account numbers, and one on interest that was not transferred with the principal on one transaction. The report made four recommendations to correct these weaknesses.

AUDITEE COMMENTS AND OFFICE OF INSPECTOR GENERAL EVALUATION

Based on the response from the Office of Trust Fund Management and the Bureau of Indian Affairs three of the reports four recommendations are considered resolved but not implemented. Concerning the recommendation to ensure the accuracy of land ownership records, the response from the Bureau clarified that the responsibility for maintaining the integrity of the land records rests with the realty staff of the Bureau's Office of Trust Responsibilities. Griffin and Associated modified the recommendation, and the Bureau should provide a response which specifies the controls to be implemented.



United States Department of the Interior

OFFICE OF INSPECTOR GENERAL
Washington, D.C. 20240

Memorandum

JUN 29 2001

To: Special Trustee for American Indians,
Assistant Secretary for Indian Affairs

Subject: Independent Auditors Report on the Financial Statements for Fiscal Years
2000 and 1999 for the Office of the Special Trustee for American Indians
Tribal and Other Special Trust Funds and Individual Indian Monies Trust
Funds Managed by the Office of Trust Funds Management
(No. 01-I-411)

The Office of Trust Funds Management contracted with the independent public accounting firm of Griffin and Associates, P.C., to audit the financial statements of the Office of the Special Trustee for American Indians. For the fiscal year 2000 financial report, two sets of financial statements with accompanying notes were issued: one set for the Tribal and Other Special Trust Funds and one set for the Individual Indian Monies Trust Funds. Comparative data for the prior year have also been presented.

Opinion

Griffin and Associates issued qualified opinions because cash balances were materially greater than those reported by the U.S. Treasury, major deficiencies in the accounting systems' controls and records caused the systems to be unreliable, and certain Trust Funds beneficiaries disagreed with balances recorded by the Office of Trust Funds Management (OTFM) and had filed or were expected to file claims against the OTFM. These conditions prevented the cash and Trust Funds balances and the receipts and disbursements from being audited. In addition, a potential liability to the Federal Government existed because of the lawsuits filed over the Government's fiduciary responsibilities.

Internal Control

Griffin and Associates' report on the internal control structure contained four new recommendations to address the following internal control weaknesses:

- Reliance on Bureau of Indian Affairs Ownership Files. The OTFM has raised concerns over the reliability of financial data provided by the Bureau of Indian Affairs (BIA) and the continuity of service provided to the OTFM's systems department. Griffin and Associates recommended (Recommendation 45) that the Office of Inspector General work with the BIA and its Operations Service Center to ensure that the ownership data are being verified and maintained appropriately. The BIA did not concur with the recommendation as it was written in the draft report. The BIA stated that it was up to the system owner, its realty staff, to ensure the integrity of the data, not the Operations Service Center.

The BIA further stated that the OTFM should meet with the realty staff to ensure that data integrity standards are being met. The Office of Inspector General will continue to work with the OTFM and the BIA through the audit process to help verify the accuracy of the data. Because the response did not identify the steps which will be taken to ensure the integrity of the data, we consider the recommendation unresolved. The BIA should specify the controls in an additional response to the Assistant Secretary for Policy, Management and Budget.

- Effectiveness of Existing Controls. Numerous work tickets that were prepared to support the receipts and programmed disbursements were missing one or more required signatures. Griffin and Associates recommended (Recommendation 46) that the OTFM accounting staff either sign the work tickets indicating various controls were accomplished or revise its procedures to require signatures at the batch level. The OTFM concurred with the recommendation and indicated that corrective action would be taken.
- Account Number Changes. The OTFM did not have adequate policies and procedures for changing account numbers. Griffin and Associates recommended (Recommendation 47) that the OTFM formally document its procedures used when account numbers are changed. The OTFM concurred with the recommendation and indicated that corrective action would be taken.
- Lost Interest – BIA. The BIA delayed for 6 months the transfer of a \$6.3 million receipt. When the funds were transferred, however, the interest was not. Griffin and Associates recommended (Recommendation No. 48) that the OTFM pursue the matter with BIA and or the Treasury Department. The BIA concurred with the recommendation and indicated that it would transfer the funds upon determination by the OTFM of the amount of unearned interest.

The report also contained a summary of all internal control issues. The report identified 21 open internal control issues, of which 4 were for the current year and 17 were from prior years' audit reports. Of the 21 open issues, 15 were addressed to the OTFM, 5 were addressed to the BIA, and 1 was addressed to both the OTFM and the BIA.

Compliance

Griffin and Associates' report on compliance with laws and regulations contained one material noncompliance issue, two immaterial noncompliance issues, and two other noncompliance issues.

The material issue was that tribal organizations and classes of individual Indians have filed various claims against the Federal Government for its failure to fulfill its fiduciary responsibilities and have made other related charges. The immaterial noncompliance issues (Nos. C.1 and C.3) related to the OTFM's accepting voluntary deposits, which are generally prohibited by the Code of Federal Regulations (25 CFR 115.8), and agency offices' accumulating funds in excess of \$5,000 before deposits to the Treasury were made, which

was in violation of the Treasury Fiscal Requirement. The report noted several instances where the OTFM accepted voluntary deposits to Individual Indian Money accounts.

The other noncompliance issues related to the OTFM's disclosure in its management representation letter that, since September 30, 1995, it had not complied with the Federal Managers' Financial Integrity Act of 1982 and that it had not followed proper delegation of authority procedures for making disbursements from accounts. Specifically, the OTFM did not assess (1) the effectiveness of its internal control structure over safeguarding the assets against unauthorized acquisition, use, or disposition; (2) compliance with laws and regulations; and (3) financial reporting based upon control criteria established under the Act.

The report contained no recommendations for the compliance issues because it is implied that the agency should comply with the law or the regulation.

In conjunction with the audit, we reviewed Griffin and Associates' report and related working papers. Our review, as differentiated from an audit performed in accordance with generally accepted government auditing standards, was not intended to enable us to express, and we do not express, opinions on the financial statements of the Office of the Special Trustee for American Indians, on management's assertions about the effectiveness of its internal controls, or on its compliance with applicable laws and regulations. Griffin and Associates is responsible for the auditors' report dated April 2000 and the conclusions expressed in the report. However, our review disclosed no instances in which the independent public accountant did not comply in all material respects with generally accepted auditing standards.

Based on the responses from the OTFM and the BIA (which were incorporated into Griffin and Associates' report), we consider three recommendations (Nos. 46, 47, and 48) resolved but not implemented and one recommendation (No. 45) unresolved. Accordingly, the recommendations will be referred to the Assistant Secretary for Policy, Management and Budget for tracking of implementation and resolution, respectively. Since the report's recommendations will be referred to the Assistant Secretary for Policy, Management and Budget for appropriate action, no further response to the Office of Inspector General is required (see the Appendix).

Section 5(a) of the Inspector General Act (5 U.S.C. app. 3) requires the Office of Inspector General to list this report in its semiannual report to the Congress. In addition, the Office of Inspector General provides audit reports to the Congress.

This report is intended for the information of management of the Office of the Special Trustee for American Indians, the BIA, the Office of Management and Budget, and the Congress. However, this report is a matter of public record, and its distribution is not limited.



Roger La Rouche
Assistant Inspector General
for Audits

**STATUS OF CURRENT
AUDIT REPORT RECOMMENDATIONS**

| Finding/Recommendation Reference | Status | Action Required |
|-------------------------------------|-------------------------------|---|
| 45 | Unresolved. | No response to the Office of Inspector General is required. The recommendation will be referred to the Assistant Secretary for Policy, Management and Budget for resolution. |
| 46, 47, and 48 | Resolved; not implemented. | No response to the Office of Inspector General is required. The recommendations will be referred to the Assistant Secretary for Policy, Management and Budget for tracking of implementation. |

**U.S. DEPARTMENT OF THE INTERIOR
OFFICE OF THE SPECIAL TRUSTEE
FOR AMERICAN INDIANS
TRIBAL AND OTHER SPECIAL TRUST FUNDS,
AND INDIVIDUAL INDIAN MONIES TRUST FUNDS
MANAGED BY THE
OFFICE OF TRUST FUNDS MANAGEMENT**

**FISCAL YEAR 2000
ANNUAL REPORT**

December 2000

TABLE OF CONTENTS

| | <u>Page</u> |
|---|-------------|
| LETTER FROM THE DIRECTOR | ii |
| INDIAN TRUST FUNDS | 1 |
| COMBINED TRIBAL AND OTHER SPECIAL TRUST FUNDS: | |
| REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS ON FINANCIAL STATEMENTS | 5 |
| COMBINED STATEMENTS OF ASSETS AND TRUST FUND BALANCES - CASH BASIS | 8 |
| COMBINED STATEMENTS OF CHANGES IN TRUST FUND BALANCES - CASH BASIS | 9 |
| NOTES TO THE FINANCIAL STATEMENTS | 10 |
| SUPPLEMENTARY COMBINING SCHEDULE OF ASSETS AND TRUST FUND BALANCES - CASH BASIS | 21 |
| SUPPLEMENTARY COMBINING SCHEDULE OF CHANGES IN TRUST FUND BALANCES - CASH BASIS | 22 |
| INDIVIDUAL INDIAN MONIES TRUST FUNDS: | |
| REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS ON FINANCIAL STATEMENTS | 24 |
| STATEMENTS OF ASSETS AND TRUST FUND BALANCES - MODIFIED CASH BASIS | 27 |
| STATEMENTS OF CHANGES IN TRUST FUND BALANCES - MODIFIED CASH BASIS | 28 |
| NOTES TO THE FINANCIAL STATEMENTS | 29 |
| REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS ON INTERNAL CONTROL STRUCTURE | 44 |
| REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS ON COMPLIANCE WITH LAWS AND REGULATIONS | 63 |



IN REPLY REFER TO:

United States Department of the Interior

OFFICE OF THE SPECIAL TRUSTEE FOR AMERICAN INDIANS

Office of Trust Funds Management

505 Marquette N.W. Suite 1000

Albuquerque, New Mexico 87102

LETTER FROM THE DIRECTOR

HISTORY OF OTFM

The Office of Trust Funds Management (OTFM) was first established within the Bureau of Indian Affairs (BIA) in 1989, pursuant to Secretarial Order Number 3187 dated October 26, 1989. This order combined the trust accounting and investment functions within the BIA into one office, OTFM.

In October 1994, the U.S. Congress passed the American Indian Trust Fund Management Reform Act (Public Law 103-412). This statute established the Office of the Special Trustee for American Indians (OST) within the Department of the Interior. The Special Trustee is appointed by the President and is responsible for the oversight, reform and coordination of all departmental activities involved in the management of Indian trust assets.

In February 1996, OTFM was transferred intact out of the BIA and placed within the OST. Financial Trust Services employees in the 12 BIA regions and over 80 field locations were also transferred from BIA and made part of OTFM and OST. Today, the Director of OTFM reports to the Office of the Special Trustee.

OTFM is responsible for the accurate receipt, investment and disbursement of Indian trust funds both to tribal account holders and individual beneficiaries. Funds are derived from the sale or rental of Indian-owned natural resources such as timber or grazing land, and royalties from oil and natural gas exploration and production. Funds also are derived from awards or settlements of tribal claims for lost land or other damages. Trust funds also consist of Tribal per capita resulting from either the distribution of income resources or from awards or settlements as stated above. Each year, more than \$800 million passes through the tribal trust funds system and over \$300 million through the Individual Indian Monies (IIM) trust fund accounts. Investment earnings make up a significant portion of the total receipts. As you can see in the enclosed OTFM fiscal year 2000 financial statements, Federal Indian trust accounts amount to approximately \$3 billion. Of this amount, about \$400 million is owned by approximately 260,000 individuals, with the remainder being owned by over 315 Tribes.

POINTS OF SPECIAL INTEREST FOR FISCAL YEAR 2000

Fiscal year 2000 has been another very busy and rewarding year for those of us here at the OTFM. We have seen significant progress in the various subprojects we are involved in as indicated in the High Level Implementation Plan (HLIP). The following items are some of the special points of interest that have occurred during the last year.

❖ NEW SPECIAL TRUSTEE CONFIRMED

Mr. Thomas N. Slonaker of Payson, AZ., was sworn into office as the new Special Trustee for American Indians on June 27, 2000. On May 24, 2000, he received a

unanimous vote by the United States Senate in favor of his nomination to be the Special Trustee. The White House nominated Mr. Slonaker for the position in February. On March 22, he offered testimony before the Senate Indian Affairs Committee as the first step in his confirmation process. The Committee unanimously voted in favor of Mr. Slonaker's confirmation and forwarded his nomination to the full senate for vote.

Mr. Slonaker has enjoyed the support of the Intertribal Monitoring Association (ITMA) Board of Directors. In a letter to the Senate Committee Chairman Ben Nighthorse Campbell, the ITMA Board members who met Mr. Slonaker "were genuinely impressed with his tact, his professionalism, his spirit of candor and his qualifications for this important position."

❖ ACCOUNTING SYSTEM CONVERSION COMPLETED

On March 31, 2000 the remaining IIM accounts at the final three Regional Offices were converted to the new automated Trust Funds Accounting System (TFAS). Now accounts in all 12 Regions as well as all Tribal accounts have been successfully converted to TFAS. This conversion will greatly improve the credibility and delivery of financial and account information to all account holders.

The implementation of TFAS at every Regional Office was a project two years in the making, and marks the completion of a major project of the Secretary of the Interior's Trust Management Improvement Project.

❖ NEW OST WEB SITE LAUNCHED

On April 1, 2000, OST's new and improved web site was launched onto the Internet. The first phase of the web site's development has now been completed and provides easy accessibility to posted information and documents. The goal of this phase was to facilitate the delivery of information from the OST to key stakeholders. These include trust fund account holders, government agencies, tribes and the general public. The information is easy to navigate and can be obtained quickly. Find us at: www.ost.doi.gov.

❖ REVISED HLIP PUBLISHED MARCH 1, 2000 REPORTS AVAILABLE ON THE OST WEB SITE

On March 1, 2000, a revised and updated version of the High Level Implementation Plan (HLIP) was published. This new document describes the progress made in each of the subprojects originally described in the July 1998 publication. This revision includes additional critical milestones to track the future progress and implementation of each subproject.

❖ CUSTOMER STRATASTATION'S (CSS) PILOT FOR IIM ACCOUNT AND CASH PROCESSING

Eight agency offices were piloted during fiscal 2000 using the Customer StrataStation's (CSS) Cash Processing Feature. This new feature is being referred to as "electronic worktickets". This allows for actual input of data at the point of receipt and enables electronic transmission and approvals. SEI's CSS application provides an opportunity to re-evaluate the current cash processing workflows and ultimately re-engineer the workflows and streamline processes. Some examples of the benefits this application has provided OTFM are:

- Stream-lined Cash Processing

- Authorization and Approval Level Security
- Seamless Integration with TRUST 3000's Batching and Balancing Process
- Electronic Audit of Cash Activity

OTFM expects to roll out CSS to the remaining Agencies during fiscal 2001.

❖ NEW TRUST PRINCIPLES RELEASED

On April 28, 2000, Secretary Bruce Babbitt issued Secretarial Order No. 3215, "Principles for the Discharge of the Secretary's Trust Responsibility." These "trust principles" outline the overarching principles that the Department will apply in the upcoming review of statutes, regulations, and internal program guidance governing the management of Indian trust assets. The development of these principles is part of the Department's Trust Management Improvement Project, and will assist the Special Trustee in creating and maintaining a trust management system that will operate as an organic whole. These principles are intended to give appropriate and useful guidance to each Departmental office and bureau engaged in the discharge of any trust activities as each reviews and, where necessary, revises or establishes its written trust asset management and accounting policies and procedures. Following this process, the Department will review the new policies and procedures of the respective offices and bureaus to ensure that they are consistent and thorough. A copy of the trust principles can be seen on our website at www.ost.doi.gov.

❖ PROCESS TO LOCATE WHEREABOUTS UNKNOWN IIM ACCOUNT HOLDERS

OST has successfully utilized a new resource to help locate addresses for IIM account holders for which no current address information exists. OST refers to the approximately 50,000 account holders as "whereabouts unknown" and has been involved in an extensive effort to locate them.

In May, the OTFM initiated a new, automated process to seek these account holders. OTFM submitted IIM account holder names and social security numbers or last known addresses to Trans Union Credit Bureau to see if these information fields matched address information currently contained within Trans Union's extensive database.

Each month credit grantors across the country provide over 1.2 billion updates to keep this database as accurate as possible. (OTFM is working with Trans Union to secure current addresses for these individuals and is not obtaining any credit information.)

To date, OTFM has provided 17,169 names or other information from Western, Pacific, Alaska, Navajo and Southwest Regions to Trans Union. The company matched 11,046 account names from its database, a 64% match. OTFM is now processing and validating these results by contacting the account holders at the addresses identified by Trans Union and verifying their identity.

This initiative is proving to be the most successful and cost effective effort to date to locate these account holders.

After the names of all the IIM account holders whose whereabouts are unknown have been processed through the Trans Union database to determine the existence of matches, OTFM will continue its ongoing efforts to identify current addresses for account holders who still have not been located. In the future, OST

anticipates working with similar automated databases to determine additional address matches.

Additionally, OST is developing an interactive search capability on its website for the list of IIM account holders whose whereabouts are unknown. This new function will make the list easier to search and will provide additional information. View the list on the OST home page at www.ost.doi.gov.

As you can see from the above items, fiscal year 2000 has been a very challenging and rewarding year for the OST and OTFM. We look forward to the coming year and are optimistic with regards to continued improvements in the management of Indian Trust Funds. OTFM is committed to continuous improvement of services to each beneficiary.



Donna Erwin
Director, Office of Trust Funds Management

INDIAN TRUST FUNDS

HISTORICAL PERSPECTIVE

The legislation, which authorizes the Secretary of the Interior ("the Secretary") to manage the Tribal and Other Special Trust Funds, and Individual Indian Monies Trust Funds ("Trust Funds"), recognizes the unique trust relationship that exists between the Indian Tribes, individual Indians and the U.S. Federal Government. Agreements between the U.S. Federal Government and the various Indian Tribes, many in the form of treaties, recognize the sovereignty of the Tribes. During the course of the Nation's history and the U.S. Federal Government's evolving policies toward Indian Tribes and individual Indians, the trust relationship has retained characteristics based upon Tribal sovereignty.

