

T-2103

BUREAU OF INDIAN AFFAIRS
DIVISION OF TRUST FUNDS INVESTMENT
BRANCH OF INVESTMENT OPERATIONS
BRANCH OF INVESTMENT RECORDS
INVESTMENT TRAINING OUTLINE
June 19, 1991

- I. INTRODUCTION AND HISTORICAL PERSPECTIVES
 - A. Creation and Authority
 - B. Overview of Investment Function/Procedures/Reporting Systems
 - C. WISMER Associates, Inc. - Moneymax system overview
 - D. Historical view of Investment and Accounting

- II. THE INVESTMENT PROCESS: TCD, FHLB, TREAS O/N, GOVT SEC
 - A. Time Certificates of Deposit Purchases
 - 1. Maturity Letters
 - 2. Accounts Distribution
 - 3. The Bid Process
 - a. Solicitation
 - (1) Recording (800-821-7502 or 505-766-3792)
 - (2) Telephone and Telefax
 - b. Awards (Laying off funds)
 - (1) Base Rates
 - (2) Insurance Limits
 - (3) Collateral Limits
 - c. Transfer of funds - EFT
 - d. Notification to Tribes
 - e. Verification of CDs'

AIRR, 75-04-0605, Box 1
File: "Investments... Training Manual, June 1991"

COPY

- B. Time Certificates of Deposit Maturities
 - 1. DMRS - Deposit Message Retrieval System
 - 2. SF-215 Reconciliation
- C. FHLB, Dallas "As Agent" program
- D. U.S. Treasury Overnight Investment
- E. Government Securities
 - 1. U.S. Treasury Issues
 - 2. Government Agency Issues
 - a. Interest or Coupon Bearing
 - b. Discount Issues
 - c. Mortgage Backed Securities
 - d. Collateralized Mortgage Obligations (CMO's)

III. The Accounting Process of Investments

- A. BIA Finance System
 - 1. Walk-through a CD
 - 2. Walk-through a Government Security
- B. MoneyMax - WISMER
 - 1. Walk-through a CD
 - 2. Walk-through a Government Security
- C. Info System
 - 1. CD - Tribal identification by banks
 - 2. Collateral Report

IV. Monthly Reconciliation and Audit considerations

COPY

INVESTMENT OF INDIAN TRUST FUNDS

An investment operation under the direction of the Bureau of Indian Affairs was established in Washington, DC in the mid 60's. In the late 1960's, the office was moved to Albuquerque, New Mexico under the Office of Trust Responsibilities.

AUTHORITY: Act of June 24, 1938 (52 Stat. 1037, 25 U.S.C. 162a), which reads in part, "The Chief, Branch of Investments, Administrative Services Center, Albuquerque, or anyone acting in his stead, is authorized to exercise the authority vested in the Secretary of the Interior under the ACT, which relates to the investment of tribal and individual trust funds in banks, in public-debt obligations of the United States, and in bonds, notes, or other obligations which are unconditionally guaranteed as to both interest and principal by the United States."

PL98-146 amended the above to authorize investing collections from Power and Irrigation projects. These basic authorities have been expanded through changes and additions to other laws, so that we can now utilize Savings and Loan institutions, and invest in Agency issues which may or may not have the full faith and credit of the United States as a specific guarantee.

It is our fiduciary responsibility to keep these funds invested in the most prudent manner possible. It is also our responsibility to keep the Area, Agency, and the Tribes informed of how their funds are invested through monthly reports.

The DIVISION OF TRUST FUNDS MANAGEMENT invests the funds, and is responsible for the recording of investment transactions and accounting for all investment instruments.

The BRANCH OF TRUST FUNDS ACCOUNTING is responsible for the accounting associated with the collection and disbursement of all trust funds.

TRIBAL FUNDS: There are approximately 290 separate accounts for Federally recognized tribes, with some of these accounts also representing combined tribal funds. The Trust Funds Accounting System contains approximately 1800 primary and subaccounts (Appropriations and Activities) to service the trust funds management needs of these fund owners.

Each tribal account has an individual "portfolio" of investments consisting of CDs' in Banks and S&Ls', plus government securities, such as, US Treasuries, various agency issues, or mortgage backed securities.

INDIVIDUAL INDIAN MONIES: Trust funds belonging to individuals are pooled for investment purposes. There are more than 290,000 separate accounts in the subsidiary accounting system.

