

GAO

Testimony

Before the Committee on Indian Affairs
U.S. Senate

For Release on Delivery
Expected at
9:30 a.m.
Wednesday,
July 30, 1997

FINANCIAL MANAGEMENT

Indian Trust Fund Strategic Plan

Statement of Linda M. Calbom
Director, Civil Audits
Accounting and Information Management Division



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

Thank you for the opportunity to testify on the results of our analysis of the Special Trustee for American Indians' Strategic Plan for Indian trust fund accounting and asset management improvement. As you requested, our testimony (1) describes the trust asset management problems that the Strategic Plan proposes to resolve, (2) provides a high-level summary of the Strategic Plan, (3) explains the basis for the cost estimates included in the Plan, and (4) identifies implementation issues, including key issues that the Congress would need to consider in deciding whether to approve the initiatives described in the Plan.

In summary, management of the Indian trust funds and assets has long been characterized by inadequate accounting and information management systems, untrained and inexperienced staff, backlogs in appraisals and ownership determination and recordkeeping, lack of a master lease file and an accounts receivable system, inadequate written policies and procedures, and poor internal controls. Because of these overall weaknesses, account holders do not have assurance that their account balances are accurate and that their assets are being prudently managed.

To address the Department of the Interior's long-standing Indian trust fund accounting and asset management problems, the Congress passed the American Indian Trust Fund Management Reform Act of 1994, which created the Office of the Special Trustee for American Indians. The act required that the Special Trustee provide oversight of reforms within Interior, including development of policies, procedures, and systems. The act also required the Special Trustee to develop a comprehensive Strategic Plan to cover all phases of the trust fund business cycle—land and lease ownership determinations and recordkeeping, natural resource asset management, and trust fund management, including accounting and investment. In April 1997, the Special Trustee submitted his Strategic Plan to the Congress.

The Strategic Plan proposes a new organization, independent of the Department of the Interior, to administer trust fund accounting and asset programs. It also proposes adding new functions, such as an Indian archives center, and acquiring new accounting, land record, and lease management systems. The Plan would give the new organization authority for the management and oversight of certain other Indian asset management programs, such as natural resource and realty management

functions, that would remain with Interior as well as programs administered by Self-Governance¹ and Self-Determination² tribes who have agreements with the government to administer certain programs. These proposals are estimated to cost \$168 million for fiscal years 1997 through 1999 and another \$61 million and \$56 million for fiscal years 2000 and 2001, respectively. The cost estimates included in the Strategic Plan are based on the costs of similar functions performed by private sector trust companies, vendor estimates, actual costs of functions currently performed by some Interior agencies, and assumptions about the workload, staffing, and number of locations to be serviced.

In addition, the Plan proposes establishing an Indian economic development bank to be capitalized by the federal government. The Plan proposes that capital of \$500 million be authorized for the Bank and that authority be provided for up to \$5 billion in additional funding, including \$3 billion from Treasury borrowing authority and \$2 billion from the sale of notes and bonds.

A number of areas require further clarification, planning, or consideration before the Plan can move forward. These include

- implementation timing of certain initiatives, such as records cleanup and the acquisition of a new Individual Indian Money (IIM) accounting system component;
- proposals, such as establishing a centralized organization and upgrading and acquiring systems, that need more planning before they can be successfully implemented;
- issues relating to the desirability and feasibility of establishing the new organization as a private entity, including the legality of transferring the federal government's trust authorities and responsibilities to such an entity; and
- issues relating to the establishment of the trust development bank, including the initial funding and on-going capital maintenance proposals.

In order to appropriately address these issues, more information and analysis need to be included in the Plan to provide clarification of the

¹Public Law 103-413, title II, Tribal Self-Governance Act of 1994, provides for tribes to enter into compacts—agreements between sovereign entities—with the U.S. government to perform functions for themselves, other tribes, or individual Indians that have generally been provided by the government.

²Public Law 93-638, Indian Self-Determination and Education Assistance Act, allows tribal organizations to contract with the U.S. government to receive payment to perform, on behalf of the U.S. government, administrative and program functions for the tribe that have generally been provided by the government.

authority and responsibility of the proposed organization, and its relationship to the Department of the Interior. Additionally, certain critical processes and structures need to be developed before proceeding with major information technology investments proposed in the plan.

Background

As trustee, the Secretary of the Interior is responsible for administering the government's trust responsibility to tribes and Indians. Several Interior agencies administer various portions of the government's Indian trust responsibility, including the Bureau of Indian Affairs (BIA), the Bureau of Land Management (BLM), the Minerals Management Service (MMS), the Office of American Indian Trust, and the Office of the Special Trustee for American Indians (OST). In several instances these agencies' lines of authority overlap or their functional areas of responsibility interrelate. See attachment I for a chart showing the current Interior organizations responsible for trust fund accounting and asset management functions. Attachment I also highlights those agencies which the Strategic Plan proposes to transfer to the American Indian Trust and Development Administration (AITDA).

BIA performs land title and lease ownership determinations and maintains official ownership records. BIA also performs appraisals of some Indian assets and negotiates and executes leases and contracts for use or sale of nonmineral assets—such as timber, farming, grazing, real estate, and rights-of-way—and mineral assets such as oil, gas, and coal. In addition, BIA collects and accounts for Osage tribe mineral royalties.

BLM assists BIA in preleasing activities associated with valuing mineral resources. BLM is also responsible for inspecting and enforcing the terms of Indian mineral leases and verifying production.

MMS collects and accounts for mineral royalty payments on Indian leases and transfers the revenues to Treasury for deposit to the Indian trust funds managed by OST's Office of Trust Funds Management (OTFM).³ In addition, MMS performs compliance audits that are directed at ensuring that Indian royalty payments are consistent with lease terms and production volume. MMS also provides funding to some tribes for cooperative agreements to perform their own compliance audits.

³As previously mentioned, BIA's Osage Agency Office collects and accounts for royalties for the Osage Tribe.

OTFM, in the Office of the Special Trustee for American Indians,⁴ accounts for nonmineral revenues and distributes mineral royalties received from MMS to tribal and individual Indian accounts, based on lease and ownership information. OTFM disburses unrestricted⁵ funds to account holders upon request. OTFM also invests IIM and tribal trust funds on behalf of account holders. While IIM accounts are currently maintained in BIA's Integrated Records Management System as separate accounts, OTFM invests the cash balances in these accounts as a pool, primarily in U.S. Treasury and U.S. agency securities. OTFM invests tribal funds in government securities or collateralized accounts in federal depository banks.