Mission Statement of OST/OTFM

To assure the highest level of accuracy, responsiveness and service in the receipt, investment and disbursement of all judgment awards, special acts and income from trust resources belonging to Native Americans in accordance with the American Indian Trust Fund Management Reform Act of 1994.

DESIGNATED TRUSTEE

The Secretary has been designated by the U.S. Congress as the primary U.S. Federal Government trustee on behalf of the account holders of the Trust Funds. Prior to February 9, 1996, the Secretary delegated authority for management of the Trust Funds, including accounting and financial reporting, to the Assistant Secretary - Indian Affairs, who carried out the management of the Trust Funds through the Bureau of Indian Affairs ("BIA"). The American Indian Trust Fund Management Reform Act of 1994 (P.L. 103-412) ("the Reform Act") provided for the establishment of the Office of the Special Trustee for American Indians ("OST"). On February 9, 1996, Secretarial Order 3197 ("the Order") re delegated this authority to OST and transferred the Office of Trust Funds Management ("OTFM"), as well as the financial trust services performed at BIA Regional, Agency and Field Offices, from the BIA to the OST.

Trust assets are managed under the delegated authority of the OST and the BIA. The OST maintains staff at approximately sixty (60) Regional, Agency and Field Offices located throughout the United States. OST personnel, located at various offices, perform functions related to trust funds activities.

ORGANIZATION OF THE OTFM

The OTFM, established October 26, 1989, and located in Albuquerque, New Mexico, manages and is accountable for tribal, special, and individual Indian monies held in trust by the OST. The OTFM carries out its responsibilities through the divisions discussed below.

The Division of Quality Assurance plans, develops, and implements the OST-wide operational review, evaluation, policies and regulatory management programs. The division advises OST/OTFM management on the efficiency, economy, legality and effectiveness of operations and compliance with all mandated laws and regulations at the program, field and Tribal level where appropriate. It identifies, develops,

and coordinates the preparation of trust funds management policies and operational procedures. The division is also responsible for development, evaluation, coordination and monitoring of policies and procedures covering all aspects of documentation/record keeping requirements for trust funds. It provides, maintains and monitors on-site storage of central office records in accordance with U.S. Federal Government record keeping rules and regulations. It monitors and reviews OTFM program office's compliance with internal records management policies, procedures and retention and disposition schedules.

The Division of Trust Funds Systems provides daily technical support for trust funds financial accounting systems' end users, including OST, BIA, and Tribal employees. The division coordinates OST's automated data processing ("ADP") and related information management activities and provides support in such areas as acquisition assistance and management, technology assessment, and technical support for office automation hardware, software, and training.

The Division of Trust Funds Accounting processes and controls accounting activities, which records funds receipted, disbursed, invested, and held in trust. It plans, develops, and recommends policies and procedures governing accounting of Trust Funds, as well as monitoring the receipt, disbursement and recording of funds. It is also responsible for investment accounting activities and for monitoring custodial services for investment activities.

The Division of Trust Funds Services plans, develops, operates, and controls the buying, selling, and trading of investments in accordance with applicable laws, regulations, and policies. It provides technical advice and assistance to OST/OTFM staff and Indian Tribes in developing financial plans and investment strategies for Trust Funds.

The Division of Reporting/Reconciliation is responsible for reconciling subsidiary accounts and monitoring Trust Fund activities. The division prepares certain financial and accounting reports for use within the U.S. Federal Government and for inclusion in various OTFM-wide reports.

The Division of Field Operations coordinates the administrative and technical execution of financial trust programs; provides or obtains adequate technical service to guide and support field operations; and evaluates the performance of field level organizations. The division, through its staff, is also responsible for receiving, recording, and disbursing trust funds belonging to account holders, and preparing, maintaining, and reconciling records.

TRUST FUND ACCOUNTS

The balances that have accumulated in the Tribal Trust Funds have generally resulted from land use agreements having a direct relationship to Trust Funds resources, royalties on natural resource depletion, Tribal enterprises related to trust resources, judgment awards, settlement of Indian claims and investment income.

Other Special Trust Funds represent other monetary trust assets currently managed by the OTFM. Authorization for management of these assets is based on U.S. Congressional Acts or the bequest establishing such funds. Some of these funds either revert back to the U.S. Federal Government upon certain conditions, or the corpus of the fund is non-expendable.

The IIM Trust Fund is a deposit fund for individuals, who have a beneficial interest in the Trust Funds. IIM account holders realize receipts generally from

royalties on natural resource depletion and land use agreements having a direct relationship to Trust Funds resources, per capita receipts and investment income.

FIDUCIARY RESPONSIBILITY

The Secretary has been designated by the U.S. Congress as the primary fiduciary with responsibility for monetary resources held in trust on behalf of American Indian Tribes, individual Indians, and Other Special Trust Funds. In carrying out the management and oversight of the Indian Trust Funds, the Secretary has a fiduciary responsibility to collect all monies due from outside individuals/organizations for the use of Indian lands and the extraction of natural resources from Indian lands, disburse such monies collected to the appropriate beneficiaries, and ensure that trust accounts are properly maintained and invested in accordance with applicable law, and that accurate and complete reports are provided to the account holders.

ANNUAL FINANCIAL AUDITS

The accompanying financial statements represent all of the Indian Trust Funds managed by the OTFM and do not include any direct appropriations which fund OST/OTFM operational services. The audits of the Trust Funds financial statements meet the annual audit requirement of the Reform Act.

MANAGEMENT IMPROVEMENTS UNDER THE HIGH LEVEL IMPLEMENTATION PLAN

The Reform Act directed the OST to consult with Indian Tribes and Indian organizations to develop a comprehensive strategic plan to reform Trust Funds management. As of April 1997, in response to the Reform Act, the Special Trustee prepared and submitted to Congress and the Secretary a strategic plan. The Secretary and the Special Trustee agreed that selected improvements and clean up efforts should proceed as soon as possible. In July 1998 the Secretary published the first High Level Implementation Plan (HLIP) for the Trust Management Improvement Project. The HLIP provides information on and describes each of the 13 subprojects, responsible Bureaus and Offices, tasks, critical milestones, work plans, resource estimates, and accountable officials. On February 29, 2000 the Secretary published a revised and updated HLIP that identifies and outlines specific subprojects for the improvement and operation of Trust Funds management for American Indians. In the revised and updated HLIP, two subprojects were merged with other subprojects leaving a total of eleven subprojects.

**U.S. DEPARTMENT OF THE INTERIOR
OFFICE OF THE SPECIAL TRUSTEE
FOR AMERICAN INDIANS
TRIBAL AND OTHER SPECIAL TRUST FUNDS
MANAGED BY THE
OFFICE OF TRUST FUNDS MANAGEMENT**

**REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS ON
FINANCIAL STATEMENTS**

SEPTEMBER 30, 2000 AND 1999

GRIFFIN & ASSOCIATES, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

DAN D. GRIFFIN

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS ON FINANCIAL STATEMENTS

To the U.S. Department of the Interior
Office of the Special Trustee for American Indians:

We have audited the accompanying Combined Statements of Assets and Trust Fund Balances and the related Combined Statements of Changes in Trust Fund Balances for the Tribal and Other Special Trust Funds managed by the U.S. Department of the Interior Office of the Special Trustee for American Indians (the "OST") Office of Trust Funds Management (the "OTFM") as of and for the years ended September 30, 2000 and 1999. These financial statements are the responsibility of management of the OTFM. Our responsibility is to express an opinion on these financial statements based on our audits. As discussed in Note 2, the OTFM used the cash basis of accounting to prepare these financial statements, which is a comprehensive basis of accounting other than generally accepted accounting principles.

Except as discussed in the following paragraph, we conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used, and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed further in the Notes to the Financial Statements, (1) cash balances reflected in the accompanying combined financial statements are materially greater than balances reported by the U.S. Treasury, (2) inadequacies in various Department of the Interior ("DOI") Indian Trust Fund accounting systems and subsystems, controls and records caused the systems to be unreliable, (3) various Tribal organizations and classes of individual Indians for whom the OTFM holds financial assets in trust do not agree with certain OTFM accountings and balances recorded by the OTFM; and certain of these parties have filed, or are expected to file, claims against the U.S. Federal Government. This may result in a potential liability of the U.S. Federal Government that is not reasonably estimable. Because of these matters, it was not practicable to extend our auditing procedures to enable us to express an opinion regarding the basis on which cash and Trust Fund balances in the Combined Statements of Assets and Trust Fund Balances and individual categories within the Combined Statements of Changes in Trust Fund Balances are stated.

In our opinion, except for the effect on the financial statements of adjustments that might have been determined had we been able to perform adequate audit procedures to verify the financial elements described in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the financial position and change in Trust Fund balances of the Tribal and Other Special Trust Funds managed by the U.S. Department of the Interior Office of the Special Trustee for American Indians Office of Trust Funds Management as of

September 30, 2000 and 1999, and for the years then ended in conformity with the comprehensive basis of accounting described in paragraph one above.

We have also issued separate reports dated December 15, 2000, on the OTFM's internal control structure and on its compliance with laws and regulations.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The Market Value columns, Supplementary Combining Schedule of Assets and Trust Fund Balances, and the related Supplementary Combining Schedule of Changes in Trust Fund Balances are presented for purposes of additional analysis and are not a required part of the basic combined financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic combined financial statements, and in our opinion, except for the items set forth above, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Griffin & Associates, P.C., CPAs

GRIFFIN & ASSOCIATES, P.C.
Certified Public Accountants

Boulder, Colorado
December 15, 2000

**U.S. DEPARTMENT OF THE INTERIOR
OFFICE OF THE SPECIAL TRUSTEE
FOR AMERICAN INDIANS
TRIBAL AND OTHER SPECIAL TRUST FUNDS
MANAGED BY THE
OFFICE OF TRUST FUNDS MANAGEMENT**

FINANCIAL STATEMENTS

SEPTEMBER 30, 2000 AND 1999

U.S. DEPARTMENT OF THE INTERIOR
OFFICE OF THE SPECIAL TRUSTEE FOR AMERICAN INDIANS
TRIBAL AND OTHER SPECIAL TRUST FUNDS
MANAGED BY THE
OFFICE OF TRUST FUNDS MANAGEMENT

COMBINED STATEMENTS OF ASSETS AND TRUST FUND BALANCES - CASH BASIS
SEPTEMBER 30,
(dollars in thousands)

| | 2000 | | 1999 | |
|---|--------------|-------------------------------------|--------------|-------------------------------------|
| | Cash Basis | Market Values - Information Only | Cash Basis | Market Values - Information Only |
| ASSETS | | | | |
| Cash (Note 4) | \$ 327 | \$ 327 | \$ 1,972 | \$ 1,972 |
| Investments (Notes 1C, 4 and 5): | | | | |
| Overnight investments | 395,040 | 395,040 | 290,492 | 290,492 |
| U.S. Treasury and Agency securities | 2,214,548 | 2,200,378 | 2,169,389 | 2,149,507 |
| Equity securities - TVA preferred stock | 4,899 | 4,851 | 4,899 | 4,863 |
| Mortgage backed securities | 121,372 | 118,779 | 129,001 | 127,373 |
| Total investments | 2,735,859 | 2,719,048 | 2,593,781 | 2,572,235 |
| Total assets | \$ 2,736,186 | \$ 2,719,375 | \$ 2,595,753 | \$ 2,574,207 |
| TRUST FUND BALANCES (Notes 7 and 10): | | | | |
| Held for Indian Tribes and Other | | | | |
| Special Trust Funds | \$ 2,558,638 | | \$ 2,345,668 | |
| Held for Indian Tribes and Other | | | | |
| Special Trust Funds - pending action to be taken by Tribes | 61,896 | | 135,468 | |
| Held for Department of Interior and considered to be U.S. Government funds | 115,652 | | 114,617 | |
| Total trust fund balances | \$ 2,736,186 | \$ 2,719,375 | \$ 2,595,753 | \$ 2,574,207 |

The accompanying notes are an integral part of these statements.

U.S. DEPARTMENT OF THE INTERIOR
OFFICE OF THE SPECIAL TRUSTEE FOR AMERICAN INDIANS
TRIBAL AND OTHER SPECIAL TRUST FUNDS
MANAGED BY THE
OFFICE OF TRUST FUNDS MANAGEMENT

COMBINED STATEMENTS OF CHANGES IN TRUST FUND BALANCES - CASH BASIS
FOR THE YEARS ENDED SEPTEMBER 30,
(dollars in thousands)

| | <u>2000</u> | <u>1999</u> |
|--|----------------------------|----------------------------|
| RECEIPTS: | | |
| Interest and dividends received on invested funds (Note 2B) | \$ 164,736 | \$ 155,242 |
| Net Gain on disposition of investments | 1,647 | 5,520 |
| Other receipts (Notes 2C and 9) | <u>329,441</u> | <u>299,213</u> |
| | 495,824 | 459,975 |
| DISBURSEMENTS: | | |
| Payments to and on behalf of Indian Tribes and Other Special Trust Funds and withdrawal of trust funds by Tribes (Notes 2D and 9) | <u>355,391</u> | <u>323,677</u> |
| RECEIPTS IN EXCESS OF DISBURSEMENTS | 140,433 | 136,298 |
| TRUST FUND BALANCES, beginning of year | <u>2,595,753</u> | <u>2,459,455</u> |
| TRUST FUND BALANCES, end of year (Notes 7 and 10) | <u>\$ 2,736,186</u> | <u>\$ 2,595,753</u> |

Market Value - Information Only (Note 2E)

| | | |
|---|----------------------------|----------------------------|
| TRUST FUND BALANCES, beginning of year at Market Value | \$ 2,574,207 | \$ 2,673,865 |
| Receipts in excess of disbursements | 140,433 | 136,298 |
| Unrealized Gain/(Loss) | <u>4,735</u> | <u>(235,956)</u> |
| TRUST FUND BALANCES, end of year at Market Value | <u>\$ 2,719,375</u> | <u>\$ 2,574,207</u> |

The accompanying notes are an integral part of these statements.

U.S. DEPARTMENT OF THE INTERIOR
OFFICE OF THE SPECIAL TRUSTEE FOR AMERICAN INDIANS
TRIBAL AND OTHER SPECIAL TRUST FUNDS
MANAGED BY THE
OFFICE OF TRUST FUNDS MANAGEMENT

NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2000 AND 1999

NOTE 1 -- BACKGROUND AND DESCRIPTION OF THE ORGANIZATION

A. Overview of Trust Funds, the Office of the Special Trustee for American Indians ("OST") and the Office of Trust Funds Management ("OTFM")

Formation of the Trust Funds - The legislation, which authorizes the Secretary of the Interior ("the Secretary") to manage the Tribal and Other Special Trust Funds ("Trust Funds"), recognizes the unique trust relationship that exists between the Indian Tribes and the U.S. Federal Government. Agreements between the U.S. Federal Government and the various Indian Tribes, many of these in the form of treaties, recognize the sovereignty of Tribes. During the course of the Nation's history and the U.S. Federal Government's varying policies toward Indian Tribes, the trust relationship has retained characteristics based upon Tribal sovereignty.

The balances that have accumulated in the Trust Funds have generally resulted from land use agreements having a direct relationship to Trust Funds resources, royalties on natural resource depletion, Tribal enterprises related to Trust resources, judgment awards, settlement of Indian claims and investment income.

The Secretary has been designated by the U.S. Congress as the primary U.S. Federal Government trustee on behalf of the account holders of the Trust Funds. Through February 8, 1996, the Secretary, in turn, delegated authority for management of the Trust Funds, including accounting and financial reporting, to the Assistant Secretary - Indian Affairs, who carried out the management of the Trust Funds through the Bureau of Indian Affairs ("BIA"). The American Indian Trust Fund Management Reform Act of 1994 ("P.L. 103-412") provided for the establishment of the OST. On February 9, 1996, Secretarial Order 3197 ("the Order") re delegated this authority to OST and transferred the OTFM, and financial trust services performed at BIA Regional, Agency and Field Offices, from the BIA to the OST.

Organization of the OST - Trust assets are managed under the delegated authority of the OST and the BIA.

- ♦ Agency and Field Offices - The OST and BIA maintain Agency and Field Offices located throughout the United States. Generally, Agency and Field Offices are physically located near the Tribes served. The Agency and Field Offices may play a significant role in Tribal affairs through assistance in financial planning, financial operations and policy and program development. OST personnel located at most of the Agency Offices perform various functions related to trust funds activities.
- ♦ Regional Offices - Each of the Agency and Field Offices is organized under one of the Regional Offices. The Regional Offices provide administrative and operational support for their respective Agency and Field Offices.
- ♦ Office of Trust Funds Management - The OTFM, established October 26, 1989, and located in Albuquerque, New Mexico, manages and is accountable for tribal, special, and individual Indian monies held in trust by the OST.

U.S. DEPARTMENT OF THE INTERIOR
OFFICE OF THE SPECIAL TRUSTEE FOR AMERICAN INDIANS
TRIBAL AND OTHER SPECIAL TRUST FUNDS
MANAGED BY THE
OFFICE OF TRUST FUNDS MANAGEMENT

NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2000 AND 1999

B. Description of the Trust Funds

The Trust Funds and accounts are managed by the OTFM and BIA on behalf of Tribes and Other Special Trust Funds. Certain of the Tribal and Other Special Trust Funds are subject to legal, regulatory, budgetary, court ordered or other restrictions. A brief description of each Trust Fund follows:

- ♦ Tribal Trust Fund - Approximately 1,400 separate accounts comprise the Tribal Fund as of September 30, 2000 and 1999. Approximately 47% and 44% of the Tribal Fund assets are held in eight and seven accounts as of September 30, 2000 and 1999, respectively.

Tribes realize receipts from a variety of sources including land use agreements, royalties on natural resource depletion, Tribal enterprises related to trust resources, judgment awards, settlement of Indian claims and investment income.

