

**REPORT ON REVIEW
OF
SELECTED ACTIVITIES AT CERTAIN LOCATIONS
OF THE
BUREAU OF INDIAN AFFAIRS
DEPARTMENT OF THE INTERIOR
AUGUST 1960**



**UNITED STATES GENERAL ACCOUNTING OFFICE
SEPTEMBER 1961**

**UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON 25, D. C.**

SEP 2 5 1961

**CIVIL ACCOUNTING AND
AUDITING DIVISION**

B-114868

Dear Mr. Secretary:

Herewith is our report on the review of selected activities at certain locations of the Bureau of Indian Affairs, Department of the Interior. The review was completed in August 1960.

Our review disclosed that in the Gallup Area as of March 31, 1960, reimbursable expenditures of \$2,098,993 had not been recovered from three tribes that had a total of \$80,456,059 on deposit in the United States Treasury. In addition, the Area Office had not taken action to ascertain and collect the amounts due for similar expenditures from two other tribes that had a total of \$4,433,080 on deposit in the Treasury at that date. We are recommending that, under authority of the act of April 4, 1910 (25 U.S.C. 145), reimbursable amounts which these tribes owe the Government be offset against their tribal funds on deposit in the United States Treasury.

Our review disclosed also that the Portland Area Office had not taken action on our prior recommendation that amounts, which totaled \$1,265,686 at June 30, 1960, classified as unpaid irrigation operation and maintenance costs due the Government be collected or properly disposed of. Therefore we are again recommending that the Commissioner of Indian Affairs take appropriate action.

In the report we point out that four Alaska native village associations which have received loans from the Government for the operation of fish canneries and for relending to association members have made loans, which totaled \$1,242,361 at June 30, 1960, to individual members in amounts beyond the point of reasonable expectation of full recovery. At that date, loans totaling \$1,078,771 were delinquent. We are recommending that the Commissioner establish reasonable credit limitations.

We point out also that the freight rates charged on the vessel "NORTH STAR" for Bureau and other Government shipments are at least 3-3/4 times higher than the rates charged for non-Government shipments. The trust fund "Indian Moneys--Proceeds of Labor" (IMPL) pays for the

operating cost of the vessel and receives all revenues for the benefit of Indians. The significantly higher freight rates charged for Government shipments result in the use of appropriated funds to provide IMPL fund balances and to pay for a large share of the cost for transporting non-Government freight. We are recommending that the Commissioner reduce the "NORTH STAR" freight rates for Government shipments so that revenues will approximate the applicable costs. We are recommending also that the Commissioner consider increasing the freight rates for non-Government shipments to bring them more in line with the freight rates for Government shipments.

We appreciate the consideration and cooperation received by our representatives at each of the locations visited. We shall be pleased to discuss our findings in greater detail with you or members of your organization.

Your comments and advice as to the action taken on the matters presented in this report will be appreciated.

Sincerely yours,

A. T. Samuelson

Director, Civil Accounting
and Auditing Division

The Honorable
The Secretary of the Interior

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REPORT ON REVIEW
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SELECTED ACTIVITIES AT CERTAIN LOCATIONS
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GENERAL COMMENTS

The General Accounting Office has completed a review of selected activities at certain locations of the Bureau of Indian Affairs (BIA), Department of the Interior, pursuant to the Budget and Accounting Act, 1921 (31 U.S.C. 53), and the Accounting and Auditing Act of 1950 (31 U.S.C. 67). Our review was completed in August 1960. The scope of the review is described on page 33 of this report.

The findings which involve matters for which corrective action should be taken or considered by the Secretary of the Interior and the Commissioner of Indian Affairs are discussed in this report. Findings on which corrective action should be taken by field officials were included in reports issued by our regional managers to the respective area directors. A summary of these reports is presented on pages 31 and 32.

SUMMARY OF PRINCIPAL FINDINGS AND RECOMMENDATIONS

The principal findings disclosed by our review and our related recommendations are summarized below and are discussed in detail on succeeding pages of the report.

REIMBURSABLE EXPENDITURES NOT RECOVERED
BY OFFSET AGAINST TRIBAL FUNDS

As of March 31, 1960, the Gallup Area Office had not taken action to recover accumulated reimbursable expenditures of \$2,098,993 from three Indian tribes that had a total of \$80,456,059 on deposit in the United States Treasury. In addition, the Area Office had not taken action to ascertain and collect the amounts due for similar expenditures from two other tribes that had a total of \$4,433,080 on deposit in the Treasury at that date.

The act of April 4, 1910, as amended (25 U.S.C. 145), authorizes the Secretary to recover reimbursable amounts due the United States from funds held in trust in the United States Treasury for specific Indian tribes.

We are recommending that the Secretary offset the reimbursable amounts due from these five tribes against their tribal funds held in the United States Treasury. (See pp. 7 to 9.)

NEED TO COLLECT OR PROPERLY DISPOSE OF
REIMBURSABLE OPERATION AND MAINTENANCE COSTS

In our report to the Secretary of the Interior on the audit of the Wapato Irrigation Project, Yakima Indian Reservation (B-132935, issued May 11, 1959), we recommended that the Commissioner of Indian Affairs take the action necessary to provide for the collection or proper disposition of \$1,291,416 classified in the Portland Area Office account 213.2 at June 30, 1958, as unpaid irrigation operation and maintenance costs due the Government. Because \$1,265,686 was still so classified at June 30, 1960, we are repeating our recommendation. (See pp. 9 to 11.)

