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Testimony

Before the Committee on Indian Affairs  
U.S. Senate

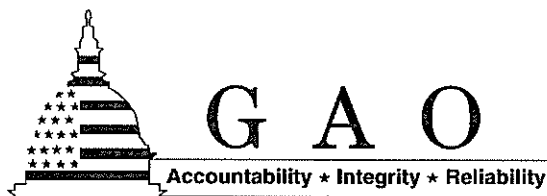
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INDIAN TRUST FUNDS  
Tribal Account Balances

Statement of McCoy Williams,  
Acting Director, Financial Management and Assurance





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Mr. Chairmen and Members of the Committee:

I am pleased to be here today to summarize observations from our past work regarding Indian tribal trust fund accounts.

In a June 1993 letter to this committee, we noted that the appropriations acts for the Department of the Interior had for many years contained a provision that tolled the statute of limitations on claims for losses to, or mismanagement of, tribal trust funds until the tribe had been furnished with an accounting of its funds from which the tribe could determine whether there had been a loss. We also noted that the parties envisioned that such an accounting would result from Interior's then-ongoing reconciliation and audit of the tribal trust fund accounts, which the congress had mandated.

At that time, we expressed our view that until there was a mutually<sup>27</sup> acceptable basis for determining account balances and any associated losses, it would be premature to allow the statute of limitations to run. We observed that tolling the statute of limitations until reconciliation and audit of an account was completed, or until some mutually acceptable agreement was reached as to the account balance, had two overall purposes. First, it provided all interested parties, including accountholders, Interior, and the Congress, an opportunity to examine and evaluate all pertinent account information. Second, it permitted interested parties to attempt to resolve all claims arising from Interior's management of the accounts rather than addressing specific claims in a piecemeal fashion.

The Congress first established an Indian trust fund account reconciliation requirement in the Supplemental Appropriations Act of 1987. The requirement was in response to tribes' concerns that Interior had not consistently provided them with statements on their account balances, their trust fund accounts had never been reconciled, and Interior planned to contract with a third party for management of trust fund accounts.

The original provision required that the accounts be audited and reconciled before the Bureau of Indian Affairs (BIA) transferred funds to a third party. A provision in Interior's fiscal year 1990 appropriations act added a requirement that the accounts be reconciled to the earliest possible date and that Interior obtain an independent certification of the reconciliation work. In 1994, the Congress, through the American Indian Trust Fund Management Reform Act of 1994 (Pub. L. 103-412, 108 Stat. 4239; Oct. 25,

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1994), required the Secretary of the Interior to provide tribes with reconciled account statements as of September 30, 1995.

To fulfill these requirements, Interior contracted with two major independent public accounting firms, one to reconcile the trust accounts and the other to do an independent certification to indicate that the reconciliation resulted in the most complete reconciliation possible. Following a preliminary assessment in March 1992 by Interior's reconciliation contractor, Interior decided to have the contractor reconcile the tribal accounts for fiscal years 1973 through 1992. Subsequent to this decision, Interior had BIA reconcile the tribal accounts for fiscal years 1993 through 1995 to comply with the 1994 act's requirement that Interior provide tribes with reconciled account statements as of September 30, 1995.

Interior's Indian trust fund account reconciliation project was completed in January 1996. During the reconciliation project, Interior spent about \$21 million for contract costs over a 5-year period in a massive effort to locate supporting documentation and reconstruct historical trust transactions, as well as to perform other reconciliation procedures, in its attempt to validate tribal account balances. In January 1996, Interior began providing to each tribe a report package containing the tribe's reconciliation results. Each package included unreconciled account statements with schedules of proposed adjustments based on reconciliation project results for each year covered by the reconciliation, and a transmittal letter that described the information provided.

During a February 1996 meeting at which Interior officials and the reconciliation contractor summarized the reconciliation project results, tribes raised questions about the adequacy and reliability of the reconciliations results. In May 1996, we reported on shortcomings of Interior's reconciliation project.<sup>1</sup> The shortcomings consisted of procedures that were not completed due to missing records, systems limitations, or time and cost considerations. Attachment I to my statement describes the major shortcomings presented in our 1996 report.