- ♦ Other Special Trust Funds - Other Special Trust Funds represent other monetary trust assets currently managed by the OTFM. Authorization for management of these assets is based on U.S. Congressional Acts or the bequest establishing such funds. Some of these funds either revert back to the U.S. Federal Government upon certain conditions, or the corpus of the fund is non-expendable. A brief description of each Fund follows:

- 0 Alaska Native Escrow Fund - The Alaska Native Escrow Fund was established by U.S. Congressional act for Alaska Native Corporations and Villages for land where the boundaries were disputed. Proceeds received or deposited into this fund are derived primarily from contracts, leases, licenses, permits, rights-of-way, etc. The proceeds, plus accrued interest, are paid out to the appropriate corporation or individual to which the land is conveyed by the U.S. Federal Government.

- 0 Cochiti Wetfields Fund - The Pueblo de Cochiti ("Pueblo") and the U.S. Army Corps of Engineers entered into a settlement agreement for water seepage problems at the Cochiti Dam on Tribal lands. The agreement established a fund for the sole and specific purpose of operating, maintaining, repairing and replacing this drainage system. Although the fund is invested and managed by the OTFM, the fund remains the property of the United States, and will revert to the Department of the U.S. Treasury ("Treasury") if Cochiti Dam becomes non-operational and the Pueblo agrees that the drainage system is no longer needed.

- 0 Papago Cooperative Fund - The Tohono O'Odham Nation, with respect to the San Xavier Reservation and the Schuk Toak District of the Sells Papago Reservation, was awarded a settlement in the form of water rights for water that was taken from reservation land. The water rights give the Tribe flexibility in the management of water resources and encourage allocation of those resources to their highest and best uses. The awarded

U.S. DEPARTMENT OF THE INTERIOR
OFFICE OF THE SPECIAL TRUSTEE FOR AMERICAN INDIANS
TRIBAL AND OTHER SPECIAL TRUST FUNDS
MANAGED BY THE
OFFICE OF TRUST FUNDS MANAGEMENT

NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2000 AND 1999

funds are to be used for Tribal government, health, education, social services, capital improvements and economic development programs.

- 0 Contributed Funds - The OTFM maintains eight (8) contributed funds that were established by donations. The individual funds each have a specific use or purpose in some form to better the lives of American Indians.
- 0 George C. Edgeter Fund - This fund is available, according to the terms of the bequest, for expenditure as determined by the Assistant Secretary - Indian Affairs for the relief of indigent American Indians.
- ◆ Budget clearing and suspense accounts - Currently there are five Treasury suspense and budget clearing accounts contained within the Trust Funds. Currently, four of the five accounts have "stale" balances with little or no activity reported during the year. During the year ended September 30, 2000 the beneficiaries of approximately \$80,000 contained in the fifth account were identified. The monies were transferred to the appropriate beneficiaries' accounts, thus, leaving a balance of approximately \$24,000 for whom the beneficiary has yet to be determined.
- ◆ The Trust Funds contain the following three categories of trust funds for Federal budget purposes:
 - 0 Funds held on behalf of Indian Tribes. Considered non-Federal monies.
 - 0 Funds held on behalf of Indian Tribes but pending some official action by Tribes. Considered Federal monies. See Note 10.
 - 0 Funds which either revert back to the U.S. Federal Government upon certain conditions, or the corpus of the fund is non-expendable. Considered Federal monies.

The balances held for the above three categories are reflected as separate components of the trust fund balances in the financial statements.

C. Investment of Trust Funds

Authorizing legislation and a substantial body of case law specify how the Indian Trust Funds should be managed and which financial instruments constitute appropriate investments for Indian Trust Funds. The Trust Funds are directly invested in U.S. Federal Government securities, including U.S. Treasury and U.S. Federal Government Agency issues, as well as certain other securities that are guaranteed by the U.S. Federal Government.

U.S. DEPARTMENT OF THE INTERIOR
OFFICE OF THE SPECIAL TRUSTEE FOR AMERICAN INDIANS
TRIBAL AND OTHER SPECIAL TRUST FUNDS
MANAGED BY THE
OFFICE OF TRUST FUNDS MANAGEMENT

NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2000 AND 1999

NOTE 2 -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Accounting

The OTFM uses the cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles, for the Tribal and Other Special Trust Funds. The cash basis of accounting differs from generally accepted accounting principles in that receivables and payables are not recorded and premiums and discounts are not amortized or accreted. Investments are stated at historical cost. Interest receipts reported in the Combined Statements of Changes in Trust Fund Balances reflect the interest received during the fiscal year. The financial statements include a market value column for informational purposes only.

The Trust Funds account for monetary assets held for others and special trust funds in a trust capacity. Receipts are recorded when received, because it is not practicable to measure the majority of such items prior to receipt. Accordingly, receivables are not reflected in the accompanying financial statements.

The accompanying financial statements include only the balances held in trust by the OST and OTFM for others and special trust funds and do not include (1) the account balances of the OST and OTFM (general appropriations, personnel and administrative costs, etc., or the measurement of their operations), or (2) the values of Indian lands, buildings or other non-monetary assets.

B. Interest and Dividend Receipts

Tribal and Other Special Trust Funds are invested separately by account with interest and dividends recorded based on actual income received from each investment. Interest and dividends are derived from: (1) investment securities, such as U.S. Treasury, Agency or U.S. Federal Government sponsored securities, or (2) U.S. Treasury overnight investment ("overnighter"), which earns a rate comparable to "Fed Funds" rates. The interest on the overnighiter investments is calculated daily, compounded, accumulated separately for participating accounts and posted to the separate accounts monthly.

C. Other Receipts

Approximately 25% and 5% of other receipts are a result of claims and judgment awards paid to Tribes and Other Special Trust Funds by the U.S., State and local governments, and private entities and individuals for the years ended September 30, 2000 and 1999 respectively. The remainder of other receipts is generated from a variety of non-monetary assets that are held in trust by the U.S. Federal Government and managed by the BIA and other Federal Agencies on behalf of Tribes. Such amounts include receipts from various leasing activities, mineral royalties, and sales of extracted minerals, timber and forest products, fees and fines, and the granting of easements.

U.S. DEPARTMENT OF THE INTERIOR
OFFICE OF THE SPECIAL TRUSTEE FOR AMERICAN INDIANS
TRIBAL AND OTHER SPECIAL TRUST FUNDS
MANAGED BY THE
OFFICE OF TRUST FUNDS MANAGEMENT

NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2000 AND 1999

D. Disbursements

Payments disbursed from the Trust Funds accounts consist of judgment and settlement awards, accumulations of investment income as well as funds from various income producing activities such as leasing, royalty payments, minerals extraction and timber and forest product sales. Under certain conditions, Tribes disburse per capita payments to their enrolled members from their Tribal Trust Funds.

P.L. 103-412 specifically allows for the voluntary withdrawal from the Trust Funds program. An Indian Tribe may submit a plan to withdraw some or all funds held in trust for the Tribe in accordance with 25 CFR 1200.

E. Significant Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates. Management considers the market value of investments one such significant estimate.

NOTE 3 -- ACCOUNTING SYSTEMS AND MATERIAL INTERNAL CONTROL WEAKNESSES

The accounting systems, subsystems and internal control procedures used for the Trust Funds have historically suffered from a variety of system and procedural internal control weaknesses. Some of these weaknesses along with their improvements are as follows:

- A. There remain some gaps of consistency in the application of accounting policies and related procedures being utilized OTFM-wide, which cause the potential for accounting errors in the Indian Trust Funds. Standardized documented policies and procedures are in various stages of development to address significant accounting processes.
- B. Through March 2000, there were instances of inadequate segregation for many key duties, particularly in the accounting processes performed at Regional, Agency and Field Offices. These instances have been addressed by the completed centralization of the accounting input function.
- C. Through March 2000, records management was inconsistent and inadequate to ensure the proper filing and safekeeping of Trust Fund records to support trust financial activity. A mandatory documents policy has been adopted and verification of these mandatory documents is checked in the centralized accounting pre-posting review procedures.
- D. There is an unreconciled difference of approximately \$35,000,000 between the total cash balances reflected by the OTFM for Tribal and Other Special Trust Funds, and Individual Indian Monies Trust Funds and the balances reported by Treasury as of September 30, 2000 and 1999. Treasury reports reflect balances less than OTFM balances. Issue papers and proposed

U.S. DEPARTMENT OF THE INTERIOR
OFFICE OF THE SPECIAL TRUSTEE FOR AMERICAN INDIANS
TRIBAL AND OTHER SPECIAL TRUST FUNDS
MANAGED BY THE
OFFICE OF TRUST FUNDS MANAGEMENT

NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2000 AND 1999

action plans for these differences have been shared with departmental personnel and are the subject of interdepartmental discussions.

- E. Many individual Tribal accounts need to be reconciled and/or resolved through negotiation and settlement before reliance can be placed on the balances reflected in the Trust Fund accounts. Upon resolution, it may be possible to reconcile OTFM cash balances to Treasury. Issue papers and proposed action plans for these differences have been shared with departmental personnel and are the subject of interdepartmental discussions.
- F. Uncertainties regarding the division of responsibilities between BIA and OTFM staff resulted in inconsistent implementation of responsibilities.
- G. BIA through its Operations Service Center ("OSC") in Albuquerque provides several significant data "inputs" to the OTFM's trust accounting system. These interfaced inputs of computer-programmed allocations of income to account holders include (but are not limited to) lease distributions from land ownership records, per capita, and Osage oil and gas annuities. Due to OSC's significance regarding OTFM's trust accounting responsibilities, any internal control issues at OSC impacting the OTFM during the audit period should be addressed. Following are the issues:
- There is no verification process in place assuring OTFM that interfaced data is proper and/or accurate. Ownership records at the Regional and Agency Offices are not updated in a timely manner. This results in the potential for inaccurate distributions of lease income to Tribal and IIM account holders.
 - There is no assurance that controls are in place at OSC to ensure data integrity.
 - The Department of Interior's fiscal year 1999 audit report issued by the Inspector General dated May 10, 2000 identified material weaknesses that require resolution.
 - Current contractors at OSC may be unable to timely resolve programming issues for OTFM-"owned" programs, which in turn may affect OTFM's ability to meet deadlines.

In an effort to address these pervasive issues, the OTFM was placed under the direction of the OST, effective February 9, 1996 with Secretarial Order 3197. The Secretary's decision on system improvements and data clean up were organized into separate, but complementing subprojects, which comprise the High Level Implementation Plan ("HLIP"). The HLIP provides information on and describes each of the 13 subprojects, responsible Bureaus and Offices, supporting tasks, critical milestones, work plans, resource estimates, and accountable officials. These 13 subprojects have been subsequently modified to 11 and are in various stages of completion and implementation.

U.S. DEPARTMENT OF THE INTERIOR
OFFICE OF THE SPECIAL TRUSTEE FOR AMERICAN INDIANS
TRIBAL AND OTHER SPECIAL TRUST FUNDS
MANAGED BY THE
OFFICE OF TRUST FUNDS MANAGEMENT

NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2000 AND 1999

NOTE 4 -- CASH AND OVERNIGHT INVESTMENTS

The Trust Funds are disbursed by the OTFM through disbursing functions provided by the Department of the Treasury. Vouchers and Schedules of Payments are submitted to the Treasury and processed through an electronic processing and certification system. Corresponding accounting entries are recorded into the respective trust fund accounts. Treasury checks are only negotiable for one year from the date of issuance. The OTFM receives credit, and credits back to the appropriate account holders, amounts on checks that are not negotiated. Cash balances consist of cash deposits to Treasury between the cut-off time for overnight investment, 1:00 p.m. (MST/MDT), and the end of the business day. Amounts on hand at the Regional and Agency Offices, if any, awaiting deposit to Treasury are not included in the financial statements.

Available cash is used to purchase Treasury overnight investment.

NOTE 5 -- INVESTMENTS

Investments are recorded at historical cost.

The Trust Funds investments have a concentration of credit risk in U.S. Federal Government securities as mandated by 25 USC 162.

Investments have not been adjusted to reflect changes in market value, because it is the OTFM's intent and ability to generally hold these investments until maturity, thereby reducing the risk of loss as a result of early disposition of such investments.

Maturities

Investments (at market value) with scheduled maturities are as follows (see Note 2E):

(dollars in thousands)

| | <u>Tribal</u> <u>Trust Funds</u> | <u>Other Special</u> <u>Trust Funds</u> | <u>Combined</u> <u>Totals</u> |
|--|-------------------------------------|--|----------------------------------|
| September 30, 2000: | | | |
| U.S. Treasury and Agency securities: | | | |
| Overnight investments | \$ 393,178 | \$ 1,862 | \$ 395,040 |
| Less than 1 Year | 163,490 | 6,951 | 170,441 |
| 1 - 5 Years | 649,805 | 31,169 | 680,974 |
| 5 - 10 Years | 1,269,971 | 14,841 | 1,284,812 |
| Greater than 10 Years | <u>64,151</u> | <u>-</u> | <u>64,151</u> |
| | 2,540,595 | 54,823 | 2,595,418 |
| Equities - TVA preferred stock - with no scheduled maturities | 4,851 | - | 4,851 |
| Mortgage backed securities with varying maturities | <u>110,779</u> | <u>-</u> | <u>110,779</u> |
| | <u>\$ 2,664,225</u> | <u>\$ 54,823</u> | <u>\$ 2,719,048</u> |

U.S. DEPARTMENT OF THE INTERIOR
OFFICE OF THE SPECIAL TRUSTEE FOR AMERICAN INDIANS
TRIBAL AND OTHER SPECIAL TRUST FUNDS
MANAGED BY THE
OFFICE OF TRUST FUNDS MANAGEMENT

NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2000 AND 1999

| | <u>Tribal Trust Funds</u> | <u>Other Special Trust Funds</u> | <u>Combined Totals</u> |
|--|-------------------------------|--------------------------------------|----------------------------|
| September 30, 1999: | | | |
| U.S. Treasury and Agency securities: | | | |
| Overnight investments | \$ 290,427 | \$ 65 | \$ 290,492 |
| Less than 1 Year | 154,075 | 5,066 | 159,141 |
| 1 - 5 Years | 573,215 | 29,357 | 602,572 |
| 5 - 10 Years | 1,311,826 | 17,207 | 1,329,033 |
| Greater than 10 Years | <u>58,761</u> | <u>-</u> | <u>58,761</u> |
| | 2,388,304 | 51,695 | 2,439,999 |
| Equities - TVA preferred stock - with no scheduled maturities | 4,863 | - | 4,863 |
| Mortgage backed securities with varying maturities | <u>127,373</u> | <u>-</u> | <u>127,373</u> |
| | <u>\$ 2,520,540</u> | <u>\$ 51,695</u> | <u>\$ 2,572,235</u> |

NOTE 6 -- COMMITMENTS AND CONTINGENCIES

The Secretary has been designated by the U.S. Congress as the primary fiduciary with responsibility for monetary resources held in trust on behalf of American Indian Tribes, individual Indians, and Other Special Trust Funds. In carrying out the management and oversight of the Indian Trust Funds, the Secretary has a fiduciary responsibility to collect all monies due from outside individuals/organizations for the use of Indian lands and the extraction of natural resources from Indian lands, disburse such monies collected to the appropriate beneficiaries, and ensure that trust accounts are properly maintained and invested in accordance with applicable law, and that accurate and complete reports are provided to the account holders.

Tribal organizations have filed various claims against the U.S. Federal Government for failure to fulfill its fiduciary responsibilities and for related charges. Neither the OTFM nor the Office of the Solicitor for the U.S. Department of the Interior can presently determine the outcome of these actions nor the total amount, responsibility and funding source of the potential liability.

Any actual liabilities resulting from adverse outcomes of the contingencies described above are generally expected to be satisfied with U.S. Federal Government funds, and not with Trust Funds balances. No amounts have been accrued in the accompanying Trust Funds financial statements for potential claims receivable from the U.S. Federal Government.

NOTE 7 -- TRUST FUNDS BALANCES

Trust Funds balances are the aggregation of monetary assets held in trust and represent the amounts owed to beneficiaries as of September 30, 2000 and 1999, for which the OTFM has a fiduciary responsibility.

U.S. DEPARTMENT OF THE INTERIOR
OFFICE OF THE SPECIAL TRUSTEE FOR AMERICAN INDIANS
TRIBAL AND OTHER SPECIAL TRUST FUNDS
MANAGED BY THE
OFFICE OF TRUST FUNDS MANAGEMENT

NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2000 AND 1999

A portion of such account balances represents prepayments or deposits on production type leases for which certain individual Indians and Tribes hold an interest (see Note 9). Any deposits in excess of production are returned to the depositor. Such excess deposits, as of September 30, 2000 and 1999 have not been quantified.

Included in the Tribal Trust Funds are certain balances presently not identified to specific Tribes because judgment awards were granted to several Indian Tribes in a particular geographic area for settlement of claims related to certain lands.

NOTE 8 -- RELATED PARTY TRANSACTIONS WITH OTHER U.S. FEDERAL GOVERNMENT ORGANIZATIONS

Debt Repayment Arrangements

The BIA is a party to various note payable agreements. These agreements are primarily between the Indian Tribes and the U.S. Department of Agriculture Farmers Home Administration ("FmHA") or the U.S. Department of Commerce Economic Development Administration ("EDA"). The proceeds of the FmHA loans are generally used by Indian Tribes to repurchase fractional ownership interests in allotted lands from individual Indians.

The income received from the acquired ownership interests are deposited into either "Special Deposit" accounts in the IIM Trust Funds or a designated Tribal account in the Tribal and Other Special Trust Funds, and principal and interest payments are made from these accounts. EDA loans are utilized for construction of Tribal facilities (governmental/administrative buildings, and facilities for enterprise activities such as manufacturing, hotel/motel facilities, etc.). Individual Tribes are liable for repayment of these loans. Proceeds of Labor Trust Fund accounts may be utilized for repayment of these loans.

