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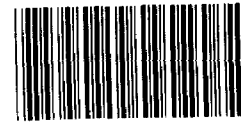
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FINANCIAL
MANAGEMENT

Status of BIA's Efforts to
Resolve Long-Standing Trust
Fund Management Problems

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Mr. Chairman, Mr. Vice Chairman, and Members of the Committee:

We are pleased to be here today to discuss the management of the Indian trust funds by the Bureau of Indian Affairs (BIA).

Mr. Chairman, on two occasions last year, in July and August, we testified before this Committee on BIA's management of the Indian trust funds. Our testimonies addressed the nature of BIA's past problems, the status of its trust fund reconciliations, and actions BIA might take to improve trust fund operations. My statement today will discuss BIA actions to correct past problems since our testimonies last year, problems that still need to be addressed, and our comments on S. 925, the Native American Trust Fund Accounting and Management Reform Act of 1993.

By way of background, I will first summarize the problems and the needed actions that have been recommended to overcome the problems.

As you know, the Secretary of the Interior is directed by law to manage Tribal and Individual Indian Monies (IIM) trust funds. BIA, through its Office of Trust Funds Management (OTFM), is responsible for carrying out the government's fiduciary responsibility of ensuring that proper control and accountability are maintained over each trust account. The OTFM, located in Albuquerque, New Mexico, oversees trust fund operations at BIA's 12 area offices and 93 agency offices.

In fiscal year 1992, OTFM was responsible for managing and accounting for about \$2 billion, representing approximately 1,880 tribal and 288,000 IIM trust fund accounts. At fiscal year-end 1992, reported receipts totaled almost \$550 million and disbursements totaled about \$500 million. Tribal and IIM accounts had reported balances of \$1.5 billion and \$440 million, respectively. The balances in the trust fund accounts have accumulated in part from payments of claims, oil and gas royalties, land use agreements, and investment income.

In summary, BIA has had difficulty in fulfilling its fiduciary responsibility to ensure that proper control and accountability are maintained over each trust fund account. BIA's record has been so poor that the Office of Management and Budget (OMB) has placed trust fund accounting on its high-risk list. Over the years, countless audit reports and internal studies have detailed a litany of problems in BIA's control and oversight of these accounts.

The audit reports have included recommendations to BIA to

- develop written policies and procedures for the conduct of trust operations,
- periodically reconcile account balances,
- arrange for periodic audits of trust fund operations,

- provide periodic statements to account holders, and
- arrange for training of personnel involved in trust operations.

In our August 1992 testimony, we said that OTFM cannot correct BIA's trust fund management problems in isolation from other Bureau and Department components. For example, the Bureau of Land Management and the Minerals Management Service (MMS) are responsible for the trust-related functions of land and lease management, and oil and gas royalty collections and accounting, respectively. The cooperation of these organizations is essential to correcting BIA's trust fund management problems.

We stated further that, to effectively address long-term trust fund management problems, BIA needed to develop a comprehensive strategic plan for addressing every aspect of its trust fund operation, including interfaces between other systems and operations that impact trust fund accounting. We also advised BIA officials about how the Chief Financial Officers Act of 1990, Public Law 101-576, can provide a framework to use for improving trust fund management.

STATUS OF TRUST FUND IMPROVEMENTS

Since our testimony last August, BIA has made some progress in making short and long-term trust fund management improvements. Some examples follow.

- In January 1993, BIA issued an advance copy of its strategic plan for trust fund financial management improvement. Due to the scope and complexity of its trust fund management problems, BIA divided the strategic plan into two phases. Phase I covers improvements needed within OTFM, whereas Phase II of the plan, which is still being developed, is to cover improvements in organizations outside OTFM.
- Interest on MMS oil and gas collections, which had not been distributed to account holders since 1985, was distributed to all but the Navajo tribe during the past year. The Navajo funds are available and are to be distributed pending the outcome of a review by the tribe's accounting firm of BIA's computer program for distributing income.
- OTFM has brought its fiscal year 1993 systems reconciliations backlog up-to-date, with a few exceptions. According to OTFM, the trust fund general ledger accounts are being reconciled to their Treasury accounts and Investments subsystem accounts. In addition, the IIM subsystem accounts are being reconciled to the general ledger at most area offices. Those areas having difficulty are receiving assistance from OTFM.

