continue to work closely with the Tribal Ad-Hoc Committee and the GAO staff assigned to the Reconciliation Project. The proposals received in response to the Reconciliation RFP should be evaluated and “best and final bids” should be received by the end of the next quarter. The move to the new office site in Albuquerque should be initiated, and most of the advertised positions should be selected by the end of the first quarter of 1991. The CONSIS contractors will continue to work on the various projects meeting our short term needs for the various accounting systems that we are currently utilizing, and Arthur Andersen & Company will issue the F.Y. 1990 Financial Statement Audit Reports for all Trust Funds.
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CONTENTS

Hearings held:
April 24, 1990 ...................................... 1
September 25, 1990 .................................. 47

Statement of:
Brown, Eddie F., Assistant Secretary for Indian Affairs, U.S. Department of the Interior, accompanied by Walt Mills, Deputy, Operations; Fred Kellerup, BIA investment officer; Jim Farris, chief, branch of trust fund accounting; and George Gover, implementation manager, office of trust fund management .................................................. 4

Brown, Eddie F., Assistant Secretary for Indian Affairs, U.S. Department of the Interior, accompanied by Walt Mills, Deputy, Operations; Lou Gallego, Assistant Secretary for Policy, Management and Budget; George Gover, acting director, and Jim Farris, acting program analyst, Office of Trust Fund Management ........................................... 50

Synar, Hon. Mike, a Representative in Congress from the State of Oklahoma, and chairman, Environment, Energy, and Natural Resources Subcommittee: Opening statement ................................................................. 1

Letters, statements, etc., submitted for the record:
Brown, Eddie F., Assistant Secretary of Indian Affairs, U.S. Department of the Interior:
List of deliverables received under the Security Pacific National Bank contract, as of April 30, 1990 .................................................. 25
Prepared statement ..................................... 5, 53
Termination costs associated with Security Pacific National Bank contract ........................................... 32

Gover, George, implementation manager, office of trust fund management, U.S. Department of the Interior:
Claims pending against BIA relating to Indian Trust Fund accounts and Unallocated balances referred to in the Arthur Andersen & Co. audit of tribal and individual Indian moneys as of September 30, 1986 .................................. 42

Synar, Hon. Mike, a Representative in Congress from the State of Oklahoma, and chairman, Environment, Energy, and Natural Resources Subcommittee:
Letter dated March 20, 1990, concerning a contract for auditing and reconciliation services of the Bureau of Indian Affairs, from Milton J. Socolar, Acting Comptroller General of the United States .................................. 19
Letter dated September 17, 1990, concerning third year option for Security Pacific National Bank, not exercised, from Bureau of Indian Affairs .................................................. 60

Memorandum to chairman, Indian incentive awards committee, dated May 25, 1990, concerning recommendation for special achievement award for Arlene Brown, from chief, Division of Accounting Management ........................................... 64

APPENDICES

Appendix 1—Material submitted for the April 24, 1990, hearing record .................................. 89
Appendix 2—Material submitted for the September 25, 1990, hearing record ..................... 111
Appendix 3—Quarterly report status of management of trust funds ................................... 182

(II)
Senate Subcommittees on Appropriations. The House and Senate review was completed on August 3 after we responded to numerous questions.

The Office of Trust Fund Management was given authority to begin filling positions on September 10. In addition, I've been exploring other options that may be available for the enhancement of the management of the trust funds within the Department.

Furthermore, recently a review was conducted by a team of accounting, ADP, and contract management personnel from the minerals management service. They concluded that, generally, actions under way were necessary and headed in the right direction. However, they concluded that truly major work lies ahead to bring trust fund management to an appropriate level of performance.

These findings reinforce many of the shortcomings identified in other projects. We are examining currently the best means of addressing them.

This concludes my prepared statement, Mr. Chairman. I will be happy to respond to any questions that you might have.

[The prepared statement of Dr. Brown follows.]

STATEMENT OF EDDIE F. BROWN, ASSISTANT SECRETARY FOR INDIAN AFFAIRS, DEPARTMENT OF THE INTERIOR, BEFORE THE SUBCOMMITTEE ON ENVIRONMENT, ENERGY, AND NATURAL RESOURCES COMMITTEE ON GOVERNMENT OPERATIONS, ON THE BUREAU OF INDIAN AFFAIRS' TRUST FUND MANAGEMENT PROGRAM

September 25, 1990

Good morning Mr. Chairman and members of the Committee. I am pleased to be here today to present testimony on the Bureau of Indian Affairs' (BIA) trust fund management program and to address certain issues which were raised at the Subcommittee's previous session on April 24, 1990. Accompanying me are James Mills, Deputy Assistant Secretary for Indian Affairs; Louis Gallegos, Assistant Secretary for Policy, Management & Budget, and George Gover, Acting Director, Office of Trust Funds Management. The Bureau has made progress in this period in carrying out our responsibilities in addressing some of the concerns of Congress with respect to the conduct of trust fund management. Additional steps need to be taken, however, in the future.