The Office of American Indian Trust, in the Office of the Secretary of the Interior, conducts annual reviews of tribes' performance of trust functions assumed under the Tribal Self-Governance Act of 1994. The office prepares federal Indian trust protection standards and guidelines and reviews significant decisions affecting American Indian trust resources, including treaty rights.

Scope and Methodology

To describe the trust asset management problems that the Strategic Plan proposes to resolve, we reviewed the problems identified in the Strategic Plan and relied on our past work and the work of independent public accountants that Interior contracted with to perform financial statement audits and reviews.

To summarize the Strategic Plan, we reviewed the Plan, its accompanying appendixes, and other supporting documents. We met with Office of Special Trustee officials, including the Special Trustee for American Indians, and officials in BIA, BLM, and MMS to obtain clarification on certain aspects of the Plan.

To explain the basis for the cost estimates contained in the Strategic Plan, we reviewed its budget document and the cost data it provided. We contacted OST officials for further information, as necessary. As agreed with your office, we did not attempt to validate the estimates presented in the Plan or their underlying assumptions, nor did we assess whether the estimates included all necessary costs of full implementation of the Plan.

⁴OTFM was transferred from BIA to the Office of the Special Trustee in February 1996.

⁵Funds held in accounts for minors and mentally incompetent individuals require government approval before the funds can be withdrawn.

To identify implementation issues, we analyzed the Plan in detail and relied on our past work on Indian trust fund accounting and asset management issues. We also met with Department of the Interior officials, the Special Trustee for American Indians, and officials in BIA, BLM, and MMS and contacted the Director of Interior's Office of American Indian Trust to obtain their views on the Plan. In addition, we reviewed tribal comments on the Plan, which were provided to the Special Trustee as a result of his consultation meetings with the tribes.

Although our work identifies key issues that the Congress needs to consider in deciding whether to approve the initiatives described in the Plan, it is by no means all inclusive and there are other issues yet to be identified.

We conducted our work between April and July 1997 in accordance with generally accepted government auditing standards.

Problems With Current Indian Trust Asset Management

As we have reported in the past,⁶ Interior's Indian trust fund accounting and asset management problems are long-standing and permeate all facets of the trust fund management business cycle. They include (1) the lack of accurate, up-to-date information on ownerships to ensure that revenue is distributed to the correct account and the increasing workload associated with fractionated ownerships, (2) inadequate management of natural resource assets resulting in a lack of assurance that all earned revenues are collected, (3) weaknesses in trust fund management systems and internal controls and policies and procedures that result in a lack of assurance about the accuracy of trust fund balances, and (4) the failure, in the past, to consistently and prudently invest trust funds and pay interest to account holders. These overall weaknesses preclude account holders from having assurance that their account balances are accurate and that their assets are being prudently managed.

Currently, trust fund accounting and asset management are complicated by the lack of adequate numbers of trained field staff. In fiscal year 1996, the Congress transferred the funding for BIA's Financial Trust Services to OST. As a result, on February 9, 1996, a Secretarial Order made OST responsible for accounting for IIM receipts and, as a result, a number of BIA staff were transferred to OTFM. However, at a number of area and agency offices, small staffs handle a wide variety of duties of which trust activities

⁶Financial Management: Focused Leadership and Comprehensive Planning Can Improve Interior's Management of Indian Trust Funds (GAO/AIMD-94-185, September 22, 1994).

are only one part. Consequently, there are insufficient field staff at present to provide separate, full-time collection and accounting functions for OTFM and separate, full-time leasing and ownership recordkeeping staff for BIA.

As a result, depending on the agency office, either OTFM or BIA performs IIM accounting functions and procedures for processing receipts, leasing activities, paying allowed claims, administering IIM accounts (including establishing new accounts), monitoring leases, performing guardianship activities, and billing and printing checks. In addition, lines of supervision and accountability are sometimes blurred. This problem has not yet been resolved.

Moreover, continued fractionation of Indian land and lease ownerships has seriously complicated trust fund accounting and asset management. According to the Strategic Plan, Interior may soon be unable to cope with the recordkeeping of land titles and accurate distribution of income due to the worsening fractionation. The Plan contains a proposal for dealing with this problem. Interior officials agree that fractionation must be reduced and eliminated to ensure the success of Indian trust fund accounting and resource management reforms. Interior has submitted a legislative proposal for congressional consideration.

Strategic Plan Proposal

The Strategic Plan proposes a two-phase change to Interior's current organizational and management structure for Indian trust management. The first phase would establish a single organization for trust management activities—the American Indian Trust and Development Administration (AITDA)—independent of the Interior Department. The proposed organization would be in the form of a government-sponsored enterprise (GSE).⁷

The AITDA would be organized by function—such as accounting or land titles—and would be managed by a full-time Chairman and Chief Executive Officer and a five-member Board of Directors appointed by the President and confirmed by the Senate. Three members are to be proposed by the Indian community and two members—the Chairman and Chief Executive Officer—are to have financial and trust management expertise and may also be American Indians. Board members would serve staggered terms of 12 years. Attachment II provides a chart showing AITDA

⁷A government-sponsored enterprise, although federally established and chartered, is privately owned and operated to facilitate the flow of credit to specific economic sectors. GSEs typically receive their financing from private investment, but because they are established by federal law, the credit markets treat GSEs as having implied federal financial backing.

and identifies those organizational components of AITDA and lines of coordination with Interior agencies.

The Plan proposes that AITDA assume the federal government's Indian trust authority related to Indian trust funds and assets. It also proposes that certain organizations and related funding be transferred to AITDA—including OST and OTFM, BIA's Land Title and Records Office, and Interior's Office of American Indian Trust—along with various Interior agency records management functions related to trust fund accounting and asset management.