From 1992 through 1997, we monitored and reported on various aspects of Interior's planning, execution, and reporting of results for the

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<sup>1</sup>U.S. General Accounting Office, *Financial Management: BIA's Tribal Trust Fund Account Reconciliation Results*. GAO/AIMD-96-63. Washington, D.C.: May 3, 1996.

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reconciliation project. In May 1997, we reported<sup>2</sup> to this committee that as of May 6, 1997, Interior had provided reconciliation reports to 310 tribes, 51 of those tribes had disputed the reconciliation results, and 41 had accepted the results. Of the remaining 218 tribes, 47 had requested more time to consider the results, and 171 had not responded to the reconciliation results. Attachment II is a list of GAO products issued between 1992 and 1997 on various aspects of Interior's Indian trust fund reconciliation project.

In summary, although Interior made a massive attempt to reconcile tribal accounts during its reconciliation project, missing records and systems limitations made a full reconciliation impossible.

I would be pleased to respond to any questions that you or other members of the committee may have.

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<sup>2</sup>U.S. General Accounting Office, *Indian Trust Funds: Tribal Account Holders' Responses to Reconciliation Results*. GAO/AIMD-97-102R. Washington, D.C.: May 23, 1997.

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# Attachment I: Reconciliation Project Shortcomings

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**Basic (Noninvestment) Transaction Reconciliation Procedure:** The basic transaction reconciliation segment of the project included tracing 251,432 noninvestment transactions that had been recorded in the general ledger to source documents such as deposit tickets and disbursement vouchers. The total value of these receipt and disbursement transactions was \$17.7 billion. Due to missing records, 32,901 of the transactions, with a total value of \$2.4 billion (14 percent of the total value of the transactions), could not be reconciled. In addition to the limitation related to the unreconciled transactions, this segment focused only on transactions that had already been recorded in the general ledger, and no reconciliation procedure was performed to address the completeness of the general ledger itself.

**Investment Transaction Reconciliation Procedure:** The reconciliation contractor also did individual testing of \$21.3 billion, or 16 percent, of the recorded investment transactions. However, to achieve efficiencies, Interior and the contractor substituted a review of tribal account investment yields for individual transaction testing for the remaining investment transactions.

**Fill the Gap (Leases) Procedure:** Another segment of the project reconciled collections for certain tribes with a sample of lease documents and timber sales contracts. Initially, the contractor was to review all leases greater than \$5,000 and a test sample of 100 additional leases of less than \$5,000 on a cross section of tribes. The reconciliation contractor identified 6,446 surface leases with annual collections of over \$5,000. However, due to time constraints for completing the reconciliation, only 692 leases—10.7 percent of the leases originally identified for testing—were tested. In addition, because of missing records, a number of leases, and sample test months for timber contracts, were substituted for those in the original sample.

**Systems Reconciliation Procedures:** The systems reconciliation was to include reconciling (1) information in the trust fund investment system to the General Ledger in the Finance System, (2) the tribal general ledger in the Finance System to U.S. Treasury records, and (3) the Integrated Records Management System (IRMS) subsidiary records to the Finance System general ledger. The latter two reconciliations could not be performed or completed due to time and funding limitations, according to Interior officials.

**Tribal IIM and Special Deposit Accounts Reconciliation Procedure:** Interior maintained some IIM accounts for tribes in the IRMS accounting system. It also used Special Deposit accounts primarily as clearing accounts for funds received that had not been distributed to account holders because the account owners had not been identified. Due to missing records and the lack of an audit trail through IRMS, tribal transactions could not be efficiently isolated from individual Indian transactions. Because of this, tribal IIM accounts maintained in IRMS were not reconciled to source documents, and Special Deposit accounts were not reconciled with source documents that moved funds to tribes' general ledger accounts, as had been planned.