OVEREXTENSION OF CREDIT TO INDIVIDUAL BORROWERS

Four Alaska native village associations which have received loans from the Government for the operation of fish canneries and for relending to association members have made loans to individual members in amounts beyond the point of reasonable expectation of full recovery. Of the 92 outstanding loans totaling \$1,242,361 at June 30, 1960, 86 loans in the amount of \$1,078,771 were delinquent. The amounts due on many of the delinquent loans exceed the associations' estimated value of the borrowers' boats and fishing gear. It is probable that many of these loans will not be repaid.

In addition to being indebted for loans on their boats and gear, some of the owners were also indebted for seasonal advances, received from the associations' canneries, for equipping and operating their boats. At March 31, 1960, advances outstanding totaled about \$518,000 at the four native associations for which a provision for possible losses of about \$236,000 had been established.

We are recommending that the Commissioner of Indian Affairs establish reasonable credit limitations. (See pp. 12 to 15.)

EXCESSIVE FREIGHT RATES CHARGED FOR GOVERNMENT SHIPMENTS ON VESSEL "NORTH STAR"

Our review disclosed that the freight rates charged for BIA and other Government shipments on the vessel "NORTH STAR" operated by the Bureau are at least 3-3/4 times higher than those charged for non-Government shipments. A rate of \$75 a ton is charged for Government freight, whereas the commercial rate or a rate of

\$20 a ton, whichever is less, is charged for non-Government freight. The significantly higher freight rates for Government shipments result in the use of appropriated funds to provide IMPL (Indian Moneys, Proceeds of Labor) fund balances and to pay for a large share of the cost for transporting non-Government freight. We are recommending that the Commissioner reduce the "NORTH STAR" freight rates for Government shipments so that total revenues will approximate the applicable costs. We are recommending also that the Commissioner consider increasing the freight rates for non-Government shipments to bring them more in line with the freight rates for Government shipments. (See pp. 16 to 19.)

SEGREGATED TRUST FUNDS NOT PAID TO CERTAIN UNRESTRICTED MEMBERS OF THE OSAGE TRIBE

The amounts due members of the Osage Tribe of less than one half Indian blood and 21 years or older who have been issued certificates of competency have not been transferred out of the segregated trust fund accounts, as required by the act of February 5, 1948 (62 Stat. 18; 25 U.S.C. 331 note). The Government pays 5 percent interest on segregated trust fund balances. Osage Agency officials believe that these moneys should be transferred out of the segregated trust fund accounts but that they can do so only upon the written application of these members. We believe that the act requires the funds due members of less than one half Indian blood and 21 years or older to be transferred out of the segregated trust fund without the need for written authorizations of these members. Accordingly, we are recommending that the Commissioner have these funds paid to the owners or transferred to their individual Indian money accounts. (See pp. 19 and 20.)

NEED TO CHARGE APPLICABLE COSTS
OF THE BRANCH OF PLANT DESIGN AND CONSTRUCTION
TO ALL CONSTRUCTION PROJECTS

The Branch of Plant Design and Construction in Albuquerque, New Mexico, charges the cost of the technical services it provides to expense accounts instead of to applicable construction projects. During fiscal years 1957, 1958, and 1959, technical services costs of about \$2.6 million were charged to expense accounts. This practice results (1) in an understatement of the costs capitalized for the assets constructed for the Bureau and (2) in charging reimbursable projects undertaken for the United States Public Health Service for such services on the basis of an arbitrary rate which cannot readily be evaluated for adequacy. We are recommending that the Commissioner take appropriate action to require that all direct architectural and engineering costs be charged to the projects concerned and that related indirect costs be prorated on the basis of a predetermined rate based on actual cost experience. We are recommending also that the predetermined rate be reviewed periodically and adjusted if necessary. (See pp. 21 to 23.)

UNUSED REVENUES SHOULD BE REVIEWED FOR
POSSIBLE TRANSFER TO THE GENERAL FUND OF THE TREASURY

The Bureau has inactive unobligated funds of about \$68,000 representing revenues received under the provisions of the act of June 26, 1936 (25 U.S.C. 507). It appears that the purposes of this act have been fulfilled because no obligations have been incurred and no disbursements have been made from this fund since August 1951. We are recommending that the Commissioner have a review made of the accumulated revenues for the purpose of

determining whether they, as well as all future revenues received under this act, should be transferred to the general fund of the Treasury. (See pp. 23 and 24.)

OTHER MISCELLANEOUS FINDINGS

Other findings disclosed by our review concern the need (1) to consider the establishment of rental charges for equipment loaned between irrigation activities, (2) to eliminate an unnecessary duplicate file of power bills and the mailing of receipts to power customers who make remittance by check or money order, (3) to consider deobligating certain obligations for amounts less than \$5, and (4) to transfer to miscellaneous receipts of the Treasury the proceeds from the sale of surplus property. These findings are discussed in detail on pages 24 to 30 of the report.

FINDINGS AND RECOMMENDATIONS

REIMBURSABLE EXPENDITURES NOT RECOVERED
BY OFFSET AGAINST TRIBAL FUNDS

As of March 31, 1960, the Gallup Area Office had not taken action to recover accumulated reimbursable expenditures of \$2,098,993 from three Indian tribes that had a total of \$80,456,059 on deposit in the United States Treasury. In addition, the Area Office had not taken action to ascertain and collect the amounts due for similar expenditures from two other tribes that had a total of \$4,433,080 on deposit in the Treasury at that date.