Specifically, the Plan proposes that responsibility for and funding of various Interior asset management and compliance functions be transferred to AITDA. These transfers include the following:

- BIA's leasing activities and its Land Title and Records Office to AITDA's Trust Resources Management Division.
- BLM's lease inspection, enforcement, and production verification activities to AITDA's Trust Resources Management Division.
- MMS' compliance and valuation function to AITDA's Risk Management and Control Division.
- Interior's Office of American Indian Trust to AITDA's Risk Management Control Division.

According to the Plan, AITDA would use the funds transferred from BIA, BLM, and MMS to contract with these agencies or with tribes to perform the related trust asset management activities. Also, it would use funds transferred from MMS to contract with MMS for compliance and control functions and perform oversight of self-governance tribes, respectively. However, AITDA would have the option to contract with other entities for these services.

In addition, the Plan would create the following three new organizations within AITDA:

- the National Indian Fiduciary Records Center, responsible for controlling and preserving all Indian trust-related records, to be located in Albuquerque, New Mexico, near OTFM;
- a trust risk management unit to conduct operational audits, credit and compliance reviews and audits of outside servicers (including BIA, BLM, MMS, and tribes) and to perform appraisals and other asset management functions; and

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- a centralized technical center for data processing.

To support the operations of the new organization, the Plan calls for hiring qualified staff; acquiring or modifying trust fund accounting and asset management systems; developing policies and procedures and internal controls; and implementing internal and external audit functions.

The major systems that would collectively support the new organization fall under an umbrella concept known as the Trust Asset and Accounting Management System (TAAMS). TAAMS would include trust asset and accounting systems, a land title and records system, and a trust fund general ledger accounting system.

The second phase of the Strategic Plan would establish a bank and trust company—the American Indian Trust and Development Bank (TD Bank)—to provide full financial services and economic development funding to Indians. The TD Bank would be a nationwide financial institution, backed by the full faith and credit of the U.S. government, that lends to, invests in, and provides financial services for American Indians, tribes, and their communities. The TD Bank’s Board of Directors’ would consist of five members appointed by the President and confirmed by the Senate and would be “identical with AITDA’s Board.”

The TD Bank would initially be capitalized at \$500 million by the federal government through “appropriations, judgment funds, or funds provided by other government-sponsored enterprises.” This initial capital would be permanent. Ownership of the TD Bank would be distributed in initial capital stock to federally recognized American Indian Tribes in proportion to the number of Indians living on or near reservations, as determined by the latest census or other appropriate information. This stock ownership would not be subject to sale, trade, or withdrawal. Except for the right to receive dividends and qualify for certain types of loans, the Plan does not explain the rights and privileges that tribes would have as a result of their stock ownership.

The TD Bank would be a for-profit financial institution but could also receive appropriations to provide for the cost of lifeline financial services⁸ and the cost of other programs that the Congress may choose to authorize in the future. The TD Bank would be authorized to invest up to 25 percent (initially \$125 million) of its permanent capital in eligible individual Indian

⁸Lifeline financial services typically include a limited package of banking services, such as low- or no-fee checking and check cashing privileges, and is generally available to all depositors. The Plan proposes that these services would also include various tax planning and investment services.

and tribal business ventures and projects. The TD Bank would also be allowed to invest up to \$300 million for the purchase, holding, and financing of fractionated Indian realty interests on allotted lands.

The Plan also proposes that the TD Bank be authorized to receive up to \$5 billion in additional funding from borrowing to provide loans and other economic development funding to American Indians. The additional funding would include \$3 billion from Treasury borrowing and \$2 billion from the sale of bonds and notes to be guaranteed by the U.S. government. The TD Bank would provide financial services through 50 to 75 branch offices located on or near major American Indian communities.

In addition, Phase II of the Plan calls for systems technology enhancements and a new headquarters building. These proposals are not fully discussed in the Plan.

Basis for Cost Estimates Included in the Strategic Plan

Phase I of the Strategic Plan includes initiatives that are directed toward (1) data conversion, reconciliation, and backlog cleanup, (2) upgrading some existing systems and acquiring new systems, and (3) substantially changing the way existing programs and functions are performed. To implement these initiatives, the Strategic Plan includes budget estimates indicating that about \$168 million⁹ will be needed for fiscal years 1997 through 1999 and approximately \$61 million and \$56 million in fiscal years 2000 and 2001, respectively. These cost estimates are generally based on the OST contractor's assessment of the costs of similar functions performed by private sector trust companies, vendor estimates, actual costs of functions currently performed by certain Interior agencies; and assumptions about the workload, staffing and number of locations to be serviced. We did not attempt to validate the estimates presented in the Plan or their underlying assumptions, nor did we assess whether the estimates included all necessary costs of full implementation of the Plan. Table 1 summarizes the cost estimates in the Strategic Plan.

⁹Out of its 1997 appropriations, the Office of the Special Trustee planned to use about \$13 million to initiate these improvements.

Table 1: Estimated Cost of Phase I of the Strategic Plan

Dollars in millions			
Category	Estimated costs, fiscal years		
	1977-99	2000	2001
Data Conversion, Reconciliation, and Backlog Cleanup	\$48.945	\$ 8,625	\$ 7.200
Standard Trust Asset and Accounting Management System and Land Title and Records Management System	34.663	19.666	18.123
Information Technology Infrastructure	26.467	11.848	10.491
Implementation	52.104	19.417	18.223
Management	5.548	1.861	1.861
Total	\$167.728	\$ 61.417	\$ 55.898

Attachment III details the basis for each of the Phase I cost estimates in the Strategic Plan.

Phase II costs in the Strategic Plan include previously discussed capitalization and funding of the TD Bank and the fractionated realty holdings, purchase, and sales program. Costs for Phase II would also include automated systems modifications and acquiring a headquarters building. Estimates of these costs are not provided in the Strategic Plan.

Implementation Issues

A number of areas require further clarification, planning, or consideration before the Plan can move forward. These include

- implementation timing of certain initiatives, such as records cleanup and acquiring a new IIM accounting system component;
- proposals, such as establishing a centralized organization and upgrading and acquiring systems, that need more planning before they can be successfully implemented; and
- issues requiring congressional consideration that relate to the desirability and feasibility of establishing the new organization as a private entity and establishing the trust development bank.

