

**AUDIT REPORT  
TO  
THE CONGRESS OF THE UNITED STATES**

**ADMINISTRATION OF FOREST MANAGEMENT ACTIVITIES  
BY  
BUREAU OF INDIAN AFFAIRS  
PORTLAND, OREGON, AREA OFFICE  
DEPARTMENT OF THE INTERIOR**

**NOVEMBER 1956**

**BY  
THE COMPTROLLER GENERAL OF THE UNITED STATES**



COMPTROLLER GENERAL OF THE UNITED STATES  
WASHINGTON 25

B-114868

APR 9 - 1957

Honorable Sam Rayburn  
Speaker of the House of Representatives

Dear Mr. Speaker:

Herewith is our report on the Administration of Forest Management Activities by the Bureau of Indian Affairs, Portland, Oregon, Area Office, Department of the Interior, as of November 1956.

The Special Subcommittee on the Legislative Oversight Function, Committee on Interior and Insular Affairs, United States Senate, and the Subcommittee on Public Works and Resources, Committee on Government Operations, House of Representatives, sitting jointly, held hearings in November 1955 and February 1956 on Federal timber sales policies in the Pacific Northwest. In the reports issued by the committees, comments were made on various aspects of the Bureau's forestry program. Our review took the committee findings into consideration and this report includes comments on the principal deficiencies noted in our review together with our recommendations to the Secretary of the Interior and the Commissioner of Indian Affairs. Our findings relating to methods used by the Bureau in reappraising Indian timber on two long-term, large-volume sales on the Quinault Reservation are particularly significant.

A copy of this report is being sent today to the President of the Senate.

Sincerely yours,

A handwritten signature in cursive script, appearing to read "W. A. Campbell".

Comptroller General  
of the United States

Enclosure

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REPORT ON REVIEW  
OF  
ADMINISTRATION OF FOREST MANAGEMENT ACTIVITIES  
BY  
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DEPARTMENT OF THE INTERIOR  
NOVEMBER 1956

The General Accounting Office has made a review of the administration of forest management activities by the Bureau of Indian Affairs, Portland, Oregon, Area Office, Department of the Interior. This examination was made 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). The examination was performed at the Portland, Oregon, Area Office of the Bureau and at the Klamath, Warm Springs, Western Washington, Yakima, and Colville Indian Agencies. The field work was completed in November 1956. The scope of our review is explained on page 53.

GENERAL COMMENTS

Pursuant to its responsibility under law for the trusteeship, development, protection, and effective use of Indian lands, resources, and other assets, the Bureau of Indian Affairs (BIA) administers about 16 million acres of Indian-owned forest and woodland containing about 41 billion board feet of timber. Although up-to-date and accurate inventory figures on Indian timber are not available for all locations, the Bureau estimates that about

6 million acres or 38 percent of this area with an estimated volume of 30 billion board feet of timber are commercial timber lands. The remaining 10 million acres contain an estimated volume of 11 billion board feet of timber which is considered noncommercial because of its inaccessibility or because it is of inferior timber species. An up-to-date inventory of forest lands would result in a considerable increase in the estimate of usable timber on hand because additional grades of timber and species of trees are now considered to be merchantable.

The Portland Area Office is responsible for management of about 2,600,000 acres of the 6,000,000 acres of commercial forest lands administered by the Bureau of Indian Affairs. In addition, the Portland Area administers about 400,000 acres of noncommercial forest lands. Seventeen billion board feet or about 56 percent of the estimated total timber on commercial forest lands administered by the Bureau is under jurisdiction of the Portland (Oregon) Area Office. An estimated 16,845,000 Mbf (thousand board feet) is on reservations supervised by the five agencies visited during our review.

Forest management includes forest inventorying; growth studies; preparation of management plans; protection of the forests from fire, insects, disease, and trespass; appraisal and reappraisal of stumpage in accordance with contractual provisions; and administration of active timber sales, including general supervision, marking of trees to be cut, scaling of cut trees or logs to determine merchantable volumes and amounts due from purchasers, and disposing of logging slash.

Forest management and protection are financed from appropriations by Congress and from funds made available by the various tribes. It is the stated policy of the Bureau to encourage increasing participation by the tribes in the financing of their forestry programs.

The first general authorization for sale of live timber from Indian land was the act of June 25, 1910 (25 U.S.C. 406-407). Most of the sales of Indian timber subsequent to 1910 have been accomplished under the provisions of this act. Section 6 of the Indian Reorganization Act of June 18, 1934 (48 Stat. 986), provides that the Secretary of the Interior shall make rules and regulations for the operation and management of Indian forests on the principle of sustained yield management. This act applies to tribes that have accepted it, but it is also the policy of the Secretary of the Interior to manage the timberlands of other tribes in accordance with the principle of sustained yield wherever timber is available in sufficient quantity to render such policy economically feasible.

Timber is sold under contract or under permit. Sales of an estimated value of greater than \$100 are made under contract after advertisement by sealed bid, by public auction, or by a combination thereof. Open-market sales to Indians, however, may be made without advertisement for timber not exceeding \$5,000 in amount. All sales of timber of less than \$100 are covered by permit.

In calendar year 1955, the latest year for which complete data are available, Bureau-administered Indian timber cut for sale was 694,391 Mbf and receipts from sales amounted to \$11,371,365.

In the Portland Area for the same year the timber cut for sale totaled 472,553 Mbf and receipts from sales totaled \$8,478,981, accounting for 70 percent and 74 percent, respectively, of all Indian timber sold. Timber operations at the five agencies visited by us accounted for 68 percent of all Indian timber cut for sale in calendar year 1955 and for 72 percent of the total receipts in that period. Sales for calendar year 1955 in the Portland Area are summarized:

Location	Total		Timber cut under contract		Timber cut under permit	
	Mbf	Receipts	Mbf	Receipts	Mbf	Receipts
<b>Visited by GAO:</b>						
Colville	89,749	\$1,483,638	89,534	\$1,483,156	215	\$ 482
Klamath	80,775	2,608,353	80,684	2,608,084	91	269
Warm Springs	52,696	996,653	52,696	996,653	-	-
Western Washington	182,441	1,637,590	182,187	1,635,475	254	2,115
Yakima	50,313	1,474,727	50,308	1,474,662	5	60
	<u>455,974</u>	<u>8,200,961</u>	<u>455,409</u>	<u>8,198,035</u>	<u>565</u>	<u>2,926</u>
<b>Not visited by GAO:</b>						
Grand Ronde-Siletz	1,682	33,885	1,682	33,885	-	-
Northern Idaho	5,921	69,851	5,251	65,941	670	3,910
Umatilla	8,976	174,284	8,946	173,984	30	300
<b>Total</b>	<u>472,553</u>	<u>\$8,478,981</u>	<u>471,288</u>	<u>\$8,471,845</u>	<u>1,265</u>	<u>\$7,116</u>

During our review of the administration of forest management activities, we observed certain deficiencies in the various forestry programs. Following is a brief description of the principal deficiencies noted and our recommendations thereon for corrective action.

## PRINCIPAL FINDINGS AND RECOMMENDATIONS

### 1. Absence of current reliable forest inventories upon which to base the development of management plans

Forest management plans based upon accurate forest inventories have not been developed at the Warm Springs, Western Washington, Yakima, and Colville Agencies. A prerequisite to sound forest management is an accurate forest inventory that shows where the timber is, how much there is by species, and the potential growth by species and by areas. Forest inventory and growth data for the Indian reservations of the Portland Area are inadequate.

We are recommending that the Commissioner, Bureau of Indian Affairs, take steps to assure that the completion of forest inventories and the development of comprehensive forest management plans are expedited. Our detailed comments and recommendations on forest inventories and management plans are on pages 13 and 14.

### 2. Bureau has undervalued timber sold under long-term contracts on the Quinault Reservation

We reviewed the October 1, 1955, reappraisals by the Bureau of Indian Affairs of timber sold under contracts No. I-101-IND-1902, Crane Creek Unit, purchased by Rayonier, Incorporated, and

No. I-101-IND-1766, Taholah Unit, purchased by Aloha Lumber Company, and concluded that the Bureau has undervalued this Indian timber because it has:

- a. Substantially underestimated the quality of western red cedar, the predominant species in these units.
- b. Incorrectly computed the interest expense on advance payments made by the purchasers to Indian allottees. As a result, the interest allowance made is too high.
- c. Improperly allowed profit and risk on the amount of the interest expense allowances. The interest allowance should not have been included in the base upon which the profit and risk allowance was computed.

In addition our comments in this report on log values (see pp. 15 and 16), profit and risk allowances (see pp. 17 to 19), and long-term, large-volume sales (see pp. 30 and 31) point out additional factors bearing on the low prices received for timber sold under these two contracts.