As of March 31, 1960, the following three tribes owed the Government large sums for accumulated reimbursable expenditures and had ample funds in the United States Treasury from which recovery could be made.

<u>Indian tribe</u>	<u>Reimbursable amount due U.S.</u>			<u>Tribal funds in U.S. Treasury</u>
	<u>Operation and maintenance of irrigation projects</u>	<u>Other</u>	<u>Total</u>	
United Pueblos	\$1,392,926	\$ 4,000	\$1,396,926	\$ 1,639,661
Navajo	-	681,569 ^a	681,569	78,326,387
Jicarilla	20,498	-	20,498	490,011
Total	\$1,413,424	\$685,569	\$2,098,993	\$80,456,059

^aPurchase of land and water rights.

In addition, the Gallup Area Office records indicated that the Southern Ute and Mescalero Tribes were indebted for reimbursable amounts due to the United States as follows:

<u>Indian tribe</u>	<u>Reimbursable amount due U.S.</u>			<u>Tribal funds in U.S. Treasury</u>
	<u>Operation and maintenance of irrigation projects</u>	<u>Other</u>	<u>Total</u>	
Southern Ute	\$251,760	\$ -	\$251,760	\$3,944,666
Mescalero	52,269	73,421 ^a	125,690	488,414
Total	\$304,029	\$73,421	\$377,450	\$4,433,080

^aSupport of Indians.

However, the records of the Area Office do not appear to be correct because these two tribes do not own all the irrigation project lands for which operation and maintenance expenditures were made. Therefore, the exact amounts due from these tribes may be less than the amounts indicated. The Area Office had not determined the exact amounts due from these two tribes.

Area officials told us that they had not attempted to recover reimbursable amounts by offset because of the possibility that the Secretary may cancel the indebtedness under the Leavitt Act (25 U.S.C. 386a) and because collection action might have an adverse effect on relations between the tribes and the Bureau.

The act of August 1, 1914 (25 U.S.C. 385), requires the Secretary of the Interior to collect the operating costs of irrigation projects when the Indians have adequate funds to repay the Government. The various acts which provided funds for other than irrigation operations and maintenance expenditures contained provisions that the amounts appropriated were reimbursable.

The act of April 4, 1910, as amended (25 U.S.C. 145), provides authority for the Secretary of the Interior to recover

reimbursable amounts due the United States from funds held in trust or otherwise by the United States Treasury for Indian tribes.

We believe that, when a tribe is the beneficiary of reimbursable expenditures, the reimbursable amount should be recovered by offset against any tribal funds the tribe has on deposit in the United States Treasury, as required by the act of April 4, 1910.

Recommendation to the Secretary of the Interior

To recover reimbursable amounts due from the above-mentioned tribes to the United States in accordance with the provision of the act of April 4, 1910, we recommend that the Secretary offset the reimbursable amounts due against their tribal funds held in the United States Treasury.

NEED TO COLLECT OR PROPERLY DISPOSE OF REIMBURSABLE OPERATION AND MAINTENANCE COSTS

The Bureau has not taken the action necessary to collect, adjust, or cancel certain reimbursable operation and maintenance costs due the Government in the Portland Area.

In our report to the Secretary of the Interior on the audit of the Wapato Irrigation Project, Yakima Indian Reservation (B-132935, issued May 11, 1959), we reported a need to take collection action or to determine proper disposition of \$1,291,416 classified in account 213.2 at June 30, 1958, as unpaid irrigation operation and maintenance costs due the Government from irrigation projects in the Portland Area. On March 18, 1959, the Administrative Assistant Secretary of the Interior advised us that the Portland Area would be requested to review the account to determine whether the amounts should be reclassified as part of the over-all

construction costs. He advised us also that if it was found that reclassification of the amounts as construction costs was inappropriate, steps would be taken to provide for the repayment, adjustment, or cancellation of the amounts in accordance with applicable acts of the Congress.

As of June 30, 1960, \$1,265,686 was still classified as reimbursable operation and maintenance costs. The changes in this account from June 30, 1958, through June 30, 1960, follow:

Balance, June 30, 1958		\$1,291,416
Additional operation and maintenance expenditures		<u>51,454</u>
		1,342,870
Less:		
Collected on Lummi Project	\$ 2,149	
Canceled on Wapato Project	<u>75,035</u>	<u>77,184</u>
Balance, June 30, 1960		<u>\$1,265,686</u>

Portland Area officials told us during our current review that recorded costs would probably be reduced at the Wapato and Fort Hall Projects if pending legislation was enacted (H.R. 12771, H.R. 12363, and S. 3650, 86th Cong.). These bills were not enacted and similar bills have been introduced in the Eighty-seventh Congress as House bill 115 (Wapato) and Senate bill 1294 (Fort Hall). If enacted, these bills would, among other things, result in an adjustment of the designated acreage of these projects and of the charges and assessments against the affected lands. Because of pending legislation, area officials have not taken collection action or determined the proper disposition of reimbursable operation and maintenance costs due the Government from these

projects. Also, area officials told us that litigation on the Ahtanum Project and local government action affecting the Monse Project had caused them to defer action to collect from these projects.

We realize that the circumstances described have necessitated a delay in taking action on these projects. However, we believe that action could have been taken to collect or to make proper disposition of the amounts due from the other projects.