Implementation Timing Issues

Past audits by independent public accounting firms, Interior's Office of Inspector General, and GAO have identified serious internal control and systems weaknesses that impair the reliability of trust fund accounting. To resolve these weaknesses, auditors have made recommendations for BIA

and Interior to take timely actions such as correcting inaccurate and incomplete IIM accounting records, eliminating ownership determination and recordkeeping backlogs, and establishing a master lease file.

The Special Trustee has also concluded that there is an urgent need to take action to correct increasingly deteriorating recordkeeping deficiencies. Because Interior lacks the financial and managerial resources to clean up the records, the Special Trustee proposes that the cleanup be outsourced to independent contractors. This proposal is consistent with our past recommendations. Cleanup of IIM accounts is under way, and cleanup of appraisal and lease and ownership backlogs could begin within a relatively short time.

As part of TAAMS, the Strategic Plan proposes that the commercial trust accounting and investment system—which is currently used by OTFM for tribal accounts—be expanded to include a component for IIM accounting. Currently, IIM accounts are maintained on BIA’s Integrated Records Management System (IRMS), which is not a trust accounting system. However, in determining the appropriate timing for acquiring an IIM commercial trust accounting system component, certain questions need to be addressed, including whether to (1) convert all IIM accounts to the new system immediately, or convert them as they are cleaned up, (2) identify and archive inactive accounts before conversion, (3) convert small-balance or pass-through accounts (zero balance accounts where receipts are immediately withdrawn) to the new system or maintain them separately. Once these issues and any other identified issues are resolved, the IIM accounting system expansion should be able to move forward, assuming it can reasonably be expected to support the systems and interfaces required to build an integrated TAAMS.

Proposals That Need Detailed Planning

The Strategic Plan includes proposals for establishing a centralized organization responsible for trust fund accounting and asset management and upgrading or acquiring systems to support these functions. While the basic premise—the need for a central organization and major systems improvements may be sound, the Plan does not adequately address how these reforms would be implemented. For example, the Strategic Plan refers to MMS’ mineral royalty collection and accounting function, but it also refers to AITDA acquiring a mineral management and accounting system. In addition, the Plan does not adequately define all interrelated business functions, such as the co-located BIA, BLM, and MMS mineral program office in Farmington, New Mexico, or how the proposed new

organization will work with BIA, BLM, and MMS to provide assistance to tribes on mineral leasing activities. Furthermore, the Plan does not adequately address how BIA's agriculture, forestry, and realty activities will be performed in the future.

Finally, the Plan was developed without sufficient input from affected Interior agencies. For example, BIA, BLM, MMS, and Office of American Indian Trust officials told us that they were not consulted on the development of the Plan. Changes in trust systems outlined in the Plan could have major effects on the business processes and practices in these agencies.

The Plan needs to be more fully developed to (1) provide adequate evidence of a framework for sharing related business and functional information and program requirements among the cognizant organizations and functions and (2) support the design and development of management and information systems.

In addition, before proceeding with the major information technology investments proposed by the Plan, the processes and structures required by the Paperwork Reduction Act of 1995, the Clinger-Cohen Act of 1996, and OMB guidance for funding information systems investments need to be put in place.¹⁰ These include the development of a strategic Information Resources Management (IRM) plan, criteria for the evaluation of major information system investments, and an information architecture which aligns technology with mission goals. Because OST has not developed a strategic IRM plan, and investment process, or an information architecture, the organization risks acquiring systems that will not meet their business needs.

In late May 1997, in response to the Clinger-Cohen Act, Interior hired a Chief Information Officer (CIO) with both industry and federal agency experience. The CIO and the Special Trustee need to work closely to ensure that the investments in information systems are made appropriately and effectively. Because of the systems' size, impact, and complexity, the Department has reported to the Office of Management and Budget that these trust systems constitute a major information system investment for Interior.

¹⁰These requirements and other information systems investment guidance are discussed in attachment IV.

Issues That Require Congressional Consideration

Two fundamental issues need to be addressed before the Congress can make further decisions on whether and how to implement the Strategic Plan's proposed initiatives. These two issues relate to the desirability and feasibility of establishing (1) AITDA as a government-sponsored enterprise (GSE) and (2) the Indian Trust Development Bank. The Plan needs to provide more information on each of these proposals in order to support full consideration by the Congress. Specifically,

(1) The Strategic Plan proposes the establishment of AITDA as a single organization responsible for trust fund and asset management activities. The Plan proposes that AITDA be a GSE which is, typically, a private corporation.

- The Plan should more fully address the extent to which the United States may transfer trust authorities and responsibilities to a GSE. The government assumed many of these authorities and responsibilities as a result of treaties negotiated with individual Indian tribes.
- Although the Plan characterizes AITDA as a GSE, it proposes that AITDA receive appropriations and congressional oversight. The Plan does not identify, however, the amount of funding or whether the funding will be appropriated directly to AITDA or provided in the form of grants or borrowing authority. Also, the plan does not discuss what is meant by congressional oversight.
- The Plan proposes that AITDA, a private entity, oversee the functions of various Interior agencies. Typically, nonfederal entities do not have oversight responsibilities for federal agencies. This issue needs to be addressed in the Plan.

(2) The Strategic Plan proposes the establishment of an Indian Trust and Development Bank. The Plan also proposes that the TD Bank receive appropriations, judgment funds, or funds provided by other GSEs.

