

IN THE UNITED STATES DISTRICT COURT  
FOR THE DISTRICT OF COLUMBIA

ELOUISE PEPION COBELL, <u>et al.</u> ,	)	
	)	
Plaintiffs,	)	
	)	
v.	)	Case No. 1:96CV01285
	)	(Judge Lamberth)
GALE NORTON, Secretary of the Interior, <u>et al.</u> ,	)	
	)	
Defendants.	)	
	)	

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**NOTICE OF FILING**

The Secretary of the Interior and the Assistant Secretary - Indian Affairs hereby give notice of the filing of the attached *Fiduciary Obligations Compliance Plan* pursuant to the Court's September 17, 2002 Order.

Respectfully submitted,

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Dated: January 6, 2003

  
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## Fiduciary Obligations Compliance Plan

January 6, 2003

# TRUST OBLIGATIONS COMPLIANCE PLAN

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**THE DEPARTMENT OF THE INTERIOR PLAN  
TO BRING ITSELF INTO COMPLIANCE WITH CERTAIN FIDUCIARY  
OBLIGATIONS  
OWED TO IIM BENEFICIARIES  
(FIDUCIARY OBLIGATIONS COMPLIANCE PLAN)**

**JANUARY 6, 2003**

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**I. INTRODUCTION**

This Plan has been prepared in compliance with a September 17, 2002 Court order that the Department of the Interior (“Interior”) submit a plan showing how it intends to bring itself into compliance with certain fiduciary obligations that it owes to Individual Indian Money (“IIM”) account holders in accounting to them for its management of their IIM trust funds. The Plan describes the relevant part of an ongoing trust reform planning and implementation process in which Interior is currently engaged.

The Court has declared that for purposes of this litigation the primary duty with respect to IIM trust fund management is that Interior, as required by the American Indian Trust Fund Management Reform Act (“the 1994 Act”), 25 U.S.C. § 162a *et seq.* and 4011 *et seq.*, “provide plaintiffs an accurate accounting of all money in the IIM trust” by the United States for the benefit of the plaintiffs.<sup>1</sup>

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<sup>1</sup> Cobell v. Babbitt, 91 F. Supp. 2d 1, 58 (D.D.C. 1999)

The 1994 Act describes the path that must be followed to fulfill that duty. Under the terms of the Act, Interior will provide an accurate accounting of all trust funds when it can fully comply with the requirements of sections 4011(a) and (b) of the 1994 Act.

Those sections require that Interior:

- account for the daily and annual balance of all funds held in trust; and
- provide a quarterly statement of performance to each IIM account holder that identifies: a) the source, type and status of the funds; b) the beginning balance; c) the gains and losses; d) receipts and disbursements; and e) the ending balance.

To comply with the requirements of sections 4011(a) and (b), Interior has determined that it must administer programs to accomplish three objectives:

- 1) Historical Accounting - Interior must provide information that can be used to assess the accuracy of the current balance in each of the IIM accounts. Interior has maintained account ledgers through time, but the accuracy of these ledgers and the supporting trust management systems has been challenged in this litigation and has been repeatedly criticized by observers from within and outside Interior. Without an assurance that all current account balances are reliable and, if necessary, appropriately corrected, Interior cannot ensure an accurate accounting on a going forward basis, no matter how carefully future transactions may be recorded. The historical accounting of IIM accounts that Interior is currently conducting will provide information that can be used to assess the accuracy of current IIM trust account balances. The Office of Historical Trust Accounting (OHTA) has the lead responsibility for doing the historical accounting. Interior's plan for conducting the historical accounting is being submitted to the Court today and

is incorporated herein by reference as a necessary part of Interior's plan to bring itself into compliance with its accounting obligations.

- 2) Current Ownership, Collection, Deposit and Transfer - Interior must collect the correct fund amounts in a timely manner for the correct IIM account holders. This requires that Interior's programs have adequate systems for tracking the trust land ownership interests of account holders and for collecting the money that is owed to each account holder and depositing it in Interior's Trust Funds Accounting System ("TFAS"). Programmatic improvements must occur in Interior's land title and revenue collections systems. The Bureau of Indian Affairs (BIA), the Minerals Management Services (MMS) and the Bureau of Land Management (BLM) all have responsibilities pertaining to one or more of these systems. Interior's plan for improving its Collection, Deposit and Transfer systems is presented below.
  
- 3) Current Accounting – Trust Funds Accounting System - Once the funds are collected, Interior must deposit them in the correct IIM account, properly credit interest earned to the account, and disburse from the account the correct amounts to the correct persons. These functions are performed through Interior's use of TFAS, which is managed by the Office of Trust Fund Management (OTFM) in the Office of the Special Trustee for American Indians (OST). Interior's plan for bringing itself into compliance with its Current Accounting – Trust Funds Accounting System duties is presented below.

In evaluating this Plan, two points must be kept in mind. First, as required by the Court's order, the Plan submitted today focuses on Interior's IIM trust fund accounting

obligations. Second, the Plan is part of an ongoing comprehensive trust reform planning and implementation effort. The Plan must be understood in the broad context of a much larger effort of Indian trust reform. The next section describes how this Plan fits into Interior's ongoing trust reform planning and implementation efforts and how that ongoing effort will be used as a tool to achieve the necessary program and performance.

## **II. ONGOING TRUST REFORM PLANNING AND IMPLEMENTATION**

Interior has responsibility for what may be the largest land trust in the world. The Indian trust today encompasses approximately 56 million acres of land – over ten million acres belonging to individual Indians and nearly 45 million acres owned by Indian tribes. On these lands, Interior manages over 100,000 leases for individual Indians and tribes.

Leasing, use permits and sales revenues of approximately \$300 million per year are collected and distributed to approximately 236,000 Individual IIM accounts, and about \$800 million per year is distributed to about 1,400 tribal accounts. In addition, the trust manages approximately \$2.6 billion in tribal funds and \$400 million in individual Indian funds.

Interior is carrying out a comprehensive and systematic plan to reform the management of its trust responsibilities. This comprehensive effort has been described to the Court in the quarterly reports, beginning with the Eighth Report.<sup>2</sup> The comprehensive plan and the processes it contains will be used to identify and implement the changes necessary in Interior's current accounting systems.

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<sup>2</sup> Eighth Report to the Court at 3-8, 15-17; Ninth Report to the Court at 43-55; Tenth Report to the Court at 3-4, 32-39; Eleventh Report to the Court (Eleventh Report) at 3-4, 29-38



The primary elements of this ongoing effort are: 1) the reorganization of Interior trust offices to improve delivery of services, effectiveness and accountability of trust operations, and 2) the reengineering of Interior's business processes and universal support functions to ensure that Interior meets its trust goals and objectives.

