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ARTHUR  
ANDERSEN  
& CO.

BUREAU OF INDIAN AFFAIRS  
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TRUST FUNDS AUDIT  
=====

SEPTEMBER 30, 1989

SUMMARY OF AUDIT PROCEDURES.

APPROACH AND FINDINGS

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BUREAU OF INDIAN AFFAIRS  
TRUST FUNDS MANAGED  
SEPTEMBER 30, 1989 AUDIT

OVERVIEW

1989 is the second year audited  
Audits cover financial and compliance matters  
Audit contract modified to research investment differences  
Fieldwork completed May 11, 1990  
Reports are in process of being finalized

REPORTS

Financial audit of Tribal and IIM trust funds  
Financial audit of Public Monies trust funds (Cooperative, Alaska Native,  
Contributed, Irrigation and Power)  
Report on Compliance (all funds)  
Report on Internal Controls (all funds)

LIMITING FACTORS

Balances resulting from activity prior to October 1, 1987 unaudited  
Irrigation and Power assets other than cash and investments unaudited  
Audit results limit opinion that can be formed

SUMMARY FINANCIAL INFORMATION

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Exhibit 1

BUREAU OF INDIAN AFFAIRS  
SUMMARY 1989 TRUST FUNDS FINANCIAL STATEMENTS

	<u>Tribal and IIM</u>	<u>Public Monies</u>	<u>Total</u>
	(amounts in thousands)		
Cash, including overnights	\$ 160,942	\$ 8,914	\$ 169,856
Investments -			
Certificates of deposit	1,015,337	34,155	1,049,492
U.S. Treasury and agency	605,244	39,842	645,086
Failed institutions	5,260	188	5,448
Guaranteed loans	1,304	-	1,304
	1,627,145	74,185	1,701,330
Accrued interest	42,151	1,613	43,764
Total assets and fund balances	1,830,238	\$ 84,712	\$ 1,914,950
Receipts -			
Interest	\$ 149,252	\$ 6,856	\$ 156,108
Other	535,271	3,465	538,736
	684,523	10,321	694,844
Payments to beneficiaries	(527,131)	(4,264)	(531,395)
Irrigation and Power activity	-	1,247	1,247
Beginning fund balances	1,672,846	77,408	1,750,254
Ending fund balances	\$ 1,830,238	\$ 84,712	\$ 1,914,950

Exhibit 2

BUREAU OF INDIAN AFFAIRS  
SUMMARY 1989 TRIBAL AND IIM  
TRUST FUNDS FINANCIAL STATEMENTS

	<u>Tribal</u>	<u>IIM</u>	<u>Total</u>
	(amounts in thousands)		
Cash, including overnights	\$ 147,103	\$ 13,839	\$ 160,942
Investments -			
Certificates of deposit	746,475	268,862	1,015,337
U.S. Treasury and agency	442,702	162,542	605,244
Failed institutions	-	5,260	5,260
Guaranteed loans	-	1,304	1,304
	1,189,177	437,968	1,627,145
Accrued interest	30,381	11,770	42,151
Total assets and fund balances	\$ 1,366,661	\$ 463,577	\$ 1,830,238
Receipts -			
Interest	\$ 110,410	\$ 38,842	\$ 149,252
Other	357,903	177,368	535,271
	468,313	216,210	684,523
Payments to beneficiaries	(292,408)	(234,723)	(527,131)
Transfers	(18,045)	18,045	-
Beginning fund balances	1,208,801	464,045	1,672,846
Ending fund balances	\$ 1,366,661	\$ 463,577	\$ 1,830,238

