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Accounting and Financial
 Management Division

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The Honorable Mike Synar
 Chairman, Subcommittee on
 Environment, Energy, and Natural Resources
 Committee on Government Operations
 House of Representatives

Dear Mr. Chairman:

This letter responds to your request for GAO's views on the Bureau of Indian Affairs' (BIA) efforts to improve its methods for detecting and handling losses of Indian trust fund monies. These efforts were discussed at your May 20, 1991, oversight hearing on BIA's management of the Indian Trust Funds.

First, regarding recovery of trust funds which had been deposited in financial institutions which later failed, we believe that BIA was remiss in investing trust funds above the insured limits of \$100,000. As a fiduciary, BIA is liable for such losses.

We have been monitoring BIA's efforts to recover funds invested in failed institutions insured by the National Credit Union Administration (NCUA) and the Federal Deposit Insurance Corporation (FDIC). The Bureau's Solicitors' Office advised us that NCUA will not cover losses in excess of the \$100,000 insurance ceiling. The three largest credit union losses are as follows:

<u>Credit union</u>	<u>Loss amount in excess of \$100,000</u>	<u>Date of loss</u>
Zionic	\$3,037,766	03/22/84
Financial	249,173	10/31/84
Center Place	635,073	07/08/85
Total	<u>\$3,922,012</u>	

The Solicitors' Office has told us that in addition to losses at these three large credit unions, BIA has also

incurred losses on investments at non-accredited, uninsured credit unions as a result of fraud and criminal activity.


Regarding losses at banks insured by FDIC, in early January 1992, FDIC advised the Interior Solicitors' Office that it would not cover losses at failed banks in excess of insured amounts. Losses in excess of the \$100,000 insurance limit at FDIC-insured institutions totaled \$121,500. In its next budget submission, BIA plans to submit a request for appropriations of approximately \$4 million to cover both the credit union and bank losses.

We have also reviewed BIA's "Policies Regarding Notification and Reimbursement to Indian Account Holders for Losses Attributable to Bureau Errors," which was submitted to the Subcommittee on October 31, 1991. While it is a good start, we think it needs to be strengthened in three areas.

First, the policy does not address the need for systems and procedures to prevent and detect losses, nor does it instruct BIA staff on how to resolve them if they do occur. The policy relies heavily on account holders to bring losses to the Bureau's attention. While BIA should address questions on losses raised by account holders, it is BIA's responsibility to prevent, detect, and resolve losses. Second, the policy does not address what constitutes sufficient documentation to establish the existence of a loss. Finally, the policy's definition of losses does not include interest that was earned but not credited to the appropriate account. We advised your staff of these concerns in November 1991.

I appreciated the opportunity to testify before the Subcommittee at the May 20, 1991, hearing. I would be glad to discuss any questions you or your staff have pertaining to this information. I can be reached at (202) 275-9454.

Sincerely yours,


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Director, Civil Audits

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