#### **A. ELEMENT ONE: REORGANIZATION**

Interior evaluated its trust-related organizations and, after a lengthy consultation process with tribes and individual Indians, determined that a different structural alignment of its organizational functions is required. Interior recently has been given the appropriate approval by Congressional appropriators for this reorganization and Interior is now implementing it.

The reorganization within the BIA and OST places a particular focus on each organization's fiduciary duties to Indian individual and tribal beneficiaries. For instance, land and natural resource management is located in the BIA because it has demonstrated expertise in this area of the trust. The OST has been given the direction to expand its operational role in addition to its statutory oversight duties. As a result, OST will develop a regional and agency presence to ensure that trust standards are followed in the management of these assets and will retain the responsibility for financial asset management. By further developing and taking advantage of the strengths of each organization, Interior will have a more cost effective, efficient and successful trust management system. Simply put, this reorganization dedicates more trained personnel to provide consolidated trust services, increases the emphasis on tribal contracting and provides direct trust accountability.

**B. ELEMENT TWO: REENGINEERING**

The reengineering of Interior's trust business processes consists of two basic phases: an "As-Is" documentation of those processes and the development of a "To-Be" process model that will then be implemented in accordance with Interior's strategic plan for trust reform.

**1. Phase I – The "As-Is" Process**

Although significant efforts have been made by Interior in the past to accomplish trust reform, these efforts have not been sufficiently designed and integrated to produce all of the material and long-term improvement in performance. To remedy this problem, Interior is pursuing a thoughtful, thorough, time-effective evaluation of its trust management systems known as the "As-Is" process. Rather than yield to the impulse to offer quick fixes, Interior, after considering other approaches, chose to continue the rigorous process chosen a year ago.

A year ago, a review was conducted regarding the results produced by the implementation of the High Level Implementation Plan (HLIP). Interior concluded, and Electronic Data Systems (EDS) concurred, that implementation of the HLIP had not produced satisfactory results.

Subsequently, Interior concurred with one of the key recommendations in EDS' January 2002 Trust Reform Report, which was to develop a business model for trust operations. To develop a business model for trust operations EDS recommended that Interior first

develop an accurate, current state model to include business processes, internal controls, and associated information technology. As Interior has previously reported to the Court, it is currently undertaking an intensive and thorough effort to document the “As-Is” business processes currently employed in managing the Indian trust.

By documenting the “As Is” business processes, Interior expects to achieve the following benefits:

- Establishing a comprehensive understanding of current trust business operations.
- Identifying needs and opportunities for improvement.
- Understanding variances among geographic regions, and their causes.

With the delivery (on or about December 20, 2002) of the draft “As-Is” analysis, it is abundantly clear that expedient measures to effect trust reform are not available. Due to the complexity and interrelationships of Interior’s trust management systems, a rigorous process of evaluating and redesigning its trust management processes is needed.

The draft “As-Is” analysis represents the compilation and analysis of information received from 10 work sessions with the 12 BIA regions, a session with the compact and contract Tribes, and a session with the OST/OTFM. Through these sessions, more than 650 subject matter experts from Land Title Record Offices (LTRO), Tribes, BIA Agencies, BLM, MMS, the Office of Hearings and Appeals (OHA) and OST/OTFM were consulted.

On average, the sessions were one-week long and involved five to twenty-five subject matter experts for each process area. As a result of these work sessions, the “As-Is” team documented variances, identified the genesis of the variances, clarified sub-processes, and documented additional details for the baseline model. Additional information obtained during interviews and work sessions related to:

- Fiduciary and legal obligations and controls specific to the location;
- Systems used to support the business processes;
- Performance measures and metrics;
- Opportunities for improvement; and
- Issues, comments, and recommendations related to each of the processes.

The challenges posed by BIA’s decentralized hierarchy have been captured in a location-by-location documentation of variances from standard practices. This will allow an understanding of the extent and causes of varying practices, and establish whether there is a specific requirement for each, or if it has evolved over time or at local discretion.

Through this detailed evaluation process, Interior has identified current issues and opportunities for change that may provide the foundation for lasting trust reform. It is for this reason that the process modeling is so deep, so detailed, and involves such a wide spectrum of participants.

The “As Is” part of the business process evaluation will be completed after the results have been returned to the local regions and agencies for comments to determine whether

the information in the draft report is an accurate representation of the current state. The next step of the review will be to inform stakeholders of the “As-Is” analysis and its findings, and to seek advice on its recommendations.

## **2. Phase II – “To-Be” Process**

After completing the “As-Is” phase, review, detailed recommendations will be developed for adjusting business processes, where appropriate. This phase is known as the initial “To-Be” business process initial phase. The development of the initial “To-Be” model will take into consideration those recommendations and lessons learned from the “As-Is” process. After examining the existing business processes, Interior will compare these processes to the initial “To Be” model processes to determine how existing processes can be improved. In particular, if existing business processes vary from region to region, efforts will be made to standardize the processes to the initial “To Be” model. If instances arise where standardization cannot be done as a result of different statutes, regulations, or tribal codes, these differences will be noted and incorporated into the final “To Be” model, as an appropriate variance from the standardized process. In addition, the “As-Is” and “To-Be” model processes will be compared to standard industry practices. Finally, Interior will integrate the final “To-Be” model processes with universal support and operational functions, and these reengineered business processes will be documented with appropriate policies, procedures, guidelines and handbooks.

## **3. Strategic Plan**

In addition to the development of sound trust business processes, to successfully reengineer, Interior must have an overall strategic plan to guide the design and implementation of the trust business processes. Interior is in the process of developing a

strategic plan<sup>3</sup>, which will define and describe the vision, goals, and objectives of trust reform and operating the trust program.

This strategic planning effort began in January 2002 under the leadership of the Office of Indian Trust Transition (OITT) and has expanded through the efforts of a department-wide strategic planning team, including representatives from OST, BIA, MMS, and BLM. The Joint Interior/Tribal Leader Task Force on Trust Reform (Task Force) participated in this process through its planning subcommittee, and the subcommittee recommended that Interior's proposed goals and objectives (with minor changes) be adopted. Interior has also retained a management-consulting firm, Logistics Management Institute, to assist in preparing the strategic plan.

The goals at the heart of the strategic plan will cover: (1) beneficiary services; (2) ownership information; (3) land and natural resources assets; (4) trust fund assets; (5) Indian self-governance and self-determination; and (6) administrative services. The objectives set forth in the strategic plan will define the broad ways in which these goals will be achieved. The strategic plan will also consider the trends that influence trust management, the role of relevant stakeholders, and the interaction of Interior agencies. Through examination of the "big picture" of trust management, Interior seeks to create a coordinated and integrated system in which all pieces function as a coherent whole.