The Special Subcommittee on the Legislative Oversight Function, Senate Committee on Interior and Insular Affairs, and the Subcommittee on Public Works and Resources, House Committee on Government Operations, in their reports on Federal Timber Sales Policies make the observation that existing prices on the Quinault Indian Reservation are substantially below prices paid for comparable Federal timber in the same area. Our review findings tend to substantiate this observation.

So that income from timber sales on the Quinault Reservation will be more in line with the value of the timber, we are recommending to the Commissioner, BIA, that the Crane Creek and Taholah sales be reappraised immediately, giving full consideration to the factors cited above.

See pages 21 to 27 for a more detailed discussion of the October 1, 1955, reappraisals of the Crane Creek Unit and Taholah Unit.

3. Log values used in timber appraisals are low

Log values used by BIA in appraising Indian timber at Western Washington Agency reservations are low. The log values are generally lower than those used on appraisals of Government-owned timber in that area. The United States Forest Service in appraising Government-owned timber in that area uses a wider range of data in setting log values than BIA uses on Indian timber. Bid prices received by the Forest Service on sales on the West Side (western slope and west of Cascade Mountain Range) are usually in excess of the appraised values which are based on the higher log values. Because log values used are not representative of the true value of timber, consideration is being given to basing appraisals on the lumber or end-product market values.

We are recommending that, until such change is made, the Commissioner, BIA, require the Bureau to use additional sources of available log price data in appraising Western Washington Agency timber.

This matter is discussed further on pages 15 and 16.

4. Profit and risk allowances  
in appraisals and reappraisals

Profit and risk allowances in appraisals and reappraisals of Indian timber are greater than the allowances made on Government-owned timber sold in the same area. While the profit and risk allowances in Forest Service appraisals of Government-owned timber have generally declined during the past several years, the tendency

on Indian timber sales has been for the profit and risk allowances to rise generally to 12 to 15 percent. The Forest Service profit and risk allowances are based and periodically adjusted upon study and analysis of actual sales transactions. This data should be considered by the Bureau in the appraisal and reappraisal of Indian timber.

See pages 17 to 19 for further comments.

5. Inadequate control over logs moving from the woods to scaling points

Our review of timber-scaling operations on two long-term contracts on the Quinault Reservation disclosed that adequate controls to assure an accurate accounting for all logs leaving the sales areas do not exist. Cutting takes place at several locations simultaneously, and the logs are moved a considerable distance to several scaling points where they are scaled by a private scaling bureau. Essentially, the Bureau is dependent upon the proficiency and integrity of the timber purchasers and their contractors and employees to assure that all logs are properly scaled and accounted for.

We are recommending to the Secretary of the Interior and the Commissioner, BIA, that the Bureau design and place in use on the Quinault Reservation, and elsewhere as needed, procedures that will assure an accurate and reliable accounting for logs.

Further comments on this matter are on pages 34 to 36.

6. Long-term, large-volume sales deter competition for Indian timber

Our examination disclosed that less competition and lower prices are received on long-term, large-volume sales than are

received on relatively short-term, low-volume sales. Under the Bureau's timber sales policies many long-term, large-volume sales have been made in the past and many of these long-term contracts are still in effect.

We are recommending that the Secretary of the Interior and the Commissioner, BIA, make a study to determine whether long-term, large-volume sales should be discontinued and more short-term sales of smaller volume be made to help assure maximum competition and the receipt of top market prices for Indian timber.

Further comments are contained on pages 30 and 31.

#### 7. Inadequate check-scaling activity

Timber cut at most Indian agencies under the Portland Area Office is scaled (measured) by BIA employees. A certain portion of timber sold is also check-scaled (remeasured) by BIA employees. In calendar year 1955 the Portland Area agencies check-scaled only 3.13 percent of the total timber scaled during the year. For the five agencies visited by us the largest check-scale achieved was 4.65 percent and the lowest was 1.91 percent. No check scaling had been performed at the Colville Indian Agency for calendar year 1956, as of October 2, 1956. The Indian Affairs Manual (53 IAM 208.12H) states that check scaling of less than 5 percent of total volume ordinarily will be considered an inadequate check. Area and agency forestry employees were of the opinion that, as a minimum, the 5 percent requirement is sound. A "Check Scale Summary" report for calendar year 1955, which clearly disclosed the small volume of check scaling during that period, was forwarded to the Washington office (forestry branch) on March 27, 1956. No action

was taken by the Washington office to assure that a greater percent would be check-scaled in subsequent years.

We are recommending that the Secretary of the Interior and the Commissioner, BIA, take action to assure that annual "Check Scale Summary" reports are analyzed critically and that corrective action is promptly initiated when a report discloses an unsatisfactory level of check scaling.

Further comments are contained on pages 32 to 34.

8. Need for completion of access road systems on the Warm Springs and Yakima Reservations

Our reviews at the Warm Springs and Yakima Agencies disclosed a need for early completion of the access road systems at these reservations. On both reservations substantial areas are not accessible by road. The possibility of timber losses due to pine bark beetle infestation is acute on these reservations and adequate access roads should be available for salvage of the timber in the event of future major epidemics. Corollary benefits that would be derived from having a complete access road network on these reservations are better protection from fire, accelerated sanitation-salvage programs, and an impetus to competition for Indian timber. We believe that the costs incurred should be borne by the Indians since they will be the principal beneficiaries of the proposed road system.

Accordingly, we are recommending that the Commissioner, BIA, require discussion of this matter with the tribes with the objective of obtaining consent of the Indians for the use of tribal funds for access road construction.

This matter is also discussed on page 37.

9. Timber sale contracts do not specify the location of access roads or minimum construction standards

The Portland Area Office has not followed the practice of specifying in timber sale contracts the location of access roads to be built by timber purchasers or minimum construction standards to which the roads must be built. Since future sales plans contemplate that logging units will be developed by a succession of small-volume sales, it is important that the Bureau designate the location of each segment of the access road system that is constructed by the various purchasers. This designation will assure that the system will be logically and efficiently developed to tap all the timber in the unit at minimum cost. In these shorter term sales, the purchasers will not have a long-range interest in the access roads that they construct. For this reason the Bureau should establish minimum construction standards designed to assure that the roads are constructed for long-range use.

To assure that access roads are located and constructed to serve the long-range as well as immediate needs of the timber program, we are recommending that the Secretary of the Interior and the Commissioner, BIA, require that all timber sale contracts specify the location of access roads to be constructed by purchasers and minimum construction standards to which the roads must be built.

This matter is discussed further on pages 38 and 39.

10. Failure to recover administrative expenses from timber sale receipts

The Code of Federal Regulations (25 C.F.R. 61.25) provides that, unless otherwise instructed by the Commissioner, BIA,

10 percent of the gross amount received from timber sales will be deducted for administrative expenses. Amounts deducted are used to reimburse the Government or Indian tribe involved for costs incurred. If administrative expenses are less than 10 percent, the deductions are to be reduced accordingly. In computing the reimbursable expenses incurred, the Bureau excludes such forest management and protection expenses as timber access road maintenance costs, fire-suppression costs, Area Office direct forestry costs, and indirect costs at the agency and Area Office levels. If forestry is to be considered a reimbursable function, all definable costs incurred in carrying on the activity should be recognized before the percentage of administrative deductions is reduced below the 10 percent level prescribed in the regulation.

We are recommending to the Secretary of the Interior and the Commissioner, BIA, that all direct and definable forestry costs be considered as chargeable to the administrative fee deductions from timber sale receipts and that an accounting record be established to show cumulatively, by fiscal year and by reservation, total forestry expenditures and total administrative fee deductions. We are recommending also that, at reservations where the administrative fee deduction percentages have been reduced below 10 percent, these actions be reconsidered in the light of our report comments.

This matter is discussed in more detail on pages 43 to 46.

## ADMINISTRATION OF FOREST MANAGEMENT ACTIVITIES

### FOREST INVENTORIES

#### Absence of current reliable forest inventories upon which to base the development of management plans

Forest management plans based upon accurate forest inventories have not been developed at the Warm Springs, Western Washington, Yakima, and Colville Agencies. A prerequisite to sound forest management is an accurate forest inventory detailing where the timber is, how much there is by species, and the potential growth by species and by areas. From this data can be developed forest management plans and cutting budgets. Forest inventory and growth data for the above-listed Indian reservations of the Portland Area Office are inadequate.

The objectives sought in the management of Indian forests commit the Bureau to a policy of sustained yield forest management. In 25 C.F.R. 61.5 it is stated that this sustained yield forest management policy will be given practical expression through the medium of forest working plans for all reservations of major importance from an industrial forestry standpoint. Also, 25 C.F.R. 61.2 provides that the development of reservation timber will not be authorized until practical methods of cutting are prescribed which will assure the perpetuation of the forest, prevent

unnecessary waste, and make possible effective protection against destructive agencies.

Our review also disclosed that the Indian agencies listed above are not maintaining a perpetual timber inventory record as required by the Indian Affairs Manual (53 IAM 204.03). We were advised that the maintenance of this record was discontinued when it became evident that new forest inventories were needed and that its maintenance would be resumed at each agency when current forest inventory data have been obtained.