Minerals Management Services

The OTFM receives royalty payments from the U.S. Department of the Interior Minerals Management Service ("MMS") on behalf of Indian Tribes and individual Indians holding mineral rights. MMS generally transfers the royalty payments to the OTFM upon receipt. At the time the royalty payments are received, MMS provides the OTFM a MMS allocation of 100% Tribally owned lease royalties, thus permitting the OTFM to record the receipts directly into Tribal accounts. For Tribally and individually co-owned leases, the royalty payments are forwarded by MMS and subsequently distributed through the Royalty Distribution Reporting System ("RDRS"). MMS and the Bureau of Land Management both perform verification and other monitoring procedures of mineral assets.

Oil and gas companies sometimes make overpayments to MMS. These are first paid to the OTFM on behalf of Indian Tribes and individuals, and may be disbursed by the OTFM to the beneficiaries. The overpayments generally result from payments being made based on estimated mineral production, in order to comply with the Federal Oil and Gas Royalty Management Act of 1982 that requires timely distribution of royalties. Typically, the oil and gas companies recover such overpayments by

U.S. DEPARTMENT OF THE INTERIOR
OFFICE OF THE SPECIAL TRUSTEE FOR AMERICAN INDIANS
TRIBAL AND OTHER SPECIAL TRUST FUNDS
MANAGED BY THE
OFFICE OF TRUST FUNDS MANAGEMENT

NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2000 AND 1999

adjusting future payments. The amounts of such overpayments if any as of September 30, 2000 and 1999 are not readily determinable and have not been quantified in these financial statements.

Other

As discussed in Note 4, the Treasury holds cash and overnight investments and disburses for the OTFM. As discussed in Note 6, the DOI Office of the Solicitor serves as legal counsel for the OST and OTFM.

NOTE 9 -- TRANSFERS

The OTFM receives monies into special deposit accounts for both Tribal and IIM beneficiaries. These accounts are to be used as suspense accounts to which funds should be temporarily posted when the allocation is not immediately clear. Funds should be subsequently transferred from the special deposit account to the appropriate Tribal or IIM account(s) when BIA determines the proper allocations. These net transfers amounted to approximately \$7,000,000 out of the Trust Funds during the fiscal year ended September 30, 2000, and \$45,000,000 into the Trust Funds during the fiscal year ended September 30, 1999. The Payments to and on behalf of Indian Tribes and Other Special Trust Funds and withdrawal of trust funds by Tribes category on the Combined Statement of Changes in Trust Fund Balances include these net transfers out for the fiscal year ended September 30, 2000, and the Other receipts category on the Combined Statement of Changes in Trust Fund Balances include these net transfers in for the fiscal year ended September 30, 1999. The amount of monies not yet transferred has not been quantified in these Tribal and Other Special Trust Funds financial statements.

NOTE 10 -- TRANSFERS FROM FEDERAL MONIES TO NON-FEDERAL MONIES

During the year ended September 30, 2000 two of the four accounts reflected on the Combined Statement of Assets and Trust Fund Balances under the "Held for Indian Tribes and Other Special Trust Funds - pending action to be taken by Tribes" category were reclassified to the "Held for Indian Tribes and Other Special Trust Funds" category. The San Carlos Apache Tribe Water Rights Settlement Act of 1992 confirming event became effective as of December 28, 1999 and approximately \$58,000,000 is now considered non-Federal monies. The Zuni Land Conservation Act of 1990 confirming event became effective as of August 31, 2000 and approximately \$18,000,000 is now considered non-Federal monies.

**U.S. DEPARTMENT OF THE INTERIOR
OFFICE OF THE SPECIAL TRUSTEE
FOR AMERICAN INDIANS
TRIBAL AND OTHER SPECIAL TRUST FUNDS
MANAGED BY THE
OFFICE OF TRUST FUNDS MANAGEMENT**

SUPPLEMENTARY COMBINING SCHEDULES

SEPTEMBER 30, 2000

U.S. DEPARTMENT OF THE INTERIOR
OFFICE OF THE SPECIAL TRUSTEE FOR AMERICAN INDIANS
TRIBAL AND OTHER SPECIAL TRUST FUNDS
MANAGED BY THE
OFFICE OF TRUST FUNDS MANAGEMENT

SUPPLEMENTARY COMBINING
SCHEDULE OF ASSETS AND TRUST FUND BALANCES - CASH BASIS
SEPTEMBER 30, 2000
(dollars in thousands)

| | Tribal Trust Funds | Other Special Trust Funds | Combined Totals |
|---|-----------------------|------------------------------|---------------------|
| ASSETS | | | |
| Cash (Note 4) | \$ 361 | \$ (34) | \$ 327 |
| Investments (Notes 1C, 4 and 5): | | | |
| Overnight investments | 393,178 | 1,862 | 395,040 |
| U.S. Treasury and Agency securities | 2,161,219 | 53,329 | 2,214,548 |
| Equity securities - TVA preferred stock | 4,899 | - | 4,899 |
| Mortgage backed securities | 121,372 | - | 121,372 |
| Total investments | <u>2,680,668</u> | <u>55,191</u> | <u>2,735,859</u> |
| Total assets | <u>\$ 2,681,029</u> | <u>\$ 55,157</u> | <u>\$ 2,736,186</u> |
| TRUST FUND BALANCES (Notes 7 and 10) | | | |
| Held for Indian Tribes | \$ 2,558,638 | \$ - | \$ 2,558,638 |
| Held for Indian Tribes - pending action to be taken by Tribes | 61,896 | - | 61,896 |
| Held for Department of Interior and considered to be U.S. Government funds | 60,495 | 55,157 | 115,652 |
| Total trust fund balances | <u>\$ 2,681,029</u> | <u>\$ 55,157</u> | <u>\$ 2,736,186</u> |

Market Value Information Only (Note 2E)

| | | | |
|---|---------------------|------------------|---------------------|
| ASSETS | | | |
| Cash | \$ 361 | \$ (34) | \$ 327 |
| Investments: | | | |
| Overnight investments | 393,178 | 1,862 | 395,040 |
| U.S. Treasury and Agency securities | 2,147,417 | 52,961 | 2,200,378 |
| Equity securities - TVA preferred stock | 4,851 | - | 4,851 |
| Mortgage backed securities | 118,779 | - | 118,779 |
| Total investments | <u>2,664,225</u> | <u>54,823</u> | <u>2,719,048</u> |
| Total assets | <u>\$ 2,664,586</u> | <u>\$ 54,789</u> | <u>\$ 2,719,375</u> |
| Total trust fund balances | <u>\$ 2,664,586</u> | <u>\$ 54,789</u> | <u>\$ 2,719,375</u> |

The accompanying notes are an integral part of these schedules.

U.S. DEPARTMENT OF THE INTERIOR
OFFICE OF THE SPECIAL TRUSTEE FOR AMERICAN INDIANS
TRIBAL AND OTHER SPECIAL TRUST FUNDS
MANAGED BY THE
OFFICE OF TRUST FUNDS MANAGEMENT

SUPPLEMENTARY COMBINING
SCHEDULE OF CHANGES IN TRUST FUND BALANCES - CASH BASIS
FOR THE YEAR ENDED SEPTEMBER 30, 2000
(dollars in thousands)

| | Tribal Trust Funds | Other Special Trust Funds | Combined Totals |
|---|-----------------------|------------------------------|---------------------|
| RECEIPTS: | | | |
| Interest and dividends earned on invested funds (Note 2B) | \$ 161,612 | \$ 3,124 | \$ 164,736 |
| Net Gain/(Loss) on disposition of investments | 1,666 | (19) | 1,647 |
| Other receipts (Notes 2C and 9) | <u>327,522</u> | <u>1,919</u> | <u>329,441</u> |
| | 490,800 | 5,024 | 495,824 |
| DISBURSEMENTS: | | | |
| Payments to and on behalf of Indian Tribes and Other Special Trust Funds and withdrawal of trust funds by Tribes (Notes 2D and 9) | <u>354,189</u> | <u>1,202</u> | <u>355,391</u> |
| Receipts in excess of disbursements | 136,611 | 3,822 | 140,433 |
| TRUST FUND BALANCES, beginning of year | <u>2,544,418</u> | <u>51,335</u> | <u>2,595,753</u> |
| TRUST FUND BALANCES, end of year (Notes 7 and 10) | <u>\$ 2,681,029</u> | <u>\$ 55,157</u> | <u>\$ 2,736,186</u> |

Market Value Information Only (Note 2E)

| | | | |
|---|---------------------|------------------|---------------------|
| TRUST FUND BALANCES, beginning of year at Market Value | \$ 2,522,546 | \$ 51,661 | \$ 2,574,207 |
| Receipts in excess of disbursements | 136,611 | 3,822 | 140,433 |
| Unrealized Gain/(Loss) | <u>5,429</u> | <u>(694)</u> | <u>4,735</u> |
| TRUST FUND BALANCES, end of year at Market Value | <u>\$ 2,664,586</u> | <u>\$ 54,789</u> | <u>\$ 2,719,375</u> |

The accompanying notes are an integral part of these schedules.

**U.S. DEPARTMENT OF THE INTERIOR
OFFICE OF THE SPECIAL TRUSTEE
FOR AMERICAN INDIANS
INDIVIDUAL INDIAN MONIES TRUST FUNDS
MANAGED BY THE
OFFICE OF TRUST FUNDS MANAGEMENT**

**REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS ON
FINANCIAL STATEMENTS**

SEPTEMBER 30, 2000 AND 1999

GRIFFIN & ASSOCIATES, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

DAN D. GRIFFIN

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS ON FINANCIAL STATEMENTS

To the U.S. Department of the Interior
Office of the Special Trustee for American Indians:

We have audited the accompanying Statements of Assets and Trust Fund Balances and the related Statements of Changes in Trust Fund Balances for the Individual Indian Monies Trust Funds managed by the U.S. Department of the Interior Office of the Special Trustee for American Indians (the "OST") Office of Trust Funds Management (the "OTFM") as of and for the years ended September 30, 2000 and 1999. These financial statements are the responsibility of management of the OTFM. Our responsibility is to express an opinion on these financial statements based on our audits. As discussed in Note 2, the OTFM used the cash basis of accounting with certain modifications to prepare these financial statements, which is a comprehensive basis of accounting other than generally accepted accounting principles.

Except as discussed in the following paragraph, we conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed further in the Notes to the Financial Statements, (1) cash balances reflected in the accompanying financial statements are materially greater than balances reported by the U.S. Treasury, (2) inadequacies in various Department of the Interior ("DOI") Indian Trust Fund historical accounting systems and subsystems, controls and records caused the systems to be unreliable, (3) various Tribal organizations and classes of individual Indians for whom the OTFM holds financial assets in trust do not agree with certain OTFM accountings and balances recorded by the OTFM; and certain of these parties have filed, or are expected to file, claims against the U.S. Federal Government. This may result in a potential liability of the U.S. Federal Government that is not reasonably estimable. Because of these matters, it was not practicable to extend our auditing procedures to enable us to express an opinion regarding the basis on which cash and Trust Fund balances in the Statements of Assets and Trust Fund Balances and individual categories within the Statements of Changes in Trust Fund Balances are stated.

In our opinion, except for the effect on the financial statements of adjustments that might have been determined had we been able to perform adequate audit procedures to verify the financial elements described in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the financial position and change in Trust Fund balances of the Individual Indian Monies Trust Funds managed by the U.S. Department of the Interior

Office of the Special Trustee for American Indians Office of Trust Funds Management
as of September 30, 2000 and 1999, and for the years then ended in conformity with
the comprehensive basis of accounting described in paragraph one above.

We have also issued separate reports dated December 15, 2000, on the OTFM's
internal control structure and on its compliance with laws and regulations.

Griffin & Associates, P.C., CPAs

GRIFFIN & ASSOCIATES, P.C.
Certified Public Accountants

Boulder, Colorado
December 15, 2000

**U.S. DEPARTMENT OF THE INTERIOR
OFFICE OF THE SPECIAL TRUSTEE
FOR AMERICAN INDIANS
INDIVIDUAL INDIAN MONIES TRUST FUNDS
MANAGED BY THE
OFFICE OF TRUST FUNDS MANAGEMENT**

FINANCIAL STATEMENTS

SEPTEMBER 30, 2000 AND 1999

U.S. DEPARTMENT OF THE INTERIOR
OFFICE OF THE SPECIAL TRUSTEE FOR AMERICAN INDIANS
INDIVIDUAL INDIAN MONIES TRUST FUNDS
MANAGED BY THE
OFFICE OF TRUST FUNDS MANAGEMENT

STATEMENTS OF ASSETS AND TRUST FUND BALANCES - MODIFIED CASH BASIS
SEPTEMBER 30,
(dollars in thousands)

| ASSETS | 2000 | 1999 |
|---|-----------------------|-----------------------|
| Cash (Note 4) | \$ 632 | \$ 615 |
| Investments (Notes 1C, 4 and 5): | | |
| Overnight investments | 18,407 | 9,015 |
| U.S. Treasury and Agency securities | 364,027 | 338,755 |
| Equity securities - TVA preferred stock | 5,000 | 5,000 |
| Mortgage backed securities | 6,356 | 90,627 |
| Total investments | <u>394,422</u> | <u>444,012</u> |
| Accrued interest receivable | <u>5,447</u> | <u>5,268</u> |
| Total assets | <u>\$ 399,869</u> | <u>\$ 449,280</u> |
| TRUST FUND BALANCES, held for Individual Indians (Note 7): | <u>\$ 399,869</u> | <u>\$ 449,280</u> |

The accompanying notes are an integral part of these statements.

U.S. DEPARTMENT OF THE INTERIOR
OFFICE OF THE SPECIAL TRUSTEE FOR AMERICAN INDIANS
INDIVIDUAL INDIAN MONIES TRUST FUNDS
MANAGED BY THE
OFFICE OF TRUST FUNDS MANAGEMENT

STATEMENTS OF CHANGES IN TRUST FUND BALANCES - MODIFIED CASH BASIS
FOR THE YEARS ENDED SEPTEMBER 30,
(dollars in thousands)

| | <u>2000</u> | <u>1999</u> |
|---|-------------------|-------------------|
| RECEIPTS: | | |
| Interest and dividends earned | | |
| on invested funds (Note 2B) | \$ 30,271 | \$ 47,453 |
| Net Gain/(Loss) on disposition of investments | (364) | 1,922 |
| Other receipts (Notes 2C and 9) | <u>215,257</u> | <u>257,354</u> |
| | 245,164 | 306,729 |
| DISBURSEMENTS: | | |
| Payments to and on behalf of | | |
| account holders (Notes 2D and 9) | <u>294,575</u> | <u>336,637</u> |
| DISBURSEMENTS IN EXCESS OF RECEIPTS | (49,411) | (29,908) |
| TRUST FUND BALANCES, beginning of year | <u>449,280</u> | <u>479,188</u> |
| TRUST FUND BALANCES, end of | | |
| year (Note 7) | <u>\$ 399,869</u> | <u>\$ 449,280</u> |

The accompanying notes are an integral part of these statements.

U.S. DEPARTMENT OF THE INTERIOR
OFFICE OF THE SPECIAL TRUSTEE FOR AMERICAN INDIANS
INDIVIDUAL INDIAN MONIES TRUST FUNDS
MANAGED BY THE
OFFICE OF TRUST FUNDS MANAGEMENT

NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2000 AND 1999

NOTE 1 -- BACKGROUND AND DESCRIPTION OF THE ORGANIZATION

A. Overview of Trust Funds, the Office of the Special Trustee for American Indians ("OST") and the Office of Trust Funds Management ("OTFM")

Formation of the Trust Funds - The legislation, which authorizes the Secretary of the Interior ("the Secretary") to manage the Individual Indian Monies ("IIM") Trust Funds ("Trust Funds"), recognizes the unique trust relationship that exists between the individual Indians, Indian Tribes and the U.S. Federal Government. Agreements between the U.S. Federal Government and the various Indian Tribes, many of these in the form of treaties, recognize the sovereignty of Tribes. During the course of the Nation's history and the U.S. Federal Government's varying policies toward Indians and Indian Tribes, the trust relationship has retained characteristics based upon Tribal sovereignty.

The balances that have accumulated in the Trust Funds have generally resulted from royalties from natural resource depletion, land use agreements having a direct relationship to Trust Funds resources, per capita receipts and investment income.

The Secretary has been designated by the U.S. Congress as the primary U.S. Federal Government trustee on behalf of the account holders of the Trust Funds. Through February 8, 1996, the Secretary, in turn, delegated authority for management of the Trust Funds, including accounting and financial reporting, to the Assistant Secretary - Indian Affairs, who carried out the management of the Trust Funds through the Bureau of Indian Affairs ("BIA"). The American Indian Trust Fund Management Reform Act of 1994 ("P.L. 103-412") provided for the establishment of the OST. On February 9, 1996, Secretarial Order 3197 ("the Order") redelegated this authority to OST and transferred the OTFM, and financial trust services performed at BIA Regional, Agency and Field Offices, from the BIA to the OST.

Organization of the OST - Trust assets are managed under the delegated authority of the OST and the BIA.

- ♦ Agency and Field Office - The OST and BIA maintain Agency and Field Offices located throughout the United States. Generally, Agency and Field Offices are physically located near the Tribes served. The Agency and Field Offices may play a significant role in Tribal affairs through assistance in financial planning, financial operations and policy and program development. OST personnel located at most of the Agency Offices perform various functions related to trust funds activities.
- ♦ Regional Office - Each of the Agency and Field Offices is organized under one of the Regional Offices. The Regional Offices provide administrative and operational support for their respective Agency and Field Offices.
- ♦ Office of Trust Funds Management - The OTFM, established October 26, 1989, and located in Albuquerque, New Mexico, manages and is accountable for tribal, special, and individual Indian monies held in trust by the OST.

U.S. DEPARTMENT OF THE INTERIOR
OFFICE OF THE SPECIAL TRUSTEE FOR AMERICAN INDIANS
INDIVIDUAL INDIAN MONIES TRUST FUNDS
MANAGED BY THE
OFFICE OF TRUST FUNDS MANAGEMENT

NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2000 AND 1999

B. Description of the Trust Funds

The IIM Trust Funds and accounts are managed by the OTFM and BIA on behalf of IIM account holders. Certain of the IIM funds described below are subject to legal, regulatory, budgetary, court ordered or other restrictions.