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<sup>3</sup> This plan has been previously been referred to as the Indian Trust Business Plan. See, e.g., Eleventh Report, Nov. 1, 2002, at 37-38. More recently it is referred to as the Comprehensive Trust Management Plan.

Since Interior's submission of the Eleventh Report, work on the strategic plan has continued, and Interior expects that this plan will be completed by the end of the second quarter of CY2003. Once completed, it will be regularly evaluated and updated to ensure its responsiveness to the ongoing needs of Interior's trust operations. It will be a dynamic strategic plan that can and will be adapted to changing environments.

As previously mentioned, the primary elements of Interior's ongoing trust reform planning and implementation efforts are: 1) the reorganization of Interior trust offices to improve delivery of services, effectiveness and accountability of trust operations, and 2) the reengineering of Interior's business processes and applying the universal support functions to ensure that Interior meets its trust goals and objectives. Through this ongoing comprehensive effort at trust reform Interior expects to achieve the results that Congress, Indian beneficiaries and the Court are expecting. The elements of the ongoing effort have been the subject of consultation with the Task Force and others in the Indian community. The effort also has been guided by independent outside trust experts, and, for the first time, will result in an integrated beneficiary-focused Plan for delivery of trust services.

In its September 17, 2002 opinion, the Court reaffirmed its December 1999 conclusion that it would not be appropriate for the Court to specify "the accounting method for the agency to employ" in conducting the historical accounting.<sup>4</sup> Just as the Court and the Court of Appeals<sup>5</sup> have not prescribed a specific method of accounting that Interior should use, so, too, the Court should allow Interior to pursue its comprehensive trust reform effort, as previously described to the Court.

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<sup>4</sup> 226 F.Supp 2d 1, 116 n. 136 (DDC 2002)

<sup>5</sup> Cobell v. Norton, 240 F3d 1081, 1103 (D.C. Cir. 2001).

Interior's reform effort as designed will enable Interior to take into account such things as the dynamic tension that exists between the United States government's commitment to Indian self-governance and self-determination and the need for standardizing trust business practices and services as well as recognize the differences in the Indian trust and a private sector trust. The trust that Interior is responsible for includes land, Indian homes that sit on that land, ancestral property, sacred sites and other unique assets. It is a trust of both Indian tribal lands and the lands of individual Indians often with strong cultural and emotional ties. For this reason, Interior, as trustee, is mindful of the importance of recognizing the unique circumstances of all beneficiaries in the management of this trust. The trust that Interior manages is not the typical corpus managed by a private sector trustee where fees are charged as part of normal business practices for the services delivered. Moreover, the Court recognized that "the federal government's fiduciary obligations may not be coextensive with those of an ordinary trustee."<sup>6</sup>

The Federal Government bears the entire cost of administering the Indian trust. As a result usual incentives found in the private sector for reducing or paying for the management of the trust do not apply to the Indian trust. For instance, thousands of accounts must be maintained for IIM account holders that contain less than one dollar.

In order to meet its trust goals and obligations, Interior continues to request significant budget resources. However, to meet the expectations of both Interior and its beneficiaries, Congress must appropriate these funds. The President's proposed FY2003 budget and the budgets passed by the House and reported out by the Senate

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<sup>6</sup> 226 F.Supp. 2d 1, 151, n. 161 (DDC 2002).



Appropriations Committee endorsed significant increases in trust management. While details of the FY2004 budget are not available until the President's budget is released in February 2003, Interior is confident that even more resources will be provided for trust services.

Traditionally, Indian people have had their closest relationships with the BIA at the local level. It is at that level that the beneficiaries have found that their special needs and practices have best been taken into consideration. As a result, the BIA has developed many different processes for managing the Indian trust. Meaningful trust reform will require examining how to standardize practices while keeping in mind that our beneficiaries often have vastly different needs. In addition, the lands that make up the corpus of this trust are under the jurisdiction of more than 500 different Indian Tribes, each of which is a sovereign government subject not only to Federal law and treaties, but also to its own internal laws and customs, and often, its own statutes and regulations. This tension is part of what makes trust reform difficult but also essential. Interior recognizes that the beneficiaries must have confidence in trust management as they move towards more self-determination and self-governance.

### III. STANDARDS

In accordance with the Court's order, Interior has examined the standards applicable to administration of the IIM accounts.<sup>7</sup> The primary standard that Interior must meet in regard to accounting is set by the 1994 Act. As enunciated by this Court, it is "to provide

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<sup>7</sup> This Plan is intended to comply with the Court's order. It is not intended to, and does not, create any legal right or benefit, substantive or procedural, enforceable by a party against the United States, its agencies, or instrumentalities, its officers or employees, or any other person.

an accurate accounting of all money held in trust for the benefit” of Indians.<sup>8</sup> Other standards that Interior must meet in fulfilling its trust fund accounting obligations, as enumerated in the 1994 Act,<sup>9</sup> are as follows:

- provide adequate systems for accounting for and reporting trust fund balances;
- provide adequate controls over receipts and disbursements;
- provide periodic, timely reconciliations to assure the accuracy of accounts;
- determine accurate cash balances;
- prepare and supply account holders with periodic statements of their account performance and with balances of their account which shall be available on a daily basis;
- establish consistent, written policies and procedures for trust fund management and accounting;
- provide adequate staffing, supervision, and training for trust fund management and accounting;
- account for the daily and annual balance of all funds held in trust for the benefit of individual Indians;
- provide a periodic statement of performance at the end of each calendar quarter to each IIM account holder that identifies: a) the source, type and status of the funds; b) the beginning balance; c) the gains and losses; d) the receipts and disbursements; and e) the ending balance; and
- perform an annual audit of all funds held in trust by the United States for the benefit of individual Indians.

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<sup>8</sup> 226 F. Supp. 2d at 17.

<sup>9</sup> 25 U.S.C. § 162a(d)(1)-(7); 25 U.S.C. § 4011.

Thus, the 1994 Act requires that certain systems or programs be implemented to achieve the 1994 Act's standards for beneficiary service. It uses terms such as "adequate" and "timely," but the Act generally does not specify the manner in which Interior must structure or operate its accounting programs. Instead, Interior must exercise its best judgment in determining which of myriad ways to operate an accounting program most effectively the statutory obligations.

Interior looks to a number of sources as guidance to inform its judgment and assess its performance in meeting the 1994 Act's requirements: applicable federal statutes, Interior regulations, the Departmental Manual, Office of Management and Budget (OMB) circulars, Department of Treasury guidelines, generally accepted accounting and auditing standards, its employees' and consultants' experience and expertise, as well as other sources of relevant fiduciary practices.

Where there are statutes or regulations governing particular aspects of certain programs, these are discussed in connection with those programs. For the most part, the documents listed in this Plan as sources of guidance describe best practices or establish specific procedures for certain functions, but not judicially enforceable standards.