COPY

IRRIGATION AND POWER FUNDS: There are three power projects and 36 irrigation projects under the jurisdiction of the BIA. Income to these projects are maintained separately in the Bureau's finance system. For investment purposes, the funds are combined into two pools identified as irrigation and power.

PAPAGO COOPERATIVE FUND: This fund is a special appropriation resulting from a water settlement agreement involving the United States, the Papago Tribe and states of Arizona and California. Treasury securities are the only authorized investments. The interest earnings to this fund are to be used by the Secretary of Interior to meet the Department of Interior's obligations under the settlement. No disbursements are anticipated prior to 1992.

ALASKA NATIVE ESCROW: This fund was established as an outcome of the Alaska Native Claims Settlement Act to receive funds related to land acquisition by native corporations. All invested funds are in CD's primarily for liquidity.

CONTRIBUTED FUNDS: This relatively small fund consists of three separate accounts, combined for ease of reporting. These accounts are the result of actual contributions of cash to the U.S. Government for the "Advancement of the Indian Race". One of the funds can only be used for education purposes per terms of the gift. Most of these funds are kept in CD's at the present time.

COPY

The investment process involves the purchase and maturing of Certificates of Deposit from banks and savings and loan, and as an "as agent" participant through the Federal Home Loan Bank, Dallas, Texas. The purchase, sale and redemption of Government Securities. Participation in the Treasury overnight program. And the in-house Buy-Out program.

One of the main activity is the weekly maturity and purchase of CD's. The Accounts Distribution is the driving document that controls this weekly activity.

ACCOUNTS DISTRIBUTION identifies the total amount of dollars available at Maturity (the date of the A/D). This is also the amount that ties in with the Maturity Letters that are sent to banks approximately 14 days prior to maturity.

The investment officer, through the input of the Area Office Investment Coordinators, determines the disposition of the funds. If new funds become available, it is added to the appropriate column to arrive at the total amount of investment.

MATURITY LETTERS are sent to banks and savings and loans advising of total principal and interest due and instructions on how to electronically transfer funds thru EFT. The total amount of all the letters must balance with the Accounts Distribution-Available At Maturity column.

THE BID PROCESS: The availability of funds and terms to invest are announced via a telephone recorded message 1 to 4 days before bids are taken.

Bids are taken 2 days before funds are to be delivered (most normally on Thursday). Bids are accepted by telephone from individual banks or by telefax if a broker is submitting bids for more than one institution. See B.I.A. CD rate report.

Awarding or laying off the funds:

Funds are distributed to the bank with the highest rate. This bank is limited by the tribes it already has and by his own maximim limits. When this bank's parameters are met, the system goes to the next highest rate, following the same process, and so on.

This process continues for all the terms until all the funds are placed or until an established base rate is reached. The base rate is determined by calling a primary dealer to get the highest rate/return on Government Securities for like terms.

COPY

THE FUNDS DISTRIBUTION SUMMARY lists by Tribes and Term the total dollars actually distributed. Determination is made for any undistributed balances as to other types of investment, such as, overnight or Treasury or Other Government Securities. The distribution amount by tribe will equal to the CD INVESTMENT REPORT BY TRIBE, which shows the total investments by terms and banks. The CD INVESTMENT REPORT BY INSTITUTION provides for a report by bank of the total amounts of dollars awarded listed by Tribe, Term and Rate. This report is used to notate confirmation of delivery to the winning banks.

The DETAIL INVESTMENT CYCLE report is a management report that lists total amount invested by Term, Tribe, and the lowest to the highest rates accepted. It also gives other statistical information, such as, number of bids taken and success rate.

On the day after the bids are taken, the total amount transferred is confirmed with each bank to verify amount, rate, and day basis. When confirmations are made, the Accounts Distribution is finalized. SF-1166, VOUCHER AND SCHEDULE OF PAYMENTS is prepared and Telefaxed to U. S. Treasury Disbursing Office, Philadelphia, PA. On the next day, Treasury electronically transfers funds (EFT) to all participating banks.

Notification of all investment transactions is made to the Tribes via Area Director (Investment Coordinator) and Agency. Four sample letters are included.

The amount of dollars to place in any bank for any tribe is determined by insurance and collateral limits. If a bank does not pledge collateral, the FDIC insurance limit is \$100,000.00 per tribe. The exception to this rule is the placing of pooled Individual Indian Monies.

The next investment cycle begins.