BUREAU OF INDIAN AFFAIRS  
SUMMARY 1989 PUBLIC MONIES  
TRUST FUNDS FINANCIAL STATEMENTS

	<u>Irrigation and Power</u>	<u>All Other</u>	<u>Total</u>
	(amounts in thousands)		
Cash, including overnights	\$ 7,768	\$ 1,146	\$ 8,914
Investments -			
Certificates of deposit	23,950	10,205	34,155
U.S. Treasury and agency	23,265	16,577	39,842
Failed institutions	188	-	188
	47,403	26,782	74,185
Accrued interest	1,211	402	1,613
Total assets and fund balances	\$ 56,382	\$ 28,330	\$ 84,712
Receipts -			
Interest	\$ 4,706	\$ 2,150	\$ 6,856
Other	-	3,465	3,465
	4,706	5,615	10,321
Payments to beneficiaries	-	(4,264)	(4,264)
Irrigation and Power Activity, net	1,247	-	1,247
Beginning fund balances	50,429	26,979	77,408
Ending fund balances	\$ 56,382	\$ 28,330	\$ 84,712

BUREAU OF INDIAN AFFAIRSTRUST FUNDS AUDITINVESTMENTS - AUDIT PROCEDURES

1. Complete physical inventory observation of all securities on-hand at the Division of Trust Funds Management as of September 30, 1989 (Approximately 4500 CDs), including a test of purchase and maturity listings for CD's in-transit at the time of the physical count.  
  
A data base was constructed (similar to September 30, 1988) from this physical inventory which was used to reconcile differences between CDs confirmed and CDs reflected per the Bureau's records.
2. Confirmed CDs outstanding as of September 30, 1989. The project involved confirmation of 95 banks, and the Federal Home Loan Bank (FHLB) which invested approximately \$140 million of Bureau funds in troubled financial institutions, guaranteeing such deposits. The confirmation process covered 68% of total dollar value of CDs held at September 30, 1989.
3. Reconciled all differences resulting from our confirmation work.
4. Confirmed all U.S. Treasury securities and other government agency securities with the Federal Reserve Bank and the U.S. Treasury.
5. We obtained a confirmation of the balances of overnight deposits with the U.S. Treasury on hand at September 30, 1989. The confirmation is not considered to represent a third party verification. The U.S. Treasury confirmed the balance based on what the Bureau indicated the balances to be.
6. Physically observed investments on hand at the Palm Springs Agency, not reflected in the General Ledger.
7. Recalculated accrued interest, and predictively tested interest income.
8. Discussed and observed cash reporting and reconciliation procedures at the Central Office West, and tested the accumulation of balances reported to the U.S. Treasury, by tracing such balances to the general ledger and to supporting documents.
9. Confirmed collateral held with the Federal Reserve bank as security for deposits with banks holding deposits in excess of federal insurance limits.

BUREAU OF INDIAN AFFAIRSTRUST FUNDS AUDITINVESTMENTS - CONFIRMATION AND RECONCILIATION RESULTSCERTIFICATES OF DEPOSIT

Balances confirmed and reconciled	\$ 717,261,162	68%
Counted or verified through alternative procedures	332,230,699	32%
Balances as of September 30, 1989	<u>\$1,049,491,861</u>	<u>100%</u>

U.S. TREASURY SECURITIES ANDU.S. GOVERNMENT AGENCY SECURITIES AND OTHER

Balance confirmed by:		
U.S. Treasury	\$ 97,543,004	
Federal Reserve Bank	545,977,437	
Colson Services (guaranteed loans)	253,933	
Palm Springs Agency Office investment securities, on hand at the Agency office	1,312,077	
Balances as of September 30, 1989	<u>\$ 645,086,451</u>	

TRUST FUNDS AUDIT

AREA AND AGENCY OFFICE VISITS

Area Offices: 12 in 1989, 11 in 1988  
Agencies Offices: 15 in 1989, 27 in 1988

Criteria used in the selection process were 1) unusual circumstances surrounding the agency (such as headrights at Osage, investments at Palm Springs, etc.) 2) Agencies not previously visited and 3) relative size of the agency in terms of total funds held in IIM accounts at September 30, 1989.