With this background in mind, throughout this Plan, Interior has identified the various sources upon which it relies for guidance. It has also provided information about performance targets, principles and goals that guide Interior's managers in reforming, implementing and evaluating their accounting programs. Through this Plan's

description of the many sources that influence trust accounting operations, Interior hopes to inform the Court about the manner in which it will take action to fulfill its responsibilities.

#### **IV. CURRENT OWNERSHIP, FUND COLLECTION, DEPOSIT AND TRANSFER**

##### **A. INTRODUCTION**

As set forth in the Introduction, to comply with Sections 4011(a) and 4011(b), Interior has determined that it must accomplish three tasks: (1) Historical Accounting; (2) Current Ownership, Fund Collection, Deposit and Transfer; and (3) Current Accounting – Trust Fund Accounting System (TFAS). This section discusses our plan with respect to the section – Current Ownership, Fund Collection, Deposit and Transfer.

As stated earlier, the Historical Accounting Plan addresses IIM account balances up to December 31, 2000. Current activities are those occurring January 1, 2001 to present.

The following discussion focuses upon land title, ownership, leasing, and the associated activities of funds collections, deposits and transfer to OST's OTFM.

OST's trust funds management activities, from the point that they are received from BIA and MMS, are discussed in the next section of this document.

**B. THE CURRENT OWNERSHIP COLLECTION, DEPOSIT AND  
TRANSFER PROCESS**

**1. IIM ACCOUNTS**

An IIM account is normally opened to receive and maintain trust finds. Trust funds may become available because of an inheritance, or funds may come to an individual from various sources, such as judgment awards, land leases or sales, rights of way payments, or Tribal Trust fund per capita disbursements.

As discussed extensively in the Historical Accounting Plan, there are three distinct types of accounts that involve individual Indian Trust funds: judgment and per capita, land based and special deposit. Judgment and per capita accounts typically receive a payment reflecting a distribution of a judgment award or of tribal trust funds to tribal members. Land-based accounts are typically associated with beneficiaries who receive income from allotted lands. Special deposit accounts are holding accounts maintained until funds are properly distributed to the appropriate individual or entity.

OTFM updates an IIM account when it receives notice of address, name, or marital status changes or when any type of error is discovered and documented. These updates may reflect status changes (e.g., restricted, unrestricted) for a variety of reasons. Restrictions may be voluntary or involuntary.

Currently, an IIM account may be coded as closed when it no longer receives recurring income, when a minor reaches the age of majority with no potential recurring income, when an estate is probated, assets are no longer owned, or when an unnecessary duplicate account is identified. IIM accounts are eligible to be coded as closed after a 24-month time lapse with a zero balance and no activity.

## **2. MAINTAINING OWNERSHIP INFORMATION**

The Land Titles and Records Offices (LTRO), pursuant to 25 C.F.R. §150.4, and other BIA offices having title service responsibilities, are designated as the Federal offices of record for Indian land records and title documents. LTRO managers are responsible for: processing input into the Land Record Information System (LRIS); recordation, custody, and maintenance of records except eastern Oklahoma that affect titles to trust and restricted Indian land and government-owned land under the jurisdiction of BIA; examination of titles to trust and restricted Indian land and the preparation of title status reports; certification of title documents; and preparation of land status maps.

## **3. LEASING ACTIVITY**

BIA agency and regional offices prepare and manage land leases, permits, and contracts for the sale or lease of trust lands. Leases and permits convey rights to a lessee or permittee to conduct a variety of activities in exchange for payments. Examples of such rights include but are not limited to agriculture, grazing, timber harvesting, oil and gas production, development of hard-rock minerals, and rights-of-way, etc.

BIA enters many (but not all) leases into the lease module contained in the Integrated Records Management System (IRMS) or other automated and manual systems within BIA. This information is used in conjunction with the ownership data to facilitate distribution to beneficiaries.

#### **4. COLLECTING AND DEPOSITING LEASE OR PERMITS PAYMENTS**

BIA agency and regional offices prepare and manage contracts for land leases, permits or land sales. They may or may not send bills for payments due, and few offices have any type of automated accounts receivable system. Payments are generally received at BIA agency and regional offices.

Payment checks are logged by the mail clerk and delivered to the certified collection officer, which is usually a collateral duty assigned to a staff member. Notices of payment are given to the appropriate program office (such as realty, forestry, etc.). The program office should match each notice with the appropriate lease or permit. Some agencies maintain beneficiary distribution information in the ownership module of IRMS, which interfaces with the TFAS. Others prepare the information manually. The certified collection officer prepares a schedule of collections and forwards the schedule and monies for ultimate deposit to a federal depository.



Certified collection officers may be located at the Agency or Regional Office, depending on the region. The collector verifies accuracy of the deposit information related to the checks and deposits the funds at a federal depository.

Funds are posted to beneficiaries' accounts through one of the following means:

- a) Interface files for posting to TFAS;
- b) The OTFM field staff enters information into an electronic work ticket system for eventual posting to TFAS; and
- c) The OTFM field staff creates manual work tickets and faxes to OTFM in Albuquerque for posting to TFAS.

OTFM reviews proposed transactions for appropriateness of documentation, and if adequate, approves for posting to TFAS. If a transaction is not approved, OTFM notifies the originating office of the errors to be corrected (e.g., dollar amount, account number, date). The originating office makes corrections and faxes documentation to OTFM with the corrections initialed as having been made.

OTFM performs a verification of accuracy on transactions posted through OTFM and for interfacing systems. The originating office verifies that funds were posted to appropriate accounts. If OTFM or the originating office finds an error in TFAS, the appropriate

OTFM issues group addresses remediation. OTFM makes the correction, and the originating office verifies that the error was corrected.

If funds do not post, the specific transactions are listed on the Daily Cash Reconciliation (DCR) report. The DCR also lists checks that did not clear with the Treasury. These exceptions are referred to the appropriate office.

#### **5. COLLECTING, ACCOUNTING AND DEPOSITING OIL, GAS AND OTHER MINERAL LEASE PAYMENTS**

MMS manages the collection and accounting of royalties and rentals received from producing Indian mineral leases. MMS does not maintain information on individual Indian mineral beneficiaries.

The Payor submits payment and a royalty report for Indian leases to MMS. Royalty payments are generally due on the last day of the month for the previous month's production. Funds are received in the following manner:

- a) Check via mail or courier;
- b) Electronic Funds Transfer to Federal Reserve Bank; and
- c) Lockbox arrangement.