$17 Million Fund Imbalance

We wished to update the Subcommittee on our actions taken with respect to the $17 million imbalance identified last year in the September 1989 Inspector General's report. In the April hearing you were informed that the Bureau was working with the assistance of Arthur Andersen & Company to reconcile the differences identified between the Bureau's financial accounting system and the investment portfolio reporting balances. Those differences have been reconciled to within $1239. The remaining balance will be addressed in the audit work to be conducted by Arthur Andersen & Company during the course of current FY year 1990 audit of the
trust funds. We have found no cases of fraud, embezzlement or theft.

The separate data entry into the two systems that created the differences highlighted in the Inspector General’s report is being addressed by developing an automated interface to automatically update the investment and accounting systems simultaneously. The integration of the data entry is scheduled to be implemented by October 1, 1990, and is currently being tested in Albuquerque. This enhancement will prevent such an imbalance from occurring in the future.

Audit and Reconciliation (P.L. 101-120)

At the April hearing, the Subcommittee questioned us on our actions related to compliance with the Congressional directive to audit and reconcile the accounts. The Bureau has developed two draft Requests for Proposal (RFP); one for the reconciliation and a second for the audit work to be performed. We have requested that the Office of the Inspector General perform the required independent verification that the work performed meets the intent of the Congressional directive.

A meeting was held on September 20 in Albuquerque, New Mexico, to discuss our drafts of the two RFPs with representatives from all 37 tribes included in Phase I of the reconciliation and audit project. We also invited the tribes representing the Individual Indian Money (IIM) account owners at the three BIA agency offices selected for participation in Phase I. We believe this approach is fully consistent with the requirement of the House Appropriations Subcommittee on Interior and Related Agencies to consult with affected tribes until an Indian/Tribal Advisory Committee has been established. The Advisory Committee charter, Federal Register notice and other supporting documentation have been completed and are in the final Departmental review process.

We are planning to meet with the appropriate Congressional Committees within the next two weeks as part of the process to finalize the language in the RFPs. The RFPs are to be advertised in the Commerce Business Daily by October 15, with the contract award by January 15, 1991.

Status of Financial Services Contract

The Bureau has given written notification to Security Pacific National Bank that it will not exercise its option to continue the contract for FY 1991. The contract is no longer needed and will expire on its own terms on September 30. This action was taken in response to the acceptance of the Bureau’s reconciliation and audit plan by the House and Senate Appropriations Subcommittee on Interior and Related Agencies.

Red Lake Band of Chippewas

In the April hearing, the Subcommittee referred to a payment due to the tribe that had not been received. The Bureau had accomplished an internal transfer of $362,020.70 on April 20, from restricted escrow accounts to tribal accounts as requested by the tribe.

Unallocated Balances
The "unallocated balances" total of $35.8 million in the FY 1988 Arthur Andersen & Company audit of tribal and IIM funds that was referenced in the April hearing has been partially identified with the help of the auditors. The amount identified as "unallocated" based on the FY 1989 audit is $17.1 million. The primary source of this amount ($11.8 million for FY 1989) appears to be the difference between the Bureau's Finance System balances for IIM and the Integrated Records Management System (IRMS) subsidiary accounting system in the field offices. Researching the reasons for this "unallocated" difference has been included in the scope of work for Arthur Andersen & Company for the FY 1990 audit. Other lesser amounts that have been identified related to this "unallocated" amount have been traced to: (1) undistributed interest; (2) overearnings on some investment transactions; and (3) other miscellaneous amounts. The Bureau will address the Finance and IRMS-IIM system variance through the Reconciliation and Audit Project described above. The other items will be addressed through the course of the FY 1990 audit by Arthur Andersen.

Investment Losses

The Bureau has submitted the five findings of facts regarding the seven losses identified by the Inspector General to the Solicitor for a determination. The Solicitor issued an opinion on May 2, as to the liability of the Government related to investment losses of principal and interest of trust funds. The Bureau is currently studying the Solicitor's opinion and will be working with other agencies to determine how it will apply to the identified losses. A policy decision will be forthcoming from the Bureau.