<u>1988</u>	<u>1989</u>	<u>IIM Balances</u>
Muskogee Area	Muskogee Area	
Miami Agency	Osage Agency	\$ 18,768,909
Osage Agency		
Anadarko Area	Anadarko Area	
Anadarko Agency	Anadarko Agency	31,061,052
Concho Agency	Shawnee Agency	6,973,302
Aberdeen Area		
Fort Totten Agency	Aberdeen Area	
Fort Berthold Agency	Yankton Agency	6,774,741
Pine Ridge Agency		
Sisseton Agency		
Turtle Mountain Agency		
	Juneau Area (centralized)	5,656,932
Navajo Area		
Windowrock Agency	Navajo Area	
Shiprock Agency	Eastern Navajo Agency	2,619,807
Crownpoint Agency		
Portland Area		
Warm Springs Agency	Portland Area	
Yakima Agency	Olympic Peninsula Agency	8,590,527
Colville Agency		
Sacramento Area	Sacramento Area	
Palm Springs Agency	Northern Ca Agency	1,092,852
	Palm Springs Agency	8,591,544
Eastern Area	Eastern Area (centralized)	1,850,784
Billings Area		
Blackfeet Agency	Billings Area	
Ft. Peck Agency	Fort Belknap Agency	5,987,223
	Wind River Agency	3,353,745
Phoenix Area		
Pima Agency	Phoenix Area	
Colorado River Agency	Salt River Agency	6,430,709
Western Nevada Agency		
Papago Agency		
Uintah & Ouray Agency		
Albuquerque Area	Albuquerque Area	
	Laguna Pueblo Agency	936,992
Minneapolis Area		
Great Lakes Agency	Minneapolis Area	
Michigan Agency	Red Lake Agency	1,245,346
Cass Lake Agency		-----
	Total IIM balances for locations visited	\$109,934,465
		=====
	Total IIM Balance per subsidiary detail	\$461,342,724
		=====
	Total IIM balances per general ledger	\$463,577,752
		=====



BUREAU OF INDIAN AFFAIRS

TRUST FUNDS AUDIT

AREA OFFICE AUDIT PROCEDURES

Procedures at a typical Area Office:

1. From the Status of Trust Funds Report for Tribal Trust we selected the ten appropriations with the largest disbursements for review.
2. For each appropriation selected we vouched all disbursements and tested for compliance with tribal plans, budgets, resolutions and Congressional "dockets" (Exhibit 8).
3. Reviewed procedures in the title plants, where ownership interests in parcels of land are monitored. Title Status Reports (TSR's) generated by these title plants are used for distributions to account holders.
4. For centralized areas, the procedures for agencies were performed.
5. Revenues for Tribal Trust Funds, other than judgement awards were tested at the agency level as part of lease revenue testing. Additional testing of revenues performed at the Albuquerque Central Office - West included:
  - a. High dollar receipts were judgementally tested (approximately 32% of total receipts, for appropriations containing 75% of total fiscal 1989 Tribal Trust Funds receipts) and traced to notification of deposit from the U.S. Treasury and other supporting documents (Exhibit 9).
  - b. Test of interest income (represents 24% of total Tribal Trust Funds receipts) (Exhibit 10).

BUREAU OF INDIAN AFFAIRSTRUST FUNDS AUDITTRIBAL TRUSTSUMMARY OF DISBURSEMENTS AND TRANSFERS TESTED

<u>Area</u>	Total Disbursements and Transfers	<u>Amount Tested</u>	Percent <u>Tested</u>
Aberdeen	\$ 38,454,838	\$ 5,108,699	13.28%
Anadarko	3,800,116	2,108,527	55.49
Billings	28,463,336	18,175,878	63.86
Juneau	453,288	403,288	88.97
Minneapolis	5,303,534	2,070,473	39.04
Muskogee	28,100,345	21,452,943	76.34
Phoenix	31,277,174	20,590,381	65.83
Sacramento	7,154,947	6,768,831	94.60
Albuquerque	27,784,264	21,996,160	79.17
Navajo	43,293,224	36,325,000	83.91
Portland	84,170,504	58,217,100	69.17
Eastern	14,434,105	13,033,816	90.29
	<u>\$312,689,675</u>	<u>\$206,251,096</u>	<u>65.96%</u>