Over 98% of all funds are received through electronic funds transfers directly to the MMS Treasury account. However, when a check is received by MMS, it is deposited with other MMS receipts in a federal depository for credit to MMS's Treasury account. On a daily basis a listing of all Indian payments deposited to Treasury the previous day is faxed to OTFM. The listing includes a distribution code which identifies receipts by specific Tribe or allotted leases. OTFM then posts the funds to either a specific Tribe or a holding account in the case of allotted lands. Once identified, the funds are transferred from the MMS Treasury account to OST's Treasury account and OTFM is notified via a standard form (SF) 1081.

MMS processes the royalty report (containing lease and royalty information) and runs it against system edits to check for among other things: mathematical errors; valid lease and agreement numbers; royalty rates; and sales month and year. Upon completion of system edits, royalty information is allowed to establish an accounts receivable. The MMS system matches receivables with payments. MMS staff provides support as needed.

Once this payment matching process has occurred, the MMS creates the Indian Distribution File (with leases and amounts as well as fund codes) that is hand-carried on CD to Interior's National Business Center in Denver. BIA logs onto the National Business Center computer and initiates the process. The file is then transferred to the BIA Office of Information Resource Management (OIRM) in Reston, Virginia for

completion of the Royalty Distribution and Reporting System (RDRS – a module of IRMS) process.

The BIA agencies or regional offices reconcile the Indian Distribution File from MMS with the RDRS generated information. OIRM coordinates the processing and transfer of the distribution interface from BIA to TFAS beneficiary accounts.

Additionally, MMS receives and processes production reports for Indian mineral leases. Production reports are sent to the BLM which verifies the production report to MMS by the operator. Inconsistencies are reported to MMS, which then researches and makes the appropriate correction.

### **C. PERFORMANCE TARGETS**

Interior's key goals regarding funds collection, deposit and transfer, are accomplished when Interior is able to:

- Provide timely and accurate data regarding the ownership of individual Indian allotments and associated lease and sale proceeds.
- Provide timely information regarding the source, type and status of funds.

- Provide adequate controls over the receipt (collection, deposit and transfer to TFAS) of funds.

#### **D. GUIDANCE REGARDING PERFORMANCE**

The 1994 Trust Reform Act does not specifically address fund collection, deposit or transfer processes. To meet some of the Act's specific accounting obligations, however, it is essential that the collection, deposit and transfer systems work properly. Other Federal Government guidance on these subjects include:

- **Title Standards 2001, Department of Justice**

The Title Standards serve as a guide for the preparation of evidence of title for all acquisitions by the United States of land or interests in land, including acquisitions by direct purchase, exchange, donation, and condemnation. Title or ownership of land or interests in land is determined by an examination of documents in the public land records, by a physical inspection of the property and by a review of other supplemental or supporting documents.

- **Land Titles and Records Guidelines, 54 BIA Manual Supplement 9**

Provides guidance regarding policies, procedures, and standards to the Land Titles and Records Office managers, and other program managers who have direct supervision over the land titles and records function.

- **BIA Regulations, 25 C.F.R. § 115.702 – 708**

These regulations provide specific guidance regarding acceptable IIM account deposits.

- **Department of Treasury Guidelines**

- Checks and Cash Received in Collections, Treasury Financial Manual, Part 5 Chapter 2000
- Deposit Tickets, Treasury Financial Manual Part 5 Chapter 3000
- Making Deposits, Treasury Financial Manual Part 5 Chapter 4000

These documents provide Treasury guidance regarding cash collections and deposits.

## **E. STATUS OF OPERATIONAL PERFORMANCE (“AS-IS”)**

### **1. GENERAL ASSESSMENT**

Interior can comply substantially with all of the requirements, on an individual, case-by-case basis. Land title documentation is maintained, ownership interests are determined, leasing activity is conducted, and leasing and sales receipts are collected, deposited and transferred to TFAS.

However, Interior is not satisfied with the overall performance of the trust management program. Trustees are expected to perform trust functions accurately and timely and questions have been raised about the performance of this Indian trust.

An evaluation of the complexity and limitations of current trust management systems, both automated and manual, suggests that Interior cannot timely provide for the entire trust:

- data regarding allotment ownership to individual Indian beneficiaries on a routine basis.
- source, type and status information linked to every cash receipt.
- an independent audit evaluation of its cash receipt process.
- timely and complete information regarding the gains and losses associated with the sale of allotment assets.

Several initiatives have been recommended to improve performance in this area. Interior plans to review those recommendations as a part of its “To-Be” trust management systems reengineering process.

## 2. RELEVANT ACCOUNTING OBSERVATIONS OF THE “AS-IS” EVALUATION TEAM

Information gathered through the “As-Is” process has been utilized in preparing this section, although the report itself has not been completed. This section of this document will only focus upon the “As-Is” observations on the ownership, funds collection, deposit and transfer functions associated with accounting management analysis.

A significant part of the draft “As-Is” document describes, in detail, the standard and non-standard trust processes. The term “standard”, as used in the draft “As-Is” document, refers to common practice in the field (i.e., how a process operates most of the time is not necessarily how it is supposed to operate). Regional variations to the standard processes are presented in variance tables; these variances are considered “non-standard” trust processes.

Variances exist for a variety of reasons. They may be due to federal, state, or local laws, treaties, court rulings, local practices, or other reasons. These variances indicate how various tasks may be done differently, but it is not synonymous with the function being done incorrectly. Additional analysis is required to identify best practices from among the various approaches being employed. Where possible, effort will be needed to standardize the process to attain greater efficiency in work product management.



The “As-Is” trust document is complex and complicated. The eight business processes have significant inter-relationships and require a substantial amount of coordination. The processes also flow across organizational boundaries, which adds more complexity and possible conflict that can slow down the delivery of services to the beneficiaries.

Based upon the discussions with Interior staff and a review of the key observations from EDS (which are pending Interior review), relevant comments regarding the status of funds collection, deposit and transfer activities include the following:

**a) SYSTEM INTERFACES**

Depending on the systems being used, BIA performs quality assurance routines prior to creation of the distribution interface file. For example, this includes:

- Confirming distribution ownership to the ownership in the title system;
- Preparing and reviewing pre-distribution reports; and
- Checking physical records.

If a distribution file contains a beneficiary account that is not available on TFAS, the transaction is posted to a TFAS reject account. Each day, OTFM notifies the originating office of a rejected account. The originating office is then responsible for ensuring that documentation is provided to move the transaction from the reject account to the proper beneficiary’s account.

Accuracy of royalty payments received from the lessee is verified by MMS through its compliance program. This activity verifies that payments are made in accordance with applicable Indian lease terms, laws and regulations, as well as policy guidance. The MMS performs a combination of automated verification routines and traditional field audits. MMS through its audits will verify that the volume, value and royalty are reported accurately by industry. The compliance activities occur after payments are received. If the audits or automated verification routines result in findings, the payor will receive an order to pay the additional royalty and associated interest due. Once the payment is received, the full amount is distributed to the lease interest owner.