The 1081 Reconciliation Project

The computer programs have been developed to address problems with this process. Test data from the Anadarko Area Office is currently being reviewed by the Office of Trust Fund Management in Albuquerque. There are discrepancies noted between data lines received from the Minerals Management Service (MMS) and those being processed and distributed from the 1081 Reconciliation program to the B-1900/A-10 minicomputers. The BIA Office of Data Systems in Albuquerque is working with the Office of Trust Fund Management to identify and resolve this problem on a timely basis. The target date for implementation of the 1081 Reconciliation System at Anadarko Area is set for the end of September. The testing of the process for the Billings, Navajo, Muskogee, Phoenix, and Aberdeen Areas will be initiated in early October. It is anticipated that the testing for these Areas will proceed much easier after overcoming the data problems with the basic programs at the Anadarko Area. The target date for implementation at all Areas is scheduled for November 1990.

Office of Trust Fund Management Organization

The resources for the Office of Trust Fund Management were the subject of a reprogramming proposal presented to the House and Senate Appropriations Committees on Appropriations. The House and Senate review was completed on August 3 after we responded to numerous questions. The Office of Trust Fund Management was given authority to begin filling positions on September 10. In addition, I have been exploring other options that may be available for the enhancement of the management of the trust funds within the Department.
Furthermore, recently, a review was conducted by a team of accounting, ADP, and contract management personnel from the Minerals Management Service. They concluded that, generally, actions underway were necessary. However, they concluded that truly major work lies ahead to bring trust fund management to an appropriate level of performance. They cited a lack of an overall coordinated plan; weak internal controls; a lack of policies, data, process, and input redundancies; a need for a new trust fund management system; and a variety of other shortcomings. There is also a concern that the Office of Trust Fund Management may not have the suite of technical specialists necessary for successful management of such a large undertaking. These findings reinforce many of the shortcomings identified in other reports. We are examining the best means of addressing many of them.

This concludes my prepared statement. I will be happy to respond to any questions the Committee may have.
The Honorable William P. Clinger
Ranking Minority Member
Subcommittee on Environment, Energy
and Natural Resources
Committee on Government Operations
D-371 Rayburn House Office Building
Washington, D.C. 20515

Dear Mr. Clinger:

Enclosed are my responses to the questions you attached to your September 26, 1990 letter. As you requested, my responses are reflective of conditions at the time of the hearing.

Thank you for the opportunity to provide additional testimony for the record.

Sincerely,

[Signature]

Assistant Secretary - Indian Affairs

Enclosure

RESPONSES OF THE
ASSISTANT SECRETARY - INDIAN AFFAIRS
TO QUESTIONS OF
THE RANKING MINORITY MEMBER
SUBCOMMITTEE ON ENVIRONMENT, ENERGY AND NATURAL RESOURCES
COMMITTEE ON GOVERNMENT OPERATIONS

QUESTION 1: The Subcommittee has highlighted past problems by BIA in incorporating account holder input. In proceeding with your work, how will BIA work with tribes and account holders to ensure that they are in agreement with the account balances?

RESPONSE: As is discussed in our Strategy for Reconciliation, audit and Certification of Trust Fund Accounts, we are planning to provide statements to each account holder after each phase of the reconciliation project. Account owners will be asked to provide the Bureau with any documents or other information that may be available to them to complete the record or which reflects information other than that in the statement. By showing each account owner the debits and credits associated with the account and by requesting that they notify us of any discrepancy, we will obtain as much assurance as is possible that the owner agrees with the reconciliation. This procedure will be repeated after the account reconciliation effort is audited. At the end of the certification phase, the account owner will again receive a statement showing activity in the account.

QUESTION 2: At each hearing to date, you have been asked about the possibility of turning trust funds over to the tribes and individual Indians. The response has been that this is a “viable option.” Some Members of the Subcommittee would like to see the option more seriously considered. Will you assure the Subcommittee that when you affect the reconciliation and auditing of the accounts that you will investigate means by which trust funds can be turned over, identifying if laws need to be changed?

And will you discuss this “viable option” with Native America as part of the consultation process?

RESPONSE: I can give the Subcommittee full assurance that we will investigate means by which trust funds may be turned over to the Tribal or individual Indian owners. We intend to include tribal government and individual Indian participation from the beginning as we address this issue. I will notify the Subcommittee if the Department’s Office of the Solicitor determines legislation is required to accomplish this.

