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Accountability * Integrity * Reliability

United States Government Accountability Office
Washington, DC 20548

January 19, 2007

The Honorable Byron L. Dorgan
Chairman
Committee on Indian Affairs
United States Senate

The Honorable Daniel K. Inouye
United States Senate

The Honorable Tim Johnson
United States Senate

Subject: Office of Special Trustee for American Indians: Financial Statement Audit Recommendations and the Audit Follow-up Process

In 1994, Congress enacted the American Indian Trust Fund Management Reform Act, Pub. L. No. 103-412, recognizing the federal government's fiduciary responsibilities toward American Indians. The act called for more effective management of the Department of the Interior's (Interior) fiduciary responsibilities, required an annual audit of Indian trust funds, and created the Office of Special Trustee for American Indians (OST) in Interior. In 1996, the Secretary of the Interior ordered the transfer of responsibility for trust fund management, including preparation of the financial statements of the Tribal and Other Trust Funds and Individual Indian Monies Trust Funds (Indian trust funds), from the Bureau of Indian Affairs (BIA) to OST. Since then, OST has prepared and independent public accountants have audited the financial statements¹ of the Indian trust funds. The auditors have issued qualified audit opinions each year since 1996 because of inadequacies in Interior's trust-related systems, controls, and processes, disagreements between Interior and the trust funds' beneficiaries on amounts owed, and potential claims against the government.

You expressed concern about deficiencies identified and reported in the Indian trust funds' annual financial statement audits for fiscal years 1996 through 2005. You asked us to determine (1) the reported status of OST management's responses to financial statement audit recommendations from fiscal years 1996 through 2005 and (2) whether financial statement audit follow-up procedures and controls for OST are designed to meet the requirements of applicable guidance and whether controls are

¹The Indian trust funds' financial statements contain the tribal accounts, which are reported on a cash basis and Individual Indian Monies accounts, which are reported on a modified cash basis. These are comprehensive bases of accounting other than U.S. generally accepted accounting principles.

in place to reasonably assure that audit follow-up objectives are achieved. This letter transmits our slides we used to brief your staff on October 5, 2006.² The slides from that briefing are presented in their entirety in enclosure I.

The independent auditors of the Indian trust funds' financial statements issued numerous recommendations from fiscal years 1996 through 2005 to address identified financial audit weaknesses. In performing their annual audits for 1996 through 2000, independent auditors Griffin and Associates, P.C. (Griffin) determined that a majority of the recommendations could be closed based on OST management actions. The successor auditors, KPMG, LLP (KPMG), reassessed the outstanding recommendations in 2001, closed or downgraded some recommendations based on additional audit work, and consolidated the remaining 12 recommendations into 2 overall recommendations addressing issues considered to be material weaknesses. KPMG also added a third recommendation in 2001 to address a reportable condition which was subsequently downgraded in severity to advisory comments based on OST management actions. Consequently, 2 broad recommendations addressing material weaknesses³ remain open as of September 30, 2005. The first material weakness, concerning unresolved financial reporting matters from prior audit periods, encompasses five deficiencies, all outstanding since before 1996. The second material weakness, concerning OST reliance on processing of Indian trust transactions at BIA encompasses seven deficiencies and was first reported as an overall weakness in 2001, although related deficiencies had been noted earlier.

Financial statement audit follow-up procedures and controls for OST are designed to meet the requirements of the Office of Management and Budget's (OMB) Circular No. A-50, *Audit Follow-up*, and internal controls are in place to reasonably assure that audit follow-up objectives are achieved. OMB Circular No. A-50 prescribes standards for audit follow-up. We identified Interior policies addressing each of the standards. We also found that OST, Interior, and Interior's Office of Inspector General (OIG) have implemented specific control procedures directed at assuring effective audit follow-up. At the same time, we did not see evidence that Interior is conducting a periodic evaluation of its entire audit follow-up system. Such an evaluation is required by OMB Circular No. A-50 to assure efficient, prompt, and proper resolution of audit recommendations. However, the independent auditors of the Indian trust funds may mitigate any associated risks for financial statement audits because they annually validate whether OST's previously identified underlying deficiencies, which were the basis for the recommendations, have been corrected.

²On December 8, 2006, we briefed a staff member who was not able to attend our October 5, 2006, briefing.