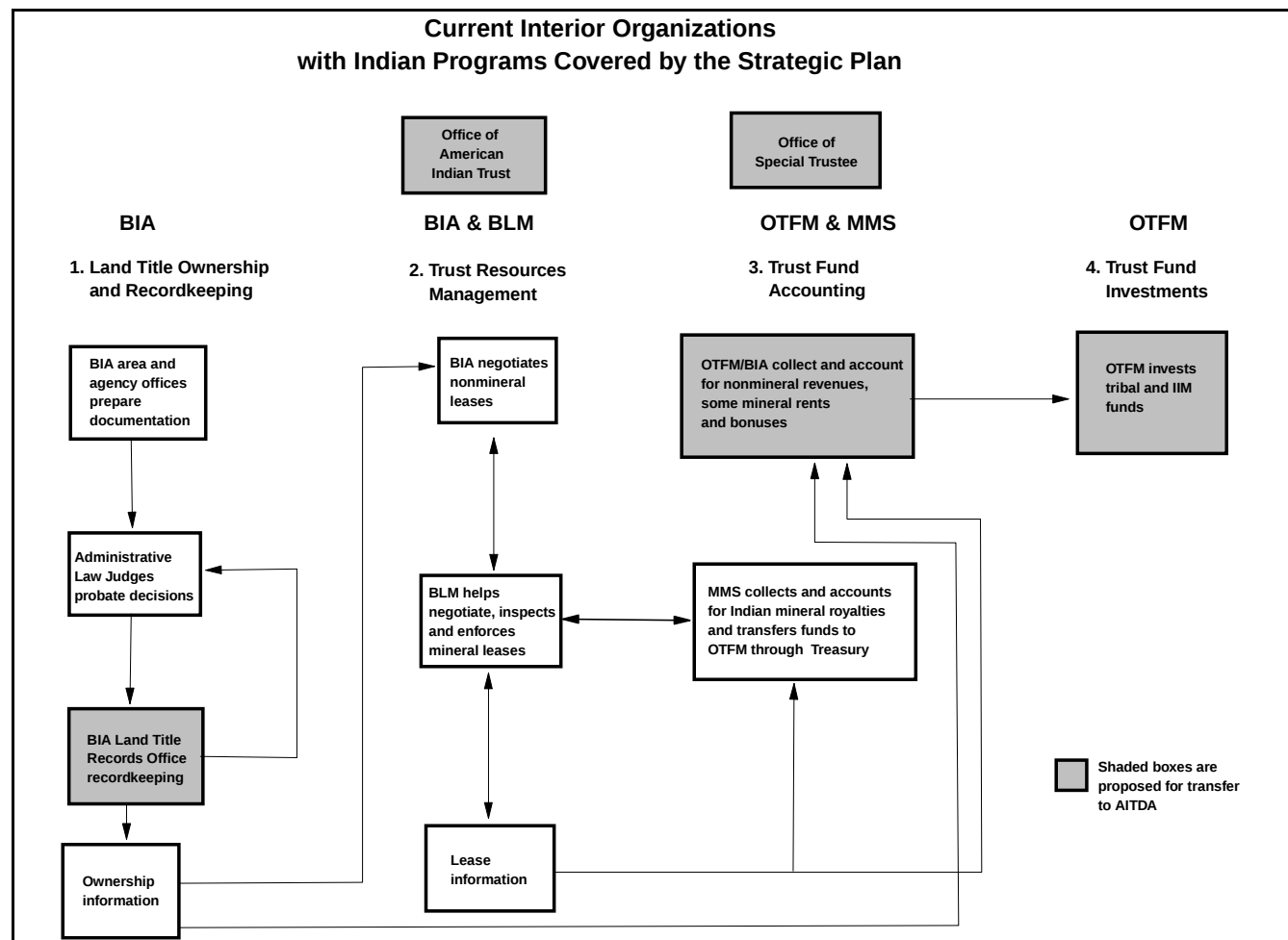
- Under current law, judgment funds are not available to fund programs. Also, the nature and type of contractual arrangement with private sector institutions needs further clarification and explanation. In addition, the basis for capital to be provided by other GSEs needs to be defined and clarified.
- The relationship, contractual or otherwise, that would exist between the AITDA and the TD Bank is not fully defined. This relationship, including the degree of liability that the AITDA would be subject to regarding the TD Bank's operations, also needs to be defined.

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- The Strategic Plan proposes that the TD Bank provide a wide range of lifeline services at no cost or at a subsidized cost. These services include basic functions such as checking and savings accounts, money orders, and account statements, but also include tax, investment, and retirement planning services. Because these services would likely be funded by appropriations, their cost needs to be identified.
 - The Plan would require that the federal government maintain equity capital equal to 5 percent of average risk-adjusted assets. Because this could result in significant additional contributions by the federal government resulting from losses or expansion by the TD Bank, the appropriateness of this proposed requirement needs to be addressed.
 - Limitations on who can be a customer or shareholder (whether only tribal members with certificates of Indian blood and federally recognized tribes or others, including non-Indians) needs to be defined and clarified.

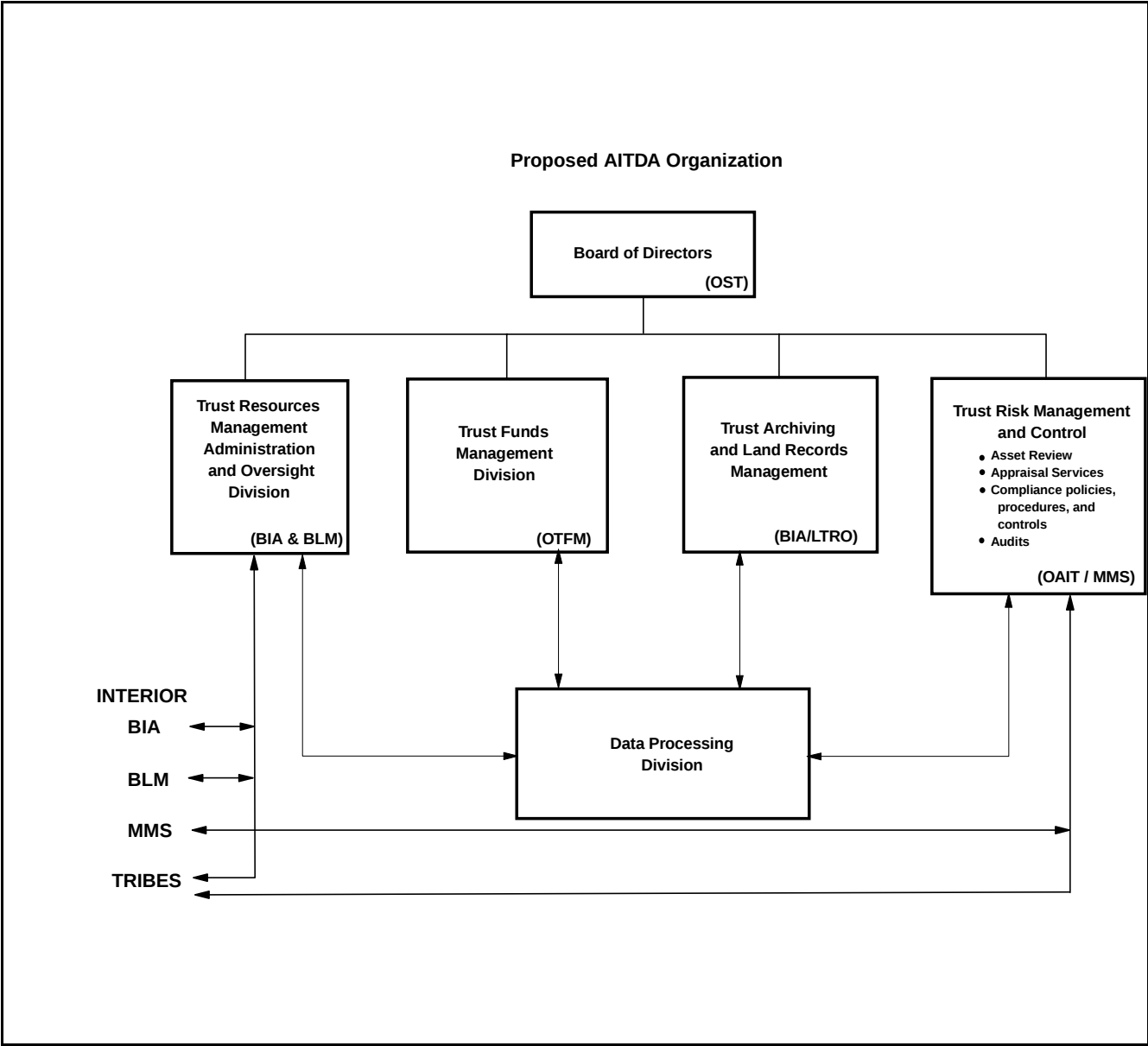
These are key implementation issues that must be considered before the Plan can move forward. Additional information is needed from the Special Trustee about the proposed organization so that the Congress may carefully consider the government's Indian trust responsibility; type of organization, funding, and oversight; the types of programs and services to be provided by the new organization; and the relationship of any new organization to the Interior Department and other external organizations. Once these and other organizational issues are resolved, the next step is to proceed with the development of the information systems planning described earlier. In our view, both the additional organizational planning and the information systems planning are essential to the success of this important endeavor.