BUREAU OF INDIAN AFFAIRS

EXHIBIT 9

TRUST FUNDS AUDIT

TRIBAL TRUST

SUMMARY OF RECEIPTS - 25 LARGEST APPROPRIATIONS

<u>Agency/Tribal</u>	<u>Appropriation No. Account No.</u>	<u>Tribe #</u>	<u>Tribe Name</u>	<u>Total Receipts</u>	<u>Total Receipts Tested</u>	<u>Percent Tested</u>
C58	7146	281	Arapaho	\$ 7,920,614	\$ 3,281,994	41.44%
G09	9130/2624	907	Choctaw OK	6,075,000	6,075,000	100.00%
H51	7218	603	Colorado River Res. AZ	2,958,512	361,715	12.23%
C52	7449	202	Crow of Mont.	34,831,415	31,264,871	89.76%
P13	7453	203	Flathead	14,777,495	7,403,429	50.10%
H52	7226	607	Fort Apache Arizona	3,235,167	1,437,721	44.44%
C56	7233	206	Fort Peck Mont.	3,441,687	159,529	4.64%
J50	7193	501	Hoopa/Yurok Settlement	7,926,044	983,510	12.41%
H65	7237	608	Hopi Arizona	11,109,392	1,472,290	13.25%
M50	7455	701	Jicarilla New Mexico	5,338,856	866,986	16.24%
N00	7341	780	Navajo AZ. & NM	68,726,197	5,824,347	8.47%
G06	7386	930	Osage	22,485,521	3,558,251	15.82%
S50	9450/2603	014	Passamaquoddy	20,428,818	19,500,000	95.45%
M21	7033	707	Pueblo of Laguna	9,332,542	8,826,261	94.58%
M21	7356	707	Pueblo of Laguna	4,556,467	367,685	8.07%
C58	7145	282	Shoshone Wind River	7,963,500	560,955	7.04%
A00	9018/2600	A60	Sioux	35,674,932	35,674,932	100.00%
A00	9521/2600	A60	Sioux	19,762,212	2,565,115	12.98%
A00	9018/2601	A60	Sioux	4,203,200	4,203,200	100.00%
P03	7219	101	Tribes of Colville Res.	8,254,741	1,468,461	17.79%
H62	7471	687	Uintah & Quray Utah	6,241,693	419,314	6.72%
H61	9461/2600	656	Walker River Nev.	3,825,613	3,825,613	100.00%
P09	7472	145	Warm Springs Wash.	19,977,082	2,370,475	11.87%
P11	7473	124	Yakima Nation	15,800,804	6,585,710	41.68%
P11	7040	124	Yakima Nation	4,582,538	844,360	18.43%
E00	9179/2605	599	Tlingit-Haida	2,236,932	2,236,932	100.00%
				<u>\$351,666,976</u>	<u>\$152,138,654</u>	<u>42.91%</u>
Total Tribal Receipts				<u>\$470,549,959</u>	<u>\$470,549,959</u>	
Percent of total receipts traced to supporting documents				<u>75%</u>	<u>32%</u>	

AA&Co. selected the 25 appropriations with the largest amount of receipts during fiscal year 1989 for testing of receipt activity. From those appropriations, a total of 50 large receipt transactions were selected for tracing to supporting documents, such as deposit slips, electronic fund transfer documents, interfund transfer documents, etc. Additional predictive tests were performed on interest income (Exhibit 10), which makes up a large portion of Tribal receipts.