#### Recommendation

To provide a sound and effective basis for the orderly harvesting of Indian timber, we recommend that the Commissioner, BIA, take steps to assure:

1. That forest inventories on the major reservations in the Portland Area, except the Quinault Reservation,<sup>1</sup> be completed as soon as possible.
2. That comprehensive forest management plans be prepared for each reservation as soon as the forest inventories are completed.

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<sup>1</sup>Because of the large number of applications for fee patents and supervised sales being received at the Quinault Reservation, we concur with the views expressed by Western Washington Agency and Portland Area Office officials that a complete forest inventory at this reservation should be deferred until the long-range responsibilities of the Bureau can be clearly defined.

## APPRAISALS AND REAPPRAISALS

Appraisals and reappraisals of Indian timber are made to determine the value of the standing timber (stumpage). The appraised value of stumpage is arrived at by deducting estimated production costs and an allowance for profit and risk from either the value of the log at the mill (called log value) or from the value of the end product (lumber value). Generally the appraised value is the minimum price that the Bureau will accept under a timber sale contract. The advertised appraised value may be the highest bid price in sales where there is little or no competition. Consequently, it is necessary that the appraisals be as accurate as possible. Long-term sales usually provide for a redetermination (reappraisal) of the value of timber included in a contract of sale when market conditions or other stated factors so warrant.

### Log values used in timber appraisals are low

The log values used by the Western Washington Agency in appraising Indian timber are low. They are generally lower than the log values used by the United States Forest Service for appraisals of Government-owned timber in the same area. The log values used at the Indian agency are obtained from the Pacific Northwest Loggers Association's Composite Sales Analysis and The Timberman, an international lumber journal. The Forest Service establishes log values for use in timber appraisals by compiling and analyzing various data obtained from:

1. Trade journals.
2. Oregon State College Extension Service.
3. Contacts with industry.
4. Pacific Northwest Loggers Association's biweekly and quarterly transaction summaries.

5. Past trends, as shown on graphs maintained in the Regional Office in Portland, Oregon.
6. Current market trends in the lumber and allied industries and the general economy.

On most Forest Service sales on the West Side (western slope and west of Cascade Mountain Range) bid prices received are far in excess of the appraised values which are based upon these higher log values.

Log values used by either agency are not really indicative of market value because considerations which are not disclosed in the transaction evidence affect the quoted prices. These considerations are in the form of bonuses, financing of equipment, road-construction sharing agreements, and trades. Area and agency officials plan to appraise Indian timber on an end-product basis after studies now being made by the Forest Service in this regard are completed.

#### Recommendation

To help obtain top market prices for Indian timber, we recommend that the Commissioner, BIA, require the use of additional sources of available log price data in appraising timber at the Western Washington Agency until such time as the Bureau changes its practice of basing appraisals on the log market to that of basing them on the lumber or end-product market. Also, close liaison should be maintained with other Federal agencies selling timber in the area.

Profit and risk allowances  
in appraisals and reappraisals

Profit and risk percentage allowances in appraisals and reappraisals of Indian timber are higher than the computed percentage allowances made on Government-owned timber sold in the same areas. Also, these allowances increased during 1951-55 on Indian timber appraisals while similar computed allowances on Federal timber in the area decreased significantly.

The Bureau currently allows 12 to 15 percent for profit and risk in applying the following formula to arrive at the stumpage value of the Indian timber.

$$\text{Stumpage} = \frac{(\text{Log price})}{(1 + \text{Profit and risk percentage})} - \text{Production costs}$$

$$\text{Profit and risk margin} = \text{Log price} - \text{Production costs} - \text{Stumpage}$$

The effect of using 12 to 15 percent with this formula is to provide a profit and risk allowance of 12 to 15 percent of the sum of purchasers' estimated production costs and the cost of the stumpage.

Using the same basic formula in appraising Government-owned timber, the Forest Service during calendar year 1955 used profit and risk ratios of from 6 to 12 percent on West Side timber offered for sale in the area adjacent to Indian timber, an average for the year of 10 percent. During the first half of calendar year 1956, the average profit and risk allowance on Forest Service West Side timber offered for sale in the adjacent area was

9 percent.<sup>1</sup> On East Side sale offers, the Forest Service in 1955 allowed an average profit and risk margin of 11 percent; in the first half of 1956 the average allowance was about 10 percent.

An example of the contrast in profit and risk ratios used by two Federal agencies follows. The BIA Crane Creek sale on the Quinault Reservation showed:

	<u>Cedar</u>	<u>Hemlock</u>	<u>Douglas fir</u>	<u>White fir</u>
Profit and risk percentage in 1951 appraisal	10.9	12.4	10.2	11.9
Profit and risk percentage in 1955 reappraisal	15	12	12	12

Data on Forest Service profit and risk allowances by species were not readily available. During this same period at the adjacent Olympic National Forest, however, the average profit and risk ratio used by Forest Service for all species decreased steadily from 11.9 percent in 1951 to 6 percent in 1955. We noted that the Forest Service profit and risk ratios are periodically adjusted in recognition of actual bid prices on previous timber sales. Thus, during the period when actual sales transactions indicated to the Forest Service that a decreasing profit and risk allowance was in order, the profit and risk allowances by the Bureau increased or remained fairly constant.

In the Bureau's long-term sales the risk assumed by the purchasers is minimized by providing for quarterly adjustments of

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<sup>1</sup>All Forest Service West Side timber offered for sale showed an average stated profit and risk margin of 7.4 percent in calendar year 1955 and 6.1 percent in the first half of 1956.

stumpage prices based upon fluctuations in the log or lumber markets and for reappraisals of stumpage when changes in marketing conditions occur. Also, road building and logging risks generally are no greater on BIA sales than on other Federal timber sales.

There is a need in both agencies for better data on selling prices, costs, and profit margins for use in timber appraisals. The Forest Service does, however, give consideration to a wider range of data in appraising timber than does the Bureau of Indian Affairs. Bid records of both agencies on sales in which competition was demonstrated, when compared with appraised prices, indicate that timber appraisals are too low because appraised prices usually fall far short of the market value. We believe that available data on and studies of actual timber sales transactions should be considered by the Bureau in determining the percentages to be allowed for profit and risk.

Use of unaudited operators' costs  
in appraisal and reappraisal of timber

Operating costs used in appraising and reappraising Indian timber are obtained by the Bureau from data submitted by operators. No audit is made by the Bureau of the operators' records to determine the reliability and accuracy of the costs for the purpose for which the Bureau is going to use them. The absence of a review of the operators' cost accounting system and of a selective audit of transactions precludes reasonable assurance that the cost data obtained are reliable and accurate. More detailed knowledge and insight into operators' costs would be of value to the Bureau of Indian Affairs. Greater reliance can be placed on audited data, and a knowledge of the costs recorded and of the manner in which they are recorded is necessary if the pertinent cost factors are to be analyzed and interpreted correctly.

Recommendation

To improve the reliability of appraisal data relative to operators' costs of operation, we recommend that the Commissioner, BIA, cooperate with the United States Forest Service and the Bureau of Land Management in arranging for a staff to perform reviews and audits of the cost accounting systems of operators who permit examination of their records. The proposed staff should receive technical assistance from foresters as needed and could perform other functions such as assisting in the development of good sales merchandising policies and maintaining a periodic index of lumber selling prices for use in making adjustments of stumpage values.

Bureau has undervalued timber sold under long-term contracts on the Quinault Reservation

Our examination included a review of certain long-term, large-volume timber sales, including timber sale contracts No. I-101-Ind. 1902, approved June 30, 1952, with Rayonier, Incorporated, for timber on the Crane Creek Unit, and No. I-101-Ind. 1766, approved May 12, 1950, with Aloha Lumber Company for timber on the Taholah Unit, both on the Quinault Indian Reservation in western Washington. The volume of timber involved was initially estimated at 614,000 Mbf on the Crane Creek Unit sale and 545,000 Mbf on the Taholah Unit sale. The logging volumes cited in the contracts were estimates only and, under the terms of the contracts, the volume of timber marked or otherwise designated is to be cut by the purchasers regardless of whether it is more or less than the estimated volumes. The actual volume is determined by scaling each merchantable log that is cut. The timber covered by the Crane Creek contract is to be cut prior to April 1, 1986; all timber under the Taholah contract is to be cut prior to April 1, 1979.

During the spring and summer of 1955, the Bureau reappraised the ratios between stumpage rates and log prices on these two contracts in accordance with contract provisions. Because the Bureau found that the existing ratios between the stumpage rates and log prices provided by these two contracts did not reflect the market values of the stumpage, the ratios were revised effective October 1, 1955.

We reviewed the October 1, 1955, reappraisals of these two timber sale contracts and concluded that this Indian timber is undervalued. Comments relating to the valuation of this Indian timber follow.