We will discuss turning over trust funds to account owners during our consultation with Tribes and individual Indian account owners as their views will be most important in making any decisions about this option.

QUESTION 3: Who is liable for shortages in accounts, namely lost funds?

How about lost interest due to poor investments?

Is the U.S. taxpayer ultimately responsible if it is found that the BIA has mismanaged the Trust Fund accounts?
RESPONSE: I have not discussed liability for shortages or lost interest with the department's Solicitor, but my personal belief is that the U.S. taxpayer may be responsible for shortages in the principal of any account. Where the loss is not due to any negligence on the part of the IRA, the Solicitor will have to evaluate the causes and recommend a legal course of action.

QUESTION 4: In the Subcommittee's first IRA Trust Fund hearing, we heard from the Inspector General that there was $17 million "unaccounted for." How much is unaccounted for today?

Why the difference?

RESPONSE: As of today, only $1.219 million is unaccounted for. The resolution of the difference between the current $1.219 and the $17 million reported by the Inspector General is due to auditing efforts of the Arthur Andersen Company. Their auditors traced the unaccounted funds to differences in accounting data maintained by the separate automated data entry systems used by the bureau. These differences are accounted for on the basis of different dates of data entry, different procedures for adding recent data entries to previous totals, and the lack of proper interfaces among the various systems. Once the problem was identified, the bureau engaged outside ADP Firma (CONSIS) to develop the interfaces needed to install the software and hardware necessary to correct the data entry problem.

QUESTION 5: In its May 1990 "Report on Compliance and Report on Internal Controls," Arthur Andersen & Company makes a number of recommendations to improve the Trust Fund accounting system. Will DIA be implementing these recommendations?

(If so) When will implementation be complete?

RESPONSE: The recommendations referred to in the May 1990 Report issued by Arthur Andersen & Company related to system enhancements are as follows: (1) IRS5 not completely operational at some locations, (2) differences between systems, and (3) streamline work-flow.

The Integrated Records Management System (IRS5) is an automated system with integrated data bases in land, lease, ownership, and people. The IRS5 has an Individual Income Monies (IIM) Indian income distribution and accounting module as output from the system. The system is not operational at all locations due to a lack of valid data being loaded into the land, lease, and ownership data bases. We are currently working to ensure that all areas are using the system and entering valid data.

The duplication between systems is being addressed through a series of shorter-term projects that we expect to be fully operational by November 1990. We have been working on the enhancements to eliminate the duplicate system data entry involved with our investment and Individual Indian Monies systems. Both system enhancements are currently being tested in Albuquerque.

The need for a more streamlined work flow will be one of the primary objectives of the long-term goal of developing the requirements for a new Trust Fund Management System. That project is due to be initiated within the next few weeks. It is currently being delayed pending a decision to negotiate with MITRE Corporation.

QUESTION 6: There is great concern among Subcommittee members about Individual Indian Money account holders. It seems that it is these individuals, due to the sheer number of entries associated with their accounts, who will be stuck with the lion's share of account shortages. How will the agency go about notifying these individuals that their accounts are out of balance?

Please explain how the DIA's practice of "pooling" the IIM accounts for investment purposes limits the exposure of individual account holders.

Will the DIA come up with the funds to make all accounts whole? Will the funds come from Congress?

Do you see difficulties in getting funds back from account holders who were overpaid in the past? How will the DIA address this problem?

RESPONSE: Our reconciliation, audit, and certification plan provides for notifying each account owner of the condition of the account at each phase of the process. If an account is out of balance, the account owner will be alerted to this at the time statements are provided.

Pooling involves enabling the Bureau to obtain a higher rate of interest on investments only in normal market conditions than if each account were invested separately. Most financial institutions that bid on funds the Bureau has available for investment require substantial sums of money; only by pooling accounts can the Bureau meet these requirements.

We currently plan to seek funds through the regular appropriations process to make accounts whole when shortages are identified. Based on the time frames set forth in our reconciliation, audit, and certification plan, we do not anticipate any requests will be possible before the FY 1991 budget submission. Congress must act on these requests for appropriated funds.

We believe there would be great difficulty in getting funds back from account owners who have been overpaid in the past. Aside from the legal questions such as statute of limitations and making an individual pay for administrative errors of a government agency, the funds will not be available to most account owners for repayment. We will address this issue on a case by case basis, but my current inclination is to be lenient in writing off most of the repayments that will be required due to overpayments.