BUREAU OF INDIAN AFFAIRSTRUST FUNDS AUDITTRIBAL TRUST - ANALYSIS OF RECEIPTS BY REVENUE TYPEAND SUMMARY OF AUDIT TESTING

	<u>FY 1989 Total Receipts</u>	<u>Receipts Vouched</u>	<u>Predictive Test of Interest</u>	<u>Percent Tested</u>
Interest income	\$112,709,375	\$ 3,485,673	\$109,223,702	100.00%
Leases	41,826,043	8,245,884	-	19.71%
Royalties	134,282,863	25,404,795	-	18.92%
Sales	56,149,593	13,324,940	-	23.73%
Fees	2,786,280	-	-	0.00%
Right of way	960,752	-	-	0.00%
Claims	70,803,287	63,248,132	-	89.33%
Other	48,794,834	36,236,685	-	74.26%
	<u>\$468,313,027</u>	<u>\$149,946,109</u>	<u>\$109,223,702</u>	<u>55.34%</u>

BUREAU OF INDIAN AFFAIRSTRUST FUNDS AUDITINDIVIDUAL INDIAN MONIESAGENCY OFFICE AUDIT PROCEDURES

Procedures at a typical Agency Office:

Disbursements

1. For the 25 IIM accounts selected systematically, and a statistical sample of 50 IIM accounts (based on a 90% confidence level, an upper error limit of 8% and an expected error rate of 2%), we vouched up to five disbursements from each account for fiscal year 1989.
2. Reviewed the listing of special deposits for large and/or unusual amounts and investigated the receipts and disbursements for selected accounts for fiscal year 1989.
3. Recalculated the balance of accounts for individuals who participated in judgement awards as minors, and vouched on a sample basis the disbursements of judgement funds for individuals who turned 18 during fiscal year 1989.
4. Reviewed procedures for authorization of disbursements, preparation of checks and internal controls related to disbursements.

Revenues

1. Reviewed the listing of lease activity for fiscal year 1989 and selected for audit 10 significant leases or agreements (included farm and grazing leases, business leases, range permits, timber sales, right of ways, etc.).
2. For selected activities we examined the lease documents for compliance with federal regulations and vouched the receipt and distribution of income.
3. Checked the distribution of income against title records.
4. Tested interest posted to individual IIM accounts based on notifications of applicable interest rates from the central office.
5. Reviewed procedures for cash receipts and vouched cash receipts on a scope basis.

BUREAU OF INDIAN AFFAIRSTRUST FUNDS AUDITTRIBAL TRUST - CONFIRMATION SUMMARY

We sent initial confirmation requests on August 17, 1989 to all tribes with balances outstanding as of June 30, 1989. Second requests were sent on September 18, 1989. Following is a brief summary of results.

	<u>#</u>	<u>Amount</u>
Clean replies to date	141	\$ 356,705,210
Exceptions	22	103,922,274
Non-replies **	109	431,264,404
Not sent*	56	418,684,661
Account increase from June 30, 1989 to September 30, 1989	---	22,578,724
Total all accounts at September 30, 1989 (excludes unallocated amounts of \$33,505,558)	328	\$1,333,155,273

\*These balances are either not identifiable to a specific tribe (i.e., a combination of tribes where no one tribe can confirm the balance) or the tribes are not formally organized, or the Bureau could not provide addresses.

\*\*As was noted in the FY 1988 audit, the majority of these tribes are unable to confirm balances as the records kept by many tribes are inadequate to confirm balances or tribes refuse to confirm balances, due to disputes with the BIA.

BUREAU OF INDIAN AFFAIRSTRUST FUNDS AUDITINDIVIDUAL INDIAN MONIES - CONFIRMATION APPROACH

## Negative Confirmations:

Negative confirmation messages were printed on the June 30, 1989 statements which were sent to all account holders that receive regular statements. The mailing on these confirmations was not controlled by AA&Co. as we did not attempt to place reliance of the results of this procedure. Certain account holders do not receive statements and/or have complete access to their account balances or activity.

The purpose of the confirmation project was to determine how extensive the disagreement or lack of knowledge of account balances was among account holders, and the nature of some of the problems experienced by account holders. Following are the results of the confirmation replies.