The MMS financial system was audited by an independent auditor and for its FY2001 audit received an unqualified (i.e., clean) opinion.

#### **b) INDIAN TRUST SYSTEMS**

Interior operates systems that record beneficiary information, title information, ownership and real property information and accounting information. There are multiple systems. Some beneficiary information is contained in all of the systems.

In the current Interior environment, there are four main types of data being captured: beneficiary, title, realty and accounting. The same data elements are being entered into a number of different automated and manual systems without reconciliation being

performed among these various systems. There is not a standardized format for capturing data across the systems or across the geographical regions. As a result, there are instances where important information in such systems as the Land Record Information System (LRIS), IRMS, Trust Asset and Accounting Management System (TAAMS) and TFAS is not in agreement.

This lack of a unified source of information makes it difficult to produce a comprehensive beneficiary statement of performance. In some cases, it has proven either cumbersome or difficult to find all of the information necessary to satisfy a beneficiary query or operational need in a timely way. The lack of intra and inter-Bureau consistency diminishes the effectiveness of the organizations that must use, share or update common information.

Currently, BIA has no standard accounts receivable system. Some BIA offices use local accounts receivable systems, but other offices have no automated capability to track effective dates and termination dates of leases or permits, send invoices for payments due, project the amount of money coming in, or monitor payment compliance.

In addition, Interior has recently moved to investigate other, broadly-based IT systems that might be adapted for use in the trust management systems. Problems with the quality of the data in title and realty within the Indian trust are caused by a lack of national data standards and quality control and a lack of integrated trust systems. These inconsistencies can have a direct impact on the ability of Interior to administer its

fiduciary responsibilities. Interior has recognized these problems and has expanded the Data Quality and Integrity initiative. This project will improve the quality and integrity of the data in the systems. A by-product of this initiative may be an improved ability of the BIA, OTFM, BLM, MMS and other agencies to access and share consistent information.

The Data Quality Integrity effort underway will address some the problems of errors and inconsistencies within the IIM accounts. Under it, Interior is planning to develop a centralized data warehouse that will store “cleansed” data, have the ability to link with multiple systems, and sustain a single, approved set of critical data elements. This will directly address the problem of different trust units not using the same data ownership, realty and payment data.

#### **c) TITLE MAINTENANCE**

Generally, title to trust land is maintained by the BIA and a few tribes. However in Oklahoma, some owners’ title is maintained by the state. These organizations have separate requirements, procedures and infrastructures for maintaining title. This makes it difficult to coordinate Trust-related title information and causes inconsistency.

While there are procedures in place to ensure that LTRO updates are performed, they are not routinely followed. The backlog of data entry is creating inconsistencies between the

information in the LTRO and agency/tribal ownership records. There is no automated reconciliation to ensure LTRO and agency/tribal records are consistent once changes have been applied in the various systems.

Recordation policies are not consistently applied for each transaction with regard to document setup and recordation. Some agencies do not submit all short-term leases, leases for nominal payment, or permits to the local servicing LTRO for recording. Lease renewals, expirations and cancellations are not always recorded.

LTRO managers met in October, 2002 to begin evaluating and standardizing recordation policies and information support. This meeting included both BIA and Tribal Land Titles and Records Office managers. LTRO standardization activities are ongoing.

The agency and tribal network infrastructure is limited; agencies rely primarily on standard, low-speed dial-up connections to access Interior resources. This infrastructure will not support the volume of information required to share title documentation with all affected organizations.

**d) TITLE MAINTENANCE BACKLOG**

Interior maintains a record of trust assets, ownership and utilization. However, the recording and encoding backlogs prevent LTRO, agencies and tribes from sharing information in a timely manner, thereby making it difficult to maintain current and accurate title records.

The TAAMS title software module is currently in use by four BIA Regions. Plans are underway to upgrade and implement this title system across the remaining LTROs. TAAMS has increased functionality and improved efficiency of both data entry and retrieval.

**e) SURFACE LAND-USE PROCESSES**

Ownership information is vital to surface leasing processes. Specifically, issuing 90-day notices, requests for “authority to grant”, and obtaining agricultural lease consent, all provide BIA line officials the necessary input and approval from the landowners of fractionated-ownership tracts to enter into contractual relationships with land operators on behalf of the landowners. Most importantly, the ownership interests are also used to calculate the distribution advice for disbursement of land use revenues.

A variety of situations and reasons drive local BIA land program or realty resources to use different sources of information. The generally agreed-upon legal system of record for ownership interest information is either TAAMS or LRIS. Cycle times from request to receipt of certified Title Status Reports (TSR) are impractical for use in most land

operations processes. Surface operations resources, to support timely completion of these processes, turn to whatever information is available. Where tribal resources perform any of these processes, there are additional access and security limitations for access to the appropriate information, and tribal records are frequently used.

#### f) COLLECTION PROCESS

BIA offices receive most payments for land-related transactions. The appropriate program staff, such as realty, forestry, or range is responsible for preparing posting instructions for the certified collection officer prior to deposit, so the funds can be posted.

As noted in other areas, parcels of land may have hundreds or more than a thousand fractionated interest owners. When a parcel of land is leased, the appropriate BIA program office sets up a file that lists all interest owners with corresponding IIM account numbers and interest percentages for payment distribution. In many cases, this information is encoded in a lease and owner module. These systems create electronic batch updates to TFAS. However, due to the multiple systems of record, all ownership records may not be synchronized.

In regions where a lease distribution interface program is not used, BIA program staff must manually prepare distribution information for the certified collection officer, who deposits checks and submits distribution advice to OTFM for the preparation of paper

work tickets. In these cases, OTFM will reject only transactions that are not supported by proper documentation.

BIA offices routinely record funds that cannot be immediately distributed to the beneficiaries into Special Deposit Accounts (SDAs) so interest can be earned until proper distribution can be made. This practice results in SDAs with large balances. An initiative is underway to clean up these accounts, and the current policy is to use SDAs only as a last resort. However, a few regions continue to use SDAs because all lease payments are due at the same time each year, and they do not have the resources or information to process payments quickly.

Compliance with the policy of depositing funds within 24 hours of receipt is not consistent nationwide. There are a variety of reasons. Agencies located in remote areas often have no choice but to send deposits to the OTFM regional office via regular mail or drive several hours to hand carry them. In addition, an OTFM office may receive too many deposits on one day to process before the bank cut-off time.

## **F. STEPS NECESSARY TO REACH TRUST OPERATION PERFORMANCE ("TO-BE")**

### **1. OVERVIEW**

EDS, and the "As-Is" evaluation team, also conducted a comparison between the structure and workings of commercial trusts and the Indian trust. The document noted



that there are a number of inherent differences between them: the high number of small accounts in the trust, the emphasis toward encouraging tribal self-government and trust function operation, and other factors (several more are discussed in the Observations section below). Further, commercial trusts are primarily governed by the laws and guidelines of the Office of the Comptroller of the Currency (OCC), whereas the Indian trust must deal with a great number of separate federal, state and local laws, as well as tribal laws and treaty obligations. These laws and regulations add a significant level of complexity to Indian trust administration.