Mr. Chairman and Mr. Vice Chairman, this concludes my statement. I would be glad to answer any questions that you or the Members of the Committee might have.

Current Interior Organizations With Indian Programs Covered by the Strategic Plan



Proposed AITDA Organization



Basis for Cost Estimates

The Strategic Plan includes budget estimates indicating that about \$168 million will be needed for fiscal years 1997 through 1999 and about \$61 million and \$56 million for fiscal years 2000 and 2001, respectively, to implement Phase I of the Plan. The Office of the Special Trustee’s fiscal year 1997 appropriations included a little over \$13 million to begin these improvements. Table III.1 summarizes the cost estimates contained in the Strategic Plan followed by detailed explanations of the basis for these cost estimates. As agreed with committee staff, we did not attempt to validate these estimates or assess whether they represent the full cost of implementing the Plan.

Table III.1: Estimated Cost of Phase I of the Strategic Plan

Dollars in millions			
Category	Estimated costs, fiscal years		
	1997-99	2000	2001
Data Conversion, Reconciliation, and Backlog Cleanup	\$ 48.945	\$ 8.625	\$ 7.200
Standard Trust Asset and Accounting Management System and Land Title and Records Management System	34.663	19.666	18.123
Information Technology Infrastructure	26.467	11.848	10.491
Implementation	52.104	19.417	18.223
Management	5.548	1.861	1.861
Total	\$167.727	\$ 61.417	\$ 55.898

The following discussion explains the basis for the cost estimates for the three main components of the plan—data conversion, reconciliation, and backlog cleanup; upgrading and acquiring systems; and forming a new organization.

Data Conversion, Reconciliation, and Backlog Cleanup

The principal objective of Phase I of the Strategic Plan is to address and resolve the root causes of the long-standing trust management problems as quickly as possible. The Plan proposes that \$49 million be provided for fiscal years 1997 through 1999, and \$8.6 million and \$7.2 million for fiscal years 2000 and 2001, respectively, to support data conversion to new systems. These estimates include cleanup of probates, land title records, IM and tribal accounting records and reconciliations, and appraisals. Table III.2 summarizes these costs.

Table III.2: Cost Estimates for Records Cleanup and Data Conversion

Dollars in millions			
Task	Estimated costs, fiscal years		
	1997-99	2000	2001
Probate-related backlog	11.570	1.425	—
Pre-conversion IIM file cleanup and data/documentation check	\$ 7.400	\$ —	\$ —
IIM/Lease subsystem conversion	2.215	—	—
LRIS ^a conversion/ownership reconciliation/defective title cleanup	4.600	2.000	2.000
Imaging cleanup	3.160	—	—
Appraisal cleanup and ongoing management	20.000	5.200	5.200
Total	\$48.945	\$ 8.625	\$ 7.200

^aBIA's Land Records Information System.

To eliminate probate backlogs, the Plan proposes that \$11.5 million be provided for fiscal years 1997 through 1999 and \$1.4 million be provided in fiscal year 2000. This estimate includes approximately \$1.1 million for BIA agency office initial document preparation, \$2.4 million for probate hearings and appeals, and \$8 million for BIA's Land Title and Records Office (LTRO) title and ownership determination and recordkeeping for fiscal years 1997 through 1999. The Plan also estimates that \$1.4 million will be needed for fiscal year 2000 to complete the LTRO effort.

- The estimate of \$1.1 million for fiscal years 1997 through 1999 to reduce the backlog associated with BIA agency office preparation of probate documents was based on OST's estimate of a backlog of 3,500 probates and an average workload of 10 completed probates a month per probate clerk, or 120 per year. Thus, the Plan proposes providing a total of 30 probate clerk staff years at a GS-7 salary and benefits rate of \$38,000 a year.
- The estimated \$2.4 million for fiscal years 1997 through 1999 to eliminate probate court hearing and appeals backlogs was based on OST's estimate of a backlog of 3,453 cases.¹ The Plan proposes providing an additional 12 administrative law judges and 12 paralegals and 12 secretaries at the GS-7 level to eliminate the backlog.
- To eliminate backlogs in land title and ownership determinations and recordkeeping, the Plan proposes that \$8 million be provided for fiscal

¹Interior's Office of Hearings and Appeals (OHA) has advised the Department that the 3,453 cases cited as a backlog represent the normal annual caseload and, thus, OHA believes there is no backlog and no additional funding or positions are needed.

years 1997 through 1999, and that an additional \$1.4 million be provided for fiscal year 2000. This estimate is based on BIA information on backlogs and the level of effort needed to complete the tasks shown in table III.3.