³For the financial reporting periods covered by the audits in our review, Statement on Auditing Standards (SAS) No. 60, *Communicating Internal Control Related Matters Noted in an Audit*, defined a material weakness as resulting when internal control did not reduce to a relatively low level the risk that material errors, fraud, or noncompliance could occur and not be promptly detected by the audited entity. It further defined a reportable condition as resulting when significant deficiencies in the design or operation of internal control could adversely affect information presented in the financial statements. Finally, it defined an advisory comment as resulting when other deficiencies existed that were not reportable conditions and were not clearly inconsequential. For subsequent financial reporting periods, SAS No. 112, *Communicating Internal Control Related Matters Identified in an Audit*, changed the terminology and definitions used by auditors in communicating internal control matters.

Agency Comments and Our Evaluation

The Department of the Interior provided written comments on a draft of this briefing. In responding to our observation that we did not see evidence of a periodic evaluation of Interior's entire audit follow-up system, as required by OMB Circular No. A-50, Interior stated that it has policies and procedures in place and carries out periodic audit follow-up evaluations to meet OMB requirements. To support its position, Interior cited its semiannual status meetings and lessons learned meetings held at year-end with its bureaus, procedures directed at analyzing bureau progress reporting, and its use of annual goals for resolving corrective actions to measure effectiveness. Interior also cited its financial statement audit results, updated internal control handbook, executive performance agreements, and comparisons of recommendation tracking information with similar OIG information. As we recognized in our briefing, for financial statement audit recommendations, the independent public accountants provide an independent assessment of whether OST's underlying deficiencies have been corrected.

However, we do not agree that the specific audit follow-up evaluative activities cited by Interior constitute the comprehensive assessment of audit recommendation resolution and corrective action called for in OMB Circular No. A-50. Specifically, Interior's cited policies, procedures, and practices do not provide a department-level evaluation of the overall effectiveness of Interior's audit follow-up activities. Instead, the department relies on indirect measures, such as the number of corrective actions reported as resolved by its bureaus, as a surrogate measure of its effectiveness. In addition, we found no evidence that Interior verifies the veracity of bureau-reported corrective actions. Also, as discussed in our briefing, Interior provided us a study completed in 1993 as evidence of its most recent assessment of its compliance with requirements of OMB Circular No. A-50.

Along with its comments, Interior provided an updated summary of the latest corrective action plans for OST's 12 open financial statement audit deficiencies as of September 30, 2005. Interior also provided some technical corrections, which we have incorporated as appropriate. Interior's comments are reprinted in enclosure II.

Scope and Methodology

To determine the reported status of OST management's responses to financial statement audit recommendations from fiscal years 1996 through 2005, we obtained and reviewed the Indian trust funds' financial audit reports and management letters for fiscal years 1996 through 2005 and identified and summarized the status of recommendations from the auditors' reports. We also reviewed information from OST's corrective action plans and Interior recommendation status reports related to the financial statement audits of the Indian trust funds. We interviewed officials from the independent financial statement auditors—Griffin & Associates, P.C., the auditors of the Indian trust funds' financial statements for fiscal years 1996 through 2000, and KPMG, LLP, the auditors for fiscal years 2001 through 2005.

To determine whether financial statement audit follow-up procedures and controls for OST are designed to meet the requirements of applicable guidance and whether controls are in place to reasonably assure that audit follow-up objectives are

achieved, we interviewed officials from OST, Interior, OIG, Griffin and Associates, P.C., and KPMG to understand their respective roles in the process. We obtained and reviewed all OIG follow-up audit reports and verification and status reports issued from fiscal years 2000 through 2005 to identify any systemic audit follow-up issues related to financial statement audits. We reviewed Interior's departmental policy manual, audit follow-up policies in Interior's Management Control and Audit Follow-up handbook, and *Guidelines for Fiscal Year 2005 Internal Control and Audit Follow-up Program* relative to OMB Circular No. A-50, *Audit Follow-up*, in the context of financial statement audits. We assessed aspects of Interior's and OST's internal control related to audit follow-up in the context of financial statement audits.

OST's ability to prepare and report on Indian trust funds' financial statements that are fairly stated depends on correcting material weaknesses identified in the financial statement audits and establishing historical beginning trust fund balances. Our work focused on the recommendations arising from the annual financial statement audits for fiscal years 1996 through 2005. While several of these recommendations are affected by Interior's efforts to establish historical beginning trust fund balances, the status of those efforts was beyond the scope of this review.

We performed our work at the Department of the Interior's headquarters, in Washington, D.C., including interviewing key OST management officials who were visiting from their offices in Albuquerque, New Mexico. We performed our work from August 2005 through July 2006 in accordance with U.S. generally accepted government auditing standards.