1. The log-grade yield data used in these reappraisals is based principally on cruise data available at the time the timber was offered for sale. Analysis of all timber cut from the Crane Creek Unit from February 14, 1955, through July 31, 1956, indicates a much higher log-grade yield than was used in the reappraisals. Following is a summary of the log-grade yield analyses for the two major species on the Crane Creek Unit:

<u>Log grade</u>	<u>Estimate used in timber reappraisal</u>	<u>Actual yield from Feb. 14, 1955, to July 31, 1956</u>	<u>Log values used in 1955 reappraisals (Mbf)</u>
<b>Cedar:</b>			
No. 1 sawlog	15%	40%	\$97.79
No. 2 sawlog	62	51	54.15
No. 3 sawlog	<u>23</u>	<u>9</u>	34.42
	<u>100%</u>	<u>100%</u>	
<b>Hemlock:</b>			
Peeler	16%	1%	59.71
No. 1 sawlog	21	4	54.80
No. 2 sawlog	43	55	42.99
No. 3 sawlog	<u>20</u>	<u>40</u>	40.57
	<u>100%</u>	<u>100%</u>	

This test is based upon analyses of 12,567,640 board feet of hemlock and 33,726,790 board feet of cedar.

The log prices used by the Bureau in the 1955 reappraisals illustrate the fact that the use of inaccurate log-grade yield data has a material effect on the stumpage values arrived at in the reappraisal process, particularly in view of the proportionately high value of No. 1 cedar sawlogs. The tabulation shows that the Bureau has undervalued the cedar on the Crane Creek Unit and overvalued the hemlock. The net result on the contract as a whole is to materially undervalue the timber because cedar is the predominant species and is a more valuable species. Our

analysis also indicated that the estimated log-grade yield for Douglas fir, Sitka spruce, and western white pine is understated in the October 1, 1955, reappraisal of the Crane Creek Unit.

Comparable actual log-grade yield data for the Taholah Unit were not available at the time of our field review of these contracts. The Taholah Unit adjoins the Crane Creek Unit and it seems likely that the log-grade yields are quite comparable on both units.

2. Section 14 of each of the contracts provides for advance payments to be made by the purchasers as follows: Within 30 days of the date of approval of the contract on each allotment, 25 percent of the estimated value of the timber thereon is to be paid; within the next 3 years an additional 15 percent is to be paid; an additional 10 percent is to be paid within 6 years of approval of the allotment contract. Because the regulations provide for monthly payments by the purchaser for all timber cut during the month, the advance payments are earned by the Indian allottees as cutting progresses. Thus, advance payments would total 50 percent of the estimated stumpage values on those allotments on which cutting has not started during the 6-year period and various lesser amounts on those allotments on which timber is cut during the first 6 years.

In appraising the value of the timber initially, for the purpose of arriving at minimum stumpage prices that would be accepted for the timber, the Bureau did not consider interest expense applicable to the advance payments as a cost of production to be deducted from log value in arriving at appraised value. At the time of the 1955 reappraisal, at the insistence of the purchasers, interest expense was allowed as a cost of production.

The method used by the Bureau to compute the interest charges on each contract was as follows: The average annual investment in advance payments was estimated, based on the estimated volume and value of the timber and the estimated cutting rate per year; this amount was prorated over the estimated volume of timber to be cut to arrive at an average annual investment per Mbf of timber; the interest rate (4 percent on the Crane Creek contract and 5 percent on Taholah) was applied to the average annual investment of the purchaser to arrive at an interest charge per Mbf. The resultant interest charge was considered as a production cost, and the appraised value of the timber on each of the two sales units was reduced by the amount of the interest charges computed.

From the standpoint of individual Indian allottees, the method used may result in numerous inequities. For

example, because interest expense is applied as a reduction of the sale price to the volume of timber to be cut, individuals from whose allotments the same volume of timber is cut are charged the same amount of interest even though one may have an advance for 2 years and another for, say, 5 or more years. Similarly, allottees whose timber is cut after the initially estimated volumes for the entire units have been cut will pay no interest even though they will have had advance payments for many years. Additional inequities to individuals result from overruns on individual allotments because timber actually cut exceeds the estimated volumes on these allotments.

Because the interest charge is applied to all timber cut on each allotment since October 1, 1955, the interest charge paid by allottees is exorbitant and may equal or even exceed the amounts of advance payments. Available data on allotments upon which the complete cut had been made as of October 31, 1956, indicate that overruns on both contracts will be sizable. On the five Crane Creek allotments completely cut as of October 31, 1956, overruns range from 86 percent to 225 percent. On 11 Taholah allotments on which cutting was completed, underruns of 37 percent and 54 percent took place on two allotments. On the remaining nine allotments, overruns ranged from 3 percent to 117 percent.

The Bureau's contention in regard to individual inequities is that advantages and disadvantages resulting from a sales transaction must be shared by all allottees. Thus, quality of timber may differ between allotments yet the stumpage rate is the same; road construction costs to one allotment may be relatively small while to another they may be costly. In these instances, costs and benefits are shared by all allottees. The Bureau's view is that, as with other costs, the interest charge penalizes or benefits the owners depending on the location of their lands and the prorating of interest charges to individual allottees would not be consistent with the handling of other costs.

The propriety of the interest allowance was questioned by the Joint Committee on Federal Timber, and the Secretary of the Interior was requested to rescind the interest allowances made. The interest charged to Indians was also criticized as discriminatory because the cost charged to each Indian land allottee is not based on the size of the advance payment the individual received and the length of time which elapsed between the advance payment and the date his timber is cut.

In his reply to the congressional committees, transmitted by letter dated October 16, 1956, the Secretary

stated that over 99 percent of the areas involved in these two sales are trust allotted lands, that investment in advance payments is, thus, a serious consideration, and that the fact that interest was not specifically considered initially does not prohibit its consideration in subsequent valuations. He further stated that more time was needed to study the committee's recommendations, including those concerning the interest allowances.

We were informed in December 1956 that a final determination as to revisions in stumpage rates on these two contracts had not yet been made but that changes deemed to be desirable would be made by April 1, 1957. The General Accounting Office is studying this matter to ascertain the propriety of the interest charges and allowances.<sup>1</sup>

3. The interest expense on the advance payments made by the purchasers to the individual Indian allottees was incorrectly computed and the errors served to allow too much interest expense in the two reappraisals. The errors made are as follows:
  - a. The period prior to October 1, 1955, was included in establishing the base on which to apply the interest formula. By so doing, the Bureau, in effect, permitted a retroactive adjustment of prices paid for stumpage cut prior to October 1, 1955, which we believe to be improper. When the interest factor was to be introduced at October 1, 1955, the proper procedure would have been to take the actual unliquidated advance payments at that date and add the estimated future advance payments. This procedure would have reduced the amount of the advance payments to which the interest formula was applied.
  - b. In estimating the future advance payments to be made, consideration was not given to the fact that some allottees would not receive second and third advance payments because their allotments would be cut over during the 3-year intervals between advance payment due dates. This oversight resulted in overstating the amount of advance payments on which the interest allowance was based.
  - c. In computing the interest allowance on the Taholah Unit, the Bureau computed the purchaser's investment in advance payments based on an estimated annual cutting rate of 27 million board feet. The contract has a maximum cutting rate of 100 million board feet for each 3-year period beginning April 1, 1950. During calendar years 1952 through 1955 the average annual cut has been 32,739,330 board feet. Accordingly, we believe that an average annual cutting rate of 33 million board feet

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<sup>1</sup>See letter dated April 5, 1957, from Comptroller General of the United States to Secretary of the Interior, p. 55 of this report.

should have been used instead of 27 million board feet. This would have accelerated the anticipated liquidation of the advance payments and thereby decreased the amount of interest expense per Mbf properly allowable.

- d. An interest rate of 5 percent was used on the interest expense computation for the Taholah Unit, and 4 percent for the Crane Creek Unit. Since these reappraisals were made at the same time and since the purchasers do business in the same area, a common interest rate should be applied to both reappraisals. There is nothing in the reappraisal files that would suggest that the lower rate (4 percent) would not be a fair rate of interest to be used on both contracts.
4. The profit and risk allowance was computed on a base that included the interest allowance. As a result the profit and risk allowance on the Crane Creek sale was overstated \$0.23 per Mbf on cedar and \$0.18 per Mbf on other species. On the Taholah sale the profit and risk allowance was overstated \$0.24 per Mbf on cedar and \$0.20 per Mbf on other species.
5. A profit and risk allowance of 15 percent was allowed on cedar and 12 percent on all other species in the reappraisals on both units. These allowances are high compared with the computed profit and risk allowances on sales of Federal timber in this area. (See pp. 17 to 19 of this report.)