Recommendation to the
Commissioner of Indian Affairs

Because Portland Area officials have not taken steps to collect, adjust, or cancel reimbursable operation and maintenance costs due the Government, we again recommend that the Commissioner take the action necessary to provide for the collection or proper disposition of reimbursable operation and maintenance costs due the Government in the Portland Area.

OVEREXTENSION OF CREDIT TO INDIVIDUAL BORROWERS

Four Alaska native village associations¹ which have received loans from the Government for the operation of canneries and for relending to association members have made loans to individual members in amounts beyond the point of reasonable expectation of full recovery.

The Bureau operates a revolving loan fund authorized by the Congress from which it makes direct loans to tribes and other Indian organizations to enable them to make loans to members and associations of members and to finance tribal business enterprises. Direct loans from this fund are also made to individual members. Loans from this fund to assist the natives in Alaska are authorized by the act of May 1, 1936 (25 U.S.C. 473a).

The Bureau has made loans from its revolving loan fund to four native associations in Alaska for acquiring and operating salmon canneries and for relending to association members to acquire fishing boats and gear. The associations also make seasonal advances to individual members for equipping and operating their fishing boats. Seasonal advances are repayable by the members from proceeds from the sale of fish, and settlements are made by the associations at the close of the fishing season.

According to the Indian Affairs Manual, 47 I.A.M. 8.5C, the Bureau's credit policy is to approve a loan to any Indian legally eligible for the loan who cannot obtain financing elsewhere and to

¹Angoon Community Association, Hydaburg Cooperative Association, Klawock Cooperative Association, and Organized Village of Kake.

assume greater risk than is assumed by the customary lender, provided there is a reasonable expectation that the loan can be repaid. The Manual does not prescribe credit limits for the guidance of those responsible for approving loans.

At June 30, 1960, there were 92 loans outstanding totaling \$1,242,361 to members of the four native village associations. Of these, 86 loans totaling \$1,078,771 were delinquent. The Bureau has estimated a potential loss of \$158,443 by the associations on these loans.

By comparison, 88 of these loans totaling \$1,058,910 were outstanding at June 30, 1959. Of the 88 loans, 85 totaling \$970,373 were delinquent. The Bureau had estimated a potential loss of \$132,406 by the associations on these loans.

We noted that, at the four native village associations, the amounts due on many of the loans outstanding at the end of the operating year (March 31, 1960) exceeded the associations' estimated value of the borrowers' boats and/or fishing gear. At the Klawock Cooperative Association, for instance, on 15 of the 23 loans outstanding at this date, the amount due the association was \$194,210, whereas the borrowers' boats and gear value was estimated at only \$120,200. Examples of loans in excess of the association's estimated value of the boats and gear follow.

<u>Boat</u>	<u>Loan and interest balance at 3-31-60</u>	<u>Association's estimated value of boat and gear</u>	<u>Excess of loan over value of boat and gear</u>
Fashion	\$15,397	\$ 500	\$14,897
Verness	14,435	1,200	13,235
Ruby Jean	25,838	17,000	8,838
Rex	10,775	4,000	6,775
Rebecca II	11,628	6,000	5,628
Fishhound	8,887	4,500	4,387

In addition to being indebted for loans on their boats and gear, these owners were also indebted for seasonal advances, received from the associations' canneries, for equipping and operating their boats.

In a report by a certified public accounting firm on the interim audit of the Klawock Oceanside Packing Company cannery accounts for the operating year ended March 31, 1958, the auditors stated in regard to individual boat loans that:

"It is obvious that the Klawock situation has reached proportions of extreme seriousness. Even if the boats could be sold at the indicated market values (which may be subject to question due to their size and condition) the government would suffer very heavy losses from its loans to Klawock.

"The condition of the Klawock fleet is, in general, poor. To continue a program which allows boat owners to incur heavy boat repairs annually without expectation of meeting expenses from adequate fish catches is to be questioned. The result can not only be disastrous to the enterprise but to the individual boat owner as well, causing him to go further into debt which he can never hope to repay."

Our review of the Bureau's records indicated that at June 30, 1960, the four native village associations were indebted to the Government in the amount of \$1,328,270 for relending activities. Association members were delinquent in repayments to the associations totaling \$1,078,771, and many of these loans exceeded the recoverable value of the boats and gear posted as collateral. There is a probability that many of these loans will not be repaid.

Our review of the Bureau's records indicated also that the unpaid balances on the seasonal advances made to individual boat operators by the four native associations have increased greatly and that many of these advances probably will not be repaid. At

Klawock Cooperative Association, for example, the unpaid advances to boat operators increased from about \$54,000 at April 1, 1957, to about \$198,000 at March 31, 1960. Furthermore, the Association had established a provision for possible losses on these accounts of about \$136,000 at March 31, 1960. At that date, there were advances outstanding totaling about \$518,000 at the four native associations, for which a provision for possible losses of about \$236,000 had been established.

The Bureau informed us that the shortage of fish made it difficult for boat owners to repay their loans and seasonal advances.

We believe that the Bureau should establish reasonable credit limits for both loans and seasonal credit advances to protect the Government from losses.

Recommendation to the
Commissioner of Indian Affairs

To minimize the amount of loans that the Government will not recover from the native fishery associations, we recommend that the Commissioner establish reasonable credit limits on both fishing boat and gear loans and seasonal advances made to individual members.