As arranged with your offices, unless you publicly announce its contents earlier, we plan no further distribution of this report until 14 days from the report date. At that time, we will send copies of this report to interested congressional committees, the Secretary of the Interior, the Special Trustee for American Indians, and other interested parties. We will also make copies available to others upon request. In addition, this report will be available at no charge on GAO's Web site at www.gao.gov. Should you or your staff have any questions about this report, please contact me at (202) 512-9508 or martinr@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs can be found on the last page of this report. Robert E. Martin, Mary Arnold Mohiyuddin, and Paul Caban made key contributions to this report.



Robert E. Martin
Director, Financial Management and Assurance

Enclosures



**A Briefing for Senator Byron L. Dorgan,
Senator Daniel K. Inouye, and
Senator Tim Johnson**

**Office of Special Trustee for
American Indians
Financial Statement Audit Recommendations
and the Audit Follow-up Process**

October 5, 2006

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Briefing Agenda

- Introduction
 - Objectives
 - Scope and Methodology
 - Results in Brief
 - Background
 - Status of Financial Statement Audit Recommendations
 - Audit Follow-up Process
 - Conclusions
 - Agency Comments and Our Evaluation
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Introduction

- In 1994, Congress enacted the American Indian Trust Fund Management Reform Act, Pub. L. No. 103-412, recognizing the federal government's trust responsibilities toward American Indians.
- The act called for more effective management of the Department of the Interior's (Interior) trust responsibilities, required an annual audit of Indian trust funds, and created the Office of Special Trustee for American Indians (OST) in Interior.
- The Secretary of the Interior implemented the transfer of the Office of Trust Funds Management from the Bureau of Indian Affairs (BIA) to OST by secretarial order in 1996.
- Beginning with its first financial statement audit of Indian trust funds for fiscal year 1996, OST has received a qualified audit opinion each year because of inadequacies in Interior's trust-related systems and processes, disagreements between Interior and beneficiaries on amounts owed, and potential claims against the government.

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Objectives

You asked us to determine

- the reported status of OST management's responses to financial statement audit recommendations from fiscal years 1996 through 2005 and
- whether financial statement audit follow-up procedures and controls for OST are designed to meet the requirements of applicable guidance and whether controls are in place to reasonably ensure that audit follow-up objectives are achieved.

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Scope and Methodology

To fulfill our first objective on the status of reported financial statement audit recommendations, we

- obtained and reviewed the Indian trust funds financial statement audit reports and auditor management letters for fiscal years 1996 through 2005;
- identified and summarized the status of recommendations from the auditors' reports;
- reviewed information from OST's corrective action plans and Interior recommendation status reports related to the financial statement audits of the Indian trust funds; and
- interviewed officials from independent financial statement auditors—Griffin & Associates, P.C. (fiscal years 1996–2000) and KPMG, LLP (fiscal years 2001–2005).

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Scope and Methodology

To fulfill our second objective on audit follow-up for financial statement audits, we

- interviewed officials from OST, Interior, the Office of the Inspector General (OIG), Griffin & Associates, P.C., and KPMG to understand their respective roles in the process;
- obtained and reviewed OIG follow-up audit reports and verification and status reports to identify any systemic audit follow-up issues related to financial statement audits;
- reviewed Interior's policy manual and other guidance relative to Office of Management and Budget (OMB) Circular No. A-50, *Audit Followup*, in the context of financial statement audits; and
- assessed aspects of Interior's and OST's internal control in the context of financial statement audit follow-up.

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Scope and Methodology

- We performed our work at Interior headquarters, in Washington, D.C., including interviewing key OST management officials who were visiting from their offices in Albuquerque, New Mexico.
- We performed our work from August 2005 through July 2006 in accordance with U.S. generally accepted government auditing standards.