In many other respects, there are close parallels between commercial trusts and the Indian trust. The two have the same basic functions and transactional requirements, and have similar fiduciary responsibilities. However, there are many differences in the way they are implemented.

A general finding of the evaluation team is that current Indian trust operations are much more complicated when compared to a commercial trust environment. Indian trust processes operate within silos, with many steps cycling back from one area to another to obtain needed additional information or further action. The EDS analysis clearly demonstrates the very large number of flows, loops and sequences that are now part of the trust activities. This situation has developed in large part as a result of the decentralized procedures and systems, which have evolved piecemeal over time, from organizational fragmentation, and from absence of trust-wide planning. In contrast, commercial trusts (including those with substantial real estate holdings) have a much

smoother transactional flow even though it depends upon many different parties to execute required title and realty activities.

EDS and the “As-Is” evaluation team found Interior staff to be hard working and typically performing as well as they could within the current environment. The team was also able to find several instances where, either at the agency or regional level, very effective practices had been put in place.

In many cases, it appears that the personnel resources available are inadequate to address the current workload. However, because there are other major opportunities to improve the speed and effectiveness of the work being performed, it is difficult to draw overall conclusions about the need for additional personnel.

## **2. OPTIONS FOR IMPROVEMENT**

For the purposes of this submission to the Court, Interior has identified a variety of tasks that could improve the trust management environment. These options, and others to be developed, must be evaluated in the “To-Be” trust systems redesign process and that are relevant to the topic of funds collections, deposit and transfer include:

- Continue upgrade and expansion of TAAMS title module.
- Expand the Indian land consolidation program to reduce fractionation.

- Increase use of the “memo tickler” capability in TFAS to record important information associated with accounts, especially anything an Interior employee may need to be aware of if a beneficiary makes an account maintenance or disbursement request in another region.
- Follow through with enhancements to TFAS that are planned or already underway, such as integrating the source assets information associated with an IIM account.
- Continue the Data Quality Integrity initiative to build a data store that will house all critical components of information and allow appropriate units to access information for informational, reporting, or processing purposes.
- Implement an accounts receivable system with capabilities to track effective dates and termination dates of leases or permits, link to asset and ownership information, send invoices for payments due, accept interface updates of payments received, auto-distribute to beneficiary accounts, project cash flow, and monitor payment compliance.
- Add reporting capabilities to TFAS to automate Treasury and in-house management reports and reconciliations as much as possible.

- Streamline account maintenance and disbursement request forms so they will be easier to understand and complete.
  
- Make forms, requirements, and instructions available to beneficiaries on the Internet. Develop beneficiary instruction cards or brochures explaining procedures and requirements, and make them available in BIA and OTFM offices.
  
- Identify alternatives to notarization, in addition to Interior staff, to certify accounting transaction forms.
  
- Put an OST staff person at each BIA agency office to handle account maintenance and financial transaction requests. Regions that do this reported far fewer problems with transaction processing. It relieves BIA staff of the responsibility of preparing accounting transaction requests and gives it to an accounting technician for whom it is a primary responsibility.
  
- Provide electronic reference/help to BIA and OST staff so there will be one consistent source of requirements, guidelines, and procedures.
  
- Implement document imaging and retrieval capabilities so beneficiary documents and records can be scanned once and made available to appropriate Interior staff nationwide.

- Implement workflow or case management technology combined with the imaging capability to manage the information and processing flow.
  
- Provide additional resources to BIA offices to help clean up ownership records, lease distribution interface files, and special deposit accounts. These efforts are already underway and should be maintained.
  
- Develop and implement consistent internal controls for the collection process.
  
- Automate and centralize the collection, deposit, and posting process. This recommendation is dependent on accurate ownership records, the association of assets with IIM accounts, document imaging, and an automated accounts receivable system. Auditing a centralized process would be much more practical than auditing processes at offices nationwide.
  
- Establish a cost-effective procedure to address small trust fund distributions. Currently many distributions of less than one dollar are made to IIM accounts from probate accounts or lease payments. Many accounts must be opened solely to receive these distributions. As of September 30, 2002, there were more than 20,000 accounts with a balance of less than one dollar. The annual cost to maintain an IIM account on TFAS is between approximately \$35 - \$180 (depending upon transaction volume).

- Continue with BIA/OST Interagency Handbook (see Exhibit 1) training initiative already underway.
- Conduct periodic meetings between BIA and OST at all levels to resolve issues and unclear responsibilities, and identify additional opportunities to improve communications between BIA and OST.

### **3. “TO-BE” PROCESS AND PROJECT MANAGEMENT**

Interior will need to consider the aforementioned initiatives further to determine whether the initiative will achieve the desired result, which are most critical, where monies should be allocated, in what order initiatives should be implemented, and what supporting changes in technology will be required.

Development of the new trust management model will be a challenging and complex undertaking for Interior. It will require significant coordination, collaboration, and communication among many participants, tribal representatives, process areas, subject matter expertise, leaders, and sponsors. Effective project planning and management will be critical to achieve the desired outcomes of this phase. The past organizational issues and decentralized nature of efforts to improve have hindered progress.

The model should not only encompass reengineered and new processes, but also include coordinated improvements in supporting systems, organizations, training, and personnel requirements of the new environment. Attaining the real change needed for planning and

implementing the “To-Be” model will not happen quickly and will require participation and buy-in from many stakeholders.

Interior’s recent experience in seeking buy-in regarding the proposed reorganization of trust functions within Interior, illustrates the shortcomings of unilateral decision-making and lack of communication with affected stakeholders. What appeared to be a straightforward initiative requiring routine communications with Congress and Indian Country, resulted in many consultation meetings around the country, the formation of a Task Force that involved other multiple meetings around the country, consumed thousands of hours of Interior senior management attention, and involved multiple Congressional hearings. The reorganization proposal ultimately took almost one year and support for the initiative is still mixed. Other, more significant changes, to be identified in the reengineering of the trust management program may also require substantial time and resource commitments.

**V. CURRENT ACCOUNTING – TRUST FUNDS ACCOUNTING SYSTEM****A. INTRODUCTION**

The next section describing current accounting obligations covers the accounting for funds from the time funds are recorded into the trust fund accounting system until they are disbursed. The activities engaged in beforehand to collect and deposit the funds have been described in the previous sections. In the same manner as the previous section, this discussion will focus only on current accounting. Issues raised by the historical accounting for funds up to December 31, 2000 is discussed in a separate plan submitted to the Court.