QUESTION 7: Dr. Brown, on p. 2 of your testimony, you state that DIA has "found no cases of fraud, embezzlement or theft." Yet, the Inspector General in his report in his DIA Audit Report attributed $17 million to "embezzlement acts." Can you explain the difference between your statement and the I.G. report?

RESPONSE: The Inspector General's report discussed fraudulent acts of employees of a financial institution. My statement reflected the Arthur Andersen & Company audit of the $17 million that was unaccounted for at the time of the I.G. audit. Arthur Andersen & Company concluded that no fraud, embezzlement or theft caused the funds to be unaccounted for.
QUESTION 9: How much money was spent on the Security Pacific National Bank contract?

Will there be any additional contract termination charges?

In past hearings BIA expressed concern that termination of the contract would leave the U.S. Government exposed for having broken the contract. How can you be sure that Security Pacific will not sue the BIA now?

RESPONSE: 5914,512 has been paid to the Security Pacific National Bank under the terms of our contract with the Bank. We anticipate no contract termination charges. Our past concern was premised on the fact that we had no legitimate basis for termination of the contract. Once the Congress approved our plan for reconciling, auditing and certifying the trust fund accounts, it was clear that the contract with the Security Pacific National Bank would have expired under its own terms prior to our having all accounts reconciled, audited, and certified. We, therefore, notified the Bank that our option to renew for FY 1991 would not be exercised.

QUESTION 9: What tangible deliverables has BIA received from Security Pacific that we will be able to use in the future?

RESPONSE: The contractor didn't provide any tangible deliverables which the Bureau could use in the future. However, by implementing a extensive system definitions and requirements analysis, the following tangible and long lasting benefits were produced:

1. The operational definitions of requirements that must be involved in any future trust funds management system.

2. Legal clarification through issuance of solicitor or GAO opinions regarding operational requirements that impacted the judiciary trust responsibilities of the Bureau for money held in trust.

These tangible deliverables should provide significant savings in time and staff effort in the design, development, and implementation of a trust funds management system.

QUESTION 10: It is the Subcommittee's understanding that there has been some discussion about turning over some of the control of the trust funds management to Minerals Management Service. It is said that the MMS system is easy to adapt to the trust fund accounts.

Do the computer experts in the Bureau of Indian Affairs believe that this change will present few difficulties?

RESPONSE: The Minerals Management Service (MMS) has substantial experience in financial management systems design, operations, and contracting and a number of people with financial, auditing, and ADP backgrounds to address the critical problems facing trust fund management. It also has substantial current experience in managing large systems design and operations contracts and in operating large, complex accounting systems. It has taken financial systems that performed poorly and designed and implemented new systems that are a great improvement. Use of this MMS expertise should not be dismissed lightly as the development and implementation of a new trust funds management system will take a cadre of professional ADP staff resources not currently available within the Bureau. The difficulties to be encountered will take the combined efforts of available ADP resources within the Bureau and Department along with specialized contracted resources.

QUESTION 11. Please describe the circumstances under which Ms. Arlene Brown received her 55,000 monetary award?

RESPONSE: Ms. Brown was brought into the Bureau under a temporary appointment. That appointment was extended and she was reassigned to another position within the Bureau at a later date. As a temporary employee, she would have been ineligible for the normal Personnel Recognition System award for outstanding performance. I understand the basis for the cash award was her work which was judged to be outstanding on the preliminary stages of the Security Pacific National Bank contract. As a temporary employee, she had no need for, nor did she have, performance standards. They would have been required had she been a permanent employee and eligible for other recognition under Office of Personnel Management incentive awards procedures.

QUESTION 12. There is a long history associated with Congressional Appropriations language and whether or not that language in these Appropriations laws completely restricted the BIA from transferring all accounts to a third party. Can you explain how the Bureau initially interpreted the Appropriations language back in 1987?

Has the Appropriations language evolved over time and changed from year to year?

The language has become more restrictive with time. Do you believe that that is a result of the confusion surrounding the initial language?

If there was confusion, did BIA approach the Congressional authors of the language to seek clarification? If not, why not? If so, what was the result of those conversations?

Has the language in the Appropriations law combined with this Subcommittee's oversight hearings on the matter and with discussions with the Appropriations Committee staff made it clear about the transfer of funds?