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Results in Brief

- The independent auditors of the Indian trust funds financial statements made numerous recommendations to address the financial statement audit weaknesses they identified.
- In performing their annual testing, independent auditors determined that a majority of the recommendations could be closed based on OST management actions.
- Two broad recommendations addressing material weaknesses remain open as of and for the year ending September 30, 2005.
 1. Unresolved financial reporting matters from prior audit periods
 2. OST reliance on processing of Indian trust funds transactions at BIA

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Results in Brief

Unresolved Financial Reporting Matters from Prior Audit Periods

- This material weakness relates to five deficiencies, all outstanding since before 1996.
 1. Lack of reliable Individual Indian Money (IIM) balance
 2. Trust fund balances—tribal
 3. Cash—tribal
 4. Special deposit accounts (SDA)—inconsistent practices
 5. Trust fund balances—IIM

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Results in Brief

OST Reliance on Processing of Indian Trust Funds Transactions at BIA

- This material weakness relates to seven deficiencies, which were first reported comprehensively in 2001, but related deficiencies existed earlier.
 1. Trust systems
 2. Segregation of duties
 3. Accounts receivable
 4. Probate backlog
 5. Untimely deposits
 6. Supervised and restricted accounts
 7. Appraisal review

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Results in Brief

Financial statement audit follow-up procedures and controls for OST are designed to meet the requirements of OMB Circular No. A-50, and controls are in place to reasonably ensure that audit follow-up objectives are achieved.

- OMB Circular No. A-50 prescribes standards for audit follow-up, and Interior policy addresses each of the standards.
- We noted control activities were in place at OST, Interior, and OIG to support audit follow-up.

We did not see evidence of periodic evaluation of the audit follow-up system, as required by OMB Circular No. A-50 and Interior's own policy; however, the role of the independent auditors may mitigate any associated risk for financial statement audits.

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Results in Brief

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- In its response to our observation that we did not see evidence of a periodic evaluation of the audit follow-up process as required by OMB Circular No. A-50 and in its own policy, Interior stated that it carries out periodic evaluations as required by OMB. Interior listed various policies and procedures to support its position.
 - Interior does not evaluate the effectiveness of its audit follow-up activities directly. Instead, it relies on the number of corrective actions reported as resolved by its bureaus to measure its own effectiveness. In addition, we found no evidence that Interior verifies this bureau-reported information.
 - As a result, we do not believe the activities cited by Interior constitute the comprehensive assessment of the audit follow-up system for efficiency, promptness, and proper resolution and corrective action called for in OMB Circular No. A-50.

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Background

Weaknesses in the management and accounting practices of the Indian trust funds have been a long-standing issue.

- As early as 1928, and in numerous subsequent reports, GAO, congressional committees, and others have highlighted weak accounting practices and other problems in trust fund management.
 - In Interior's fiscal year 1987 supplemental appropriations act, Congress directed BIA to provide an accounting to the account holders and Congress.
 - In 1994, Congress enacted the American Indian Trust Fund Management Reform Act of 1994, requiring a full accounting for Indian trust funds.
 - In 1996, Interior became a defendant in a class action lawsuit, *Cobell v. Babbitt*, associated with the department's historical management of funds held in trust for individual Indians, the IIM.
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Background

- In January 2003, Interior filed with the U.S. District Court for the District of Columbia its Historical Accounting Plan for Individual Indian Money Accounts to reconstruct historical balances in the IIM statements.
 - OST's ability to prepare and report on Indian trust funds financial statements that are fairly stated depends on correcting material weaknesses identified in the financial statement audits and establishing historical beginning trust fund balances.
 - This work focuses on the recommendations arising from the annual financial statement audits beginning with those in fiscal year 1996. Efforts to establish historical beginning trust fund balances are beyond the scope of this review.
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Background

- OST reports directly to the Secretary of the Interior and oversees and coordinates Indian trust asset reform efforts across Interior.
- OST also performs financial trust services on behalf of individual Indian and tribal account holders.
- OST depends on receiving timely and accurate information from financial and other transaction records maintained by BIA, the Minerals Management Service, and other Interior offices to allocate receipts and disbursements to trust beneficiaries.

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Background

- As of September 30, 2005, OST maintained approximately 1,450 accounts with reported assets exceeding \$2.8 billion, and over 277,000 IIM accounts with reported assets of about \$420 million.
- Income is generated from the leasing of Indian-owned land, the sales of natural resources, royalties from oil and gas exploration and production, judgment awards and settlements of claims, and interest earned on invested funds.

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Background

- Since 1996, OST has prepared annual financial statements for the Indian trust funds, and independent public accountants have audited the financial statements.
- The financial statements are prepared on cash (tribal) and modified cash (IIM) bases, which are comprehensive bases of accounting other than U.S. generally accepted accounting principles.
- Griffin & Associates, P.C., performed the financial statement audits for fiscal years 1996 through 2000.
- KPMG, LLP, performed the financial statement audits for fiscal years 2001 through 2005 and continues to be the auditor for the Indian trust funds financial statements.