ACCOUNTING FOR DEPOSITS AT MATURITY. The Branch of Investment Records initiates the preliminary Accounts Distribution and verifies the amount available at maturity with total letters sent to banks.

Funds are electronically received through the Federal Reserve Bank, New York on the Deposit Message Retrieval System (DMRS). Each EFT received is matched against the Maturity Letter and any shortage/overage is noted and reconciled using SF-215 RECONCILIATION. The final total must agree with the final total on the DMRS EFT summary report. Banks who fail to make a deposit are immediately called. A penalty equal to the current PRIME RATE as published in the Wall Street Journal is assessed for the number of days late. Shortages/Overages in excess of \$25.00 are called next. Approximately 5 days later, a confirmation of total EFT deposit is received from the U.S. Treasury in the form of a Deposit Ticket, SF-215C.

COPY

The CD PURCHASE DETAIL REPORT is run a day after the funds are placed. This report lists all the terms and conditions of the CD. This report is balanced to the total amount invested by Tribe, Appropriation, and Activity. As the original CDs are received from the financial institutions, they are cross-checked against this report to determine the accuracy of the CD received. Pen and ink changes are made for minor errors, after consulting with the bank. For major errors, the CD is returned to the bank for a new issue. The CD number is penned in on this report. The original CD is filed by maturity date in a locked safe.

FEDERAL HOME LOAN BANK, Dallas "As Agent" program is used as a secondary CD outlet to place excess funds in Certificates of Deposits for shorter terms up to six months. All the negotiating for the placement of these funds is done by FHLB with the banks under supervision.

U.S. TREASURY OVERNIGHT INVESTMENT is used to invest all outstanding cash balances in Tribal and non-Tribal accounts. This is done a daily basis.

Investments in GOVERNMENT SECURITIES is twofold: (1) it provides for excess funds that cannot be placed in CD's, to be placed in short term Governments with corresponding maturity dates, (2) to give the opportunity to selected Tribes or Funds interested in longer term investment up to 30 years. Purchases made directly from the U.S. Treasury include Bills, Notes, and Bonds. Other securities involve those issues purchased from brokers in Primary and Regional Brokerage Houses. Depending on needs, purchases can be made from short term Discount Notes to long term strips that will rise in value to face amount at maturity. The gamut of issues include discount issues, interest or coupon bearing notes, mortgage backed securities, and Collateralized Mortgage Obligations (CMO's) i.e., Z tranches, IO/PO's, and variable rate products.

COPY

THE ACCOUNTING PROCESS OF INVESTMENTS

BIA Finance and Accounting - Finance System

The BIA Finance System is the main accounting source for the maintenance of Tribal and Non-Tribal Trust Funds. All investment transactions are encoded into the system via peripheral terminals or through the use of code sheets. All coded data goes through an edit system to insure that the information is properly credited, i.e., appropriation check against the tribal number. Any errors will be noted in a following day printout known as the "daily". This assures a degree of accuracy of the prior day's input. The management reports generated by this system are:

GENERAL JOURNAL	STATUS OF TRUST FUNDS
GENERAL LEDGER	UNALLOTTED BALANCES
GENERAL LEDGER DETAIL-COMPRESSED	

SUBSIDIARY ACCOUNTING SYSTEMS:

The MONEYMAX System (WISMER & ASSOC, CALIF)

The MONEYMAX computer system is a cash and investment management software. The Investment Accounting and Reporting module provides a comprehensive portfolio management reporting feature. It maintains a Time Deposit Portfolio Master File and a Government Securities Portfolio Master File. The portfolio is maintained through a user-initiated update process. All investment purchases, sales, maturities, interest receipts, and other transactions affecting the portfolio are entered into the system, processed, and incorporated in the master files.

The INFORMATION SYSTEM - "INFO SYSTEM"

The primary info system report is listed in bank number sequence. The main purpose of this report is to record all Tribal and non-tribal participants by financial institution. It specifically identifies the Tribe, purchase/maturity date, and the principal amount invested. This product is used to account for funds by institution and to control the placement of funds each week. The Collateral Report by Bank-Summary is also a part of this report. This assures us that all funds invested are within the insurance coverage, or the collateral amount pledged is sufficient to cover total deposits. The info system recognizes participation in the CD market only. The info system is updated thru PROCMM, a part of the BIA-ADP operation.