To clean up inaccurate IIM accounting records and perform data and document checks, the Plan proposes that \$7.4 million be provided through fiscal year 1999. Cost estimates for cleanup of IIM accounting records are based on OTFM's experience with records cleanup at five field offices. As of mid-July 1997, OTFM had performed work at 11 BIA agency offices to clean up IIM records.

Cost estimates for data conversion of IIM and lease records from BIA's Integrated Records Management System (IRMS) to the expanded trust accounting system are \$2.2 million for fiscal years 1997 through 1999. These estimates are based on data obtained from private sector trust companies for conversion of similar data.

To support LRIS conversion, reconciliations of ownership data, and cleanup of defective titles, the Plan proposes that \$4.6 million be provided for fiscal years 1997 through 1999, and that \$2 million each be provided for fiscal year 2000 and fiscal year 2001. These estimates cover Land Title Office research, review, and identification of all tracts with title defects.

The Plan estimates that \$3 million will be needed for imaging cleanup for fiscal years 1997 through 1999. The cost estimate is based on the level of work needed to complete the electronic imaging of documents (preparing a hard-copy document in electronic form) identified for the tribal reconciliations.

To support asset management and cleanup appraisals, the plan proposes that \$20 million be provided for fiscal years 1997 through 1999 and that \$5 million each be provided for fiscal year 2000 and fiscal year 2001. The cost estimates are based on (1) OTFM's estimates that there are, on average, 100,000 active leases at a given point in time and that 20,000 of these produce 80 percent of the total lease revenues, (2) fee information for summary report appraisals obtained through interviews with private sector appraisal companies in two geographic areas of the country, and (3) appraisal policy assumptions that transactions producing 80 percent of the total lease revenue from Indian lands would receive an outside, certified, independent appraisal during fiscal years 1998 and 1999 and once every 5 years after 1999, and that 5 percent of smaller-revenue leases would receive an independent appraisal annually.

Expanding and Acquiring Systems

The Plan estimates that about \$61 million would be needed for fiscal years 1997 through 1999 and approximately \$31 million and \$29 million for fiscal years 2000 and 2001, respectively, to implement the new systems. The estimated systems and infrastructure costs are shown in table III.3.

Table III.3: Trust Systems Costs

Dollars in millions			
Trust System Cost	Estimated costs, fiscal years		
	1997-99	2000	2001
Trust Asset and Accounting Management System (TAAMS)	\$18.108	\$12.971	\$12.971
Land Title and Records Management System (LTRMS)	11.255	6.095	4.552
General Ledger System (GLS)	2.300	.300	.300
Interface Development	3.000	.300	.300
Subtotal	\$34.663	\$19.666	\$18.123
AITDA, BIA, BLM, and MMS network, hardware, software, and support	\$22.386	\$ 9.829	\$ 9.355
Tribes—network, hardware, software, support and end-user training	4.081	2.019	1.136
Total	\$61.130	\$31.514	\$28.614

According to the Plan, the \$18 million for TAAMS includes about \$17 million for the trust fund accounting system and about \$.8 million for a trust real property system for fiscal years 1997 through 1999. The accounting system costs are based on estimates obtained from commercial trust system vendors and include estimated annual account maintenance fees of \$35 per IIM account per year for 350,000 IIM accounts and \$85 per tribal account per year for 1,500 tribal accounts, which would total about \$12 million. The estimates also include one-time licensing and start up fees and user fees.

The Trust Real Property Management System component of TAAMS would provide for management and administration of an estimated 100,000 active and pending surface and mineral leases each year. The Trust Real Property Management system would consist of 2 major components—an asset management information system (including a history file), and one or more surface and mineral property management and accounting systems, depending on the type of asset, such as real estate rentals, mineral leasing, and timber contracts. The cost estimate for the Trust Real Property System is based on pricing structures for private sector lease management

software that is compatible with commercial trust accounting systems. Cost estimates total about \$.8 million for fiscal years 1997 through 1999 including a one-time fee for an interface with the trust financial system.

The Plan also proposes a Land Title and Records Management System to provide land title and records management and administration of over 170,000 tracts of land and related title documents. This system is estimated to cost \$11 million for fiscal years 1997 through 1999, with costs of ongoing operations of about \$6.1 million in fiscal year 2000 and about \$4.6 million in fiscal year 2001. These cost estimates are based on BIA estimates for LRIS upgrades to achieve automated chain-of-title and records storage, which were included in OST's fiscal year 1998 budget request.

The Plan proposes that \$2.3 million be provided for fiscal years 1997 through 1999 and that \$.3 million each be provided for fiscal years 2000 and 2001 for a trust fund accounting general ledger system. These estimates are based on private sector vendor information and OTFM's current general ledger trust accounting system needs.

The Plan proposes that \$3 million be provided for fiscal years 1997 through 1999 and that \$.3 million be provided each year thereafter for ongoing costs of integrating and implementing the systems described above.

To support the overall TAAMS, the Strategic Plan proposes that \$26.5 million be provided for fiscal years 1997 through 1999 for an information technology infrastructure, plus approximately \$12 million in fiscal year 2000 and about \$10 million in fiscal year 2001 for ongoing costs. This infrastructure is to include systems architecture, a local area network, and systems installation. The infrastructure estimate includes \$4 million for fiscal years 1997 through 1999, \$2 million in fiscal year 2000 and approximately \$1 million in fiscal year 2001 for computer equipment and end-user training for tribes. Cost estimates for these systems components are based on private sector vendor fee schedules for servicing over 1,900 sites, 450 tribal and 1,535 AITDA work stations, a network and 120 file servers, software, encryption, laser printers, support, and maintenance.

Implementing the New Organization

Implementing the new organization is estimated to cost about \$52 million for fiscal years 1997 through 1999 and ongoing costs are estimated at \$19.4 million for fiscal year 2000 and \$18.2 million for fiscal year 2001.