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Status of Financial Statement Audit Recommendations

- Griffin & Associates, P.C., made approximately 60 recommendations to OST based on its audits of the Indian trust funds financial statements from fiscal years 1996 through 2000.
- OST's corrective action plans and other internal documents indicate that OST management's actions corrected 37 of the 60 internal control and compliance recommendations.
- Accordingly, Griffin closed these 37 recommendations.

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Status of Financial Statement Audit Recommendations

In 2001, KPMG

- reassessed the outstanding recommendations made by Griffin;
- closed or downgraded some based on additional audit testing;
- consolidated 12 others into two broad areas, each of which it considered to be a material weakness, and issued two recommendations thereon; and
- added a third recommendation for a reportable condition on information technology (IT) controls.

KPMG concluded that OST management actions from fiscal years 2001 through 2005 had corrected most deficiencies making up the IT reportable condition; hence, KPMG downgraded it to an advisory comment in 2005.

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Status of Financial Statement Audit Recommendations

During the audit period:

- A material weakness resulted when internal control did not reduce to a relatively low level the risk that material errors, fraud, or noncompliance could occur and not be promptly detected by the audited entity.
 - A reportable condition resulted when significant deficiencies in the design or operation of internal control could adversely affect information presented in the financial statements.
 - An advisory comment resulted when other deficiencies existed that were not reportable conditions and were not clearly inconsequential.
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Status of Financial Statement Audit Recommendations

- The first outstanding recommendation is for a material weakness labeled as unresolved financial reporting matters from prior audit periods.
 - This material weakness consists of five deficiencies which, based on our analysis, have been outstanding in one form or another since before 1996.
 1. Lack of reliable IIM balance
 2. Trust fund balances—tribal
 3. Cash—tribal
 4. SDAs—inconsistent practices
 5. Trust fund balances—IIM
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Status of Financial Statement Audit Recommendations

Unresolved Financial Reporting Matters from Prior Audit Periods

1. Lack of reliable IIM balance: Control account balance for IIM account holders did not agree with the subsidiary ledger.
 2. Trust fund balances—tribal: Proper recipients of interest for tribal accounts have not been determined.
 3. Cash—tribal: Overdrafted payments and improper accounting left 12 tribal trust fund accounts with negative cash balances.
 4. SDAs: SDA moneys have not been distributed to recipients.
 5. Trust fund balances—IIM: Proper recipients of interest for IIM accounts have not been determined.
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Status of Financial Statement Audit Recommendations

- The second outstanding recommendation is for a material weakness labeled as OST reliance on processing of Indian trust funds transactions at BIA.
 - This weakness was first reported comprehensively in 2001 and presently consists of seven financial statement reporting deficiencies.
 1. Trust systems
 2. Segregation of duties
 3. Accounts receivable
 4. Probate backlog
 5. Untimely deposits
 6. Supervised and restricted accounts
 7. Appraisal review
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Status of Financial Statement Audit Recommendations

OST Reliance on Processing of Indian Trust Funds Transactions at BIA

1. Trust systems: BIA did not consistently implement automated systems for Indian trust assets.
 2. Segregation of duties: Indian trust processing responsibilities at BIA were not properly separated to prevent or detect errors.
 3. Accounts receivable: BIA did not fully develop and communicate standardized policies and procedures for accounts receivable.
 4. Probate backlog: BIA did not always enter probate orders for land title into the trust management systems in a timely way.
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Status of Financial Statement Audit Recommendations

OST Reliance on Processing of Indian Trust Funds Transactions at BIA (continued)

5. Untimely deposits: BIA did not consistently forward trust receipts in a timely manner to OST for deposit.
6. Supervised and restricted accounts: BIA did not consistently maintain documentation for supervised accounts or consistently perform annual reviews of active accounts.
7. Appraisal review: Approval controls over tribally performed appraisals conducted through self-determination or self-governance contracts/compacts were not in place.

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Status of Financial Statement Audit Recommendations

Several outstanding issues are complex and will not be fixed by OST alone.

- Both Griffin and KPMG have noted the historical nature of issues, arising primarily from lack of adequate financial reporting systems and inadequate controls.
- Some balances that are part of OST's unresolved matters from prior periods are affected by years of accumulated errors.
- OST has stated that some corrective actions would require legislative fixes because OST is not authorized to use current appropriations to fund differences arising from prior years.
- Factors affecting ownership records are complex.
- System and data fixes depend on joint efforts with BIA.