The IIM Trust Funds are primarily deposit funds for individuals, who may have a fiduciary interest in the IIM Trust Funds. IIM account holders realize receipts primarily from royalties on natural resource depletion, land use agreements, enterprises having a direct relationship to Trust Fund resources and investment income. In addition, the IIM Trust Funds contain special deposit accounts for certain Tribal entities. Approximately 258,000 and 279,000 open accounts are held for beneficiaries and Tribal enterprises in the IIM Fund as of September 30, 2000 and 1999 respectively. Approximately 41% and 48% of the trust fund balances within the IIM system are held at two Regional Offices as of September 30, 2000 and 1999 respectively.

C. Investment of Trust Funds

Authorizing legislation and a substantial body of case law specify how the Indian Trust Funds should be managed and which financial instruments constitute appropriate investments for Indian Trust Funds. The Trust Funds are directly invested in U.S. Federal Government securities, including U.S. Treasury and U.S. Federal Government Agency issues, as well as certain other securities that are guaranteed by the U.S. Federal Government.

NOTE 2 -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Accounting

The OTFM uses the cash basis of accounting with certain modifications for the Individual Indian Monies. Accrual adjustments were recorded in the accompanying financial statements as of September 30, 2000 and 1999, to reflect interest and dividends earned but not received, and to record any applicable accretion of discount/amortization of premium over the terms of the investments. This is a comprehensive basis of accounting other than generally accepted accounting principles. Investments are stated at amortized cost. Interest receipts reported in the Statements of Changes in Trust Fund Balances reflect the net of interest earned and amortization expense or accretion income recognized during the fiscal year. Investments have not been adjusted to reflect changes in market value, because it is the OTFM's intent and ability to generally hold these investments until maturity.

The IIM Trust Funds account for monetary assets held for others in a trust capacity. Receipts, other than interest on invested funds, are recorded when received, because it is not practicable to measure the majority of such items prior to receipt. Accordingly, receivables, other than accrued interest and dividends, are not reflected in the accompanying financial statements.

U.S. DEPARTMENT OF THE INTERIOR
OFFICE OF THE SPECIAL TRUSTEE FOR AMERICAN INDIANS
INDIVIDUAL INDIAN MONIES TRUST FUNDS
MANAGED BY THE
OFFICE OF TRUST FUNDS MANAGEMENT

NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2000 AND 1999

The accompanying financial statements include only the balances held in trust by the OST and OTFM for others and do not include (1) the account balances of the OST and OTFM (general appropriations, personnel and administrative costs, etc., or the measurement of their operations), or (2) the values of Indian lands, buildings or other non-monetary assets.

B. Interest and Dividend Receipts

IIM Trust Funds are pooled and invested. Interest and dividends are derived from: (1) investment securities, such as U.S. Treasury, Agency or U.S. Federal Government sponsored securities, or (2) U.S. Treasury overnight investment ("overnighter"), which earns a rate comparable to "Fed Funds" rates. Interest and dividend receipts as reflected in the Statement of Changes in Trust Fund Balances are net of amortization expense/accretion income for the fiscal year. The interest on the overnighiter investments is calculated daily, compounded, accumulated separately for participating accounts and posted to the pooled accounts monthly. Interest is subsequently distributed to the individual accounts.

C. Other Receipts

Other receipts are generated from a variety of non-monetary assets that are held in trust by the U.S. Federal Government and managed by the BIA and other Federal Agencies on behalf of individual Indians. Such amounts include receipts from various leasing activities, mineral royalties, and sales of extracted minerals, timber and forest products, fees and fines, and the granting of easements. Other receipts also contain payments, claims and judgment awards to individual Indians by the U.S. Federal Government.

D. Disbursements

Payments disbursed to and on behalf of individual Indians consist of accumulations of investment income, as well as funds from various income-producing activities such as leasing, royalty payments, mineral extraction and timber and forest product sales and per capita payments.

E. Significant Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates. Management considers the market value of investments one such significant estimate.

NOTE 3 -- ACCOUNTING SYSTEMS AND MATERIAL INTERNAL CONTROL WEAKNESSES

The accounting systems, subsystems and internal control procedures used for the Trust Funds have historically suffered from a variety of system and procedural internal control weaknesses. Some of these weaknesses along with their improvements are as follows:

U.S. DEPARTMENT OF THE INTERIOR
OFFICE OF THE SPECIAL TRUSTEE FOR AMERICAN INDIANS
INDIVIDUAL INDIAN MONIES TRUST FUNDS
MANAGED BY THE
OFFICE OF TRUST FUNDS MANAGEMENT

NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2000 AND 1999

- A. There remain some gaps of consistency in the application of accounting policies and related procedures being utilized OTFM-wide, which cause the potential for accounting errors in the Trust Funds. Standardized documented policies and procedures are in various stages of development to address significant accounting processes.
- B. Through March 2000, there were instances of inadequate segregation for many key duties, particularly in the accounting processes performed at the Regional and Agency Offices. These instances have been addressed by the completed centralization of the accounting input function.
- C. Through March 2000, records management was inconsistent and inadequate to ensure the proper filing and safekeeping of Trust Fund records to support trust financial activity. A mandatory documents policy has been adopted and verification of these mandatory documents is checked in the centralized accounting pre-posting review procedures.
- D. There is an unreconciled difference of approximately \$35,000,000 between the total cash balances reflected by the OTFM for Tribal and Other Special Trust Funds, and Individual Indian Monies and the balances reported by Treasury as of September 30, 2000 and 1999. Treasury reports reflect balances less than OTFM balances. Issue papers and proposed action plans for these differences have been shared with departmental personnel and are the subject of interdepartmental discussions.
- E. Account balances associated with the IIM class action litigation need to be resolved before reliance can be placed on the balances reflected in the Trust Fund accounts.
- F. Uncertainties regarding the division of responsibilities between BIA and OTFM staff resulted in inconsistent implementation of responsibilities.
- G. There is approximately \$63,000,000 and \$81,000,000 held in approximately 20,000 and 18,000 Special Deposit Accounts in the IIM subsidiary accounts as of September 30, 2000 and 1999 respectively. There are inadequate controls and a lack of management reporting and accountability over the use of these accounts. Pursuant to the revised and updated DOI High Level Implementation Plan, BIA and OST engaged in a joint effort to draft a policy to address current deficiencies and problems specifically focused on special deposit accounts. A draft "Special Deposit Account Implementation Clean up Project Plan" has been developed to clean up special deposit accounts and recommend policies, procedures and processes.
- H. There is an unreconciled net difference between the IIM detailed subsidiary ledger and the corresponding SEI control account as of September 30, 2000 and 1999. The SEI control account reflected a balance greater than the IIM detailed subsidiary accounts. During fiscal year 1998 the OTFM, with the assistance of a contractor, initiated a project to identify components of this number. As of September 30, 2000 and 1999 the aggregate of all positive

U.S. DEPARTMENT OF THE INTERIOR
OFFICE OF THE SPECIAL TRUSTEE FOR AMERICAN INDIANS
INDIVIDUAL INDIAN MONIES TRUST FUNDS
MANAGED BY THE
OFFICE OF TRUST FUNDS MANAGEMENT

NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2000 AND 1999

fund balances from the IIM detailed subsidiary accounts exceeded the assets by approximately \$6,700,000. Issue papers and proposed action plans for these differences have been shared with departmental personnel and are the subject of interdepartmental discussions.

- I. The IIM detailed subsidiary accounts contain certain accounts with negative balances aggregating approximately \$44,000,000.
- J. BIA through its Operations Service Center ("OSC") in Albuquerque provides several significant data "inputs" to the OTFM's trust accounting system. These interfaced inputs of computer-programmed allocations of income to account holders include (but are not limited to) lease distributions from land ownership records, per capita, and Osage oil and gas annuities. Due to OSC's significance regarding OTFM's trust accounting responsibilities, any internal control issues at OSC impacting the OTFM during the audit period should be addressed. Following are the issues:
- There is no verification process in place assuring OTFM that interfaced data is proper and/or accurate. Ownership records at the Regional and Agency Offices are not updated in a timely manner. This results in the potential for inaccurate distributions of lease income to Tribal and IIM account holders.
 - There is no assurance that controls are in place at OSC to ensure data integrity.
 - The Department of Interior's fiscal year 1999 audit report issued by the Inspector General dated May 10, 2000 identified material weaknesses that require resolution.
 - Current contractors at OSC may be unable to timely resolve programming issues for OTFM-"owned" programs, which in turn may affect OTFM's ability to meet deadlines.

In an effort to address these pervasive issues, the OTFM was placed under the direction of the OST, effective February 9, 1996 with Secretarial Order 3197. The Secretary's decision on system improvements and data clean up were organized into separate, but complementing subprojects, which comprise the High Level Implementation Plan ("HLIP"). The HLIP provides information on and describes each of the 13 subprojects, responsible Bureaus and Offices, supporting tasks, critical milestones, work plans, resource estimates, and accountable officials. These 13 subprojects have been subsequently modified to 11 and are in various stages of completion and implementation.

NOTE 4 -- CASH AND OVERNIGHT INVESTMENTS

Cash balances consist of cash deposits to Treasury between the cut-off time for overnight investment, 1:00 p.m. (MST/MDT), and the end of the business day. Amounts on hand at the Regional and Agency Offices, if any, awaiting deposit to Treasury are not included in the financial statements.

Available cash is used to purchase Treasury overnight investment.

U.S. DEPARTMENT OF THE INTERIOR
OFFICE OF THE SPECIAL TRUSTEE FOR AMERICAN INDIANS
INDIVIDUAL INDIAN MONIES TRUST FUNDS
MANAGED BY THE
OFFICE OF TRUST FUNDS MANAGEMENT

NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2000 AND 1999

NOTE 5 -- INVESTMENTS

Investments are recorded at cost adjusted for accumulated amortization of premiums and accretion of discounts ("amortized cost") utilizing the effective interest method.

The Trust Funds investments have a concentration of credit risk in U.S. Federal Government securities, as mandated by 25 USC 162.

Investments have not been adjusted to reflect changes in market value, because it is the OTFM's intent and ability to generally hold these investments until maturity, thereby reducing the risk of loss as a result of early disposition of such investments.

Maturities

Investments (at amortized cost) with scheduled maturities at September 30, 2000 and 1999 are as follows (see Note 2E):

(dollars in thousands)

| <u>Amortized Cost</u> | <u>2000</u> | | <u>1999</u> | |
|---|---------------------------|-------------------------|---------------------------|-------------------------|
| | <u>Amortized Cost</u> | <u>Market Value</u> | <u>Amortized Cost</u> | <u>Market Value</u> |
| U.S. Treasury and Agency Securities: | | | | |
| Overnight investment | \$ 18,407 | \$ 18,407 | \$ 9,015 | \$ 9,015 |
| Less than 1 Year | - | - | 503 | 502 |
| 1 - 5 Years | 129,699 | 129,410 | 99,702 | 99,098 |
| 5 - 10 Years | 212,601 | 205,473 | 199,880 | 191,717 |
| Greater than 10 Years | <u>21,727</u> | <u>24,650</u> | <u>38,670</u> | <u>41,532</u> |
| | 382,434 | 377,940 | 347,770 | 341,864 |
| Equity securities - TVA preferred stock - with no scheduled maturities | 5,000 | 4,975 | 5,000 | 4,988 |
| Mortgage backed securities with varying maturities | <u>6,356</u> | <u>6,628</u> | <u>90,627</u> | <u>92,683</u> |
| | <u>\$ 393,790</u> | <u>\$ 389,543</u> | <u>\$ 443,397</u> | <u>\$ 439,535</u> |

U.S. DEPARTMENT OF THE INTERIOR
OFFICE OF THE SPECIAL TRUSTEE FOR AMERICAN INDIANS
INDIVIDUAL INDIAN MONIES TRUST FUNDS
MANAGED BY THE
OFFICE OF TRUST FUNDS MANAGEMENT

NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2000 AND 1999
(dollars in thousands)

The original cost, net accumulated amortization and accretion, amortized cost and market value of the investments held at September 30, 2000 and 1999 are as follows (see Note 2E):

| <u>Investment Class</u> | <u>Original Cost</u> | <u>Net Accumulated (Amortization)/ Accretion</u> | <u>Amortized Cost</u> | <u>Market Value</u> |
|--|----------------------|--|-----------------------|---------------------|
| September 30, 2000: | | | | |
| Overnight Investment | \$ 18,407 | \$ - | \$ 18,407 | \$ 18,407 |
| U.S. Treasury and Agency securities | 353,289 | 10,738 | 364,027 | 359,533 |
| Equity securities - TVA preferred stock - with no scheduled maturities | 5,000 | - | 5,000 | 4,975 |
| Mortgage backed securities | 6,356 | - | 6,356 | 6,628 |
| | <u>\$ 383,052</u> | <u>\$ 10,738</u> | <u>\$ 393,790</u> | <u>\$ 389,543</u> |
| September 30, 1999: | | | | |
| Overnight Investment | \$ 9,015 | \$ - | \$ 9,015 | \$ 9,015 |
| U.S. Treasury and Agency securities | 322,462 | 16,293 | 338,755 | 332,849 |
| Equity securities - TVA preferred stock - with no scheduled maturities | 5,000 | - | 5,000 | 4,988 |
| Mortgage backed securities | 89,632 | 995 | 90,627 | 92,683 |
| | <u>\$ 426,109</u> | <u>\$ 17,288</u> | <u>\$ 443,397</u> | <u>\$ 439,535</u> |

U.S. DEPARTMENT OF THE INTERIOR
OFFICE OF THE SPECIAL TRUSTEE FOR AMERICAN INDIANS
INDIVIDUAL INDIAN MONIES TRUST FUNDS
MANAGED BY THE
OFFICE OF TRUST FUNDS MANAGEMENT

NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2000 AND 1999

NOTE 6 -- COMMITMENTS AND CONTINGENCIES

The Secretary has been designated by the U.S. Congress as the primary fiduciary with responsibility for monetary resources held in trust on behalf of American Indian Tribes, individual Indians, and Other Special Trust Funds. In carrying out the management and oversight of the Indian Trust Funds, the Secretary has a fiduciary responsibility to collect all monies due from outside individuals/organizations for the use of Indian lands and the extraction of natural resources from Indian lands, disburse such monies collected to the appropriate beneficiaries, and ensure that trust accounts are properly maintained and invested in accordance with applicable law, and that accurate and complete reports are provided to the account holders.

Classes of Indian individuals have filed various claims against the U.S. Federal Government for failure to fulfill its fiduciary responsibilities and for related charges. Neither the OTFM nor the Office of the Solicitor for the U.S. Department of the Interior can presently determine the outcome of these actions nor the total amount, responsibility and funding source of the potential liability.

Any actual liabilities resulting from adverse outcomes of the contingencies described above are generally expected to be satisfied with U.S. Federal Government funds, and not with Trust Funds balances. No amounts have been accrued in the accompanying Trust Fund financial statements for potential claims receivable from the U.S. Federal Government.

NOTE 7 -- TRUST FUNDS BALANCES

Trust Funds balances are the aggregation of monetary assets held in trust and represent the amounts owed to beneficiaries as of September 30, 2000 and 1999, for which the OTFM has a fiduciary responsibility.

A portion of such account balances represents prepayments or deposits on production type leases for which certain individual Indians and Tribes hold an interest (see Note 9). Any deposits in excess of production are returned to the depositor. Such excess deposits, as of September 30, 2000 and 1999 have not been quantified.

Unallocated Balances, Net

The net unallocated amounts for the IIM Trust Funds balances consist of cumulative differences between the SEI control account and the subsidiary detail of account holders' balances, with the control account reflecting the greater balance. During fiscal year 1998 the OTFM initiated a project to identify components of this number. As of September 30, 2000 and 1999 the aggregate of all positive fund balances from the IIM detailed subsidiary accounts exceeded the assets by approximately \$6,700,000.

A portion of the Special Deposit Account monies held in the IIM Trust Funds has not been distributed to the beneficiaries because the ultimate disposition of the funds has not been determined.

U.S. DEPARTMENT OF THE INTERIOR
OFFICE OF THE SPECIAL TRUSTEE FOR AMERICAN INDIANS
INDIVIDUAL INDIAN MONIES TRUST FUNDS
MANAGED BY THE
OFFICE OF TRUST FUNDS MANAGEMENT

NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2000 AND 1999

NOTE 8 -- RELATED PARTY TRANSACTIONS WITH OTHER U.S. GOVERNMENT ORGANIZATIONS

Debt Repayment Arrangements

The BIA is a party to various note payable agreements. These agreements are primarily between the Indian Tribes and the U.S. Department of Agriculture Farmers Home Administration ("FmHA") or the U.S. Department of Commerce Economic Development Administration ("EDA"). The proceeds of the FmHA loans are generally used by Indian Tribes to repurchase fractional ownership interests in allotted lands from individual Indians.

The income received from the acquired ownership interests are deposited into either "Special Deposit" accounts in the IIM Trust Funds or a designated Tribal account in the Tribal and Other Special Trust Funds, and principal and interest payments are made from these accounts. EDA loans are utilized for construction of Tribal facilities (governmental/administrative buildings, and facilities for enterprise activities such as manufacturing, hotel/motel facilities, etc.). Individual Tribes are liable for repayment of these loans; however, IIM Trust Funds may be utilized for payment of these loans.

Minerals Management Services

The OTFM receives royalty payments from the U.S. Department of the Interior Minerals Management Service ("MMS") on behalf of Indian Tribes and individual Indians holding mineral rights. MMS generally transfers the royalty payments to the OTFM upon receipt. At the time the royalty payments are received, MMS does not provide the OTFM with lease information for IIM account holders until several weeks after the related royalty payments are received. Accordingly, the OTFM holds the royalty receipts in an interest bearing account until it receives the lease information on how the royalties are to be distributed. Generally, upon receipt of the lease information data from MMS, the royalty receipts are distributed through the Royalty Distribution Reporting System ("RDRS"). IIM account royalty payments are either disbursed or held in IIM accounts. MMS and the Bureau of Land Management both perform verification and other monitoring procedures of mineral assets.