- In response to our recommendation that BIA conduct an organization and staffing analysis, OTFM contracted for a workload analysis of OTFM, which was completed in November 1992 and presented to BIA.

In November 1992, BIA management created an Office of Special Projects to oversee the trust fund reconciliation project and develop phase II of the strategic plan. OTFM retained responsibility for routine trust fund operations and the short-term trust fund improvement projects. The following has occurred with regard to the trust fund reconciliation project.

- In March 1993, the Department directed the Office of Special Projects to focus its attention almost exclusively on the tribal reconciliation project and mandated that the work be completed by March 1994. The Director of the Office of Special Projects has developed an ambitious plan to accomplish the tribal reconciliation work by that date.
- A team consisting of BIA, Department, and Inter-tribal Monitoring Association representatives was formed to explore settlement or other alternatives to reconciling the IIM accounts, whose reconciliations were halted in February 1992 primarily due to missing records and the potential costs of reconciling a large number of small accounts. To date, the team has had two meetings.

PROBLEMS THAT STILL NEED TO BE ADDRESSED

In spite of this progress, we have identified a number of concerns affecting trust fund management improvement and reconciliation project. As we testified last year, BIA recognized the seriousness of its problems, but was making only limited progress in addressing them. Currently, there are a number of areas where progress is lagging. Some examples follow.

- Implementation of Phase I of BIA's strategic plan is on hold until the new administration has time for review and comment. Development of Phase II of the plan is moving ahead slowly due in part to a Department directive to focus priority attention on the tribal reconciliation project.
- OTFM prepared a reorganization plan which would increase its staff from 51 to 90 positions. However, OTFM's reorganization has not been implemented because the Department is considering out-sourcing some OTFM functions included in OTFM's reorganization plan.
- BIA management created the Office of Special Projects to oversee the reconciliation project and reassigned six OTFM staff and \$8.4 million to the Office. We believe the timetable of March 1994, which the Department has established for completion of the

reconciliation, may be unrealistic given the volume of records to be reviewed and time required to search for missing documents.

- In addition to losing staff to the Office of Special Projects, BIA has not filled certain key OTFM vacancies, such as the Investment and Accounting Chief positions. As a result, OTFM has not been able to implement pilot tribal investment programs. Tribes are expressing concern about implementation delays for the investment pilots.
- OTFM has developed an inventory of needed written trust fund policies and procedures but the policies and procedures have not yet been developed.

Since January 1993, the administration has moved slowly in making key BIA appointments. Neither the Assistant Secretary for Indian Affairs nor the position of Deputy Commissioner for Indian Affairs have been filled. In the interim, the previous administration's Assistant Secretary for Indian Affairs remained in that position and also several members of the previous management team have served as Acting Deputy Commissioner for Indian Affairs. In addition, OTFM's Deputy Director has resigned effective June 23, 1993, leaving another key vacancy to be filled.

S. 925 REFORMS

The Native American Trust Fund Accounting and Management Reform Act of 1993 (S. 925), the subject of today's hearing, mandates many of the improvements recommended in BIA audits and contractor studies. Among other things, the proposed legislation

- reaffirms the trust responsibility of the United States and instructs the Secretary to provide (1) adequate systems for accounting, (2) adequate internal controls and periodic timely reconciliations, (3) account holders with meaningful, periodic statements of their accounts, and (4) periodic statements of performance and an annual audit of the trust fund accounts;
- reaffirms that the government's trust responsibility includes the funds derived from the use and sale of leased lands, judgments, mineral leases, oil and gas leases, timber permits and sales, and water resources; and
- requires that the Secretary establish a program to assist Indian people to obtain expertise in the management of trust funds, including outreach agreements with financial institutions to provide classroom training, internships, and employment opportunities.

The Department of the Interior has been responsible for performing most of the functions specified in S. 925 all along. The proof of

whether the Department will carry out the provisions of S. 925 will be in the new administration's execution of these initiatives.

Adequate staffing, the filling of key positions, and the support of senior Department and Bureau managers are important elements to fixing BIA's trust fund problems. These problems took many years to develop and even with concerted effort, sufficient staffing and funding, and the strong support of Department and Bureau management, the Congress, and OMB, these problems will take time to correct.

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Mr. Chairman, I wish to thank the Committee for the opportunity to testify on our work and on this important legislation. This concludes my remarks. I would be happy to answer any questions you or Members of the Committee may have at this time.

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