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Audit Follow-up Process

- Interior policy for follow-up on financial statement audit recommendations addresses each of the required standards under OMB Circular No. A-50.
 - We saw evidence of control activities to support audit follow-up by OST, Interior, and the Interior OIG.
 - We did not see evidence of periodic evaluation of the audit follow-up system, as required by OMB Circular No. A-50 and Interior's own policy.
 - However, for financial statement audits, the independent auditors annually validate whether OST's underlying deficiencies previously identified, and which were the basis for the recommendations, have been corrected.
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Audit Follow-up Process

OST control activities related to financial statement audit follow-up include

- issuing quarterly and monthly corrective action plans and status reports to Interior,
 - designating a senior OST official to review and approve status reports,
 - designating an OST audit liaison officer as the focal point for OST status reporting to Interior headquarters,
 - participating in semiannual issue resolution meetings with Interior and its OIG,
 - submitting closure documents to Interior headquarters and retaining supporting documentation on actions taken, and
 - drafting policy on OST audit follow-up activities.
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Audit Follow-up Process

Interior's audit follow-up control activities include

- a policy clearly defining audit follow-up roles and responsibilities for OST, Interior, and the Interior OIG;
 - an official designated with overall responsibility for audit follow-up and resolving differences with the auditors;
 - a management council of senior executives to resolve audit issues that may not otherwise be resolved routinely;
 - monthly and quarterly reporting by OST to Interior and semiannual status meetings between Interior and OST staff; and
 - a tracking database used to monitor and report OST's progress on implementation and resolution of audit deficiencies.
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Audit Follow-up Process

OIG control activities related to financial statement audit follow-up include

- referring findings and recommendations identified by the independent auditor as part of the annual financial statement audit to Interior;
 - performing quality reviews of the work of the independent auditors, who determine if actions reported by OST management have corrected the underlying deficiency;
 - maintaining a database for tracking and reporting on the status of referred recommendations and reconciling it with Interior's database; and
 - reporting semiannually on the status of outstanding financial and other recommendations to Congress.
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Conclusions

- The majority of the recommendations on financial statement reporting deficiencies issued from fiscal years 1996 through 2005 related to the independent audit of the Indian trust funds financial statements are closed. The two remaining recommendations relate to 12 deficiencies that have been outstanding for some time.
- Effective corrective actions and audit follow-up processes are key to resolution of identified audit deficiencies. OST's and Interior's procedures and controls are designed to meet the requirements of applicable guidance, and controls are in place to reasonably ensure that audit follow-up objectives are achieved for financial statement audits.
- Timely and effective responses to correct the remaining deficiencies will depend on OST's sustained efforts to implement its corrective actions over time and on Interior's and the OIG's oversight efforts as part of the audit follow-up process.

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Agency Comments and Our Evaluation

- The Department of the Interior provided written comments on a draft of this briefing.
- In responding to our observation that we did not see evidence of a periodic evaluation of the audit follow-up system, as required by OMB Circular No. A-50 and Interior's own policy, Interior stated that it carries out periodic evaluations as required by OMB.
- Interior listed several policies and procedures to support its position, some of which we have cited previously as audit follow-up control activities. Interior also made reference to its audit follow-up performance measures, financial statement audits, updated internal control handbook, and its executive performance agreements.
- Interior stated it analyzed bureau progress reports, identified lessons learned, and used annual goals for resolved corrective actions to measure effectiveness.

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Agency Comments and Our Evaluation

- Interior does not evaluate the effectiveness of its audit follow-up activities directly. Instead, it relies on the number of corrective actions reported as resolved by its bureaus to measure its own effectiveness. In addition, we found no evidence that Interior verifies this bureau-reported information.
 - As a result, we do not believe the activities cited by Interior constitute the comprehensive assessment to determine if the audit follow-up system results in efficient, prompt, and proper resolution and corrective action on audit recommendations called for in OMB Circular No. A-50. Instead, the activities cited are part of the audit follow-up system and not a comprehensive assessment of it.
 - However, as we state in this briefing, for financial statement audit recommendations, the independent public accountants annually determine whether OST's underlying deficiencies have been corrected.
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Agency Comments and Our Evaluation