<u>Types of Responses</u>	<u>1989 Number of Responses</u>
1. Account holders did not receive payments listed on IIM statements.	360
2. Account holders did not feel they were receiving adequate revenues based on their real estate interests and royalty interests.	39
3. Have no knowledge of lease terms relating to their property or accounts.	66
4. No or inadequate response to inquiries made of BIA personnel with regard to their accounts.	47
5. Other general complaints of mismanagement.	91
6. The statement was correct.	32
7. Account holders haven't received regular semiannual statements	119
8. The account holder had no knowledge of the existence of the accounts confirmed.	57
Total responses	811

BUREAU OF INDIAN AFFAIRSTRUST FUNDS AUDITINDIVIDUAL INDIAN MONIES - CONFIRMATION APPROACH

## Positive Confirmations:

Positive confirmation requests were sent to account holders with balances greater than \$50,000 as of September 30, 1989. Following is a summary of the results:

	<u>Amount</u>	<u>Number</u>	<u>Percent</u>
Replies without exceptions	\$ 12,945,593	72	13%
Non-Replies	70,393,567	338	71%
Returned by post office, BIA unable to provide address (801U006173-B05; 930U007651-G06; 187U001972-H62)	297,431	3	-
Exceptions (accountholder did not agree with balance)	2,622,040	14	3%
Account holder unable to confirm	2,832,783	8	3%
Accounts controlled by the BIA (individual unable to confirm)	10,319,727	27	10%
Total Sent	<u>\$ 99,411,141</u>	<u>462</u>	<u>100%</u>

The composition of the accounts with balances greater than \$50,000 was as follows at the time of our selection:

	<u>Amount</u>	<u>Number</u>	<u>Percent</u>
Special deposit accounts	\$ 62,978,205	202	38%
Judgement accounts	3,837,536	38	2%
Other supervised (account holders receive statements)	99,411,141	462	60%
	<u>\$166,226,882</u>	<u>702</u>	<u>100%</u>
Total IIM account balance identified to specific accounts, excluding unallocated balances	<u>\$461,342,724</u>		
Percent greater than \$50,000	<u>36%</u>		
Percent clean replies of total balance	<u>3%</u>		



BUREAU OF INDIAN AFFAIRS  
RECONCILIATION OF INVESTMENT BALANCES  
SEPTEMBER 30, 1989 AUDIT

The Bureau's investment balances per its Finance and Money Max systems were out of balance at September 30, 1989 and 1988. These differences were researched and substantially resolved as follows:

	<u>Finance Greater Than (Less Than) Money Max</u>			
	<u>Sept. 30,</u> <u>1988</u>	<u>Sept. 30,</u> <u>1989</u>	<u>Audit Results</u>	
			<u>Identified</u>	<u>Unidentified</u>
	(in thousands)			
<u>IIM Fund</u>				
Certificates of Deposit	\$ 4,274	\$ 4,417	\$ 4,376	\$ 41
Treasury Securities/ Overnight Deposits	(273)	11,668	11,668	-
Other Government Securities	10,360	(29,270)	(29,270)	-
Discounts on Treasury Securities	547	547	547	-
Discounts, Other	2,054	5,792	5,792	-
Purchased Int., Treasury Securities	(32)	16	16	-
Purchased Int., Other Government	-	37	37	-
<b>Total IIM Differences</b>	<b>16,930</b>	<b>(6,793)</b>	<b>(6,834)</b>	<b>41</b>
<u>Tribal Fund</u>				
Certificates of Deposit	623	14,031	14,031	-
Treasury and Other Government Securities	1,126	(23,847)	(23,840)	(7)
Discounts on Treasury and Government Securities	(2,248)	23,408	23,408	-
Purchased Interest	(450)	941	941	-
<b>Total Trust Fund Difference</b>	<b>(949)</b>	<b>14,533</b>	<b>14,540</b>	<b>(7)</b>
<b>Grand Total</b>	<b>\$ 15,981</b>	<b>\$ 7,740</b>	<b>\$ 7,706</b>	<b>\$ 34</b>

The majority of the differences resulted from an accumulation of Finance system posting errors over a number of years (1981-1989). No evidence was found of misappropriated money.