The Special Subcommittee on the Legislative Oversight Function of the Senate Committee on Interior and Insular Affairs and the Subcommittee on Public Works and Resources of the House Committee on Government Operations in their reports on Federal Timber Sales Policies make the observation that existing prices on the Quinault Indian Reservation are substantially below prices paid for comparable Federal timber in the same area. We reviewed prices obtained by the Forest Service on 15 sales contracts in the Olympic National Forest, Quinault Working Circle, an area adjacent to the Quinault Indian timberlands. A comparison of the prices for each species obtained on these contracts with those obtained for the same species on the Crane Creek and Taholah contracts tends to

substantiate the Subcommittees' observation. In most instances the sale prices on Federal timber were substantially in excess of those received on Indian timber.

Admittedly, the determination of comparability of timber is a complicated matter. However, the large gap between the prices being received for Quinault Reservation timber and those being received in this same region for United States Forest Service and State of Washington timber is not entirely due to differences in quality or accessibility. Adjustment of the above-listed deficiencies in the 1955 reappraisals will result in stumpage values more closely approximating the indicated market value of stumpage in the Grays Harbor area.

#### Recommendation

To provide sales prices and income to Indians from timber sold from the Quinault Reservation that will be more in line with the value of the timber, we recommend to the Commissioner, BIA, that the Crane Creek and Taholah sale units be reappraised immediately, giving the following factors full consideration:

1. The log-grade yield estimates should be revised based on the actual log-grade yields that are available.
2. The interest allowances should be recalculated to correct errors noted in our comments above.
3. Profit and risk should not be computed on the interest allowances.

Our comments on pages 17 to 19 relating to the percentages used in computing the profit and risk allowances should also be considered.

Area Office officials advised us that a reappraisal study is currently being made on the Crane Creek and Taholah Units and that the points we raised would be considered.

Value of timber by-products not considered  
in timber appraisals

In appraising Indian timber, consideration is not given to the value of timber by-products, such as chips used by pulp and hardboard manufacturers, lath, sawdust, and bark. By-products have value and the present method of appraising Indian timber fails to credit the stumpage with this value. The Pacific Northwest Forest and Range Experiment Station, United States Forest Service, is currently conducting mill-waste studies and data should be available soon relative to the value of timber by-products.

Recommendation

To provide appraised values for Indian timber that are closer to the market value, we recommend that the Commissioner, BIA, direct the Portland Area Office to obtain from the Forest Service Experiment Station all data currently available relative to the commercial value of timber by-products and to further direct that these data be used in all subsequent timber evaluations.

Absence of documented support for appraisal  
and reappraisal computations

We were often unable to obtain workpaper support that explained how certain figures used in the appraisal and reappraisal of timber were derived or why certain data were used in preference to other data. Figures and data which could not be verified by reference to workpapers varied in the different agencies. Generally, information such as production costs used was not documented; also, reasons why certain costs were used in lieu of others were not explained. The basis for interest rates used on the Taholah

and Crane Creek reappraisals and reasons for increasing the Crane Creek interest rate from 3-3/4 percent to 4 percent could not be determined from the workpapers. The absence of explanatory supporting documentation made our review of timber appraisals quite difficult and made it impossible for forest managers at the Indian agencies to answer some of our questions on matters that occurred prior to their entrance on duty at those agencies. The failure to document computations and decisions that comprise timber appraisals is a serious deficiency because it precludes an effective review of the appraisals and, upon subsequent reappraisals, deprives the reappraising forester of valuable historical data that are pertinent to the reappraisals.

#### Recommendation

To assure that all pertinent data relative to appraisal and reappraisal of any timber sale contract are available for reference and use in subsequent reappraisals and to provide a means for effective review of timber appraisals and reappraisals, we recommend that the Commissioner, BIA, require all computations and judgment factors that underlie the forest officers' reports on appraisals and reappraisals to be completely documented and retained in the agency files.

## TIMBER SALES POLICIES

One of the objectives of the Bureau's timber sales program is to obtain the maximum return for Indian timber consistent with a sustained yield program. We noted, however, certain practices that did not conform to the Bureau's stated objectives for timber sales.

### Long-term, large-volume sales deter competition for Indian timber

Our examination disclosed that less competition exists and lower stumpage prices are received on long-term, large-volume sales than on relatively short-term, low-volume sales. In accordance with Bureau timber sales policies, long-term, large-volume sales (such as the two contracts on the Quinault Reservation) have been made in the past and many of these long-term contracts are still in effect. Bureau employees stated that these long-term sales were necessary to foster initial development of the reservations. Generally, there is no longer a need for these long-term developmental sales.

Agency and Area Office officials agreed that the best prices are received on relatively small sales and stated that these smaller sales usually generate fewer administrative problems. Area Office officials stated that the Bureau contemplates limiting timber sale contracts to 5 years' duration and a maximum of 50 million board feet. They believe that reappraisal provisions can be

omitted from contracts of this duration if the stumpage prices are tied to an industrial index that will automatically adjust the stumpage values periodically.

#### Recommendation

We recommend that the Secretary of the Interior and the Commissioner, BIA, make a study to determine whether long-term, large-volume sales should be discontinued and more short-term, small-volume sales be made to help assure maximum competition and the receipt of top market prices for Indian timber.

#### Need for correlation of timber sales plans with those of adjacent United States national forests

Indian timber sales plans are not periodically correlated with the sales plans of adjacent United States national forests. All five of the agencies we visited border on United States national forests and, to a substantial degree, sell stumpage to the same markets as do the national forests. Annual correlation of the sales plans of the two agencies would assure timely offerings by both the Bureau and the national forests and would help to avoid flooding the market with stumpage and thereby depressing stumpage prices. The correlation of sales plans will be of particular importance in the future because more moderate-size sales are planned by the Bureau. Annual correlation of sales plans with those of the Bureau of Land Management in areas served by both agencies should also be beneficial.

#### Recommendation

To assure that Indian and Federal timber is offered for sale in an orderly and timely manner, we recommend that the Secretary

of the Interior and the Commissioner, BIA, instruct all forest managers to annually correlate their sales plans with the sales plans of the United States Forest Service and Bureau of Land Management offices that sell timber to the same markets served by the Indian timber.

### SCALING OF TIMBER SOLD

The timber out is measured (scaled) at various points in the woods or at other check points. Payments are made for the timber at the agreed-on stumpage rates based on the volume scaled.

The timber cut at most agencies in the Portland Area is scaled by Bureau employees. At the Western Washington Agency, however, most of the scaling is done by a private scaling Bureau. A limited amount of checking of scalers' measurements of timber cut (check scaling) is also carried on by the Bureau.

### Inadequate check-scaling activity

In calendar year 1955 the Portland Area agencies check-scaled only 3.13 percent of the total timber scaled during the year. For the agencies we visited, the check-scaling activity was as follows:

<u>Agency</u>	<u>Total volume scaled (Mbf)</u>	<u>Volume check scaled (Mbf)</u>	<u>Percent of volume checked</u>
Colville	89,534	2,310	2.58
Klamath	80,684	3,748	4.65
Warm Springs	52,696	1,007	1.91
Western Washington	182,187	5,760	3.16
Yakima	50,308	1,301	2.59

No check scaling had been performed at the Colville Agency in calendar year 1956 as of October 2, 1956.

The Indian Affairs Manual (53 IAM 208.12H) states:

"Check scales will be made and recorded in Check Scale Book Form 5-925 in accordance with instructions contained in the book. Check scaling of less than five per cent of total volume ordinarily will be considered an inadequate check. More frequent checking is required when review is being made of work prepared by inexperienced scalers."

Area Office and agency office forestry employees advised us, upon inquiry, that the 5 percent minimum standard is sound and should be met each year by each agency. More extensive check scaling than was made in 1955 is dictated by the present-day high value of stumpage and the further fact that much of the check scaling is performed in such a manner that the scaler knows he is being check-scaled. These two factors, in our opinion, make it mandatory that a higher level of check scaling be practiced in the Portland Area than was done in 1955. Pursuant to discussion of the matter, area officials agreed that, although the results of the check scales made in 1955 were satisfactory, the volume of the check scale was generally too low.

A "Check Scale Summary" report for calendar year 1955, which clearly discloses the small percent of check scaling during that period, was forwarded to the Washington office (forestry branch) on March 27, 1956, but no action was taken by the Washington office to assure that a greater percent would be check-scaled in subsequent years.

#### Recommendation

To assure a safe level of check scaling on all reservations, we recommend that the Secretary of the Interior and the Commissioner, BIA, take the necessary steps to assure that annual "Check Scale Summary" reports are analyzed critically. Corrective action

should be taken promptly when a report discloses an unsatisfactory level of check scaling.

Inadequate control over logs moving from the woods to scaling points

Our review of scaling operations on two long-term, large-volume contracts on the Quinault Indian Reservation disclosed that adequate controls to assure an accurate accounting for all logs leaving the sales areas do not exist. Essentially the Bureau is dependent upon the proficiency and integrity of the timber purchasers and their contractors and employees to assure that all logs are accounted for from the time they leave the cutting areas until they reach the scaling points. The contracts in question are contract No. I-101-Ind.-1902, June 30, 1952 (Crane Creek Unit purchased by Rayonier, Incorporated), and contract No. I-101-Ind.-1766, May 12, 1950 (Taholah Unit purchased by Aloha Lumber Company).