Oil and gas companies sometimes make overpayments to MMS. These are first paid to the OTFM on behalf of individuals, and may be disbursed by the OTFM to the beneficiaries. The overpayments generally result from payments being made based on estimated mineral production, in order to comply with the Federal Oil and Gas Royalty Management Act of 1982, which requires timely distribution of royalties. Typically, the oil and gas companies recover such overpayments by adjusting future payments. IIM account overdrafts are created as a result of netting payments and collections at the lease level and rounding differences. The amounts of such overpayments if any as of September 30, 2000 and 1999, are not readily determinable and have not been quantified in these financial statements.

U.S. DEPARTMENT OF THE INTERIOR
OFFICE OF THE SPECIAL TRUSTEE FOR AMERICAN INDIANS
INDIVIDUAL INDIAN MONIES TRUST FUNDS
MANAGED BY THE
OFFICE OF TRUST FUNDS MANAGEMENT

NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2000 AND 1999

Other

As discussed in Note 4, the Treasury holds cash and overnight investments. As discussed in Note 6, the DOI Office of the Solicitor serves as legal counsel for the OST and OTFM.

NOTE 9 -- TRANSFERS

The OTFM receives monies into special deposit accounts for both Tribal and IIM beneficiaries. These accounts are to be used as suspense accounts to which funds should be temporarily posted when the allocation is not immediately clear. Funds should be subsequently transferred from the special deposit account to the appropriate Tribal or IIM account(s) when BIA determines the proper allocations. These net transfers amounted to approximately \$7,000,000 into the IIM Trust Funds during the fiscal year ended September 30, 2000 and \$45,000,000 out of the IIM Trust Funds during the fiscal year ended September 30, 1999. The Payments to and on behalf of account holders category of the Statement of Changes in Trust Fund Balances includes the net transfers out for the fiscal year ended September 30, 2000, and the Other receipts category on the Statement of Changes in Trust Fund Balances include the net transfers in for the fiscal year ended September 30, 1999. The amount of monies not yet transferred has not been quantified in these Individual Indian Monies financial statements.

**U.S. DEPARTMENT OF THE INTERIOR
OFFICE OF THE SPECIAL TRUSTEE
FOR AMERICAN INDIANS
TRIBAL AND OTHER SPECIAL TRUST FUNDS,
AND INDIVIDUAL INDIAN MONIES TRUST FUNDS
MANAGED BY THE
OFFICE OF TRUST FUNDS MANAGEMENT**

**REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS ON
INTERNAL CONTROL STRUCTURE**

SEPTEMBER 30, 2000

SUMMARY OF ISSUES
September 30, 2000

| <u>Reported in Fiscal Year</u> | <u>Description</u> | <u>Issue Number</u> | <u>Resolved</u> | <u>Responsible Agency</u> | <u>Reported as Issue Number</u> |
|--|--|-------------------------|-----------------|-------------------------------|-------------------------------------|
| 1995 | Cash - Tribal and IIM | 1 | No | OTFM | 1 |
| 1995 | Investments | 2 | Yes | N/A | N/A |
| 1995 | Trust Fund Balances - Tribal and IIM | 3 | No | OTFM | 3 |
| 1995 | Regional and Agency Offices - Tribal and IIM | 4 | Combined | OTFM | 31 |
| 1995 | Cash - Tribal | 5 | No | OTFM | 5 |
| 1995 | Investments Records Management | 6 | Yes | N/A | N/A |
| 1995 | IIM Special Deposit Accounts - IIM | 7 | Combined | OTFM | 24 |
| 1995 | Ownership Records - Tribal and IIM | 8 | Combined | BIA | 45 |
| 1995 | Policies and Procedures - Tribal and IIM | 9 | Yes | N/A | N/A |
| 1995 | Accounts Receivable System - Tribal and IIM | 10 | No | BIA | 10 |
| 1995 | Cash Reconciliation Process | 11 | Yes | N/A | N/A |
| 1995 | Disaster Recovery - IIM | 12 | Combined | BIA | 42 |
| 1995 | Password Controls - IIM | 13 | Combined | BIA | 42 |
| 1995 | Application Change Controls - IIM | 14 | Yes | N/A | N/A |
| 1995 | Conversion to OmniTrust | 15 | Yes | N/A | N/A |
| 1995 | 1099 Interest Reporting - IIM | 16 | No | OTFM | 16 |
| 1996 | Inadequate Internal Financial Reporting - Tribal and IIM | 17 | Yes | N/A | 17 |
| 1996 | Regional and Agency Offices Unauthorized Transactions - Tribal and IIM | 18 | Yes | BIA | 18 |

| <u>Reported in Fiscal Year</u> | <u>Description</u> | <u>Issue Number</u> | <u>Resolved</u> | <u>Responsible Agency</u> | <u>Reported as Issue Number</u> |
|--|--|-------------------------|-----------------|-------------------------------|-------------------------------------|
| 1996 | Regional and Agency Offices - Ineffective Implementation of Policies and Procedures - Tribal and IIM | 19 | Combined | OTFM | 31 |
| 1996 | Cash - Failure to Analyze Suspense Accounts - Tribal and IIM | 20 | No | OTFM | 20 |
| 1996 | Cash - Lack of Supporting Documentation Prior to Recording Transactions | 21 | Yes | N/A | N/A |
| 1996 | Investments - Lack of Reliable IIM Balance Available for Investing - IIM | 22 | No | OTFM | 22 |
| 1996 | Investments - Accounting System Calculation Errors | 23 | Yes | N/A | N/A |
| 1996 | Special Deposit Accounts - Lack of Policies and Procedures and Inconsistent Practices - IIM | 24 | No | OTFM | 24 |
| 1996 | IIM Interest Earnings - Inadequate System, Policies and Procedures - IIM | 25 | Yes | N/A | N/A |
| 1996 | Negative IIM Account Balances Included in Invested Balance - IIM | 26 | No | OTFM | 26 |
| 1996 | IIM Amortization/Accretion of Mortgage Backed Securities | 27 | Yes | N/A | N/A |
| 1996 | Trust Fund Balance Transfers Recorded Inconsistently - Tribal and IIM | 28 | Yes | N/A | N/A |
| 1996 | Earnings on Overnight Investments | 29 | Yes | N/A | N/A |

| <u>Reported in Fiscal Year</u> | <u>Description</u> | <u>Issue Number</u> | <u>Resolved</u> | <u>Responsible Agency</u> | <u>Reported as Issue Number</u> |
|--|--|-------------------------|-----------------|-------------------------------|-------------------------------------|
| 1996 | Investment/Bolt II System Implementation | 30 | Yes | N/A | N/A |
| 1997 | Ineffective Implementation Of Policies and Procedures - Tribal and IIM | 31 | No | OTFM/BIA | 31 |
| 1997 | Missing and/or Incomplete Documents - Tribal and IIM | 32 | No | OTFM | 32 |
| 1997 | Improper Transaction Coding - Tribal and IIM | 33 | No | OTFM | 33 |
| 1997 | Funds Accepted into Trust Without Supporting Documents - Tribal and IIM | 34 | Combined | OTFM | 32 and 40 |
| 1997 | Cash and Overnighter Investments - Lack of Transfer Transaction Procedures - Tribal and IIM | 35 | Yes | N/A | N/A |
| 1997 | Investments - Lack of Manual Adj Procedures & Lack of Carry Value Reconciliation - Tribal and IIM | 36 | Yes | N/A | N/A |
| 1997 | Investments - Inadequate Procedures Relating to Market Pricing and Stated Market Values - Tribal and IIM | 37 | Yes | N/A | N/A |
| 1997 | Inconsistent Practices Regarding Disbursements from Tribal Accounts - Tribal | 38 | Yes | N/A | N/A |
| 1997 | Investments - Lack of Contract Compliance - Custodial Reconciliation - Tribal and IIM | 39 | Yes | N/A | N/A |
| 1997 | Fund Balance - Accepting Non - Trust Beneficiaries and Non - Trust Funds - Tribal and IIM | 40 | No | OTFM | 40 |

| <u>Reported in Fiscal Year</u> | <u>Description</u> | <u>Issue Number</u> | <u>Resolved</u> | <u>Responsible Agency</u> | <u>Reported as Issue Number</u> |
|--|---|-------------------------|-------------------|-------------------------------|-------------------------------------|
| 1997 | Regional and Agency - Bureau of Indian Affairs Trust Responsibilities - Tribal and IIM | 41 | Undeter- mined | BIA | 41 |
| 1998 | Trust Systems | 42 | No | BIA | 42 |
| 1999 | Interfund and Intrafund Transfers | 43 | No | OTFM | 43 |
| 1999 | Fund Level Reporting | 44 | No | OTFM | 44 |
| 2000 | Reliance on BIA's Ownership Files | 45 | No | BIA | 45 |
| 2000 | Effectiveness of Existing Management Controls | 46 | No | OTFM | 46 |
| 2000 | Account Number Changes | 47 | No | OTFM | 47 |
| 2000 | Lost Interest | 48 | No | BIA | 48 |

GRIFFIN & ASSOCIATES, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

DAN D. GRIFFIN

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS ON INTERNAL CONTROL STRUCTURE

To the U.S. Department of the Interior
Office of the Special Trustee for American Indians:

We have audited the Statements of Assets and Trust Fund Balances and the related Statements of Changes in Trust Fund Balances for Tribal and Other Special Trust Funds, and Individual Indian Monies Trust Funds ("IIM") managed by the U.S. Department of the Interior Office of the Special Trustee for American Indians ("OST") Office of Trust Funds Management ("OTFM") as of and for the years ended September 30, 2000 and 1999, and have issued our report thereon dated December 15, 2000.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement.

The management of the OTFM is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with the cash basis of accounting used to prepare the Tribal and Other Special Trust Funds financial statements, and the modified cash basis of accounting used to prepare the Individual Indian Monies Trust Funds financial statements. Also, projection of any evaluation of the internal control structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing our audits of the Statements of Assets and Trust Fund Balances and the related Statements of Changes in Trust Fund Balances for the Tribal and Other Special Trust Funds, and Individual Indian Monies Trust Funds managed by the OTFM as of and for the years ended September 30, 2000 and 1999, we obtained an understanding of the internal control structure. With respect to the internal control structure, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk in order to determine our auditing procedures for the purpose of expressing an opinion on the Statements of Assets and Trust Fund Balances and the related Statements of Changes in Trust Fund Balances and not to provide an opinion on the internal control structure. Accordingly, we do not express such an opinion. Also, for those significant internal control structure policies and procedures that were properly designed and placed in operation, we performed tests to determine whether such policies and procedures were operating effectively at September 30, 2000 and 1999.

We noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. These matters are described in the "Reportable Conditions" sections of this report. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control structure that, in our judgment, could adversely affect OTFM's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. These matters are described in the "Material Weakness" sections of this report.

We also noted other matters involving the internal control structure and its operation as well as certain other advisory comments, which we did not consider to be reportable conditions. These comments are set forth in the "Other Advisory Comments" sections of this report.

In the Reports of Independent Public Accountants on Internal Control Structure for the years ended September 30, 1999, 1998, 1997, 1996 and 1995, we noted matters involving the internal control structure and its operation that we considered to be material weaknesses, reportable conditions and other advisory comments. The disposition of these matters is set forth in the "Summary of Issues" section of the report.

GENERAL - TRIBAL AND IDM

The accounting systems and internal control procedures used by the OTFM have historically suffered from a variety of system and procedural internal control weaknesses. In addition, current management is burdened with the ongoing impact of decades of accumulated errors in the accounting records. These factors place significant limitations on management's ability to effectively manage the trust funds entrusted to the OTFM.

In an effort to address these pervasive issues, the OTFM was placed under the direction of the OST, effective February 9, 1996 with Secretarial Order 3197. The Secretary and the Special Trustee agreed that selected trust improvements and data clean up efforts in the Strategic Plan could and should proceed as soon as possible within the organizational structure of the Department of the Interior ("DOI"). The approach selected to implement the Secretary's decisions on portions of the Special Trustee's Plan is centered on 13 major subprojects. Each of the 13 subprojects are presented in the Department's Trust Management Improvement Project's *HIGH LEVEL IMPLEMENTATION PLAN* ("HLIP") issued in July 1998. In the revised and updated HLIP dated February 29, 2000, two subprojects have been merged with other subprojects leaving a total of eleven. The decision to merge elements was based on a reevaluation of their interrelationships and interdependence. The OST has primary responsibility for 5 subprojects.

The following are excerpts and paraphrases from the revised and updated HLIP published by the U.S. Department of the Interior, Trust Management Improvement Project, dated February 2000.

"Concerns about the management of Indian Trust funds have been a longstanding issue. As early as 1928, the U.S. General Accounting Office (GAO) - the investigative research arm of Congress - issued reports documenting weak accounting practices and other problems in Bureau of Indian Affairs (BIA) trust fund management."

Since then, there have been numerous reports highlighting weaknesses in management and accounting practices from such overseeing entities as the Congressional Committees, the Office of Management and Budget (OMB), the Inspector General and Department Bureau reviews as well as outside contractor reports.

"In 1994, Congress passed the American Indian Trust Fund Management Reform Act of 1994, 25 United States Code (U.S.C.) §§4001-4061, which established the Office of the Special Trustee for American Indians. Under this legislation, the Special Trustee, who reports directly to the Secretary of the Interior, is responsible for oversight, reform, and coordination of policies, procedures, systems and practices used by various Departmental agencies in managing Indian trust assets. Specifically, the Special Trustee was charged with preparing and submitting a comprehensive strategic plan for all phases of the trust management business cycle that would ensure the proper and efficient discharge of the Secretary's trust responsibilities to Indian Tribes and individual Indians in compliance with the Act. The Act also defined the following as prospective actions required of the Secretary necessary to properly discharge the trust responsibilities of the United States:

- Providing adequate systems for accounting for and reporting trust fund balances;
- Providing adequate controls over receipts and disbursements;
- Providing periodic, timely reconciliations to assure the accuracy of accounts;
- Determining accurate cash balances;
- Preparing and supplying account holders with periodic statements of their account performance and with balances of their account which shall be available on a daily basis;
- Establishing consistent, written policies and procedures for trust fund management and accounting;
- Providing adequate staffing, supervision, and training for trust fund management and accounting;
- Appropriately managing the natural resources located within the boundaries of Indian reservations and trust lands;
- Properly accounting for and investing, as well as maximizing, in a manner consistent with the statutory restrictions imposed on the Secretary's investment options, the return on the investment of all trust fund monies;
- Preparing accurate and timely reports to account holders (and others, as required) on a periodic basis regarding all collections, disbursements, investments, and return on investments related to their trust accounts;

- Maintaining complete, accurate and timely data regarding the ownership and lease of Indian lands.

The Special Trustee submitted a Strategic Plan for Trust Improvement in April 1997. Notwithstanding the Secretary's reservations about certain aspects of the Strategic Plan, the Secretary agreed that the trust system improvements and data clean up efforts in the Plan could and should proceed as soon as possible within the organizational structure of the Department.

The Secretary's decisions on system improvements and data clean up were organized into separate but complementary subprojects, which comprise the Trust Management Improvement Plan (TMIP), in the original HLIP which was approved in July 1998."

In the revised and updated HLIP dated February 29, 2000, two subprojects have been merged with other subprojects leaving a total of eleven. The decision to merge elements was based on a reevaluation of their interrelationships and interdependence. The OST has primary responsibility for 5 subprojects.

The subprojects that the OTFM significantly contributes to are:

- "OST Trust Administrative Records Cleanup. In this subproject, OST is standardizing and verifying IIM system data for trust financial records, and correcting and establishing an inventory of hard copy records for each trust fund account."
- "Trust Funds Accounting System (TFAS). Using a service bureau approach, the Office of Trust Funds Management acquired, installed and site-tested a proven commercial off-the-shelf trust accounting system to replace the present BIA IIM accounting module."
- "Records Management. Under this subproject, a joint Records Management solution for Interior trust records involving OST, BIA, MMS, BLM, Office of Hearings and Appeals (OHA) and other relevant DOI offices has been developed and is being implemented. The scope includes Indian trust records management, storage, access, control and disposition, and contemplates electronic record keeping, including imaging technology."
- "Training. The Training subproject will plan and deliver both trust management and employee skills training relevant to delivery of Interior's trust fiduciary responsibilities to American Indians. Training will be provided across the Interior trust workforce and will include Tribes and participating contractors."
- "Internal Controls. The subproject will systematically address documented internal control deficiencies in Indian trust management, item by item, that have been identified through internal and external audit, Congressional oversight and outside reviews. Corrective actions will be validated and/or designed to assure resolution of all internal control weaknesses. Further, a permanent trust risk management office is being established to conduct continuing revisions of trust operations across DOI to ensure performance of Indian trust management responsibilities."

The other subprojects are:

- BIA Trust Resource Records Cleanup
- Probate Backlog
- BIA Appraisal Program

- Trust Asset and Accounting Management System (TAAMS)
- MMS System Reengineering
- Policies and Procedures

Current Year - September 30, 2000

MATERIAL WEAKNESSES

Reliance on BIA's Ownership Files - BIA (45)

Note: Issues 8 and 45 address ownership records. They have been combined and are currently being reported as issue number 45.

BIA through its Operations Service Center ("OSC") in Albuquerque provides several significant data "inputs" to the OTFM's trust accounting system. These interfaced inputs of BIA computer-programmed allocations of income to account holders include (but are not limited to) lease distributions from land ownership records, per capita, and Osage oil and gas annuities. We were not able to directly examine the BIA/OSC as part of OTFM's information systems general controls review. Due to BIA/OSC's significance regarding OTFM's trust accounting responsibilities, any internal control issues at BIA/OSC impacting the OTFM during the audit period should be addressed.

During interviews with OTFM's Division of Trust Funds Systems management and staff, discussions with Inspector General personnel and review of written reports prepared by the Inspector General, concerns were raised in relation to BIA, with regards to the reliability of financial data produced by BIA/OSC and the continuity of service provided to OTFM's information systems department. Following are the concerns:

- There is no verification process in place assuring OTFM that interfaced data is proper and/or accurate. Ownership records at the BIA Regional and Agency Offices are not updated in a timely manner. This results in the potential for inaccurate distributions of lease income to Tribal and IIM account holders.
- There is no assurance that controls are in place at OSC to ensure data integrity.
- The Department of Interior's fiscal year 1999 audit report issued by the Inspector General dated May 10, 2000 identified material weaknesses that require resolution.
- Current contractors at BIA/OSC may be unable to timely resolve programming issues for OTFM-"owned" programs, which in turn may affect OTFM's ability to meet deadlines.