EXCESSIVE FREIGHT RATES CHARGED FOR
GOVERNMENT SHIPMENTS ON VESSEL "NORTH STAR"

Freight rates charged for BIA and other Government shipments on the vessel "NORTH STAR" are substantially higher than those charged for shipments for native associations or cooperatives and commercial enterprises. The significantly higher freight rates charged for Government shipments result in the use of appropriated funds to provide IMPL (Indian Moneys, Proceeds of Labor) fund balances and to pay for a large share of the cost for transporting non-Government freight.

BIA operates the vessel "NORTH STAR" from Seattle, Washington, to and between various isolated ports in Alaska for the purpose of carrying supplies and passengers to schools, hospitals, native associations, and cooperatives under the jurisdiction of the Bureau and to other governmental activities in Alaska. Limited commercial interport and return cargoes and passengers are also carried. Commercial surface carriers do not provide service to most of these ports because they have found it unprofitable. The cost of operating the vessel is paid from IMPL funds. IMPL funds are miscellaneous revenues, derived from Indian reservations, agencies, and schools, which are made available for expenditure, in the discretion of the Secretary of the Interior, for the benefit of the Indian tribes, agencies, and schools on whose behalf they are collected. The two primary uses of these funds by the Bureau are (1) supplementing appropriated funds and (2) establishing and operating service enterprises.

A rate of \$75 a ton, weight 2,000 pounds or measure 40 cubic feet, whichever is greater, is charged for freight, except boats,

transported for Government agencies to or from Seattle, Washington, and Alaska ports, or between Alaska ports. The commercial rate or a rate of \$20 a ton, whichever is less, is charged for transporting native craft products and other non-Government freight, except boats. Therefore, at the rate of \$75 a ton the Government is paying at least 3-3/4 times the \$20-a-ton rate charged for native craft products and for other non-Government shipments.

From July 1, 1955, the beginning of the operation of the vessel "NORTH STAR" from IMPL funds, to April 30, 1960, income has exceeded expenses by about \$463,000. The net income for fiscal year 1959 was about \$107,000. The sources of income from "NORTH STAR" operations for fiscal year 1959 were as follows:

<u>Source of income</u>	<u>Percentage of income</u>
Government:	
Bureau of Indian Affairs	41.4
Other	<u>14.2</u>
Total Government	<u>55.6</u>
Non-Government:	
Native enterprises	31.3
Other	<u>13.1</u>
Total non-Government	<u>44.4</u>
Total	<u>100.0</u>

Fiscal year 1959 income from Government shipments was about \$353,000. If the Government shipments had been made at the rates paid by non-Government shippers, total income would have been about \$259,000 less and, instead of a net income of about \$107,000 for fiscal year 1959, there would have been a net loss of about \$152,000. Therefore, it follows that the rates charged for

transporting non-Government freight are insufficient to cover the related transportation costs. Consequently, Government funds are paying a large share of the cost to transport non-Government freight and are providing IMPL funds.

A Seattle Liaison Office official told us that, where possible to do so, the freight rates applied to native shipments are based on current rates of common carriers but that, for many of the isolated points, there is no commercial surface transportation service and the "NORTH STAR" rates are based on commercial rates at the nearest point in the area. He believes that commercial freight rates in general would not provide sufficient revenue to cover "NORTH STAR" and terminal operating expenses and that the native associations should not have to pay more than commercial rates, otherwise their products could not be priced competitively.

We believe that under 48 U.S.C. 50f, which permits the deposit into the IMPL fund of miscellaneous revenues derived from facilities maintained and operated for the benefit of natives of Alaska, it was not intended that the Government would pay for part of the cost of shipping non-Government freight or that the Bureau would provide IMPL fund balances at the expense of appropriated funds by charging a disproportionate rate to haul Government freight.

Recommendations to the
Commissioner of Indian Affairs

So that appropriated funds will not be used to provide IMPL fund balances, we recommend that the Commissioner reduce the "NORTH STAR" freight rates for Government shipments so that total revenues will approximate the applicable costs. We recommend also

that the Commissioner consider increasing the freight rates for non-Government shipments to bring them more in line with the freight rates for Government shipments.

SEGREGATED TRUST FUNDS NOT PAID TO CERTAIN UNRESTRICTED MEMBERS OF THE OSAGE TRIBE

The amounts due some members of the Osage Tribe who have been issued certificates of competency have not been transferred out of the segregated trust fund accounts, in accordance with the requirements of the act of February 5, 1948 (62 Stat. 18; 25 U.S.C. 331 note).

Our review at the Osage Agency disclosed that as of October 15, 1959, segregated trust funds of \$304,020 belonging to 92 unrestricted individuals were on deposit. The Government pays 5 percent interest on segregated trust fund balances.

The act of February 5, 1948, provides that, after issuance of a certificate of competency to a member of the Osage Tribe of less than one half Indian blood and 21 years or older, all money, property, and funds to the credit of the individual shall be paid and delivered to him. However, in June 1959, the Acting Muskogee Area Director stated that in the opinion of his office there is no authority to force unrestricted individuals to withdraw segregated trust funds to their credit and that such funds may be withdrawn only upon the written application of the trust fund owners. The Osage Agency has, over the past several years, reduced the number of unrestricted segregated trust fund accounts from 192 to 92 through correspondence with the owners.