COPY

THE ACCOUNTING PROCESS: Transaction flow

Regular CD cycle: Maturities are posted to the Finance System, line by line, tribe by tribe from the Accounts Distribution. Specific General Ledger Account numbers are not entered instead "G/L" is used. Area/Agency location codes for tribal transactions must agree with the Tribal Appropriation Table (Table 3). For non-tribal investments the area/agency is 251 with the appropriate location and appropriation symbols.

Common Element Components used for Investment Transactions:

0624	Earnings from Bank TCD's
0625	Earnings from Govt Securities
0628	Purchased Interest TCD's
0629	Earnings from SBA Loans and GNMA mo. pmts.
0630	Bank Cert. of Deposit Central Office level
0810	Treasury Securities
0811	Purchased Interest - Treasury Securities
0812	Discount/Premium - Treasury Securities
0830	Govt Securities other than U.S. Treasury
0831	Purchased Interest - Govt Securities
0832	Discount/Premium - Govt Securities

Common Element Components used for Trust Fund Receipts:

9701	Interest on Funds in U.S. Treasury (O/N)
9703	Interest Earnings on TCD's
9705	Interest Earnings on Treasury Securities
9707	Interest Earnings on Government Securities

Maturities in the description field start with AW for Tribal and Contributed Funds, and CT for Individual Indian Monies, and Power and Irrigation. TO in the middle of the description field is unique to Branch of Investment Records. The Julian Date is used for maturities. Non-Tribal transactions is identified by N at the end of the description field. AW and CT are also used to encode interest income.

Purchases in the description field start with VT for Tribal and Power and Irrigation, and TT for IIM purchases. The other information in the description field is the same except the schedule number instead of the julian date is used.

The Finance System generates a "daily" to determine the accuracy of the input. At the end of the month, this data will appear the monthly Journal of Transactions and the monthly General Ledger.

COPY

Regular CD cycle: MONEymax

Maturities are batched for automatic maturity in the MoneyMax system. A hardcopy of the maturities is produced the next day for verification. These copies are saved about four months.

Purchases are entered in the system via a diskette produced by the automated bid cycle process. It is fed from a local terminal to the main computer system for update. The main immediate product is the Purchase Detail Report. The ultimate product, of course, is the monthend MoneyMax report.

The regular present CD cycle starts on Tuesday morning with the bid taking. The bids are processed and balanced Tuesday afternoon. All the placements are confirmed with the financial institutions on Wednesday and any corrections/adjustments are made. The SF-1166, Voucher and Schedule of Payments is prepared and Telefaxed to the Treasury Disbursing Center, Philadelphia, PA. In the afternoon, the maturities and purchases are encoded into the finance system. This is done so an accurate accounting for invested funds could be made on the unallotted report on Thursday. The Treasury Disbursing Center, Philadelphia EFT's (Electronic Funds Transfer) the funds to all financial institutions on Thursday.

FHLB "As Agent" program.

The encoding of maturities and purchases in this program is done in the same way as the regular CD's, but happens any day as the need arises.

MORTGAGE BACKED SECURITIES - Monthly payments

GNMA Monthly Pass-through payments are received in the form of a physical check. They are recorded on a Schedule of Collections and identified to Fund and deposited in the bank. A temporary Accounts Distribution is prepared and is used to encode into the Finance and MoneyMax System.

FNMA, FHLMC monthly payments are not received in check form. An ADVICE OF CREDIT is received from the Federal Reserve Bank, New York via the U.S. Treasury. A temporary Accounts Distribution is prepared and is used to encode into the Finance and MoneyMax System.

COPY

COUPON/INTEREST BEARING GOVERNMENT SECURITIES

At the time of purchase, the Coupon payment dates are set-up in the MoneyMax system. The coupon payment will appear in the INCOME SUMMARY REPORT - GOVERNMENT SECURITIES section in the monthly report. On payment date a temporary Accounts Distribution is prepared and used to encode in the two systems. The amounts posted are verified upon receipt of SF-215 Deposit Ticket from U.S. Treasury.

OVERNIGHT INVESTMENT WITH US TREASURY (O/N)

Overnight investments are made through the Treasury via telephone purchase followed by a written confirmation. This written confirmation is the source document used to encode into the systems.

TREASURY AND GOVERNMENT SECURITY PURCHASE, SALE, AND REDEMPTION

The source document is the Treasury Market Securities - Purchases or Redemption ticket initiated by the Senior Investment Officer. Encoding is done directly from these documents.

COPY