- Also, as part of our review, we requested the results of the most recent OMB Circular No. A-50 evaluation. Interior provided a May 1993 report assessing compliance by three Interior bureaus with the Federal Managers' Financial Integrity Act of 1982. The report did not include an assessment of the audit follow-up system with respect to Indian Trust Fund audit recommendations.
 - Along with its comments, Interior provided an updated summary of the latest corrective action plans for OST's 12 open financial statement audit recommendations as of September 30, 2005. Interior also provided some technical corrections, which we have incorporated as appropriate.
 - Interior's comments are reprinted in enclosure I.
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United States Department of the Interior

OFFICE OF THE ASSISTANT SECRETARY
POLICY, MANAGEMENT AND BUDGET
Washington, DC 20240



SEP 13 2006

Robert E. Martin
Director, Financial Management and Assurance
U.S. Government Accountability Office
441 G Street, N.W.
Washington, D.C. 20548

Dear Mr. Martin:

Thank you for providing the Department of the Interior the opportunity to review and comment on the draft U.S. Government Accountability Office report entitled, "Office of the Special Trustee for American Indians: Financial Statement Audit Recommendations and the Audit Followup Process" dated August 4, 2006.

The Department and the Office of the Special Trustee for American Indians have thoroughly reviewed the Draft Report and provide the following comments on GAO's observations:

Audit Follow-up Process

GAO Statement: We did not see evidence of periodic evaluation of the audit follow-up process, as required by OMB Circular A-50 and Interior's own policy.

Response: The Department of the Interior and its bureaus and offices carry out periodic evaluations throughout the year as required by OMB Circular A-50. In fact, in the scorecard status for December 2005, OMB noted:

"DOI received a clean audit opinion for FY 2005 and reduced the most auditor-reported material weaknesses compared to all other CFO Act agencies without reporting any new auditor weaknesses."

The Department established policy and procedures and carries out specific activities to ensure the effectiveness of audit follow-up throughout the year. First, the Department has a GPRA goal to measure the effectiveness of the audit follow-up program. DOI's established GPRA management excellence performance goal each year requires correction of 100 percent of the audit recommendations scheduled for implementation that fiscal year. This goal includes GAO, OIG, and financial audit recommendations. This goal is reported annually in the Department's Performance Accountability Report which is audited each year by KPMG as part of the annual financial audit. There have been no notices of findings or deficiencies in that process or other aspects of the program reported by KPMG.

The SES performance agreements of all bureau and office responsible program executives and CFO's annually evaluate the individual executive's effectiveness in this area.

Each quarter the OIG and the Office of Financial Management (PFM) review and compare their separate tracking systems on audits referred to PFM by the OIG for monitoring and resolution. In instances where there were discrepancies between the two systems, we worked with the OIG to resolve them.

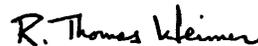
In addition, bureau and office directors are required to send monthly and quarterly reports to their Assistant Secretaries and PFM on their progress in correcting audit recommendations. Reports are analyzed and follow-up guidance is provided to ensure the effectiveness of bureau programs to implement audit recommendations by established deadlines. PFM provides monthly and quarterly summaries of these reports to the Department's Management Control and Audit Follow-up Council (MCAF Council) noting areas for additional action at that level.

Each year, PFM holds Mid-Year and Year-End Internal Control and Audit Follow-up meetings with all bureaus and offices. Results from those meetings are reported to the Assistant Secretary for Policy, Management and Budget and to the MCAF Council who directly communicates best practices or areas of concern with Assistant Secretaries and bureau and office directors. At the end of the year, a Department-wide lessons-learned meeting is held and the next year's departmental guidance reflects the lessons learned and discussions held during the meeting.

At the beginning of FY 2005, the Department's "Internal Control and Audit Follow-up Handbook" was substantially revised to comply with the new requirements of OMB's revised Circular A-123 and Appendix A, and to reflect lessons learned in 2005. This draft guidance is currently being edited based on lessons learned from implementing the revised Circular in FY 2006.

We hope these comments and the enclosed technical comments prepared by the Office of the Special Trustee will assist you in preparing the final report.

Sincerely,



R. Thomas Weimer
Assistant Secretary

Enclosure

Office of the Special Trustee
for American Indians General Comments On
U.S. Government Accountability Draft Report
Entitled, "Office of the Special Trustee for American
Indians: Financial Statements Audit Recommendations
And the Audit Followup Process"

Financial Statement Audit Recommendations

**B. Financial Reporting – Unresolved Matters from Prior Periods – (Subpart I)
Lack of Reliable IIM Balance**

This problem requires approximately \$6 million to resolve this discrepancy. OST is currently in discussions with congressional staffers to reconcile the issue. After the issue is resolved OST will post all correcting entries, which will bring the IIM assets in balance with the IIM liabilities. The target date for completion is September 2007, dependent on enactment of legislation.