These are large sales and cutting takes place on several areas simultaneously. The logs move over long distances to several different scaling points where they are scaled by a private scaling bureau. There is no formal procedure in use to give the Bureau a satisfactory assurance that all logs are accurately accounted for. Accurate log accountability is particularly important on these two sales because they are made up almost entirely of timber from individual Indian land allotments.

A test of 28 land allotments on the Crane Creek sale was made by the Forest Manager, Western Washington Agency, during our review visit. This was a comparison on land allotments on which

cutting had been completed or temporarily discontinued of the log count made by species and by allotments by a Rayonier, Incorporated, employee at the Crane Creek transfer station (point at which logs are transferred from truck-haul to railroad-haul) with the log count received on the official log-scale reports prepared by the private scaling bureau. The official log scale is performed after the logs leave the transfer station. Following are the results on certain allotments which did not compare favorably.

<u>Allotment</u> (note a)	Log count at Crane Creek transfer station	Log count per scale reports	<u>Difference</u>
1	375	345	-30
2	6,225	5,928	-297
3	3,297	3,239	-58
4	8,700	8,608	-92
5	3,296	3,491	195
6	9,084	9,348	264
7	5,030	5,230	200
8	926	1,009	83
9	998	934	-64

<sup>a</sup>Not the official land allotment numbers.

This test was too small to be conclusive in itself. However, it adds to our belief that the Bureau does not have adequate assurance that the logs moving from the cutting areas to distant scaling points are adequately accounted for. An accurate accounting for these logs is of importance to the individual Indian allottees and is a responsibility of the Bureau.

#### Recommendation

As a safeguard against possible losses, we recommend to the Secretary of the Interior and the Commissioner, BIA, that suitable procedures to properly account for all logs by allotments, from

the time they leave the cutting areas until they are scaled, be designed and placed in use on the Quinault Reservation and elsewhere as needed. These procedures should include provisions for prompt marking and scaling of logs and the use of a load receipt ticket procedure.

## ACCESS ROADS

### Need for completion of access road systems on the Warm Springs and Yakima Reservations

Our audits at the Warm Springs and Yakima Agencies disclosed a need for early completion of the access road systems at these reservations in the interest of effective forest management. Substantial areas on both reservations are not accessible by road. The forest managers estimated that about 100 miles of roads are needed to fully develop the Warm Springs Reservation and about 75 miles of road are needed on the Yakima Reservation. The possibility of great timber losses due to pine bark beetle infestation is particularly acute on these reservations. Access roads are necessary so that the Bureau can move in quickly to salvage damaged trees before material losses occur. Corollary benefits that would be derived from having a complete access road network on these reservations are better protection from fire and the acceleration of sanitation-salvage sales programs. In addition, the existence of an adequate access road system will permit smaller operators to bid on Indian timber thereby increasing competition and sales prices.

### Recommendation

To provide a means for promptly harvesting overmature and damaged timber and to reap the corollary benefits of a fully developed timber access road system, we recommend that the Commissioner, BIA, require discussion of this problem with the Warm Springs and Yakima Indians with the objective of obtaining consent of the Indians to use tribal funds for access road construction.

Timber sale contracts do not specify the location of access roads or minimum construction standards

The Portland Area Office has not followed the practice of specifying in timber sales contracts the location of access roads to be built by the purchasers and minimum construction standards to which the roads must be built. In the past, entire logging units sometimes have been developed by one operator under a long-term sale and the purchaser was permitted to locate and construct the access road system as he deemed necessary. Roads built under these contracts were generally of a high standard and desirably located because the purchasers were to use them over a 15- to 30-year period.

Future sales plans contemplate that logging units still undeveloped will be developed by a succession of smaller volume sales. This type of program will require that the Bureau designate the location of each segment of road constructed by the various purchasers to assure that the system developed will tap all the timber in the unit at minimum cost. Also, in these smaller volume, shorter term sales the purchasers will not have a long-range interest in the access roads that they construct. For this reason it is important that the Bureau establish minimum standards to assure that the roads are constructed for long-range use.

As an illustration, we found at the Klamath Agency that some secondary logging roads built by timber purchasers were constructed without adequate drainage provisions. These roads often wash out in the spring and when needed for fire protection or other use must be partially rebuilt by the Bureau.

### Recommendation

To assure that access roads are located and constructed to standards that will serve the long-range as well as the immediate needs of the timber program, we recommend that the Secretary of the Interior and the Commissioner, BIA, add to the existing timber sale regulations a provision to require that all timber sale contracts specify the location of access roads to be constructed by purchasers and minimum construction standards to which the roads must be built.

### Failure to require road repairs by loggers

The Bureau incurred expenses for road repairs at the Colville Indian Agency because loggers were not required to correct undesirable road conditions. Section 37 of the General Timber Sale Regulations provides that the purchaser shall protect improvements upon the sale area as well as possible and will promptly repair damages.

According to representatives of the Agency's roads branch, there were at least four locations on the Colville Reservation where loggers were not required to ditch out spur roads they had built off Indian Service roads. As a result, water runoff from the spur roads caused erosion of the Indian Service roads. At another location the logger was not required to repair the shoulders of the Indian Service road that his logging operation had broken down. Roads branch representatives estimated that extra expenses of over \$1,400 were incurred by the branch in the spring of 1956 to repair the damages caused by erosion and to repair road shoulders.

### Recommendation

To eliminate undesirable road conditions caused by logging operations and to reduce the possibility of extra expenses to the Government, we recommend that the Commissioner, BIA, require that timber sale areas be inspected jointly by forestry and roads representatives promptly after logging operations are completed and that operators be directed to perform necessary repairs as required by the General Timber Sale Regulations. We suggest that a joint certificate of inspection and satisfactory completion of repairs be prepared and filed before a Certificate of Completion of Timber Contract is issued.

## FOREST CLEANUP

### Snag-felling provisions of timber sale contracts not enforced

The Colville Agency has not required timber purchasers to fell snags (dead trees). Snag felling is required by every timber sale contract unless a waiver in writing is issued by the agency Superintendent. Waivers have not been issued nor have the contract requirements concerning snag felling been enforced. The importance of felling snags stems from the fact that they are particularly susceptible to fire, and it is the common practice to require that they be felled in the interest of fire prevention and sound forest management. This would seem to be particularly important at the Colville Agency because it is in a high fire hazard locality.

On October 4, 1956, subsequent to our visit at the Colville Agency, the Acting Superintendent wrote the Area Director requesting advice on what the snag-felling practice should be. The Area Director replied that, unless tribal authorities or allottees requested that snags be left for firewood, the felling provisions of the contracts should be enforced. On October 25, 1956, the Superintendent wrote the Area Director that, by Resolution No. 1956-238, the tribe asked that purchasers holding active timber sale contracts on the Colville Reservation be relieved of snag-felling requirements on tribal lands. We were advised on October 31, 1956, that the Area Office is studying the matter.

In his letter of October 4, 1956, the Acting Superintendent stated that: "Whereas some of the snags are used for wood, many

areas are completely untouched." Thus it seems that the Indians are not using many of the dead trees that are left for their use as firewood.

Recommendation

To provide compliance with timber sale contract provisions relative to felling snags and to reduce the risk of fire by reducing the snag-stands at the Colville Reservation, we recommend that the Commissioner, BIA, require the Portland Area Director to ascertain the volume of snags that the Indians will actually need for firewood and to enforce snag-felling requirements of timber sale contracts for volumes of snags in excess of the needs of the Indians.

## ADMINISTRATION OF TIMBER SALE CONTRACTS

### Failure to recover administrative expenses from timber sale receipts

In determining the amount of administrative expenses to be recovered from timber sale receipts, the Bureau excludes such forest management and protection expenses as timber access road maintenance costs, fire-suppression costs, Area Office and Central Office direct forestry costs, and indirect costs at the agency, Area Office, and Central Office levels, such as procurement, property management, accounting, and personnel administration. The basis for recovering administrative expenses is found in 25 U.S.C. 413, which states:

"The Secretary of the Interior is authorized, in his discretion, and under such rules and regulations as he may prescribe, to collect reasonable fees to cover the cost of any and all work performed for Indian tribes or for individual Indians, to be paid by vendees, lessees, or assignees, or deducted from the proceeds of sale, leases, or other sources of revenue: Provided, That the amounts so collected shall be covered into the Treasury as miscellaneous receipts, except when the expenses of the work are paid from Indian tribal funds, in which event they shall be credited to such funds."