RESPONSE: The Bureau initially interpreted the language in the FY 1988 Appropriations Act to require each account to be reconciled before it was turned over to a third party. The language in the FY 1988 and FY 1989 Appropriations Acts was identical except for the insertion of the article "a" before the word "tribal." In the FY 1990 Appropriations Act some language was added, some was dropped. The article "a" which was added in FY 1989 is shown in quotation marks, words underscored in the following text show what was added in FY 1990, and the words in brackets show what was dropped in FY 1990.

Provided further, that none of the funds in this Act shall be used by the Bureau of Indian Affairs to transfer funds under a contract with any third party for the management of
tribal or individual Indian trust funds until the funds held in trust for such "a" tribe or individual have been audit. and reconciled to the earliest possible date. the results of such re. reconciliation have been certified by an independent party as the most complete reconciliation of such funds possible, and the tribe or individual has been provided with an accounting of such funds[, and the appropriate Committee of the Congress and the tribes have been consulted as to the terms of the proposed contract or agreement].

We do not believe the differences in language are the result of confusion. The word "all" is absent in the Appropriations Acts for the three years. Our interpretation of the language to permit accounts to be turned over to a third party did not change as the language changed between FY 1988 and FY 1990.

**QUESTION 13:** What has the BIA accomplished since our last hearing towards meeting the concerns of this committee and the Appropriations committee?

**RESPONSE:** Attached is a copy of the quarterly report as requested in the July 21, 1990 letter from Mr. Yates and Mr. Regula approving the reprogramming request to establish the Office of Trust Funds Management.

**QUESTION 14:** Are you maintaining a dialogue with the Appropriations Committee to ensure that there are no misunderstandings in the future?

**RESPONSE:** My staff has met with Appropriations Committee staff on a regular basis to keep them informed on the progress and problems we are encountering during the implementation of the approved plan. The General Accounting Office has assigned a Program Analyst to work with the Office of Trust Funds Management on this project.

**QUESTION 15:** What is the process by which BIA will be reconciling and auditing the accounts?

When will you go out with Requests for Proposals for the reconciling and auditing efforts and when will those efforts begin in earnest?

Have you enlisted the support of third parties to ensure that the reconciliation and auditing efforts are properly designed and implemented?

**RESPONSE:** First, we intend to reconcile and audit the accounts to the "earliest possible date" as we have been required to do by the Appropriations Act since FY 1987. We will accomplish this in two stages:

During Phase I we will take the top 30 tribal trust funds accounts (includes 87% of the total tribal funds), and the Individual Indian Moccas accounts at three selected Agency locations (covers 15% of the IIM funds) and complete both the reconciliation and audit work for: the accounts selected. At the completion of the work, the firms that accomplished the tasks will be required to prepare a report, based upon their experience gained during the reconciliation and audit of the accounts in Phase I. that will project what resources (i.e., time, funds, equipment, etc.) will be required to accomplish the work for the rest of the Tribal and IIM accounts. The Bureau will then decide upon the approach to be taken, based upon the input from the firms, the availability of the records, and the inventory of when the accounts were created that must be addressed in Phase II. Phase I is expected to be completed by September 30, 1991.

Our Phase II will address the reconciliation and audit of the Tribal and IIM accounts not covered in Phase I and will be based upon the plan approved by the Bureau after consultation with Tribal representatives, the OMB, the Appropriations Committees, the GAO, and the Department of the Interior. These same groups have been involved with the development of this plan of action for Phase I, and they will be briefed on the progress of the Bureau in accomplishing these tasks. We plan to meet with the Appropriations Committees sometime during October to discuss the final versions of the Request for Proposals for both the reconciliation and the audit projects. After these meetings, if the plans are satisfactory, we intend to advertise the RFPs within the following two week period. We hope to award the contracts by mid-January 1991 which will allow field work to begin as early as late January.

**QUESTION 16:** When can we hope to have all accounts reconciled and audited?

**RESPONSE:** This depends on the report, and final decision of the Bureau, again after consultation with representatives of the affected Tribes, the Congress, the OMB, the GAO, the Interior Department's Inspector General, Departmental and Bureau managers to decide the best course of action. At the present time, we are estimating that all the accounts will be reconciled and audited by late FY 1996. We believe this is a reasonable estimate based upon the large number of accounts (300,000 IIM and 2,000 Tribal accounts), the uncertainty about the gathering of records back to the "earliest possible date," and the age of the current accounts (i.e., how many accounts were opened how many years ago -- some of the Tribal accounts date back to the 1800s, and many IIM accounts date to the early 1920s or earlier). These factors are all going to influence the outcome of our plan for Phase II.