Correcting entries, consisted of adjustments to investment and trust fund liabilities in the Finance system for errors originating prior to fiscal year 1989. This resulted in a restatement of the 1988 financial statements.

We also reviewed final payment and close out of some 500 SBA guaranteed loans. We determined that the majority of the loans were properly closed out. \$613,000 represents lost funds resulting from financial failure of entities producing the loans. \$695,000 of September 30, 1989 balance is not presently supported by any specific loans.

BUREAU OF INDIAN AFFAIRS  
SUMMARY OF TRIBAL AND IIM FINANCIAL AUDIT FINDINGS  
SEPTEMBER 30, 1989 AUDIT

Cash

- U.S. Treasury cannot confirm balance.
- Cash deficits resulted from overinvestments.
- Cash reporting and reconciliation procedures are not functioning to the level possible.
- Errors found in the reconciliation process are not corrected on a timely basis.
- Adjusted for investment accounting errors.

Investments

- MoneyMax system basically performs as it should but the general ledger did not agree.
- Variances between the detail Money Max reports and the general ledger have changed significantly - corrected as of September 30, 1989. Not being reconciled on a regular basis.
- Certain investments (Palm Springs, SBA Loans, installment sales contracts) not recorded in MoneyMax system and/or general ledger.
- Detail reconciliations prepared by AA&Co. as of September 30, 1989, including review of historical transactions as far back as 1981.
- General ledger was adjusted to actual based on reconciling items identified.
- CD swaps (buyouts) are not consistently reflected between MoneyMax system and general ledger.
- Interest income accumulates as collected, in the aggregate.
- Interest income was accrued by adjustment as of September 30, 1989.

Fund Balances

- Many who replied to confirmation requests disagreed.
- Many IIM account holders do not receive statements (estimated at more than 50%).
- Unallocated balances.

Receipts and Disbursements

- Generally accurate amounts are recorded.
- Postings and allocations to IIM accounts are not uniformly timely and accurate.

BUREAU OF INDIAN AFFAIRS

EXHIBIT 17

ANALYSIS OF UNALLOCATED IIM TRUST FUND BALANCES

AT SEPTEMBER 30, 1989 AND 1988

	<u>1989</u>	<u>1988</u> (as Restated)
Undistributed interest per Finance System	\$ 4,887,186	\$ 27,430,817
Cumulative difference between the Finance System (ISSDA) and IRMS System, excluding interest	(11,772,204)	(2,705,119)
Other	<u>(2,640,030)</u>	<u>(2,162,725)</u>
Total unallocated	<u><u>\$ (9,535,048)</u></u>	<u><u>\$ 22,562,973</u></u>

BUREAU OF INDIAN AFFAIRS  
OPINION REACHED ON TRIBAL AND IIM FINANCIAL STATEMENTS  
SEPTEMBER 30, 1989 AUDIT

	<u>Tribal and IIM</u>	<u>Public Monies</u>
Able to Verify -		
Investments	X	X
Accrued interest receivable	X	X
Receipts and disbursements	X	Partially
Unable to Verify -		
Cash, including overnight deposits	X	X
Balances held in trust, including individual account balances	X	X
Investments at failed institutions and guaranteed loans	X	X

Auditors' reports were qualified for the above unverifiable items.