These estimates are based on OST's strategic planning contractor's analysis of private sector equipment, systems, and software costs. According to the Strategic Plan, implementation costs include those shown in table III.4.

Table III.4: Implementation Costs

Function	Estimated costs, fiscal years		
	1997-99	2000	2001
Document imaging ^a	\$ 4.339	\$ 1.608	\$ 1.608
Training: AITDA, BIA, MMS, and BLM	10.026	\$ 2.495	\$ 2.302
Policy, procedure, and legal manuals	4.250	.250	.250
Risk management	9.040	4.520	4.520
Archives and records management	18.449	8.044	8.044
External professional services	6.000	2.500	1.500
Totals	\$52.104	\$19.417	\$18.223

^aDocument imaging is the process of copying a document from its hard copy (original) state to an electronic format.

Training of AITDA, BIA, MMS, and BLM staff is estimated to cost \$10 million for fiscal years 1997 through 1999 and \$2.5 million in fiscal year 2000 and \$2.3 million in fiscal year 2001. These estimates are based on a training needs assessment and information obtained from private sector vendors on the costs of commercially available courses. The estimate includes nearly \$5 million for function and task training for all levels of the organization and over \$5 million directed at training four functional groups—end users, end-user support, application developer support, and trust management systems staff. Training costs are projected to vary from \$150 per day to \$365 per day for each participant depending on the type of training and such factors as the cost to transport trainers to remote locations.

In addition to the \$10 million for training AITDA, BIA, MMS, and BLM staff, the Plan proposes \$2.7 million for end-user training for tribes. That amount is included in the systems infrastructure cost estimates shown in table III.3.

Cost estimates of \$4.2 million for fiscal years 1997 through 1999 and \$.2 million each for fiscal years 2000 and 2001 are to cover development of policies and procedures and legal manuals. These estimates are based on OST's strategic planning contractor's assessment of costs for similar efforts at private trust banks.

The cost estimates of \$9 million for fiscal years 1997 through 1999 and \$4.5 million each for fiscal year 2000 and 2001 for the new risk management organization are based on actual amounts spent by risk managers in two separate private sector trust companies with a scale of operations similar to the trust management activities at Interior. As proposed by the Strategic Plan, risk management and control activities would include internal and external audits, review and approval of policies and procedures, oversight of appraisal and leasing functions, and computer security.

Risk management and control would be carried out by a Risk Control Group, which would monitor the effectiveness of systems and controls, and an Audit Group, which would be responsible for audit and review of service bureau functions provided by BIA, BLM, MMS, and tribes. The Audit Group would include the following:

- An Asset Review Division, responsible for internal and external audits and evaluations.
- An Appraisal Services Division, responsible for assessing real property values and market trends affecting leasing decisions for natural resource assets and portfolio management.
- A Compliance Division, responsible for ensuring compliance with laws and regulations.

The Plan proposes transferring Interior's Office of American Indian Trust and funding and MMS' funding for compliance and valuation functions to AITDA's Compliance Division. The Plan does not include these funds in the AITDA budget proposal because they do not represent new funding, but rather, they represent existing funding that would be transferred to AITDA from these Interior agencies. The incremental costs of the proposed risk management and control function are shown in table III.5.

Table III.5: Risk Management and Control Costs

Dollars in millions			
Category	Estimated costs, fiscal years		
	1997-99	2000	2001
Salaries and benefits	\$ 6.960	\$ 3.480	\$ 3.480
Equipment rental and maintenance, software maintenance, depreciation, and repairs	.344	.172	.172
Travel	.552	.276	.276
Training	.150	.075	.075
Utilities, supplies, and services	1.034	.517	.517
Totals	\$ 9.040	\$ 4.520	\$ 4.520

The remaining costs of the new organization include archives and records management, external professional services, and overall management. Archives and records management costs are based on OST's estimates of costs for a leased facility, personnel, building lease, equipment, supplies, and shipping.

The cost for external professional services is based on private sector fee schedules for system integration services. These costs were expected to be \$6 million for fiscal years 1997 through 1999 and ongoing costs are estimated as \$2.5 million for fiscal years 2000 and \$1.5 million for 2001.

Overall management costs associated with AITDA are estimated at \$5.5 million for fiscal years 1997 through 1999, including \$4.9 million for AITDA's executive management and \$.6 million for its Advisory Board. Ongoing costs are estimated at \$1.9 million, including \$1.7 million for AITDA and \$.2 million for the Advisory Board in both fiscal years 2000 and 2001. According to OST, AITDA cost estimates are based on OST's current authorized staffing and related operating costs for office space and travel. Advisory Board cost estimates are based on current OST Advisory Board costs for travel and per diem at government rates.

Guidance for Improving Federal Agency Information Technology Investments

Major Legislative Reforms

Paperwork Reduction Act of 1995, requires agencies to use information resources in a manner to improve the efficiency and effectiveness of their operations in the fulfillment of their missions.

Clinger-Cohen Act of 1996, requires federal agencies to focus on results that they are achieving through information technology (IT) investment. The act requires the head of an agency to implement a process for maximizing the value and assessing and managing the risks of the agency's IT acquisition and ensuring the development of reliable financial and program performance information. The act also requires agencies to appoint a Chief Information Officers (CIOs) to direct and oversee agency information resource management.

Federal Acquisition Streamlining Act of 1994, requires agencies to define cost, schedule, and performance goals for federal acquisitions, including IT projects, and monitor the programs to ensure that they remain within prescribed tolerances.

Office of Management and Budget Guidance

OMB Circular A-127, Financial Management Systems, prescribes policies and standards for executive departments and agencies to follow in developing, operating, evaluating, and reporting on financial management systems.

OMB Memorandum M-97-02, "Funding Information Systems Investments," commonly referred to as "Raines Rules," prescribes decision criteria for evaluation of major information system investments proposed for funding in the President's fiscal year 1998 budget.

GAO Guidance

Executive Guide: Improving Mission Performance Through Strategic Information Management and Technology ([GAO/AIMD-94-115](#), May 1994).

Assessing Risks and Returns: A Guide for Evaluating Federal Agencies' IT Investment Decision-making, Version I ([GAO/AIMD-10.1.13](#), February 1997).

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