Pursuant to this basic authorization, the Secretary of the Interior prescribed in 25 C.F.R. 61.25:

"In all sales of timber from either allotted or unallotted land a sufficient deduction will be made from the gross proceeds to cover the cost of examining, supervising, advertising, collecting, disbursing, accounting, marketing, scaling, caring for the slash, and protection from fire the timber and young growth left standing on the land being logged or upon adjacent land. Unless special instructions have been given by the Commissioner of Indian Affairs as to the amount of the deduction or the manner in which it is to be made, 10 percent of the gross amount received for the timber sold under regular supervision from allotted or from unallotted land will

be deducted by the Superintendent to cover administrative expenses as required by the act of February 14, 1920 (41 Stat. 415; 25 U.S.C. 413), as amended. \*\*\*"

In May 1956 this matter was studied by the Bureau and it concluded as follows:

1. If forest administration funds were expended at any agency in years prior to the beginning of a timber sale program, no attempt will be made to recoup such expenditures through deductions from timber sale receipts in later years.
2. The expenses for which reimbursement is to be made are expenditures at the agency level from funds appropriated for Branch of Forestry activities, except funds appropriated specifically for fire suppression or pest control. Funds appropriated specifically for fire suppression and pest control are in the nature of disaster expenditures, similar to Federal appropriations for protection of state and private lands, and reimbursement therefor through timber sale deductions should not be required.
3. At agencies where timber species have low stumpage values, or where the volume of timber sales will remain at a relatively low level, no attempt should be made to balance expenditures and deductions. A deduction of 10 percent of gross income is currently the maximum that should be enacted.
4. Expenditures at the Central and Area Offices from funds appropriated for Branch of Forestry activities are not to be offset by deductions from timber sale receipts, nor are expenditures from other funds at agency, Area Office, or Central Office levels to be offset by such deductions. It is not reasonable to make such offsets because these activities are in the nature of general overhead expenditures by the Federal Government as trustee of the Indian estate. It would also be practically impossible to determine what portions of such expenditures are properly chargeable to forest administration at a particular agency.

Based upon this rather narrow interpretation of the forestry costs that should be recovered from timber sale receipts, the Bureau reduced the percentage of administrative deductions on the Warm Springs Reservation from 10 percent to 7 percent, effective July 1, 1956, and is currently considering lowering the percentage deductions on the Yakima and Colville Reservations.

We believe that expenditures for items such as road maintenance, fire suppression, pest control, and Area Office direct forestry costs should be considered as administrative expenses to be recovered from timber sale receipts. If forestry is to be considered a reimbursable function, we believe that all definable costs incurred in carrying out the activity should be recognized before the percentage of administrative deductions is reduced below the 10 percent level prescribed.

Examples of costs incurred at the agency level in fiscal year 1956 which we believe should be considered as recoverable are:

Fire-suppression costs--Warm Springs Reservation	\$47,900
Timber access road maintenance costs--Colville Reservation	40,356 (estimate)
Timber access road maintenance costs--Yakima Reservation	26,400 (estimate)

#### Recommendation

To provide more equitable criteria for judging the adequacy of the administrative expense deduction at each reservation and for prorating the fees deducted from timber sale receipts at reservations where the tribe shares the financing of the forestry function, we recommend to the Secretary of the Interior and the Commissioner, BIA:

1. That all direct and definable forestry costs be considered as chargeable to the administrative fee deductions from timber sale receipts.

2. That an accounting record be established in the Area Office to show cumulatively, by fiscal year, by reservation, the total forestry expenditures and the total administrative fee deductions. This cumulative record of costs and deductions should serve as the basis for determining the adequacy of the deductions. A balance between expenditures and deductions in any one year is not as sound a basis for evaluating the adequacy of the deductions as is the cumulative balance.
3. That, at reservations where the administrative fee deduction percentages have been reduced from 10 percent, these actions immediately be reconsidered in the light of our recommendations 1 and 2 above.

Properly completed allottees' powers-of-attorney  
not obtained prior to sale of timber

Our review of timber sale contracts at the Yakima Agency disclosed that signed powers-of-attorney had not been obtained from all allottees of Indian land prior to sale of timber from allotments on the Dry Logy Unit.<sup>1</sup> We found eight unsigned powers-of-attorney for deceased Indians for whom the Superintendent should have signed, as required by the Indian Affairs Manual (53 IAM 206.01A(2)(b)). There were 13 unsigned powers-of-attorney for minors for whom the parents or guardians should have signed, as required by 53 IAM 206.01A(2)(c). There were nine other unsigned powers-of-attorney for which signatures were not obtained. For all but one allotment (No. 2381), the majority of the heirs had executed properly signed powers-of-attorney as required by

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<sup>1</sup>Although the Bureau is a trustee of Indian lands, it is necessary to obtain powers-of-attorney from allottees before selling timber from these lands. Our audit report to the Congress on the Administration of Indian Lands by the Bureau of Indian Affairs, January 1956, was issued on November 26, 1956 (B-114868). That report includes a number of observations and recommendations relating to Indian-owned lands. We believe that the solution to problems pointed out in that report is basic to the objective of an orderly withdrawal of Bureau supervision over the affairs of Indians.

53 IAM 206.01A(2). However, this same regulation requires that every reasonable effort be made to obtain consent of all the heirs. Our selective test, which involved examination of every tenth Indian land allotment folder, indicates that every reasonable effort was not made in obtaining signed powers-of-attorney from all allottees on the Dry Logy Unit.

We brought this matter to the attention of the Superintendent and the Forest Manager, Yakima Indian Agency. The Forest Manager stated that a complete review of the powers-of-attorney on the Dry Logy contract would be made and proper signatures would be obtained on all powers-of-attorney which are unsigned. Area Office officials advised us that they would look into this matter and try to determine if a procedure can be devised to preclude it from happening again.

#### Recommendation

To assure that Indian timber is not sold before properly signed powers-of-attorney have been obtained, we recommend to the Commissioner, BIA, that a procedure be developed for use in each agency that will clearly disclose whether requirements in this respect have been complied with. This procedure should include a check list which can also be used to control other requirements, such as execution of the allottees' contracts with the purchaser as discussed on pages 47 and 48 of this report.

#### Individual allotment contracts not prepared promptly

In our examination of timber sale contracts at the Colville Agency, we noted six instances where the allotment contract between the Indian allottee and the timber purchaser was not promptly

executed by the agency upon receipt of the power-of-attorney. When a general timber sale contract includes allotted timber, separate contracts for each allotment are required, and advance payments to the Indian allottees provided for in the general contract cannot be made until the individual allotment contracts are executed. Accordingly, it is of importance to the Indians that the allotment contracts be executed by the Superintendent promptly upon receipt of powers-of-attorney. We reviewed 26 allotment files on the McCoy Lake and Armstrong sale units and found 4 instances in which 4 to 10 months elapsed between the date the allottees signed powers-of-attorney and the date the allotment contracts were executed. The general sale contracts on these two sale units provide for an advance payment to each allottee to be made within 30 days after approval of the allotment contract. On two allotments on which powers-of-attorney had been received in February 1955 and March 1956, allotment contracts had not been prepared and advance payments had not been made to the allottees as of October 1, 1956.

#### Recommendation

To assure that individual Indian allottees receive timber sale advance payments promptly, we recommend that the Commissioner, BIA, direct that a procedure be developed for use in each agency that will clearly disclose when allotment contracts have not been prepared promptly upon receipt of powers-of-attorney from the allottees. For our comments on a suggested check-list control, see page 47 of this report.

## GENERAL ADMINISTRATION

### Need for improvement of timber ledger procedures and for internal audit of timber records

Procedures followed in maintaining timber ledgers are cumbersome and result in duplication of effort. Also, there is no independent audit of scale books, scale reports, and timber ledgers.

Charges for timber sold under contract are computed from reports of timber scaled. At most of the Indian agencies scaling is performed by Bureau of Indian Affairs scalers. The scalers record their timber scale of each log in scale books, which are the source of information for scale reports. The scale of timber cut from tribal lands or from each Indian allotment is recorded in separate scale books, so that the timber cut from each class of land can be identified in scale books and scale reports. Scalers also compute and record in the scale books the totals of the log volumes. These totals are recomputed, usually by another employee of the Indian agency.

In accordance with Bureau of Indian Affairs instructions, the Indian agencies maintain timber ledgers in which all money and timber-scaling transactions under a contract are recorded. A separate subsidiary ledger is maintained for each scaling unit, usually a section of tribal land or an individual Indian allotment. A controlling ledger covering both tribal lands and allotted lands is maintained for the contract. Some agencies maintain an additional controlling ledger for tribal lands under the contract and another for allotted lands under the contract. The separate controlling ledgers readily provide report data for tribal and allotted lands.

Timber ledger transactions, consisting of scale reports of timber cut on each tribal section or allotment, payments by purchasers, and distribution of timber sale revenue, are posted individually to each subsidiary scaling unit ledger and to each controlling ledger. Instructions provide for preparing scale reports at 10-day intervals for each scaling unit, and these 10-day reports are the posting media for entries to the ledgers. Consequently, each transaction is individually recorded twice and often three times in the agencies' timber ledgers.