**Fill the Gap (Minerals Management Service) Reconciliation Procedure:** Interior's Minerals Management Service (MMS) collects and accounts for oil and gas royalties on Indian leases. The reconciliation project was to include some procedures to trace collections from the leases, through MMS, to the general ledger maintained by BIA. However, because MMS retained records for only 6 years, records for most of the 20-year reconciliation period were not available, and alternative procedures at MMS were not performed due to time constraints.

**Certification Procedure:** Interior's fiscal year 1990 appropriations act required a separate, independent certification that the accounts had been reconciled and audited to the earliest possible date and that the results were the most complete reconciliation possible. However, BIA's certification contract required that the certification contractor ensure only that the reconciliation effort was performed in accordance with the reconciliation contract and no independent assessment of completeness was required. In addition, because of cost and time constraints, the certification contract was terminated before the certification contractor completed its verification that the procedures in the reconciliation contract were performed. The certification contractor issued a status letter, which communicated preliminary results. However, because the certification work was performed while the reconciliation was in process and the certification procedures were not completed, the usefulness of the status letter is limited.

**Individual Indian Accounts Reconciliation Procedures:** Accounts for individual Indians were excluded from the reconciliation project due to the potential lack of supporting documents and the cost and level of effort that would be needed to include them in the project.

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# Attachment II: Related GAO Products

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*Indian Trust Funds: Tribal Account Holders' Responses to Reconciliation Results.* GAO/AIMD-97-102R. Washington, D.C.: May 23, 1997.

*Responses to Questions from June 11, 1996, Hearing.* GAO/AIMD-96-125R. Washington, D.C.: June 24, 1996.

*Financial Management: Interior's Management of the Indian Trust Funds.* GAO/T-AIMD-96-111. Washington, D.C.: June 18, 1996.

*Financial Management: Interior's Efforts to Reconcile Indian Trust Fund Accounts and Implement Management Improvements.* GAO/T-AIMD-96-104. Washington, D.C.: June 11, 1996.

*Financial Management: BIA's Tribal Trust Fund Account Reconciliation Results.* GAO/AIMD-96-63. Washington, D.C.: May 3, 1996. =

*Financial Management: Indian Trust Fund Accounts Cannot Be Fully Reconciled.* GAO/T-AIMD-95-94. Washington, D.C.: March 8, 1995.

*Responses to Questions from September 26, 1994, Hearing.* GAO/AIMD-95-33R. Washington, D.C.: December 2, 1994.

*Financial Management: Focused Leadership and Comprehensive Planning Can Improve Interior's Management of Indian Trust Funds.* GAO/T-AIMD-94-195. Washington, D.C.: September 26, 1994.

*Financial Management: Focused Leadership and Comprehensive Planning Can Improve Interior's Management of Indian Trust Funds.* GAO/AIMD-94-185. Washington, D.C.: September 22, 1994.

*Response to Questions on Two Recommendations in April 12, 1994, Testimony.* GAO/AIMD-94-138R. Washington, D.C.: June 10, 1994.

*Letter on BIA Trust Fund Reconciliations.* GAO/AIMD-94-110R. Washington, D.C.: April 25, 1994.

*Financial Management: Status of BIA's Efforts to Reconcile Indian Trust Fund Accounts and Implement Management Improvements.* GAO/T-AIMD-94-99. Washington, D.C.: April 12, 1994.

*Financial Management: BIA's Management of the Indian Trust Funds.* GAO/T-AIMD-93-4. Washington, D.C.: September 27, 1993.

*Response to Request for Views on Freeze of the Statute of Limitations on Claims against the United States Arising from BIA Management of Tribal and Individual Trust Funds.* GAO/AFMD-93-84R. Washington, D.C.: June 4, 1993.

*Financial Management: BIA Has Made Limited Progress in Reconciling Trust Accounts and Developing a Strategic Plan.* GAO/AFMD-92-38. Washington, D.C.: June 18, 1992.

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