This section describes the accounting activities including investment of funds received, reconciliation of funds within TFAS, communication with beneficiaries, disbursement of funds and auditing of the trust funds. Included is a discussion of the systems used, controls for receipts and disbursements in place and the steps to come into compliance wherever deficiencies in meeting the trust obligations may exist.

**B. TRUST FUNDS ACCOUNTING SYSTEM PROCESS**

Interior's goal is to provide accurate accounting of all funds held in trust for individual Indians. Interior will achieve this goal when it can properly discharge the following statutory obligations, which include both maintaining accurate account balances and reporting information to beneficiaries:



**(1) GENERAL STATUTORY DIRECTIONS****(i) Statutory Direction**

***REQUIREMENT TO ACCOUNT*** – *The Secretary shall account for the daily and annual balance of all funds held in trust by the United States for the benefit of an Indian tribe or an individual Indian which are deposited or invested pursuant to the Act of June 24, 1938 (25 U.S.C. § 162a.*

*25 U.S.C. § 4011 (a)*

*The Secretary's proper discharge of the trust responsibilities of the United States shall include (but are not limited to) the following:*

*Determine accurate cash balances.*

*25 U.S.C. § 162a (d) (4)*

*Preparing and supplying account holders with periodic statements of their account performance and with balances of their account which shall be available on a daily basis.*

*25 U.S.C. § 162a(d)(5)*

***PERIODIC STATEMENT OF PERFORMANCE*** – *Not later than 20 business days after the close of a calendar quarter, the Secretary shall provide a statement of performance to each Indian tribe and individual with respect to whom funds are deposited or invested pursuant to the Act of June 24, 1938 (25 U.S.C. § 162a). The statement, for the period concerned, shall identify –*

- (1) the source, type, and status of the funds;*
- (2) the beginning balance;*
- (3) the gains and losses;*
- (4) receipts and disbursements; and*
- (5) the ending balance.*

*25 U.S.C. § 4011 (b)*

Interior complies with most of its statutory obligations as they apply from receipt through disbursement in TFAS. For funds recorded in TFAS, Interior has contracted for an adequate system to account for daily and annual balances and to provide account holders

upon their request with information concerning their account(s). Using this system, OST prepares quarterly statements on accounts in TFAS and mails the statements to account holders with known addresses to include beginning balances, type of income, receipts and disbursements and ending balance.

Interior's performance as described in this section should be considered in combination with its performance as described in the other parts of this plan and the Historical Accounting Plan. This section of the plan addresses only trust funds recorded in the TFAS.

For funds recorded in TFAS, Interior will meet its general statutory directions that enable the accounting and reporting directions above when Interior carries out the following statutory requirements:

- Providing adequate systems for accounting for and reporting trust fund balances.  
25 U.S.C. § 162a (d) (1)
- Providing adequate controls over receipts and disbursements.  
25 U.S.C. § 162a (d) (2)
- Providing periodic, timely reconciliations to assure the accuracy of accounts.  
25 U.S.C. § 162a (d) (3)
- Annual Audit – The Secretary shall cause to be conducted an annual audit on a fiscal year basis of all funds held in trust by the United States for the benefit of an Indian tribe or an individual Indian which are deposited or invested pursuant to the Act of June 24, 1938 (25 U.S.C. § 162a), and shall include a letter relating to the audit in the first statement of performance provided under subsection (b) of

this section after the completion of the audit.

25 U.S.C. § 4011(c)

The status of Interior's compliance with each of these four statutory trust obligations – Systems, Controls, Reconciliations, Audit – are discussed in detail below.

**(2) SYSTEMS****(i) Statutory Direction**

*The Secretary's proper discharge of the trust responsibilities of the United States shall include (but are not limited to) the following:*

*Provid[e] adequate systems for accounting for and reporting trust fund balances. 25 U.S.C. § 162a (d)(1)*

**(ii) Guidance Regarding Performance**

Interior assesses its performance of this statutory obligation by reference to the pertinent sections of the following guidelines:

- **American Institute of Certified Public Accountants, Financial Accounting Standards Board, Statement on Auditing Standards (SAS) No. 70.**

SAS 70 is the authoritative guidance that allows service organizations to disclose their control activities and processes to their customers and their customers' auditors in a uniform reporting format. A SAS 70 examination signifies that a service organization has had its control objectives and control activities examined by an independent accounting and auditing firm.

- **Departmental Manual, "Principles for Managing Indian Trust Assets," 303 DM 2.**

These principles require a verifiable system of records that identify "...deposits, transfers, disbursements, third-party obligations, amount of earnings, investment instruments, and closing of all trust fund accounts..."

**(iii) Status of Performance**

In March 1998, Interior signed a contract with SEI Investments, Inc., to provide a trust funds accounting system. The system Interior contracted for, known as the Trust 3000 system, is used by seven of the ten largest trust banks in the United States. In Interior, SEI's Trust 3000 product is known as the Trust Funds Accounting System (TFAS). OST began converting IIM accounts and respective balances to TFAS in August 1998. Simultaneously, OST centralized its financial data entry and verification. OST finalized conversion to TFAS for all regions on April 1, 2000.

The conversion to TFAS provided, among other things, the following functions, previously unavailable. These included capabilities now being used to:

- Maintain one unified system;
- Schedule disbursements for beneficiaries including direct deposits to financial institutions;
- Utilize master name and address data for holders of multiple accounts to ensure accuracy of data and prohibit duplicate account numbers;
- Automate reconciliations;
- Automate audit trails on cash transactions and account file maintenance;
- Provide password protection to delineate access levels and authorizes change controls;
- Afford additional information on receipt and disbursement transactions;

- Schedule multiple beneficiary statements at appropriate intervals to include:
  - beginning balance for the reporting interval (that is the same as the ending balance for the previous reporting interval),
  - type (i.e., category of income, e.g., leasing, timber sales, interest),
  - receipts and disbursements, and
  - ending balance.

SEI Investments, Inc. has a well-established user group to which Interior belongs. This group recommends improvements to Trust 3000 on a regular basis in order to keep abreast of industry standards and requirements. SEI Trust 3000 links with other financial systems for notification of prepayment and valuations of financial investments, and itself creates notification of upcoming maturities and interest payments.

**(iv) Steps Necessary to Reach Performance Targets**

For funds recorded in TFAS, Interior meets the obligation for an adequate system for accounting and reporting trust fund balances. Using the information recorded in TFAS, Interior can provide account holders with transaction activity and balance information on a daily and annual basis.

The following steps will enable Interior to meet the reporting requirement obligation as it applies to TFAS:

- Add status of funds (whether invested) to statements 2Q CY2003
- Add gains and losses explanation to statements 2Q CY2003