In our review of Indian agency timber records we found that the agencies' recomputation of totals in scale books is the only verification work performed on the records on timber cutting under contract. There is no verification by representatives of the Area Office or the Commissioner's Office.

#### Recommendation

To reduce time and effort in maintaining the timber ledgers, we recommend that the Commissioner, BIA, consider revising the instructions to provide that:

1. Scaling unit ledgers for tribal lands be maintained by township rather than by section.
2. Scale reports be prepared once a month instead of every 10 days.
3. Individual transactions be recorded only in scaling unit ledgers and summaries of transactions be recorded monthly in the controlling ledgers.

We recommend also that the Commissioner, BIA, have the Bureau investigate the possible use of bookkeeping machines for maintaining timber ledgers at those agencies where the ledgers are hand-posted.

To provide for an independent administrative verification that charges for timber cut are correct and that the proceeds are correctly distributed to tribes and to the individual Indian allottees, we recommend also that the Commissioner, BIA, arrange for periodic internal audits of the timber records of the Indian agencies by Area Office or Central Office auditors.

Need for action to facilitate recruitment of forestry aids

Professional foresters of the Yakima and Warm Springs Indian agencies are doing log scaling on timber sales that could be done by lower grade forestry aids.

According to the forest managers of these agencies, they cannot employ sufficient forestry aids to release professional foresters for more technical duties because the entrance qualification standards for forestry aids are too high and pay rates are too low. For these reasons, especially the rates of pay, the Bureau cannot compete with timber operators in employing forestry aids (semiprofessional employees).

The pay rates for forestry aids range from \$1.42 an hour for grade GS-2 with one-half year of forestry experience required, not necessarily scaling, to \$2.18 an hour, the entrance rate for grade GS-7, with 5 years' experience required. Most of the forestry-aid scalers are in grade GS-5, which requires 3 years' experience and carries an entrance rate of \$1.76 an hour. In contrast, two of the contractors buying timber from the Yakima Reservation pay their scalers rates ranging from \$2.03 to \$2.225 an hour.

### Recommendation

To provide a more competitive basis for recruiting forestry aids, we recommend that the Commissioner, BIA, seek to obtain revision of entrance qualification standards to make pay rates more comparable with rates paid by private operators, obtaining approval from the Civil Service Commission as required. With more forestry aids, the professional foresters would be able to devote more time to cruising timber, developing management and sales plans, supervising timber sales, and other work that requires professional knowledge.

### INTERNAL AUDITING

In January 1953 an internal audit unit was established in the Central Office of the Bureau for the purpose of performing audits of accounts, assisting field personnel in interpreting and establishing accounting and related procedures, and like functions. Internal audits have been performed at a number of Indian agencies, including those in the Portland Area, and reports on these audits have been made.

As yet, the internal audit program has not included a review of forest activities. We were informed that internal audit work in connection with timber sales is planned for the near future. Our comments on use of unaudited operators' costs in the appraisal and reappraisal of timber (see p. 20) and on the need for improvement of timber ledger procedures and for internal audit of timber records (see pp. 49 to 51) should be considered in connection with the development of the Bureau's internal audit function.

## SCOPE OF REVIEW

Our review of the administration of forest management activities by the Bureau of Indian Affairs, Portland, Oregon, Area Office was conducted in the following manner:

1. We reviewed the basic laws authorizing the forest management activities and the pertinent legislative history to ascertain the purposes of the activities and their intended scope.

2. We ascertained the policies adopted by the Bureau and reviewed those policies for conformance with basic legislation.

3. We reviewed the procedures followed by Bureau employees to determine the effectiveness of the procedures.

4. We did not make a detailed examination of every transaction, but we reviewed in detail selected transactions to the extent we deemed appropriate under the existing circumstances. Our review was made with due regard to the nature and volume of transactions in the forest management activities and the effectiveness of the Bureau's internal procedures and controls. The examination was made at the Portland Area Office of the Bureau and at the Colville, Klamath, Warm Springs, Western Washington, and Yakima Indian Agencies. Field work was completed in November 1956.

**APPENDIX**

COMPTROLLER GENERAL OF THE UNITED STATES  
WASHINGTON 25

B-118601

APR 5 1957

Dear Mr. Secretary:

In the course of our audit of the administration of Forest Management Activities by the Bureau of Indian Affairs, Portland, Oregon, Area Office, we note that allowance for interest on advance payments has been permitted under two contracts for the sale of Indian timber notwithstanding that these contracts contain no provision for such allowances.

The contracts are No. I-101-Ind-1902 with Rayonier, Inc., for the sale of timber on the Crane Creek Unit, approved by the Under Secretary of the Interior on June 30, 1952, and No. I-101-Ind-1766 with Aloha Lumber Company for timber on the Taholah Logging Unit approved by the Assistant Secretary of the Interior on May 12, 1950. The contracts are administered by the Western-Washington Agency and the Hoquiam Subagency of the Western-Washington Agency in the Portland Area of the Bureau of Indian Affairs. Both sales units are on the Quinault Indian Reservation in the State of Washington.

Section 3 of the contracts provides that the Superintendent of the Indian agency authorizes the purchaser and the purchaser obligates himself to enter into separate contracts with Indians holding trust patented allotments within the logging unit who desire to sell their timber subject to the terms of the overall contract.

Section 9 of the contracts provides in essence that stumpage rates shall be computed by applying the percentages determined under other provisions of the contract to the calculated average Grays Harbor-Puget Sound log prices for the preceding quarterly period and the sawtimber stumpage rates for each species of wood. Section 10 of the contracts makes provision for changing the designated percentage ratios when warranted by the character of the operation, changes in marketing conditions or technological developments. Section 11 of both contracts provides for the revision of stumpage in accordance with the trend of economic conditions in the west coast logging and lumbering industry. Section 14 of the contracts requires the payment of advances to Indian timber owners at the rate of 25 percent of the estimated value of the timber within 30 days after approval of the contract on each allotment, another 15 percent within 3 years and an additional 10 percent within 6 years.

In making the original appraisals on these tracts the Bureau of Indian Affairs apparently did not include interest on advance payments as a cost allowable to the purchaser. It does not appear

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that such allowances have ever been included in appraisals or re-appraisals in connection with other Bureau timber sales. In a stumpage price adjustment effective October 1, 1955, in accordance with section 10 of the contracts, the Bureau at the request of the purchasers agreed to levy an interest charge against the Indian timber involved because of the requirement for advance payments. This interest charge was included in the costs deducted from the log values to arrive at stumpage values, thus, in effect, reducing the reappraised value of the timber.

We have held that contracts such as here involved are in the nature of public contracts and subject to the laws pertaining thereto. In our decision, A-35630, March 30, 1931, to one of your predecessors, we stated:

"The question as to whether the leases in question are or are not public contracts need not be made the subject of further discussion except to say that as the Government acts in a sort of guardianship capacity with respect to the lands involved, and more particularly as to the funds derived from such leases, as to which the act of July 1, 1898, 30 Stat. 595, requires accounting to be rendered--6 Comp. Dec. 281--it would appear the duty of the Government to see that the provisions of such leases are complied with by the lessees in accordance with their terms, unless by administrative action properly authorized by law, the terms of said leases have been modified \* \* \*."

As stated previously, the net effect of the allowance of interest on advance payments was to reduce the amounts otherwise payable, pursuant to the terms and conditions of the contracts, to the individual Indian allottees. While the contracts contained provisions for modification of the prices upon certain contingencies or determinations, it does not appear that the reduction made by the inclusion of interest allowance was within the purview of any of these provisions. It is fundamental that valid public contracts are required to be enforced as written and no officer or agent of the Government may waive contractual rights which have accrued to the United States or modify existing contracts without a compensating benefit to the Government. 26 Comp. Gen. 365, 367 and cases cited therein. We are aware of no benefits which accrued either to the United States or to the Indian allottees in connection with the modification permitting allowances for interest on advance payments. Thus it is not clear on the present record that the Secretary of the Interior was authorized under the original contracts or under the law to modify the rates to the

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detriment of the United States, or the Indians on behalf of whom the Government is acting, to permit the interest allowances under the circumstances. A-22609, May 10, 1928.

Also, we have stated that aside from the question of lack of authority in any officer of the Government to prejudice the interest of the Government and the position of the United States as guardian for the Indians by permitting the modification of such contracts, there is for consideration the possibility that such modification would lead to suits against the United States under special jurisdictional acts or otherwise for losses sustained by the Indians on account of such procedure. A-39831, A-38386, December 17, 1931.

However, before reaching a final conclusion in the present matter and in compliance with an informal request of officials of the Bureau of Indian Affairs, we will consider any statements or comments you may desire to submit here to support the legality of the action taken in modifying the contracts involved. Please expedite the furnishing of such supplemental report.

A copy of this letter is being sent to the Chairman of the Senate Committee on Interior and Insular Affairs.

Sincerely yours,

/s/ Joseph Campbell

Comptroller General  
of the United States

The Honorable  
The Secretary of the Interior