In 1948 the Commissioner of Indian Affairs, acting upon the request of two members of the Osage Tribe of less than one half

Indian blood and 21 years or older who desired to leave their segregated trust funds on deposit, wrote the Superintendent of the Osage Agency and stated that the amounts due these two individuals should not remain in the segregated trust fund accounts. The Commissioner stated also that the Agency could, however, accept these funds for deposit to the individual Indian money (IIM) accounts as an accommodation to these individuals. No interest is paid on amounts on deposit in the IIM accounts.

We believe that 25 U.S.C. 331 note requires the payment of segregated trust funds to members of the Osage Tribe of less than one half Indian blood and 21 years or older, without the need for written authorizations of the members. If the members refuse acceptance, the funds should be transferred to individual Indian money accounts.

Osage Agency officials agreed that these funds should be taken out of the segregated trust fund accounts but stated that they cannot do so because of the decision of the Muskogee Area Office.

Recommendation to the Commissioner of Indian Affairs

To discontinue payment of interest on segregated trust fund balances of unrestricted members of the Osage Tribe of less than one half Indian blood and 21 years or older, we recommend that the Commissioner have these funds paid to the owners or transferred to their individual Indian money accounts.

NEED TO CHARGE APPLICABLE COSTS
OF THE BRANCH OF PLANT DESIGN AND CONSTRUCTION
TO ALL CONSTRUCTION PROJECTS

The Branch of Plant Design and Construction in Albuquerque, New Mexico, charges the cost of the technical services it provides to expense accounts instead of to applicable construction projects. This practice results (1) in an understatement of the costs capitalized for the assets constructed for the Bureau and (2) in charging reimbursable projects undertaken for the United States Public Health Service (PHS) for such services on the basis of an arbitrary rate which cannot readily be evaluated for adequacy.

The Branch of Plant Design and Construction provides the architectural and engineering services for the design and construction of the Bureau's buildings, other structures, and utility and communications systems. The Branch also assists the PHS in the preparation of construction programs for the Division of Indian Health, PHS.

The Bureau of Indian Affairs Manual (42 IAM 5.5.2A(2)) provides that the costs of architectural and engineering services shall be charged to particular construction work orders and plant-in-service accounts. However, during fiscal years 1957, 1958, and 1959, such costs which totaled about \$2.6 million were charged to expense accounts instead of the facilities constructed for the Bureau.

In fiscal years 1956 through 1959, the Branch of Plant Design and Construction charged an arbitrary rate of 4.5 percent of the amount allotted for PHS projects to cover the cost of the architectural and engineering services provided. The rate in effect was

based on staff estimates and not on actual cost experience. The Bureau's Manual prohibits the use of arbitrary percentages to prorate the cost of such services and requires that the costs be apportioned to specific construction work orders on a reasonable basis.

Branch officials stated that the practice of charging architectural and engineering costs to expense accounts was in accordance with established procedures, as outlined in 42 IAM 5.2.3C(19). The pro forma entry required by this section of the Manual upon completion of construction work in progress shows that the cost for central and area office engineering plans and surveys is to be written off to the Invested Capital Account. This entry does not comply with instructions issued in 42 IAM 5.5.2A(2) discussed above which require that such costs shall be charged to particular work orders and plant-in-service accounts.

We believe that the direct costs incurred by the Branch of Plant Design and Construction in connection with providing architectural and engineering services should be charged directly to all projects concerned, including the PHS projects. The indirect overhead costs incurred should be allocated to all projects on the basis of a predetermined rate based on actual cost experience. The amount of such indirect costs allocated should be compared periodically with the total actual indirect costs incurred and appropriate action taken when necessary to adjust the predetermined rate so that the total indirect costs allocated will to the extent possible approximate the actual indirect costs incurred.

Recommendations to the
Commissioner of Indian Affairs

To provide for the proper capitalization of all applicable costs incurred at the Branch of Plant Design and Construction on Bureau construction projects and for the proper recovery of costs incurred in regard to reimbursable work performed on Public Health Service projects, we recommend that the Commissioner take appropriate action to require that all direct architectural and engineering costs be charged to the projects concerned and that related indirect costs be prorated on the basis of a predetermined rate based on actual cost experience. We recommend also that the predetermined rate be periodically reviewed and adjusted if necessary.

UNUSED REVENUES SHOULD BE REVIEWED FOR
POSSIBLE TRANSFER TO THE GENERAL FUND OF THE TREASURY

The Bureau has inactive unobligated funds of about \$68,000 representing revenues received under the provisions of the act of June 26, 1936 (25 U.S.C. 507). It appears that the purposes of this act have been fulfilled because no obligations have been incurred and no disbursements have been made from this fund since August 1951.

The act of June 26, 1936, provided a program for the purchase of land and the making of loans to Indians in Oklahoma. The act provided basically that any royalties, bonuses, or other revenues derived from mineral deposits underlying lands purchased in Oklahoma under the act shall be available for expenditure by the Secretary of the Interior for the acquisition of lands and for loans to Indians in Oklahoma. As of June 30, 1959, revenues of \$68,316 had accumulated under this provision of the act. No obligations have

been incurred and no disbursements have been made from this fund since August 31, 1951, at which time the unobligated balance was \$12,419.

Muskogee Area officials advised us that no land is being purchased for, and no loans are being made to, Indians in Oklahoma under the authority of this act. They believe that these funds cannot be withdrawn unless the act is canceled or amended.