OTFM management noted that the likelihood of future adverse effects to OTFM appears to be increasing. These issues may impact OTFM's ability to provide accurate accounting services and information to account holders.

Recommendation (45)

The Office of the Inspector General should work with BIA and OSC to ensure that ownership data is being verified and maintained appropriately. Appropriate controls should be implemented such as periodic verification against original source documentation including but not limited to leases, contracts, land title records, etc. to ensure that distributions are accurate.

Client Response (45)

The BIA does not agree with the recommendation as written. It should not be the responsibility of the OSC to ensure the integrity of system data. That responsibility rests with the system owners, which for most trust data, is the Office of Trust Responsibility ("OTR"). OTFM should meet with the OTR to ensure that data integrity standards are being met. OTR, in turn, must work with the Regional Directors who are responsible for the actual input of data into trust related systems.

The role of the Office of the Chief Information Officer ("CIO"), who oversees OSC, is to develop policies and procedures to guide the development and implementation of information technology activities within the BIA. To that end, the CIO has developed and issued as an exposure draft an Indian Affairs Manual section on data quality standards that establishes standards for data quality and integrity for all Indian Affairs information systems. In addition, the CIO has developed a computer security template for use by all system owners in the development of computer security plans. A critical part of a computer security plan is a disaster recovery and continuity of operations plan. Finally, the CIO has issued a system lifecycle development handbook that provides guidance to system owners on the management of their systems.

The role of the OSC is to properly manage the operation and maintenance of the systems within the requirements set forth by the system owner. OSC is responsible for ensuring that security plans and disaster recovery plans are in place for any general support system upon which trust applications are operated by the OSC itself. The CIO's office will work with the system owners to ensure that they have security plans in place for their major applications.

Regarding ownership data, three subprojects of the Trust Management Improvement Plan: BIA Data Cleanup and Management, Probate Backlog, and Trust Asset and Accounting System ("TAAMS") have been designed to address these deficiencies. Also the BIA is replacing its legacy systems, the Land Records Information System and the Integrated Records Management System with TAAMS. Once these systems are developed, the backlogs eliminated, and the historical data corrected and reconciled, it will be the responsibility of the land records and leasing staffs to maintain data integrity.

OTHER ADVISORY COMMENTS

Effectiveness of Existing Management Controls (46)

With the conversions from IRMS and OMNI to the SEI system, and the centralization of the accounting input process from field locations to the central office, OTFM has made considerable progress in establishing and administering management controls in the receipt and disbursement processes. One such improvement is a policy that requires preparation of work tickets to support each receipt and programmed disbursement. The work tickets are very descriptive as to the management controls in place prior to and subsequent to encoding a transaction. These controls consist of signatures for "prepared by", "approved by", "entered by" and "verified by". During our substantive and compliance testing of receipts and programmed disbursements, we noted numerous work tickets that were missing one or more signatures, even though the signature may have been entered on the batch sheet.

Recommendation (46)

OTFM accounting staff should either sign the work tickets indicating that the various controls were accomplished, or the OTFM should revise its policy to require signatures only at the batch level.

Client Response (46)

The policy for signatures requirements will be reviewed, modified and implemented as needed. In the interim, signature requirements under the current policy will be enforced.

Account Number Changes (47)

Account numbers are changed due to a variety of different reasons including but not limited to; consolidating foreign accounts into a single account for the home agency, consolidating multiple accounts for an account holder and correcting previously issued account numbers to be consistent with current policies and procedures. The current process is to change an existing account number to a new account number using an edit command on the SEI system. The effect of this is as if all previously posted transactions were posted to the newly established account and as if the old account never existed. This creates a potential audit trail problem when attempting to verify transaction activity to or from source documentation. For example, if a receipt is posted to an account and that account number is changed the same day, the transaction activity would only be represented in the new account number, however the supporting documentation would indicate it was posted to the old account number. In this situation, it would not matter what data was used for this verification process, as the transaction posted for that day would not be reflective of the supporting documentation. In another example in which a receipt is posted at the beginning of the month and the account number was changed later during the month. Someone attempting to establish an audit trail for that account would need to be intuitive enough to request the backup data subsequent to the last transaction but prior to the account number change.

Recommendation (47)

The OTFM should formally document in the form of policies, the procedures used when changing account numbers. The policy should include, but not be limited to, who can make the change, day of the week acceptable for making changes, titles of reports documenting the change to be kept on site and in storage, and a cross reference table specifying both the new account number and the old account number.

Client Response (47)

A policy will be developed that addresses the recommendations reflected above. In the interim, a process has been established to track account and ID number changes.

Lost Interest - BIA (48)

During our substantive and compliance testing we noted a \$6.3 million receipt transaction received via OPAC from the BIA on April 3, 2000. The funds were the result of a water rights settlement. A treasury check for the full amount was paid to the BIA on October 6, 1999. These funds were deposited into a suspense account at the BIA where the funds resided from October 6, 1999 until April 3, 2000, the date of transfer to OTFM for deposit in to trust. However, interest was not transferred to trust along with the \$6.3 million.

Recommendation (48)

OTFM should pursue the BIA and/or Treasury for the lost interest.

Client Response (48)

The BIA will transfer the funds upon determination by the OTFM of the amount of unearned interest due to the Gila River Indian Community.

Prior Year - September 30, 1999

OST has made considerable efforts towards improving the accounting systems and internal controls in place within the OTFM. We have considered this as ongoing reform efforts, and have adjusted certain past "Material Weaknesses" to "Reportable Conditions" and certain past "Reportable Conditions" to "Other Advisory Comments" based on the progress made to date and the expectation that these items will soon be resolved due to the initiatives and centralization efforts that are in place.

The following issues are repeated from the prior years' (1995, 1996, 1997, 1998 and 1999) Report of Independent Public Accountants on Internal Control Structure. In an effort to consolidate similar issues, we have combined certain items into one issue and have prefaced each issue with a note to the reader detailing the number(s) of the items combined. For a complete listing of all issues and its current status, please see the "Summary of Issues" within this report.

OTHER ADVISORY COMMENTS

Interfund and Intrafund Transfers (43)

Currently, interfund (i.e., between Tribal and IDM accounts) and intrafund (i.e., between Tribal and Tribal or between IDM and IDM accounts) transfers are coded to numerous receipt and disbursement codes. This results in substantial manual effort to identify and reclassify these transfers for financial reporting purposes.

The OTFM has initiated a process as of October 1, 2000 to mitigate the substantial manual efforts.

The condition is concurred but remains unresolved as of September 30, 2000.

Fund Level Reporting (44)

The current system is designed to generate individual trust account statements, but does not currently generate a fund level statement of trust fund balances or statement of changes in trust fund balances. Such statements are currently generated through off-line manipulation of the system data.

An automated data accumulation process is being developed by Division of Trust Funds Systems to capture control totals and produce fund level summary reports. These reports will assist in the periodic financial reporting required of the OTFM.

The condition is concurred but remains unresolved as of September 30, 2000.

MATERIAL WEAKNESS

Trust Systems - BIA (42)

Note: Issues 12 and 13 address Trust systems. They have been combined and are currently being reported as issue number 42.

As indicated in issue 45, we were unable to visit the Operations Service Center during the fiscal year 2000 audit, therefore we were unable to verify if the following items have been resolved during the current year. The prior year comment is as follows:

• System Security

As part of our audit related to electronic data processing ("EDP"), we reviewed the OSC's system security. Based upon our review we noted:

- ✓ Periodic reviews of system reports were not being performed.
- ✓ Specific, clearly defined information security policies and procedures for system security monitoring do not exist.

Adequate audit trails should exist and be reviewed so that adverse activity on general support systems can be prevented or detected. By not reviewing security-related reports, there is an increased risk that computer resources may be altered without authorization and without detection through normal operating controls.

• Physical Access to the Operations Service Center ("OSC")

As part of our audit related to EDP, we reviewed physical access to the computer room, which houses the IRMS system and other critical Trust Systems equipment and documents. As of September 30, 1998 there were 103 active access cards. Based upon our review we noted:

- ✓ Not all cards are assigned to specific individuals
- ✓ Certain individuals are in possession of multiple cards
- ✓ A number of contractors with limited need are in possession of access cards
- ✓ A number of OSC personnel whose job function should not require access to the computer room are in possession of access cards
- ✓ Two individuals from the Division of Accounting Management are in possession of access cards

Control measures to protect Trust systems from unintentional damage and data from unauthorized disclosure or modification and access to sensitive areas must be strengthened.

• Password Controls

Per our review of access to IRMS, we noted that there are inadequate controls of user codes and passwords including:

- ✓ User codes are not routinely removed for terminated or transferred employees
- ✓ Passwords are not changed on a regular basis
- ✓ Complete documentation does not exist to readily identify the owner of each user code

Without strong controls related to the access to sensitive Trust systems, the risk of unauthorized modifications to trust data is increased. Additionally,

any unintended modifications may be difficult to detect and correct without an adequate audit trail.

- **Disaster Recovery Plan**

In the event of a disaster, an agreement exists to perform remote processing of IIM applications in Scottsdale, Arizona. However, the OSC's disaster recovery plan has not been tested since the conversion of the Unisys A17 to the Unisys NX Clearpath Server. It has been almost two years since the last test was performed. Without a proven recovery plan, the possibility exists that Trust operations would not resume within a reasonable period of time in the event of a disaster.

- **Documentation**

Per our review of access to the OSC operated systems, we noted that the access request forms, which document assigned user codes and passwords are not stored in a secure location. Without strong controls to safeguard against unauthorized access to assigned user codes and passwords, the risk of unauthorized modifications to trust data is increased.

Consistent with the items noted above the following reportable condition is reflected as a material weakness in the Inspector General's fiscal year 1999 audit report of the Department of Interior dated May 10, 2000:

"BIA continued to have ineffective general controls over the automated information systems of its Operations Service Center and was not in compliance with OMB Bulletin 98-08. Specifically, BIA did not (1) have an effective system security program and had not enforced personnel policies and procedures to ensure adequate system security, (2) classify its resources to determine the level of security needed, (3) monitor visitor activities and perform adequate housekeeping to safeguard computer hardware, (4) perform periodic reviews to ensure that users' access levels were appropriate, (5) ensure that the proper version of an application was used in production, (6) have segregation of duties for the system support functions, (7) have controls over system software to effectively detect and deter inappropriate use, and (8) have an effective means of recovering or of continuing computer operations in case a system fails."

As indicated in Issue 45, OTFM relies upon BIA ownership records and respective interface files to record trust receipts in account holders accounts. With consideration to the above, we have changed this issue from an "Other Advisory Comment" to a "Material Weakness".

These conditions were shared with the BIA as they related to fiscal year 1998 and are considered resolved as they relate to OTFM's Report of Independent Public Accountants on Internal Control Structure as of the date of this report. However, they may not be resolved with regards to the BIA.

Prior Year - September 30, 1997

MATERIAL WEAKNESSES

Missing and/or Incomplete Documents - Tribal and IIM (32)

Note: Issue 34 addressed Funds Accepted Into and Disbursed From Trust without Supporting Documentation. The issue regarding lack of supporting documentation has been combined and reported as issue 32.

As part of our audit related to receipt and disbursement testing, critical documentation (i.e., bills for collection, schedules of collection and/or disbursement authorizations) were determined to be missing or incomplete. Without proper supporting receipt documentation (i.e., bills for collection) it is not possible to determine the source of the funds and if the amount received into trust funds is the correct amount per BIA. Without proper supporting disbursement documentation (i.e., disbursement authorizations, tribal resolutions, tribal budgets) the OTFM runs the risk of making unauthorized disbursements.

This condition remains unresolved as of September 30, 2000.

REPORTABLE CONDITIONS

Improper Transaction Coding - Tribal and IIM (33):

We noted receipts and disbursements encoded with improper receipt and disbursement codes within the accounting systems. As a result, the OTFM cannot provide reasonable assurances as to the nature or amounts represented, as individual categories of trust receipts and disbursements.

This condition remains unresolved as of September 30, 2000.

Funds Accepted into Trust without Supporting Documentation - Tribal and IIM (34)

Note: Issue 34 addresses missing and/or incomplete documents and accepting potential non-trust funds and is currently reported as issues 32 and 40.

OTHER ADVISORY COMMENTS

Ineffective Implementation of Policies and Procedures - TRIBAL and IIM (31)

Note: Issues 4, 19, and 31 all addressed ineffective implementation of policies and procedures. They have all been combined and are currently being reported as issue number 31.

It should be noted that while authority to supervise financial trust accounting personnel was delegated to the OTFM in February 1996 under the Secretarial Order 3197, particular trust functions, are performed by non-OTFM staff (i.e., BIA and Tribal) over which the OTFM has no control nor line authority. As a result, there is an inability to implement existing policies and procedures pertaining to non-OTFM personnel/individuals.

While the OTFM continues to work towards providing improved regulatory guidance and policies and procedures, consistent implementation of existing guidelines has not been achieved due to the decentralized nature of OTFM field accounting operations, lack of personnel at certain locations, lack of line authority over certain trust functions that impact OTFM operations and inadequate information systems.

As part of our audit related to compliance with internal controls as they relate to standard operating procedures, we discussed with management and noted the following:

A. Segregation of duties

- ✓ In certain instances OTFM staff are performing collection officer duties and performing account encoding functions.
- ✓ OTFM employees at unconverted locations are allowed to post transactions to their own accounts without supervisory review.

This portion of the condition is considered resolved as of September 30, 2000.

B. Safeguarding of assets (BIA)

- ✓ Collection officers are often the only individual with the combination to the safe.
- ✓ Combinations are not changed when an employee with knowledge of the combination to the safe leaves his/her position.
- ✓ Cash receipts are being stored in file drawers rather than in a safe or vault.

This portion of the condition was shared with the BIA as it related to fiscal year 1997 and is considered resolved as it relates to OTFM's Report of Independent Public Accountants on Internal Control Structure as of the date of this report. However, it may not be resolved with regards to the BIA.

C. Process reviews

- ✓ IIM accounts on hold status are not being reviewed periodically. (BIA)
- ✓ During the fiscal year ended September 30, 2000, there is no substantive review of the receipts and disbursements by the OTFM Division of Quality Assurance.

This portion of the condition is considered resolved as of September 30, 2000.

D. IIM account status changes

- ✓ IIM accounting technicians at unconverted locations do not submit address changes, status (hold) changes, new account set ups, etc., to a supervisor for approval prior to processing, and no supervisory review of the change to the master record subsequently occurs.

This portion of the condition is considered resolved as of September 30, 2000.

E. Implementation and enforcement of policies and procedures

- ✓ OTFM Division of Field Operation's staff, at unconverted locations, are not complying with minimum documentation standards for IIM transactions as identified in POL98-012 (Mandatory Documentation Requirements for IIM Account Jacket Folders).

This portion of the condition is considered resolved as of September 30, 2000.

F. Policies and procedures

- ✓ OTFM personnel do not have a comprehensive set of standard operating procedures manuals in which to understand their job responsibilities and duties. They are expected to perform their duties by utilizing the Desk Operating Procedure Manual, OTFM issued numbered policies and procedures, and/or e-mail instructions. These sources of information should be combined into a comprehensive set of operating manuals.

This portion of the condition was concurred and is considered unresolved as of September 30, 2000.

Fund Balance - Accepting Non-trust Beneficiaries and Non-trust Funds - Tribal and IIM (40)

Note: Issue 34 addressed Funds Accepted into Trust without Supporting Documentation. The issue regarding accepting potential non-trust funds has been combined and reported as issue 40.

It appears that accounts may be established and maintained for non-trust beneficiaries and non-trust money may be accepted into these accounts. It does not appear that definitive regulation or legislation exists which specifically addresses the nature of the allowable collections into trust or whether the OTFM may provide trust and/or banking services to organizations other than Tribes or individual Indians.

In our substantive and compliance testing, we noted nineteen accounts that appear to be maintained in the SEI system for various BIA program related activities. We also noted one location that was accepting gaming funds into trust.

By accepting these monies into the trust funds, the OTFM accepts the fiduciary responsibility for maintaining the balances and investing the funds. The OTFM may not be delegated those responsibilities and may be inappropriately utilizing government resources to manage and account for the funds. Additionally, without proper supporting documentation, it would be impossible to determine the nature of the funds collected as being appropriate. Voluntary deposits are generally prohibited under 25 CFR 115.6. We have been informed that appropriate personnel action has been taken regarding the acceptance of gaming funds into trust.

These practices noted above may expose the OTFM to unnecessary risk, as in the case of receipt and disbursement of loan payments to third parties without documented beneficiary approval.

This condition remains unresolved at September 30, 2000.

Regional and Agency - Bureau of Indian Affairs Trust Responsibilities - Tribal and IIM - BIA (41)

As part of our field visits and substantive and compliance testing, we reviewed the collection process along with supporting documentation for collections posted to IIM and Tribal accounts. In so doing, we noted the following internal control issues and instances of non-compliance as they relate to the trust responsibilities of the BIA:

- Unauthorized disbursements from trust accounts occur. We also noted that disbursements from IIM accounts with Social Services holds were "recommended" by a rubber-stamped facsimile of the Superintendent's signature.
- Our testing of lease income revealed that interest is not always collected on late payments. We noted instances where the lessee paid an incorrect amount that was less than the lease amount due. We also noted the Agency was making no attempt at collection of past due amounts.
- The lessee did not execute one lease selected in our upstream sample. We also observed instances of lease payments receipted "pending approval of the lease." The lessee has had use of the land.
- The Agency holds checks in excess of the 24 hour Treasury fiscal requirement.
- Files containing original documents were not stored in a locked, secure location.