BUREAU OF INDIAN AFFAIRS

PRINCIPAL FINDINGS ON COMPLIANCE AND INTERNAL CONTROLS

SEPTEMBER 30, 1989 AUDIT

The accounting systems and internal control procedures utilized by the Bureau suffer from a wide variety of procedural weaknesses and other problems, such as inadequate training and supervision of personnel. Certain of these weaknesses are so pervasive and fundamental as to render the accounting systems unreliable. Some of the most significant problems are summarized below:

- a. Multiple accounting systems are used to record the same activity; however, these systems are not kept in balance with each other or with known amounts.
- b. Standardized, documented policies and procedures have not been instituted to ensure that transactions are conducted and reported in accordance with Bureau Management's criteria. Also, accounting personnel are not being formally trained to ensure that they understand Management's criteria.
- c. Certain accounting entries have been, and continue to be, prepared and posted on a decentralized basis without adequate review.
- d. Certain transactions such as certificate of deposit maturities are recorded prior to verification of their receipt.
- e. Many instances of inadequate segregation of duties exist. For example, in many locations, the same employees transfer assets among accounts and open new accounts resulting in the opportunity for intentional or unintentional misuse of resources.
- f. The Bureau's interim and year-end financial statements are not prepared in compliance with guidelines established by the Bureau, the GAO or GAAP.
- g. Detailed records do not support certain asset balances. These accounts had no activity in recent years; therefore, these accounts were removed from the accompanying financial statements through cumulative adjustments in 1988. Such balances were not included in balances held in trust for Indian tribes, organizations and individuals in the accompanying financial statements or in the Bureau's internal accounting records.

BUREAU OF INDIAN AFFAIRS

**RECOMMENDATIONS ON PRINCIPAL COMPLIANCE AND INTERNAL CONTROL FINDINGS**

**SEPTEMBER 30, 1989 AUDIT**

Our recommendations which are discussed in greater detail in the 1989 Report on Compliance and Report on Internal Controls are summarized below.

	<u>Action Required By</u>	
	<u>Central Office</u>	<u>Field Location</u>
1. Consistency in recording and reporting transactions is essential.		
o Establish and implement standardized procedures and documentation policies at all field locations to ensure that transactions are conducted and reported in accordance with Bureau Management criteria.	X	X
o Establish required minimum training for all key personnel on daily operations and required reporting and provide proper supervision, to ensure there is a thorough understanding of Bureau accounting systems, procedures and reports.	X	
2. A disciplined controllership function is needed.		
o Summary reports of activity and cumulative balances of the Trust Funds must be reviewed by management personnel who are familiar with financial reports and generally accepted accounting principles, as they apply to Trust Funds.	X	
o The accounting systems and subledgers used by the Bureau must be reconciled to each other and discrepancies must be resolved. Regular and timely reconciliations should be performed and reviewed to keep systems in balance. In time, the Bureau's ADP systems should be integrated to eliminate many of the errors now occurring.	X	X
3. The audit process is essential to verify that controls and procedures are functioning effectively and that recorded balances are accurate.		

Action Required By  
Central Office      Field Location

- o An internal audit function should be established to provide an ongoing review of compliance with controls, procedures and regulations. The internal audit group should communicate with upper management or an oversight group to maintain independence from operations and accounting personnel. X
  
- o An annual audit by independent public accountants should continue to be performed. The independent audit provides an objective view of the organization, its controls and procedures and financial accounting policies. X
  
- 4. Account holders must be given timely and accurate information.
  - o The Bureau should ensure that statements of IIM account holders are received and reviewed by an independent party. In the case of minors' accounts or accounts of supervised individuals a Court appointed/approved guardian should receive the statements and be responsible for their review. X      X
  
  - o IIM account statements should be delivered more frequently than is now the practice (e.g., monthly statements vs. (current) six-month statements). X
  
  - o The IRMS data base used to produce IIM statements should be kept current with addresses, social security numbers, etc. to provide timely and accurate account statements and IRS Form 990s.
  
- 5. Greater personnel and systems resources must be devoted to allocating receipts to appropriate beneficiaries on a timely basis.
  - o The Bureau should work to complete implementation of the IRMS system so that numerous lengthy manual computations can be automated. X      X
  
  - o A plan should be developed to identify appropriate beneficiaries and distribute the unallocated balances which currently exist. X
  
  - o Reconciliation of the IRMS and Finance Systems must be completed in order to properly determine and resolving unallocated balances. X      X