Normally, under section 6 of the act of July 25, 1956 (31 U.S.C. 706), the unobligated balances of appropriations which are not limited to a definite period of time are withdrawn whenever the head of the agency concerned determines that the purposes for which the appropriation was made have been fulfilled or, in any event, whenever disbursements have not been made against the appropriation for two full consecutive fiscal years.

We believe that the Bureau should review these accumulated revenues for the purpose of determining whether they should be transferred to the general fund of the Treasury.

Recommendation to the
Commissioner of Indian Affairs

To dispose of unused revenues received under the provisions of the act of June 26, 1936, we recommend that the Commissioner have a review made of the accumulated revenues for the purpose of determining whether they, as well as all future revenues received under this act, should be transferred to the general fund of the Treasury.

RENTAL CHARGES SHOULD BE CONSIDERED FOR EQUIPMENT
LOANED BETWEEN IRRIGATION ACTIVITIES

At the irrigation projects in the Gallup Area, equipment is loaned between construction and operation and maintenance

activities without corresponding rental charges. The proper charging of and accounting for these costs are important because operation and maintenance costs are generally reimbursable annually, whereas the payment of irrigation construction costs is usually spread over many years or, in the case of Indian-owned land, deferred until Indian title is extinguished.

The Indian Affairs Manual (55 IAM 5.1.G(2)) provides the policy and procedures for rentals of equipment to other activities and projects of the Bureau and to private contractors but is silent as to rental charges between irrigation activities.

Our review at the Navajo, United Pueblos, and Pine River Irrigation Projects disclosed that equipment is used interchangeably by irrigation activities with no rental charges being made. For example, at the Navajo Irrigation Projects for varying periods during fiscal year 1959, about 60 pieces of construction equipment, such as motor vehicles, tractors, scrapers, and air hammers, were used for operation and maintenance activities, while 12 pieces of similar operation and maintenance equipment were used in construction work. The possible rental charges involved in this use of exchanged equipment was not readily ascertainable. At the Pine River Project, three motor vehicles purchased with construction funds were used for operation and maintenance activities for a total of about 130 days during the period March 22 to June 27, 1959. We estimated that the operation and maintenance activity should have been billed about \$500 for use of these vehicles.

Gallup Area Office officials believe that the Bureau's Manual is not clear on the charging of rent for equipment used interchangeably by irrigation activities.

Recommendation to the
Commissioner of Indian Affairs

We recommend that the Commissioner have a study made to determine whether the establishment of rental rates for equipment loaned between construction and operation and maintenance irrigation activities is feasible.

UNNECESSARY DUPLICATE FILE OF POWER BILLS MAINTAINED

The maintenance of duplicate files of power bills at the Flathead Irrigation Project results in unnecessary recordkeeping.

Monthly power bills at the Flathead Irrigation Project are prepared in quadruplicate. The original statement is mailed to the customer, and the three copies are forwarded to the collection offices. The copies are designated as (1) customer's official receipt, (2) General Accounting Office (GAO) copy, and (3) Bureau memorandum copy. When remittances are received, the customer's official receipt is mailed to the customer and the GAO and Bureau copies are returned to the project office and filed separately to provide a record of the power billings. These copies contain identical information; therefore, the maintenance of duplicate records is unnecessary.

Project officials agreed that the maintenance of duplicate files of power bills serves no useful purpose but stated that the maintenance of a copy for GAO audit purposes was a requirement of General Regulations No. 87, dated June 25, 1936, as amended. However, this regulation was superseded by the General Accounting Office Policy and Procedures Manual for Guidance of Federal Agencies issued in September 1957. The Manual (7 GAO 3020.30) provides that it will be incumbent upon administrative agencies to maintain a record of each collection item in sufficient detail to readily identify any item if called upon to do so within the regular time limit of the approved records program of the agency. The maintenance of one file by the project office satisfies the needs of our office.

The maintenance of duplicate records of power bills is unnecessary and incurs additional administrative expense in handling and storing these records.

Recommendation to the
Commissioner of Indian Affairs

To eliminate duplicate recordkeeping at the Flathead Irrigation Project, we recommend that the Commissioner direct project officials to maintain only one file of power bills.

UNNECESSARY RECEIPTS FURNISHED TO POWER CUSTOMERS

The furnishing of receipts at the Colorado River Agency and the Flathead Irrigation Project to power customers who make remittances by check or money order results in unnecessary expense to the Government.

The Flathead Irrigation Project and the Colorado River Agency spend about \$1,200 and \$200, respectively, for postage each year for mailing receipts to customers who make remittances by check or money order. Moreover, undetermined administrative expenses are incurred in the preparation and handling of these receipts.

The Indian Affairs Manual (42 IAM 6.3.2(G)(4)) requires that a receipt be furnished to each customer as evidence of payment. However, we believe that the customer's canceled check or money order receipt constitutes a bona fide record of payment and that the mailing of a receipt is unnecessary.

Colorado River Agency officials agreed that the mailing of receipts is unnecessary and stated that they would take action to discontinue this practice. Flathead Irrigation Project officials agreed that discontinuing this practice would result in savings and stated that careful consideration would be given to this matter.

Recommendation to the
Commissioner of Indian Affairs

We recommend that, to reduce operating costs, the Commissioner revise the Bureau's Manual to eliminate the requirement that receipts be furnished to power customers who remit by check or money order.