- Some allotted lands are not being advertised for lease.
- There is a lack of segregation of duties when the Agency authorized collector simultaneously acts as the authorized mail clerk.
- There is no backup for the collections officer, or the alternate collection officer has not had an opportunity to process collections, which may mean they are no longer familiar with the process.
- The Agency accepts personal checks as a form of payment. On occasion, personal checks were not honored by the issuing bank, and overdrafts to IIM accounts occurred as a result of the delay between the time the item was returned to the Agency and the distribution to the account holder.

These conditions were shared with the BIA as they related to fiscal year 1997 and are considered resolved as they relate to OTFM's Report of Independent Public Accountants on Internal Control Structure as of the date of this report. We did not perform field visits during the fiscal year ended September 30, 2000. As a result of this we are unable to comment regarding resolution of this item for the BIA.

Prior Year - September 30, 1996

MATERIAL WEAKNESSES

Regional and Agency Offices - Unauthorized Transactions - Tribal and IIM - BIA (18)

As part of our receipts and disbursements testing, we reviewed disbursement transactions for proper approvals, in accordance with 25 Code of Federal Regulations ("CFR"), Secretarial Order 3177, and Secretarial Order 3197 (for transactions subsequent to February 9, 1996).

In our sample, we noted that BIA personnel did not approve three Tribal disbursement transactions from the IIM subsidiary system totaling \$850,000. These were disbursed prior to the February 9, 1996 Secretarial Order 3177 which changed policies and procedures relating to disbursement approvals. Also, for two transactions totaling \$70,640, documentation supporting beneficiary approval of disbursements to third parties was not provided.

OTFM and BIA policies and procedures require an appropriate approval be obtained prior to funding tribal disbursements. Without proper approvals, the OTFM may be inappropriately disbursing trust assets. An approval signature indicates that a disbursement has been reviewed and is appropriate based on supporting documentation. Lack of documented approval indicates that these steps may or may not have occurred. Inadequate documentation of approvals may also expose the OTFM to a potential breach of fiduciary responsibility.

Our testing of disbursement transactions for the fiscal year 1997 revealed several instances of unauthorized disbursements from both Tribal and Individual Indian Money accounts.

The condition was shared with the BIA as it related to fiscal year 1997 and is considered resolved as they relate to OTFM's Report of Independent Public Accountants on Internal Control Structure, with the exception of unauthorized transactions reported in item 32. Secretarial Order 3177, and Secretarial Order 3197 moved the approval function from BIA to OTFM, and as a result, we consider this item resolved.

Regional and Agency Offices - Ineffective Implementation of Policies & Procedures - Tribal and IIM (19)

Note: Issues 4, 19 and 31 all addressed ineffective implementation of policies and procedures. They have all been combined and are currently being reported as issue number 31.

REPORTABLE CONDITIONS

Cash - Failure to Analyze Suspense Accounts - Tribal and IIM (20)

An analysis of the items that comprise several U.S. Treasury ("the Treasury") suspense and budget clearing accounts has not been completed. Therefore, the OTFM's current procedures for researching and proposing adjustments to the cash out of balance condition do not consider whether an offset may already exist within one of these account balances. Funds to cover the adjustments may be in a Treasury suspense or budget clearing account because the original transaction may not have been reported to Treasury, and a Statement of Difference was created. If the Statement of Difference was not resolved, the transaction amount was transferred to one of the Treasury suspense or budget clearing accounts. The Treasury suspense and budget clearing account balances at September 30, 1999 were approximately \$102,700, (\$3,378,000), \$5,957,000 and (\$3,310,000). During the fiscal year ended September 30, 2000, within the account that totaled \$102,700, approximately \$80,000 was identified and transferred to the proper account holders.

As a result, the resolution of reconciling items between the U.S. Treasury and the OTFM may be incorrect without consideration given to the items that comprise prior period suspense balances.

Issue papers and proposed action plans for these differences have been shared with departmental personnel and are the subject of interdepartmental discussions.

The condition remains unresolved at September 30, 2000.

Investments - Lack of Reliable IIM Balance Available for Investing - IIM (22)

The amount invested on behalf of IIM account holders is based on the SEI Trust system IIM control account balance. The balance per SEI does not agree to the balance per the IIM subsidiary ledger. At this point in time, it cannot be determined which system has an accurate balance. Consequently, the OTFM may be over or under-investing, because the underlying balance is unreliable.

During the year ended September 30, 1998 the OTFM, with the assistance of a contractor, initiated a project to identify components of this number. As of September 30, 2000 the aggregate of all positive fund balances from the IIM Detailed subsidiary ledger exceeded the assets by approximately \$6,700,000.

Issue papers and proposed action plans for these differences have been shared with departmental personnel and are the subject of interdepartmental discussions.

The condition remains unresolved at September 30, 2000.

Special Deposit Accounts - Lack of Policies and Procedures and Inconsistent Practices - IIM (24)

Note: Issues 7 and 24 addressed Special Deposit Accounts. They have been combined and are currently being reported as issue number 24.

Per 25 CFR, "Special Deposit" accounts are to be used as suspense accounts to which funds are posted when allocation of funds is not immediately clear. These accounts are maintained within the IIM subsidiary system. The funds are then transferred to the account holder when the proper allocations are determined. Over the years the number of special deposit accounts which have been opened and remained inactive over 18 months has proliferated. Approximately 200 new accounts are opened each month generating increased administrative and TFAS cost.

The OST in conjunction with the BIA and the Office of the Solicitor will jointly:

- A. Establish a policy to address current deficiencies and problems;
- B. Define which accounts are properly categorized as trust fund accounts; and
- C. Begin a new process of handling collections.

A draft plan was completed as of September 30, 2000. The final plan will be developed by January 2001, for cleanup processes based on a Region by Region assessment.

This condition remains unresolved at September 30, 2000.

Negative IIM Account Balances Included in Invested Balance - IIM (26)

The IIM subsidiary ledger contains negative account balances approximating \$44,000,000. The SEI control account for IIM is purported to represent the aggregate net balance of the IIM subsidiary system. However, this is difficult to determine because of the out of balance condition between the control account and the IIM subsidiary ledger that is noted in a separate reportable condition. The invested balance for IIM account holders is equal to the control account balance. IIM account holders with positive balances are being penalized by lower earnings due to the difference between the IIM investment pool and the IIM detail balances.

Issue papers and proposed action plans for these differences have been shared with departmental personnel and are the subject of interdepartmental discussions.

This condition remains unresolved at September 30, 2000.

Prior Year - September 30, 1995

MATERIAL WEAKNESSES

Cash - Tribal and IIM (1)

Cash balances converted as of March 31, 1995 from the prior general ledger to OmniTrust (subsequently SEI) were approximately \$27,000,000 higher than the balance as reported to the U.S. Treasury. Cash reconciliation procedures only reconcile current activity from OmniTrust/SEI to Treasury and do not address the unreconciled beginning balance. The composition of the difference is not known and no reliance has been obtained that either the OTFM balance or the balance as reported to Treasury is accurate.

Further, the \$27,000,000 difference has been reflected at approximately \$35,000,000 as of September 30, 1996, and has remained significantly unchanged through September 30, 2000. The out of balance condition changes as reconciling items are identified and cleared.

Issue papers and proposed action plans for these differences have been shared with departmental personnel and are the subject of interdepartmental discussions.

This condition remains unresolved at September 30, 2000.

Trust Fund Balances - Tribal and IIM (3)

An historical "Undistributed Interest Account" of approximately \$1,800,000 existed at September 30, 1995. The balance as of September 30, 2000, is approximately \$1,600,000.

Issue papers and proposed action plans for these differences have been shared with departmental personnel and are the subject of interdepartmental discussions.

This condition remains unresolved at September 30, 2000.

Regional and Agency Offices - Tribal and IIM (4)

Note: Issues 4, 19 and 31 all addressed ineffective implementation of policies and procedures. They have all been combined and are currently being reported as issue number 31.

REPORTABLE CONDITIONS

Cash - Tribal (5)

There were thirteen (13) historical cash accounts on OmniTrust with negative balances totaling approximately \$742,000. As of September 30, 2000, there are twelve (12) SEI accounts with balances totaling approximately \$724,000.

Issue papers and proposed action plans for these differences have been shared with departmental personnel and are the subject of interdepartmental discussions.

This condition remains unresolved at September 30, 2000.

IIM Special Deposit Accounts - IIM (7)

Note: Issues 7 and 24 addressed Special Deposit Accounts. They have been combined and are currently being reported as issue number 24.

Ownership Records - Tribal and IIM - BIA (8)

Note: Issues 8 and 45 both addressed Ownership Records. They have been combined and are currently being reported as issue number 45.

Accounts Receivable System - Tribal and IIM - BIA (10)

The BIA does not have an accounts receivable system in place for trust assets. The GAO, in its report dated April 25, 1994, (GAO/AIMD-94-110R) recommended that the BIA develop an accounts receivable system. Currently, the BIA has no assurance that all lease revenues are billed and subsequently collected.

Such a system should provide reasonable assurance that earned revenues are billed, collected and posted to the appropriate beneficiary's account.

The condition was shared with the BIA as it related to fiscal year 1995 and is considered resolved as it relates to OTFM's Report of Independent Public

Accountants on Internal Control Structure. However, they may not be resolved with regards to the BIA.

OTHER ADVISORY COMMENTS

Electronic Data Processing

Disaster Recovery - IIM - BIA (12)

Note: Issues 12 and 13 addressing Trust Systems have been combined and are currently being reported as issue number 42.

Password Controls - IIM - BIA (13)

Note: Issues 12 and 13 addressing Trust Systems have been combined and are currently being reported as issue number 42.

1099 Interest Reporting - IIM (16)

Currently, there are individuals with no known social security number receiving interest income on trust investments. Because the social security number is unknown, the OTFM reports the interest earnings to the Internal Revenue Service ("IRS") with no recipient social security number. The OTFM does not withhold taxes prior to the interest distribution.

Significant efforts are currently underway internally and by a contractor to identify missing account holders and missing social security numbers.

This condition remains unresolved at September 30, 2000.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above.

This report is intended for the information of the Inspector General, the Office of Special Trustee for American Indians of the U.S. Department of Interior and management of OTFM and is not intended for any other purpose. However, this report is a matter of public record and its distribution is not limited.

Griffin & Associates, P.C., CPAs

GRIFFIN & ASSOCIATES, P.C.
Certified Public Accountants

Boulder, Colorado
December 15, 2000

**U.S. DEPARTMENT OF THE INTERIOR
OFFICE OF THE SPECIAL TRUSTEE
FOR AMERICAN INDIANS
TRIBAL AND OTHER SPECIAL TRUST FUNDS,
AND INDIVIDUAL INDIAN MONIES TRUST FUNDS
MANAGED BY THE
OFFICE OF TRUST FUNDS MANAGEMENT**

**REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS ON
COMPLIANCE WITH
LAWS AND REGULATIONS**

SEPTEMBER 30, 2000

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS ON COMPLIANCE WITH LAWS AND REGULATIONS

To the U.S. Department of the Interior
Office of the Special Trustee for American Indians:

We have audited the Statements of Assets and Trust Fund Balances and the related Statements of Changes in Trust Fund Balances for the Tribal and Other Special Trust Funds, and Individual Indian Monies Trust Funds ("IIM") managed by the U.S. Department of the Interior Office of the Special Trustee for American Indians ("OST") Office of Trust Funds Management ("OTFM") as of and for the years ended September 30, 2000 and 1999, and have issued our reports thereon dated December 15, 2000.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement.

Compliance with laws and regulations applicable to the OTFM is the responsibility of the management of the OTFM. As part of obtaining reasonable assurance about whether the statements referred to above are free of material misstatement, we performed tests of OTFM's compliance with certain provisions of laws and regulations. However, the objective of our audits was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

Material instances of noncompliance are failures to follow requirements, or violations of prohibitions, contained in law or regulations that cause us to conclude that the aggregation of the misstatements resulting from those failures or violations is material to the Statements of Assets and Trust Fund Balances and the Statements of Changes in Trust Fund Balances, or that the sensitivity warrants disclosure thereof.

The results of our tests disclosed material instances of noncompliance. As communicated to us by the Office of the Solicitor ("Solicitor") for the Department of the Interior, tribal organizations and classes of Indian individuals have filed various claims against the U.S. Federal Government for failure of the U.S. Federal Government to fulfill its fiduciary responsibilities and related charges.

Prior Year - September 30, 1998

IMMATERIAL NONCOMPLIANCE

Noncompliance with 25 CFR 115.6 - IIM (C1)

25 CFR 115.6 states "As a general rule, voluntary deposits shall not be accepted. Indians who require banking services shall be encouraged to utilize commercial facilities". As indicated within the "Report of Independent Public Accountants on Internal Controls September 30, 1998", we noted several instances in which the OTFM accepted voluntary deposits to Individual Indian Money accounts.

This condition remains unresolved as of September 30, 2000.

OTHER NONCOMPLIANCE (CIA)

The OTFM through the OST represented to the Department of the Interior via its "Fiscal Year 1999 Annual Assurance Statement on Management Controls" dated December 21, 1999, the following:

"The Office of the Special Trustee (OST) has completed an assessment of its trust funds systems of management, administrative and financial controls in accordance with the guidelines established by the Federal Manager's Financial Integrity Act (FMFIA) and the Office of Management and Budget. The objectives of this assessment were to ensure that:

- programs achieved their intended results;
- resources were used consistent with agency mission;
- resources are protected from waste, fraud and mismanagement;
- laws and regulations are followed; and
- reliable and timely information is maintained, reported, and used for decision making.

In performing the assessment, the OST relied on the knowledge and experience management has gained from the daily operation of its trust funds programs and systems of management, administrative and financial controls, and information obtained from management control reviews, OIG and GAO audits, program reviews, evaluations and studies, audits of financial statements, performance plans and reports, and other information. The scope of the assessment was broad enough to support the following conclusions.

Based on the results of the assessment, I conclude that OST's trust funds systems of management, administrative and financial controls do not provide reasonable assurance that the objectives of the FMFIA have been achieved. In addition, I conclude that OST's trust funds financial systems generally do not conform to government-wide principles, standards and related requirements.

Although I conclude OST's trust funds systems of management, administrative and financial controls does not provide reasonable assurance that the objectives of the FMFIA have been achieved, OST is taking appropriate and specific actions with the intent of achieving FMFIA objectives, via the Trust Management Improvement Project's High Level Implementation Plan.

"The existence of these material weaknesses and/or non-conformance does prevent the OST from providing reasonable assurance on the effectiveness of its management controls taken as a whole."

This condition remains unresolved as of September 30, 2000.

Prior Year - September 30, 1996

OTHER NONCOMPLIANCE

Non-compliance with DOA098-005 (OTFM Delegation of Authority for Disbursements)
(C2)

We reviewed disbursement transactions for proper approvals, in accordance with 25 CFR and Secretarial Order 3177 or Secretarial Order 3197. According to numerous

sections of 25 CFR, and Secretarial Order 3177, disbursements from tribal trust accounts require the approval of the Secretary of the Interior or his delegate. This authority was subsequently re-delegated to Agency Superintendents for transactions prior to February 9, 1996. On February 9, 1996, Secretarial Order 3197 established the Office of the Special Trustee for American Indians within the Department of the Interior and moved the Office of Trust Funds Management from the BIA to the OST. The Secretarial Order issued all delegations of authority for financial trust services to the Special Trustee for American Indians, and rescinded all such delegations to the Assistant Secretary - Indian Affairs. Pursuant to that Order, on February 9, 1996, the Special Trustee for American Indians delegated all program and administrative authorities necessary to perform financial trust services to the Director, OTFM, with the exception to approve withdrawals of tribal funds from trust. This delegation was published as 210 DM 14, Release 3053. The Director of OTFM, attempted to re-delegate administrative authority within the jurisdiction set forth in 210 DM 14, Release 3053, to OTFM field accounting personnel and BIA Agency Superintendents. This re-delegation was not approved. Subsequent to this, the Director re-delegated her authority to the Area Trust Accountants ("ATA") via Delegation of Authority "DOA98-005" which became effective February 12, 1998.

This condition is considered resolved at September 30, 2000.

IMMATERIAL NON-COMPLIANCE

Treasury Fiscal Requirement - BIA (C3)

It was noted that certain BIA Agency Offices are in violation of the Treasury Fiscal Requirements whereby funds had been accumulated in excess of \$5,000 and a timely deposit was not made.

The condition remains unresolved at September 30, 2000.

Except as described above, the results of our tests of compliance indicate that, with respect to the items tested, the OTFM complied with the provisions referred to in the third paragraph of this report, and with respect to items not tested, nothing came to our attention to cause us to believe the OTFM had not complied, in all material respects, with those provisions.

This report is intended for the information of the Inspector General, the Office of Special Trustee for American Indians of the U.S. Department of Interior and management of OTFM and is not intended for any other purpose. However, this report is a matter of public record and its distribution is not limited.

Griffin & Associates, P.C., CPAs

GRIFFIN & ASSOCIATES, P.C.
Certified Public Accountants

Boulder, Colorado
December 15, 2000

**ILLEGAL OR WASTEFUL ACTIVITIES
SHOULD BE REPORTED TO
THE OFFICE OF INSPECTOR GENERAL**

Internet Complaint Form Address

http://www.oig.doi.gov/hotline_form.html

Within the Continental United States

U.S. Department of the Interior
Office of Inspector General
1849 C Street, N.W.
Mail Stop 5341 - MIB
Washington, D.C. 20240-0001

Our 24-hour
Telephone HOTLINE
1-800-424-5081 or
(202) 208-5300

TDD for hearing impaired
(202) 208-2420

Outside the Continental United States

Caribbean Region

U.S. Department of the Interior
Office of Inspector General
Eastern Division - Investigations
4040 Fairfax Drive
Suite 303
Arlington, Virginia 22203

(703) 235-9221

Pacific Region

U.S. Department of the Interior
Office of Inspector General
Guam Field Pacific Office
415 Chalan San Antonio
Baltej Pavilion, Suite 306
Agana, Guam 96911

(671) 647-6060

HOTLINE

U.S. Department of the Interior
Office of Inspector General
1849 C Street, NW
Mail Stop 5341- MIB
Washington, D.C. 20240-0001

Toll Free Number
1-800-424-5081

Commercial Numbers
(202) 208-5300
TDD (202) 208-2420