(Subpart 2) Trust Fund Balances – Tribal

OST contracted to research, identify, and proposed corrective entries to clean up this account and to provide management with recommendations for distribution of the remaining funds. The report has been delivered and distributions are targeted to be completed by September 30, 2006.

(Subpart 3) Cash – Tribal

OST has verified the details associated with each account. Recoupment letters have been sent to the affected Tribes. OST has received funds and cleared one account to date. Additional options will be pursued in FY 2007. The target date for completion is September 2007.

(Subpart 4) Special Deposit Accounts – Inconsistent Practices – Tribal and IIM

Timely distribution of funds deposited in Special Deposit Accounts (SDA) is dependent on two primary factors: (1) identify deposits to trust land leases and allotments, (2) having current and accurate trust allotment ownership recorded in the BIA automated realty systems. These factors are controlled by BIA.

By continuing to work in partnership with the BIA and by implementing the initiatives listed in the Fiduciary Trust Model (FTM), most notably conversion to the leasing module of the Trust Asset and Accounting Management System (TAAMS), we will eliminate the use of SDAs.

Target date for distribution of SDA activity post 1/1/2003 is 12/21/2007. This date is the target date for BIA to be completely migrated to the TAAMS – Leasing module. The December 31, 2007 target date is the date when no further receipts will be deposited into SDA. By December 31, 2007 it is envisioned that due to the BIA-wide implementation of TAAMS-Leasing, along with the TAAMS-Trust Funds Accounting System (TFAS) interface, trust funds will be automatically posted to beneficiary accounts. In coordination with BIA pre-1/1/2003 activity is targeted to be completed by the Office of Historical Trust Accounting (OHTA) in 2009.

(Subpart 5) Trust Fund Balances – IIM

OST will seek legislation to set these funds aside permanently to earn additional interest for monthly distribution to current IIM account holders. One potential option would be to permanently set aside the balances to earn additional interest distributions to IIM account holders. The target date for completion is September 2007, dependent on legislation.

A. Reliance on Processing of Trust Transactions at the Bureau of Indian Affairs:

a) Trust Systems: OST's participation in this predominately BIA issue is in the form of supplying contract assistance in validating data prior to conversion of BIA Agencies to a model Agency based on the FTM.

b) Segregation of Duties: OST has implemented new procedures, whereby Indian trust remittances are received directly at a commercial lockbox facility and deposited directly into the U.S. Department of Treasury rather than being received at field locations.

Checks received through the mail at field locations are forwarded to the lockbox for deposit.

c) Accounts Receivable: With each conversion to TAAMS – Leasing module which interfaces to the TFAS, (BIA Pilot Agencies converted in June 2005) an automated Trust Funds Receivable (TFR) module is established.

d) Probate Backlog: With the conversion to TAAMS, all probate orders related to land title will be brought up to date and maintained in a timely fashion.

e) **Untimely Deposits:** With the implementation of the automated lockbox, the conversion to TAAMS (which will alleviate the need for Special Deposit Accounts) and use of the TFR, there should no longer be untimely deposits.

f) **Supervised and Restricted Accounts:** The BIA has developed a Corrective Action Plan addressing this issue with a completion date of 09/30/2006.

g) **Appraisal Review:** A policy memorandum dated October 6, 2005, was issued by the Director of the BIA. This memorandum directed the BIA Approving Official to ensure that the appropriate OST appraisal review had been completed prior to approval of a trust land or resource transaction.

In addition, the following technical corrections to the report content should be addressed:

Page 3; Bullet 3

GAO Statement: The Secretary of the Interior implemented the OST requirement of the Act by Secretarial Order in 1996.

Correction: The Secretary of the Interior implemented the transfer of OTFM from the BIA to OST by Secretarial Order in 1996.

Page 23; Nos. 2 and 7

GAO Statement #2: Segregation of Duties: Indian trust processing responsibilities are not properly separated to prevent or detect errors.

Correction: Segregation of Duties: Indian trust processing responsibilities at the BIA are not properly separated to prevent or detect errors.

GAO Statement #7: Appraisal Review: Approval controls over Indian performed appraisals were not in place.

Correction: Appraisal Review: Approval controls over Tribally performed appraisals conducted through Self-determination or Self Governance contracts/compacts were not in place.

(197007)

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