SUCCESSOR (M) ACCOUNT OBLIGATIONS FOR
AMOUNTS LESS THAN \$5 NOT CONSIDERED FOR DEOBLIGATION

The Billings Area Office has not given consideration to the removal of obligations of less than \$5 from successor (M) accounts. At the time of our review, these accounts included 63 obligations of less than \$5 totaling \$207.

The General Accounting Office Policy and Procedures Manual for Guidance of Federal Agencies (7 GAO 2080.80) provides that in reviewing successor merged "M" accounts items of payables or receivables under \$5 should be given special attention and adjustments made to remove such items where there is only a slight possibility that payment or collection will be made and that single items of \$1 or less should be deobligated and written off.

The Indian Affairs Manual (42 IAM 6.3.3A (4) (e)) provides for writing off and deobligating those amounts of less than \$1 but makes no provision for the review of amounts of less than \$5 for the purpose of removing them.

Area officials advised us that a revision of the Indian Affairs Manual would be necessary to permit them to write off obligations of less than \$5 but more than \$1.

Recommendation to the
Commissioner of Indian Affairs

In order that BIA Area offices can deobligate and write off amounts of less than \$5 in successor (M) accounts, we recommend that the Commissioner require that appropriate revisions be made to the Bureau's Manual.

IMPROPER RETENTION OF PROCEEDS
FROM SALE OF SURPLUS PROPERTY TO BE CORRECTED

Proceeds from the sale of surplus property items by the Juneau Area Office have not been deposited into miscellaneous receipts of the Treasury but have been retained in the IMPL fund.

Since 1957, approximately \$8,000 received from the sale of various surplus property items by the Juneau Area Office has been retained in the IMPL fund, contrary to 40 U.S.C. 485(a and c) which requires generally that all proceeds from any sale of surplus property shall be covered into the Treasury as miscellaneous receipts, unless otherwise proper for deposit as a reimbursement to the fund from which the property was originally purchased.

The surplus property items sold were not originally purchased from IMPL funds but were obtained without exchange of funds or were procured with BIA appropriated funds. Therefore, under the law cited above, the proceeds from the sale of these surplus property items should have been covered into the Treasury as miscellaneous receipts.

Bureau officials agreed with us and have instructed the Juneau Area Director to deposit into miscellaneous receipts of the Treasury the proceeds of all items sold which were not originally acquired with IMPL funds.

SUMMARY OF REPORTS TO BIA AREA DIRECTORS

GAO regional managers issued the following reports to the appropriate area directors or to the Chief, Branch of Plant Design and Construction, on reviews of selected administrative operations and related financial practices and of irrigation and power activities. These reports included comments on observed weaknesses which could be corrected by area officials and our recommendations for corrective action, where necessary.

	<u>Date of report</u>
Report on review of selected administrative operations and related financial practices:	
Branch of Plant Design and Construction, Albuquerque, N. Mex.	7-25-60
Aberdeen Area Office	2- 1-61
Anadarko Area Office	6- 3-60
Billings Area Office	3-29-61
Gallup Area Office	1- 9-61
Juneau Area Office	10-28-60
Menominee Indian Mills	4-27-61
Muskogee Area Office	6- 6-60
Phoenix Area Office	8- 8-60
Portland Area Office	10-26-60
Report on review of irrigation and power activities:	
Billings Area Office	6-29-60
Gallup Area Office	12-21-59
Phoenix Area Office	(note a)

^aIncluded in report issued on August 8, 1960, on review of selected administrative operations and related financial practices.

Copies of the above reports have been sent to the Commissioner, Bureau of Indian Affairs.

Among the more prevalent matters included in our reports to area directors were (1) weaknesses in administration of individual Indian money accounts, (2) lack of follow-up on delinquent accounts receivable, (3) weaknesses in accounting for irrigation

construction costs, (4) errors in accounting and payroll preparation, (5) weaknesses in property accounting, and (6) failure to take corrective action on matters reported by the Bureau's internal auditors. Upon completion of our audits, we discussed all our findings with local BIA officials who generally expressed concurrence with our findings and recommendations.

Generally, these weaknesses were not significant by themselves, but since in several instances they were found to exist at more than one location, they indicate a need for follow-up action, particularly as a part of an effective internal program of administrative review and inspection.

SCOPE OF REVIEW

Our review at certain offices of the Bureau of Indian Affairs covered selected administrative operations and related financial practices. The review included an examination of the policies, practices, and controls in effect with respect to budgetary accounting, revenues, procurement, payroll operations, reimbursable amounts due the United States, individual Indian money accounts, travel and transportation of things, and custody and utilization of fixed assets and inventories. We reviewed also certain aspects of the Bureau's administration of irrigation and power activities. The reviews included such tests of current and prior year transactions as we deemed appropriate. In our review we placed primary emphasis on matters which appeared to need improvement, and we did not make a general evaluation of the activities we reviewed.

Our reviews were completed in August 1960 and were made at the following offices.

Anadarko Area Office
Muskogee Area Office
 Five Civilized Tribes Agency
 Osage Agency
Branch of Plant Design and Construction
Phoenix Area Office
 Colorado River Agency
 Uintah and Ouray Agency
Portland Area Office
 Colville Agency
 Yakima Agency
Juneau Area Office
 Seattle Liaison Office
 Mt. Edgecumbe School
Gallup Area Office
 Intermountain School
Aberdeen Area Office
 Fort Berthold Agency
Billings Area Office
 Flathead Agency
 Fort Peck Agency
Menominee Agency
 Menominee Indian Mills